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The Reaction of the City of London to the Quebec Resolutions, 1864-1866
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Article abstract
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Abstract

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Résumé

Cet article examine comment les investisseurs britanniques ont réagi au moment de la publication des résolutions de la Conférence de Québec à l’automne de 1864. Les réactions des marchés des obligations sont considérées brièvement, mais le texte se base principalement sur des sources non quantitatives telles que les éditoriaux des journaux et la correspondance. L’étude des raisons qui amènent les investisseurs britanniques à approuver, de façon générale, le plan constitutionnel compris dans les résolutions s’avère utile. En effet, elle fait la lumière sur des thèmes importants comme la place des capitaux étrangers dans la création de l’État canadien, le rôle de la Grande-Bretagne dans la Confédération et la viabilité des arguments des groupes d’intérêt en ce
Money may not make the world go around, but investment had a great deal to do with Confederation. This paper examines how British investors reacted when a draft constitution for a British North American federation appeared in November 1864 in the form of the Quebec Resolutions. Although the responses of bond markets are briefly considered, this paper is mainly based on non-quantitative sources: fluctuations in the yields on colonial government bonds suggest that investors had a preference for colonial federation, but understanding why investors thought Confederation was a good idea involves looking at the interpretations of the Resolutions that appeared in their correspondence and in the British business press. These sources suggest that the investors supported Confederation because they believed it would facilitate particular types of state intervention in the economy. Moreover, they sensed that the creation of a larger political unit would limit the influence of mass opinion in colonial law-making and would thereby prevent the state from interfering with the market in the “wrong” way. Since opponents of Confederation frequently characterized British financiers as the driving force behind the scheme, we ought to ascertain the actual opinions and actions of the investors, a group whose role in Confederation is ignored by most historians. In explaining why some interest groups in Britain supported Confederation while others were opposed to key planks of the Confederation settlement, this paper will shed new light on the relationship between Britain and its North American colonies in the 1860s.

The academic literature on Canadian Confederation is rich, varied, and often politically charged. The ideas of the Fathers of Confederation regarding provincial powers are an important focus of scholarly debate, and Paul Romney’s reminder that John A. Macdonald’s centralizing aspirations were not shared by all of the English-speaking Fathers appears particularly relevant to
contemporary politics. Several intellectual historians have recently explored the deeper ideological aspects of Confederation: Ian McKay's liberal-order thesis provides a particularly important framework for interpreting the creation of the Dominion. The place of French Canada in Confederation has generated its own set of scholarly debates, as have the experiences of Nova Scotia and the Maritimes as a whole. The fact that our analysis of Confederation is now being extended to include other segments of Canadian society, most notably women, is an indication that historians of nation-building in Canada are beginning to draw on the findings of social historians in looking at Confederation's many facets.

The history of trans-Atlantic investment provides yet another lens for viewing Confederation. The reactions of British investors to the constitutional blueprint contained in the Quebec Resolutions is worthy of study because their ideas illuminate important themes, such as the place of imported capital in Canadian state formation and the role of Britain in Confederation.

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4 Carmen Nielson Varty, “The ‘Foundling’ Debates: Where are the mothers in Maritime Canada’s Confederation history?” (unpublished paper delivered to the Canadian Historical Association, York University, May 2006).

5 This issue certainly interested contemporaries, for the effect of the Quebec Resolutions on the prices of colonial government securities was contested in the parliamentary debates on Confederation. See speeches by David L. Macpherson in Parliamentary Debates on the Subject of the Confederation of the British North American Provinces (Quebec: Hunter, Rose and Co., 1865), 10 February 1865, 150; and Benjamin Seymour in Ibid., 15 February 1865, 203.
British capital helped to create the public works that were a *sine qua non* of Confederation and it is therefore logical to examine the thinking of London financiers. Considering the investment links between Britain and its colonies can help to reintegrate political economy into the study of the “British World.” Moreover, studying investors’ reactions to Confederation speaks to the importance of international capital flows in the building of the Canadian nation-state, an issue whose contemporary relevance has been established by scholars such as Leo Panitch and Kari Levitt. Financial and economic themes have long been central to the literature on state-formation in Europe and the United States. Indeed, the necessity of borrowing capital from older countries is an important feature of the British North American experience that emerges from the research on pre-Confederation state-building by Rosemary Langhout, Michael Piva, Douglas McCalla, and Peter Baskerville. The author’s aim is to extend this analysis to the process of Confederation itself by recognizing the significant role played by British capital and capitalists. Examining the opinions of British businessmen with respect to the Quebec Resolutions, the task of this paper, is a step towards this goal.

“The City,” as London’s financial district was known, did not have an absolute blackball power over legislation, but had a group of politically powerful investors disliked the Quebec Resolutions, it is doubtful whether the imperial parliament would have implemented them in the form of the British

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North America Act, 1867. As it happened, the investors responded well to the Resolutions. Like most members of Britain’s “political nation” (i.e., the enfranchised property classes), the major investors in Canada liked the plan for a colonial union because it promised a strong federal government and the preservation of the colonial political bond. Introduced into the imperial Parliament at a time of uncertainty related to the United Kingdom’s own constitutional future, the British North America Act reached the statute book in part because it enjoyed the support of a large interest group that had a stake in the measure.10

British investors had good reason to care about the political future of British North America because the massive inflow of British capital into the North American colonies in the years surrounding Confederation was connected to the fact these territories were under British sovereignty. Several historians have argued that Empire borrowers received favourable terms in London’s capital markets compared to comparable sovereign states and we know that the per capita volume of British investment in British North America in 1860 was far greater than the amount of British investment in the United States.11 When the delegates at the Quebec Conference declared that the “present and future prosperity” of the provinces depended on remaining under the British Crown, they were recognizing an important politico-economic fact.12

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10 That British investors helped to bring about Confederation is the central argument of Andrew Smith, “British Businessmen and Canadian Confederation: Gentlemanly Capitalism at Work” (Ph.D. diss., University of Western Ontario, 2005). The constitutional question that was vexing Britons in 1867 was Parliamentary Reform: the Second Reform Bill was passed in 1867 after much discussion. It dramatically increased the size of Britain’s electorate. Catherine Hall, Keith McClelland, and Jane Rendall, Defining the Victorian Nation: Class, Race, Gender and the British Reform Act of 1867 (Cambridge: Cambridge University Press, 2000); Maurice Cowling, 1867: Disraeli, Gladstone and Revolution: the Passing of the Second Reform Bill (Cambridge: Cambridge University Press, 1967).

11 The benefits formal Empire brought to British investors are discussed in Niall Ferguson, Colossus: the Price of America’s Empire (New York: Penguin Books, 2004), 185-7, 279-80. By promoting trust and reducing informational asymmetries, Empire membership helped to promote investment in a jurisdiction. D.C.M. Platt argues that the experiences of the Dominions (Canada, Australia, and New Zealand) were essentially different from that of the United States in that they were far more reliant on borrowed British capital than the United States. D.C.M. Platt, Foreign Finance in Continental Europe and the United States, 1815-1870: Quantities, Origins, Functions, and Distributions (London: George Allen, 1984), 141. Most of the capital used in the United States in this period came from accumulated domestic savings rather than from overseas investors: Irving Stone, The Global Export of Capital from Great Britain, 1865-1914: A Statistical Survey (New York: St. Martin’s Press, 1999), Tables 1 and 2. Comparative data regarding the levels of British investment in Canada and the United States is provided in Smith, “British Businessmen and Canadian Confederation,” 47-91.

The involvement of financiers in the British government’s decision to support Confederation is an issue that has been debated since Joseph Howe’s 1866 declaration that people seeking to salvage certain Canadian securities were pressing the imperial government to unite Canada with the more solvent Maritime colonies.13 However, we are still far from achieving a consensus among historians on this question. Ged Martin has dismissed the idea that British support for Confederation was the result of pressure from business interests, claiming that “historians who habitually emphasise economic factors tend to portray unidentified capitalists whispering in the ears of British ministers in the mid-1860s, urging them to create a unified British North America.”14 Martin’s approach to Confederation emphasizes high politics and the evolution of an elite consensus in Britain. By contrast, other scholars, most notably Tom Naylor, P.J. Cain, and A.G. Hopkins, argue that British support for Confederation was dictated by the needs of London’s financiers, especially those who had invested in the Grand Trunk and Hudson’s Bay Companies.15 Cain and Hopkins also argue that British policy with regard to Confederation reflected a broader pattern of sectoral privilege in that the British Empire was generally run to suit the interests of Britain’s “gentlemanly capitalist” financiers, at the expense of other sectors of the British economy, including manufacturers. Their gentlemanly capitalism thesis sheds light on the Anglo-Canadian relationship in this era and is useful in understanding why Little Englander anti-colonial sentiment was especially prominent in

13 Joseph Howe, *Confederation Considered in Relation to the Interests of the Empire* (London: E. Stanford, 1866), 23-4. Howe identified two other interest groups in Britain who supported Confederation: investors in the Hudson’s Bay Company and anti-colonial manufacturers.
Britain’s manufacturing centres. Many of Britain’s manufacturers thought that Britain would be better off without the troublesome overseas colonies, but those financiers who had investments in Canada believed that strengthening the ties to the colonies was worthwhile.16

Examining the evolution of Colonial Office policy towards British North America in the early 1860s supports the business influence thesis advanced by Cain and Hopkins. In 1858-1859, the Colonial Office was indifferent if not hostile to the concept of Canadian Confederation. In July 1862, it issued a crucial despatch cordially inviting the North American colonies to consider political unification.17 Coming two years before the Charlottetown Conference, this change in official thinking was important because it gave a green light to people in the colonies who were interested in proposing a colonial union. This reversal in policy was arguably the indirect result of the crisis in British investment in Canada that took place in the early 1860s. The economic side-effects of the American Civil War affected many British investments in Canada, but the crisis was particularly acute at the Grand Trunk, a railway that had absorbed massive amounts of British capital and which was rapidly approaching bankruptcy.18 In January 1862, desperate, investors in the Grand Trunk and other Canadian enterprises formed a lobbying group, the British North American Association (BNAA), to promote the construction of the long-awaited Halifax-Quebec railway and the political unification of the North American colonies.19 Because it included some of the London’s most powerful financiers, the BNAA was in an excellent position to influence policy.

The evidence for regarding investor lobbying as an important causal factor goes well beyond the remarkable timing of the Colonial Office’s endorsement of Confederation. The Duke of Newcastle, who was Colonial Secretary between

16 Recently retired Canadian Finance Minister Alexander Galt discovered just how widespread Little Englander sentiment was when he visited Manchester in 1862. When he addressed the Chamber of Commerce in the great industrial city, Galt was confronted by manufacturers who viewed Canada and other colonies as millstones around the neck of England. The Little Englanders thought that Britain would be better off if the colonies were to become independent states. In particular, the manufacturers objected to British military expenditure on a colony that had recently increased its customs duties. Speech of the Hon. A.T. Galt, at the Chamber of Commerce, Manchester, September 25, 1862 (London: British North American Association, 1862); “Mr. Galt, Late Finance Minister of Canada,” Money Market Review (11 October 1862), 314.


19 See the printed Rules of the British North American Association (London: s.n., 1862).
1859 and 1864, had a close and long-standing relationship with Edward Watkin, a Grand Trunk executive. Like many of the other members of the BNAA, Watkin was a British MP and a prominent figure in the British railway sector, which was then at the height of its political influence at Westminster. The bankers with the largest stake in the ailing Grand Trunk, Thomas Baring MP and George Carr Glyn MP, were also important political figures in Britain and enjoyed considerable influence in their respective parties (Conservative and Liberal). Barings’ bank was second only to the House of Rothschild in international influence and resources. Indeed, its activities at the Congress of Vienna led one French diplomat to quip in 1818 that there were six great powers in Europe: England, France, Prussia, Russia, Austria, and Baring Brothers. Baring held the Province of Canada’s London financial agency jointly with Glyn, who was an equally impressive figure in terms of literal and social capital. Glyn’s bank had taken a leading role in building Britain’s railway network and this gave him political connections to people in every part of the British Isles.

In ascertaining the role of British business in Confederation, it is important to avoid underestimating the impact of geography on investor knowledge and influence. Because the deliberations of the Quebec Conference were sealed, albeit imperfectly, from outside observers, even the Colonial Office had limited knowledge of the intentions of the constitutional draftsmen and had to rely on the semi-accurate reports of the Governor General, Lord Monck. On the eve
of the conference, Monck had predicted to Colonial Secretary Edward Cardwell that the delegates would propose a legislative union, an option both men would have preferred. Monck’s forecast, however, turned out to be wishful thinking.\textsuperscript{25} The full details of the Quebec Resolutions were deliberately leaked to a Quebec newspaper, \textit{Le Courrier du Canada}, and were published on 8 November 1864. The republication of this report by the \textit{London Standard} on 24 November provided British investors with their first look at the hitherto-nebulous particulars of the proposed constitution.\textsuperscript{26}

The process by which information about the colonies arrived in London is important because the prices of government bonds in the 1860s reflected political conditions much as they do today. A high yield on government bonds is an indication of political instability: governments pay more to borrow when investors believe there is a greater risk of them defaulting. The British state had very low borrowing costs because its bonds (called “Consols”) were perceived as very safe. Other governments seeking to borrow funds paid a premium over Consols that reflected the market’s current assessment of risk. Because markets aggregate the interpretations of many individuals, tracking the fluctuations in the yields on British North American bonds traded in London provides one way of gauging investor reactions to political events. For instance, in the late 1850s, a period of relative diplomatic stability, the yield spread between Canadian bonds and Consols was typically in the 2 percent range. After 1861, Canada’s borrowing costs rose, and the yield spread did not return to the once-customary 2 percent range until the late 1860s.\textsuperscript{27} The fact that political events had a major impact on borrowing costs illuminates why British financiers would interest themselves in the constitutional affairs of a set of distant colonies.

Comparing borrowing costs in different decades or years exposes the market’s perceptions of the overall political and economic climate. Tracking changes over shorter periods of time (e.g., week to week) reveals how the market registered particular events as they became known and provides one way of looking at investor responses to particular events. Generally speaking, the attractiveness of Canadian government bonds to investors was connected

\textsuperscript{25} LAC, Edward Cardwell Fonds, MG27-1A1, Box 6, reel B-532, Cardwell to Gordon, 12 November 1864, 14 October 1864. On the official desire for a legislative union, see LAC, Colonial Office (hereafter CO), 6/167, Monck to Cardwell, 7 November 1864; Cardwell to Monck, 3 December 1864.

\textsuperscript{26} Charles Bischoff of the British American Land Company told Galt that the report in the \textit{Standard} was the first regular and complete description of the proposed constitution he had seen. See LAC, Galt Fonds, 2:901, Bischoff to Galt, 24 November 1864.

to Confederation’s prospects of success: the Canadian government’s borrowing costs relative to Consols fell when the Quebec Conference began and then increased when an anti-Confederation government was elected in New Brunswick in early 1865. The yield spread between Canadian bonds and Consols remained above 3 percent as long as the government of Albert J. Smith remained in office in New Brunswick. When a pro-Confederation government led by Leonard Tilley was returned to power in New Brunswick in 1866, the difference in the borrowing costs facing the Canadian and British governments narrowed.\(^{28}\) This pattern in the yield spreads suggests that British investors had a small but definite preference for Confederation versus the constitutional status quo. However, the movements of prices do not explain why investors thought Confederation was a good idea. To examine their reasoning, we need to turn to non-quantitative sources.

The ideas of an important British investor in Canada are revealed in the correspondence between the English businessman Charles Bischoff and Alexander Tilloch Galt, a Lower Canadian Father of Confederation, that took place in 1864 and 1865. Bischoff was the Chairman of the British American Land Company, a London-based company with extensive interests in the Eastern Townships, and a founding member of the BNAA. Galt was the company’s former local manager. Bischoff reported that the Quebec Conference had generated widespread interest in London’s financial district and that he was “daily applied to” for information by men who were “deeply interested in Canadian securities,” and wanted to learn more about the proposed federation.

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\(^{28}\) Using data from the weekly record of share prices published under the authority of the London Stock Exchange, *The Course of the Exchange* (London: Effingham Wilson, 1860-1869), the author calculated the yield spread between Canadian government securities and Bank of England Consols between 1 January 1860 and 1 January 1868. Investor perceptions of the chances of war between Britain and the United States in this period influenced the British government’s own borrowing costs. This helps to isolate the impact of events within British North America from the general diplomatic and military situation, such as the Confederacy’s military reversals in the fall of 1864. The period between the formation of the Great Coalition and the Quebec Conference in Quebec 1864 witnessed an increase in the Canadian government’s borrowing costs: between June 1864 and October 1864, the yield spread between Canadian bonds and Consols widened from 2.4 percent to a peak of 3.3 percent on 18 October. Thereafter, the yield spread narrowed, falling to 2.8 percent in early November. It is reasonable to infer that the uncertainty created by the initial stages of the negotiations raised Canada’s borrowing costs. Once the market learned that the Quebec Conference was underway, it became more confident that a broad colonial federation would be the outcome. The yield spread hovered around 2.8 percent until January 1865, when it became apparent in London that Leonard Tilley’s pro-Confederation Government in New Brunswick was about to lose power. After the defeat of Tilley’s pro-Confederation government, the spread did not fall below 3.0 percent for the rest of 1865. The securities of New Brunswick and Nova Scotia exhibited a broadly similar pattern.
Bischoff identified Baring and Glyn as two individuals with a particular interest in the proposed constitution.29 Although Bischoff found much to like in the Quebec Resolutions, he was disturbed that the doctrine of representation by population had been accepted by the Quebec Conference and told Galt that the allocation of seats should take wealth as well as brute numbers into account. Bischoff also expressed concerns about the federal nature of the proposed constitution, an issue he had discussed with Edward Cardwell a few weeks earlier.30 Bischoff conceded that the immediate introduction of a unitary state was impossible, but thought that more could have been done to curtail the authority of the future provincial legislatures. He told Galt, “I consider that you have accomplished wonders, but having accomplished so much, I would hope you may still go a little further.” Bischoff explained that “to create a Kingdom, the Local Legislatures must be reduced to the position of Municipalities. You have made great progress towards this but in carrying out details pray let this be your aim.” Bischoff objected to provincial jurisdiction over property and civil rights on the grounds it would prevent the central legislature from unifying the commercial laws of the provinces. He reminded Galt that the existence of a separate legal system in Scotland created complications for British merchants every day.31 He also believed that the resolution giving the provinces jurisdiction over “loans of money on the credit of the Province” was dangerously imprecise, arguing that the provincial credit must be subordinate to the federal one, just as the credit of English counties was subordinated to the national debt of Britain.32 Judging from how the British business press reacted to word that a British North American federation was being planned, Bischoff’s preference for a relatively centralized federation appears to have been widespread within London’s business community. Although support for this concept came from several publications, it is telling that the first British business newspaper to discuss the Great Coalition’s federation proposal was Herapath’s Railway and Commercial.

29 LAC, Galt Fonds, Bischoff to Galt, 24 November 1864. Bischoff’s letters to Galt are important because they are the only surviving correspondence between a British investor and a Father of Confederation in which the constitutional plan outlined in the Quebec Resolutions is discussed in detail.
30 Ibid., Bischoff to Galt, 3 November 1864.
31 Bischoff’s concerns in this regard were shared by both Colonial Secretary Edward Cardwell and his Conservative replacement, Lord Carnarvon. In early 1867, Carnarvon and Cardwell unsuccessfully attempted to persuade the francophone delegates in London to cede Ottawa jurisdiction over aspects of “property and civil rights.” United Kingdom National Archives Kew, Carnarvon Papers, 30/6/154, “Letters to and from Lord Monck, Captain-General and Governor of Canada,” Monck to Carnarvon, 13 January 1867; Ibid., Rogers to Carnarvon, 18 January 1867; also cited in G.P. Browne, ed., Documents on the Confederation of British North America (Toronto: McClelland and Stewart, 1969), 230.
32 LAC, Galt Fonds, Bischoff to Galt, 24 November 1864.
Journal, the leading trade journal for the railway sector. In July 1864, it announced that under the proposed constitution, the provinces would have control over only “purely local matters.” The federal government, in contrast, would have complete authority over canals, railways, the public debt, and the ocean mail service. The editor of Herapath’s believed that British North America needed a robust central state and the benefits of Confederation were a theme to which the paper returned in late 1864. It is important to note that Herapath’s was consistently supportive of Confederation, even in the period before the publication of the Quebec Resolutions had clarified the precise details of the scheme.33

Although Herapath’s was confident that British North America was about to get the strong central government it needed, other British observers feared that the provincial governments would retain too much power under the proposed constitution. To understand their concerns, we should remember that the coalition government formed in the Province of Canada in June 1864 to pursue Confederation included politicians, most notably George Brown, who envisioned a genuinely federal state. Brown and his allies supported Confederation as a form of decentralization and as a way of escaping from the “French Domination,” high taxes, and big deficits the 1841 Union had brought in its wake.34 The Economist newspaper was initially very sceptical about the projected federal union of British North American because it feared that the provincial governments would be accorded too much authority. In August 1864, during the interval between the formation of the coalition and the Charlottetown Conference, the newspaper had criticized George Brown’s federation proposal on the grounds that it would lead to an excessively decentralized government and a weakened state at a time when an “Absolute Parliament” was required in the North American colonies. As late as October, leading articles and other unsigned pieces in the paper were predicting that a spineless, decentralized federation would emerge from the constitutional convention then meeting at Quebec. The paper expressed doubt that the delegates would have the fortitude to propose the creation of the sort of dominant central authority that it thought British North America needed.35

33 “The Canadian Confederation,” Herapath’s (16 July 1864), 831. Herapath’s was Britain’s leading trade journal for the railway sector. The benefits of Confederation were a topic to which the paper returned in subsequent months: “The Intercolonial Railway,” (5 November 1864), 1276; “Trust and Loan Company of Upper Canada,” (3 December 1864, 1363-4).
34 For Brown’s ideas on this point, see Globe (25 November 1864); Elwood Hugh Jones, “The Great Reform Convention of 1859” (Ph.D. diss., Queen’s University, 1971); Romney, Getting it Wrong, 87-108.
35 Economist, “The New Programme of the Canadian Ministry” (16 July 1864), 892-3; “Difficulties in the Way of the New Federation of Canada” (27 August 1864), 1080-1; “The Progress of the Scheme for the Federation of Canada” (15 October 1864), 1279-1280; “The Text of the Federal Constitution for the American Colonies” (26 November 1864), 1455-6. The Economist was edited by Walter Bagehot, who also wrote extensively on constitutional and financial topics.
The Economist’s fears that a decentralized federation would be established were probably inspired by George Brown’s prominent role in the Great Coalition. A related issue was the Toronto Globe’s long track record of attacking the bankers of London for their alleged interference in Canadian politics. Indeed, the newspaper’s campaign against the bankers was so virulent that when Brown met Baring and Glyn in person during an 1863 visit to London, he was surprised to find they were actually quite “civil” to him despite years of criticism. In the early 1860s, Brown had advocated ending the province’s dependence on external sources of capital so that Canadian politicians would no longer have to “tremble at the frown of a Lombard Street banker.” By “Lombard Street,” Brown was referring to London high finance, the expression being similar to the modern Canadian metonym “Bay Street.” Brown’s leading role in the Confederation movement doubtless rang alarm bells for British investors in the Grand Trunk, for the subsidies that the railway had received from the administrations led by Cartier and Macdonald were Brown’s bête noire.

The arrival of the Quebec Resolutions in London in 1864 radically altered the attitude of the Economist and there was a palpable sense of relief in the article on Confederation that appeared on 26 November 1864. This piece reassured readers that the authors of the union scheme did not envision independence and that they actually desired a quite centralized system of government with limited provincial powers. The Economist congratulated the colonial delegates for

36 J.M.S Careless, Brown of the Globe (Toronto: Macmillan, 1959-1963), 2:73-74. Brown’s campaign of banker-bashing dated back to the so-called Double-Shuffle episode of 1858. In that year, the liberal forces in the Canadian Assembly had formed an administration called the Brown-Dorion government. However, this ministry collapsed after a mere two days because of Governor Sir Edmund Head’s controversial refusal to grant a dissolution of parliament. Cartier and Macdonald promptly returned to power and Brown began to attack the corrupt influence on Canadian politics allegedly enjoyed by Thomas Baring and other London financiers, representing Head as the instrument of Baring and Glyn. See “Sir E. Head’s Closet Councillors,” Globe (7 August 1858), 2.

37 See “British North American Association,” Globe (29 September 1863), 2. In the early 1860s, George Brown had vigorously supported the efforts of Luther Holton, Sandfield Macdonald’s second finance minister, to end the Province’s dependence on the London capital market through a program of retrenchment, balanced budgets, and domestic borrowing. “Public Sentiment,” Globe (8 October 1863), 2. The Globe was particularly hostile to the BNAA and attacked the organization as a facade for the interests of the eight hundred or so Grand Trunk investors in Britain. “Grand Trunk Meeting,” Globe (23 August, 2) and “Intercolonial Railway-Increased Debt and More Taxes,” (2 October 1862), 2.

38 Although Brown had a long history of attacking the Grand Trunk, it should be noted that it was a Grand Trunk manager, C.J. Brydges, who first approached Brown about participating in an “omnibus arrangement” that would solve many of the constitutional and infrastructure problems facing the colony. This overture helped prepare the ground for the formation of the Great Coalition in the Province of Canada and was another way in which British business was involved in Confederation. Careless, Brown of the Globe, 2:116-7.
having moved in the right direction and thought that further progress could be achieved at their forthcoming talks with Edward Cardwell. The paper expected that Cardwell would insist on including clauses to increase the authority of the central parliament still further and hoped that the delegates would have the good sense to submit.39

Although seeing the Quebec Resolutions was enough to dispel the Economist’s fears, the spectre of excessive provincial power continued to trouble Frederic Algar, the editor of the Canadian News, a London publication which served British people with an interest in Canadian affairs. The Canadian News, which reprinted articles from the colonial press, carried advertisements of interest to businessmen connected to British North America, and offered its own opinions on political matters. Algar, it should be noted, was a member of the BNAA. In the summer of 1864, the Canadian News lauded the proposed British North American federation and commended the colonists for their evident desire to remain part of the British Empire.40 However, the newspaper’s warm praise for the overall concept of Confederation was tempered with concerns that a mere federation would prove too weak for the tasks at hand. The News thought that something vaguely resembling a unitary state was needed in British North America. In the autumn and winter of 1864-1865, it printed many articles dealing with this theme. These ranged from a piece taken from the Halifax Citizen expressing a preference for a purely legislative union of the colonies to an article from the Montreal Gazette that re-assured readers that the proposed confederation would actually be very close to a unitary state.41 Federation and confederation were a loosely defined terms in the Victorian era, with both words embracing everything from loose confederacies to quasi-unitary states; but the Canadian News clearly sympathized with those who sought a form of federation in which the central government had the lion’s share of power.42

The Canadian News appears to have associated political decentralization with excessive democracy. In October 1864, it printed a lengthy letter Thomas

41 For the article from Halifax Citizen, see “Provincial Union,” Canadian News (20 October 1864), 251. For the article from Montreal Gazette, see “The Question of Canadian Confederation,” Canadian News (13 October 1864), 226.
42 The modern distinction between a loose confederation of states and a tighter federation is contained in the entry for Federal Government in the 1911 Encyclopaedia Britannica. However, it had clearly not yet been developed at the time E. A. Freeman published his History of Federal Government from the Foundation of the Achaian League to the Disruption of the United States (London: Macmillan, 1863).
D’Arcy McGee had sent under the pseudonym “A Backwoodsman.”43 In this letter, McGee connected monarchical institutions with the existence of an active central government. Reversing Dunning’s famous eighteenth-century resolution on the dangerous growth of the power of the Crown at the expense of the Commons, he argued that nowadays the major danger came from having a weak monarch and an overly powerful electorate.44 The paper also serialized a lengthy diatribe by a Lancashire vicar convinced that the provincial legislatures would have too much power under the new constitution and that in any event federations were inherently republican and democratic. The Rev. A.A. Bridgeman was convinced that the democratic element had become the main threat to the constitutional balance in the North American colonies. He suggested the creation of a dominant central government and a colonial life peerage as means of restoring constitutional equilibrium. Bridgeman recognized that a unitary state in British North America was unfeasible in the short-term and suggested that the constitution be structured so as to vest real power in the central government and thus reduce the provinces to a nominal political existence.45

Several factors contributed to the belief in Britain that British North America required a strong central government. The widespread view in Britain that State’s Rights and a weak central government, rather than slavery, were the true cause of the Civil War in the United States doubtless reinforced the British preference for a centralized state similar to that possessed by the United Kingdom itself.46 The City of London’s antipathy to powerful sub-national governments should also be understood in light of the practical problems many British businessmen had earlier encountered as a result of the federal nature of the United States.47 Another factor prompting sympathy with the idea of vesting preponderant authority

44 “Backwoodsman” and “The Proposed Confederation- the Crown and the People,” Canadian News (27 October 1864), 259. In 1780, a British MP named John Dunning had made a resolution condemning the growth of royal power at the expense of Parliament: “the power of the Crown had increased, was increasing, and ought to be diminished.” The context in which this resolution was made included the American Revolution and the struggle of the Whigs with royal authority. It would have been well-known to educated contemporaries, especially lawyers, and was discussed by Erskine May, Constitutional History of England since the Accession of George the Third (London: Longmans, Green, 1861), 1:51-61.
46 “Confederation of the North American Provinces,” Canadian News (20 October 1864), 250.
47 For examples of the practical problems American federalism created for British investors and commercial travellers, see Leone Levi, International Commercial Law Being the Principles of Mercantile Law of the Following and Other Countries (London: V. and R. Stevens, 1863), 32.
in the federal government was the poor treatment many British investors had received at the hands of certain American state governments, for while the United States federal government had acted with consistent probity with regard to British bondholders, Pennsylvania and several other States had defaulted on their sterling bonds in the 1840s.48

The preference many British people showed for a relatively centralized system of government in British North America was far from class-neutral. Indeed, given that a relatively large proportion of adult males could vote in Canada, it is not surprising that the intense class politics of 1860s Britain informed investors’ views of the ideal distribution of powers under the new constitution.49 Contemporary often linked small polities with excessive democracy and lower-class power. For instance, in 1860 Lord Mulgrave, the Lieutenant-Governor of Nova Scotia, had discerned a tendency for the legislatures of small jurisdictions to be filled with men who lacked private means rather than by wealthy gentlemen who legislated for larger countries.50 Sir Edmund Head had come to similar conclusions in 1856.51 While ostensibly based on his own experiences in New Brunswick, Head’s thinking may have been influenced by the British author C.B. Adderley, who had published a similar argument in 1853.52 In January 1865, the Canadian News compared the projected federation to the Westminster Review’s 1854 proposal for the conversion of the United Kingdom into a federal state, a plan the Radical journal had favoured as providing for “the cheap and easy resort of all ranks to the local legislative centres.” The assumption on the part of the Canadian News that the governments of small territorial units would be more accessible to the masses (or “all ranks”) than the government of a larger jurisdictions helps to explain why it advocated a powerful central government.53

The preference for a relatively centralized type of federation reflected both the general attitudes of Britain’s propertied classes and several specific questions of political economy that were facing British North America at this time.

49 Exact figures regarding the percentage of adult males with the right to vote would be difficult to calculate, but it is clear that proportion was much higher in the colonies than the mother country. The colonial franchise is discussed in Jeffrey McNairn, The Capacity to Judge: Public Opinion and Deliberative Democracy in Upper Canada, 1791-1854 (Toronto: University of Toronto Press, 2000), 130; John Garner, The Franchise and Politics in British North America, 1755-1867 (Toronto: University of Toronto Press, 1969).
50 LAC, CO, 217/266, Mulgrave to Newcastle, 1 March 1860.
51 LAC, CO, 42/206, Head to Labouchere, 3 September 1856.
One of these questions was the rate of taxation in the colonies, which was low by British standards and which limited the capacity of colonial governments to subsidize British-owned railways. Fear of the socialistic mass electorate became a leitmotif of conservative thought at the end of the nineteenth century, but most mid-Victorian people assumed that popular class electors were more hostile to the State than their social superiors.54 Indeed, many observers thought that expanding the size of the electorate would inevitably lead to low levels of taxation and government activity. That mass electorates were anti-statist was the working assumption of the 3rd Earl Grey, the man who as Colonial Secretary between 1846 and 1852 had helped usher in colonial Responsible Government.55 In 1859, Grey published a book in which he argued that strengthening the democratic elements of the constitution at the expense of its aristocratic and monarchical branches could, if taken too far, result in an excessively weakened State and extreme laissez-faire. Grey thought that while British governments before the 1832 Parliamentary Reform had been too prone to interfere with the market, the expansion of the franchise had created too many barriers to government activity. Grey argued that Britain was underserviced by government and that in the settlement colonies the situation was far worse, although not as bad as in the hyper-democratic United States.56 Colonial taxes in this era were regressive, so the link Grey drew between mass suffrage and anti-statism seems quite plausible.57

For British investors in Canada, the discussion of how political structures influenced economic policies was a severely practical issue rather than an academic exercise. This was especially true for those who had invested money in firms dependent on taxpayer handouts. Ideologies of social class had long informed investor attitudes towards the political economy of Canadian investments, and dislike of broad electorates was most clearly seen in investor reactions to the Grand Trunk’s financial problems. In May 1861, the London

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57 Gladstone’s vague hope that Canada would emulate Sir Robert Peel’s income tax was not fulfilled until the First World War. See University of Nottingham Library, Newcastle Papers, NeC 11252/1, Gladstone to Newcastle, 14 December 1861.
Bankers’ Magazine had attributed the unwillingness of Canadian politicians to grant the firm larger subsidies to the fact Canada was ruled by “the rabble.” When the City of Hamilton defaulted on its sterling bonds in 1862 rather than increase property taxes, the Canadian News attributed this evidently immoral action to the low franchise requirements in Canada.

For investors in the Grand Trunk and other enterprises reliant on the taxpayer, the chief issue was whether the new constitutional arrangements would strengthen the ability of the colonial state to tax and spend. Not surprisingly, the probable level of taxation in the future federation was discussed in the pages of the Canadian News in the months after the Quebec Conference. The Canadian News quoted speeches by Nova Scotia Confederates in which the anti-Confederate position that the union would lead to heavier taxes was frankly conceded and then countered with the argument that higher taxes, far from being an impediment to economic progress, were actually a source of national prosperity. Given that many contemporary writers linked democracy and manhood suffrage with under-taxation and a weak state, the internal coherence of the Canadian News’ position begins to become apparent: Confederation was favoured because it would limit democracy by changing the territorial scale on which decisions were made and this in turn would make it possible for the state to undertake necessary interventions in the economy.

The conservative aspect of Confederation was what struck British observers on both the left and the right of the political spectrum. Writing in the Edinburgh Review, Arthur Mills, a Conservative MP with close ties to the British investors in Canada, praised the Quebec Resolutions as a truly “Conservative” document. He lauded the delegates’ evident desire to preserve the political connection with Britain, the proposal for an unelected Senate, the centralized nature of the new federation, and a perceived tendency in Canada “towards raising the qualification of electors.” He observed that “amalgamation was the order of the day” in many spheres, citing recent company mergers, the growth of trade unionism, and the unification of European states.

The Oxford don (and future resident of Canada) Goldwin Smith also agreed that the Quebec Resolutions were conservative, although for him this conser-

59 See piece on Hamilton city debts in Canadian News (3 April 1862), 215. This argument about the low franchise requirements was repeated in the “City of Hamilton Bonds,” Money Market Review (27 December 1862), 556.
61 See sources in note 54.
vatism was an object of condemnation rather than praise. Writing to a friend in New York, he denounced Confederation as an attempt by the British aristocracy “to plant an offset” in North America, expressing the hope that the “Canadian monarchy” would go the way of the recently-toppled Mexican Empire.63 In a March 1865 article, Smith condemned the projected federation as too centralized and for its deplorable tendency to preserve the constitutional bond between Britain and the colonies. Smith said that in adopting the interventionist economic philosophy of Alexander Hamilton, the framers of the new Canadian constitution had forgotten that as civilization advances, the relative importance of State initiatives decrease. Interventionism was anathema to Smith, who declared that laissez-faire and a cheap and constrained central government marked the true path to economic progress.64 The proponents of Confederation, he argued, wished to return to the discredited mercantilist ideas of the eighteenth century.65

Smith’s dislike of the Confederation scheme was shared by John Bright, a Quaker industrialist who was a leading exponent of Manchester Liberalism and who had an almost post-millennial view of the benefits of Free Trade. Bright also thought that the City played too great a role in shaping imperial policy. In the March 1865 parliamentary debate on whether to build fortifications in Canada, he lashed out against the influence of “the moneyed interest.” Bright’s outburst came after Sir Minto Farquhar, an MP with personal financial interests in Canada, had argued in favour of spending money on Canadian fortifications on the grounds they would protect the £43 million British firms had invested in the colony. Shocked by such a blatant display of self-interest, Bright had launched into a passionate denunciation of the City’s influence over public policy, declaring that he had never known “the City to be right” on any issue and that “men who are deep in great monetary transactions …. are not able to take broad and dispassionate views of political questions of this nature.”66

In January 1865, Bright praised the inclusion of the principle of representation by population in the Quebec Resolutions, but for him this redeeming

63 Arnold Haultain, Goldwin Smith, his Life and Opinions (London: T. Werner Laurie, 1913), 57-8.
66 Hansard, 3rd ser., 177 (1865): 1613-1633; Ibid., 1662-1665, Sir Minto Farquhar. Farquhar was a member of the BNAA and a director of the Canada Company.
feature was outweighed by the other aspects of the scheme. In particular, he objected to imperial assistance to the Intercolonial Railway, Nova Scotia’s forced inclusion in the union, the overly-centralized nature of the new Canadian constitution, and the interventionist philosophy implicit in the Confederation project. Bright’s stance is a reminder that the bipartisan consensus in Britain in favour of Confederation only embraced the front benches of the first two parties, the Liberals and the Conservative, and bears out the truth of the remark of the Conservative Prime Minister, Lord Derby, who described Bright as the “real leader of the Opposition” to his government. Ideologically, there were few differences between the landed gentlemen who led the two major parties, but Bright’s middle-class radicalism was genuinely different and led him to oppose key aspects of the Confederation settlement.

For railway promoters and other businessmen who stood to benefit from a more interventionist policy in the British North American colonies, the conservative or “Tory” aspects of Confederation would have been attractive. Another factor that likely increased the credibility of Confederation in the eyes of British investors was the tendency of Anti-Confederates to represent the investors as sinister figures with undue political influence. The Canadian historian F.X. Garneau had (unfairly) attributed the 1841 union to the influence of “la maison Baring,” and this accusation was repeated with exquisite timing in the summer of 1864 in La Revue Canadienne. The rouge paper Le Pays informed its readers that Confederation was designed to line the pockets of the Grand Trunk and had been urged on the government by General Manager C.J. Brydges, the “mauvais ange” of that firm. Le Pays thought that Confederation would lead to a mountain of debt and sky-rocketing taxation that would enrich a few bankers while impoverishing the general population. For Le Pays, the very fact that Herapath’s Railway and Commercial Journal had endorsed Confederation was iron-clad proof it was a bad idea.

67 “Messrs. Bright And Scholefield At Birmingham,” Times (19 January 1865), 9. This was an issue in Britain too, where proportional representation as determined by decennial census was only achieved in 1885. Andrew Jones, Politics of Reform, 1884 (Cambridge: Cambridge University Press, 1972), 196-202.
68 Bright was an advocate of decentralization and in March 1859 he lectured the Commons on its benefits, urging that the principle be introduced into the administration of India. Hansard, 3rd ser., 152 (1859): 1359-1373. For Bright’s expression of sympathy for Joseph Howe’s cause in 1867, see Hansard, 3rd ser., 185 (1867): 1181-1187.
71 “La Confédération et le Grand Tronc,” Le Pays (28 May 1866).
The view that the Grand Trunk was a driving force behind the colonial union scheme was not confined to francophones. The Montreal Witness made similar accusations when it argued that Confederation would “put a couple of millions, more or less, into the pockets of London bankers and speculators” connected to the Grand Trunk, while simultaneously depositing “some five millions into the pockets of the same parties, for certain alleged proprietary rights of the Hudson’s Bay Company, of which that company can make no use.” In return for supporting this corrupt measure, the British government had promised to put “all our prominent men into governorships or at least into a sort of order of nobility.”72 In the debate in the Canadian Legislative Council on the Quebec Resolutions, Benjamin Seymour, an Upper Canadian life member, characterized the Grand Trunk as a venture “planned by English capitalists” at the expense of Canada’s taxpayers. Seymour condemned both it and Confederation as incompatible with “retrenchment and financial reform.”73

In 1865 and 1866, perhaps the greatest obstacles to Confederation were the attitudes of swing voters in New Brunswick. Even before the defeat of the pro-Confederation government of Leonard Tilley in the 1865 general election, the Canadian News was monitoring the situation in the province closely. It attributed anti-Confederation sentiment to the fears of the urban “working classes” and confidently predicted that the “master mechanics and manufacturers” of Saint John would be able to persuade their less enlightened employees of the advantages of colonial union. They would do so by explaining how the construction of a railway would bring them cheap food from Canada.74 The Canadian News’s optimism was only barely dented by the victory of an anti-Confederation coalition in the February-March 1865 election, for it cheerfully reported in April 1865 that there had been “gratifying intelligence that the confederation of British North America is progressing in a most satisfactory manner,” and that “the check which was given by the New Brunswick elections is proving to be of much less importance than was at first supposed.”75

Writing from London to console Tilley on his defeat, Watkin stated that “every one here, especially in official circles, give [sic] you full credit for having made a gallant and patriotic fight for a great measure for the general advantage of the British Empire.” The non-official circles to which Watkin referred doubtless included the BNAA. Watkin informed Tilley that he had written to Howe “to say what a grievous mistake has been made in NB and how much securities will be damaged and the British heart cooled down by what has taken place.” He argued that, much more than the price of New Brunswick

72 “Confederation,” Montreal Witness (19 January 1867), 44.
73 Confederation Debates, 15 February 1865, 199.
74 “To the Working Men of New Brunswick,” Canadian News (23 March 1865), 187.
75 “Confederation of the British North American Colonies,” Canadian News (27 April 1865), 264-5.
bonds was at stake: “upon the back of the great Confederation idea we might just now have carried in Parliament [rode] almost any assistance the Provinces might reasonably want for the Intercolonial, fortifications, etc.” However, “as matters now stand” these proposals “will be chilled” and “every shilling” of Imperial money would have to be fought for.76

The Grand Trunk’s role in the 1866 New Brunswick election has been a matter of historiographical controversy and given the paucity of hard evidence, we will probably never be able to ascertain the truth of the allegations that its money influenced the outcome of the campaign.77 What is clear is that the implications of Tilley’s success in the election were immediately recognized by London business figures. For instance, at the June 1866 Annual General Meeting of the Trust and Loan Company of Upper Canada, reference was made to the likelihood of imminent Confederation. This took place during a discussion of the Canadian statute that limited the interest the company could charge to eight percent.78 When a shareholder asked what progress had been made in lobbying the Canadian government to modify its usury law, one of the directors, William Chapman, replied that “there was reason to expect that a modification of those laws would take place on the meeting of the Legislature, and that as soon as the Confederation came into operation they would be entirely abrogated.”79 Chapman was a member of the BNAA and his remarks reveal his expectation that Confederation would benefit his company and other suppliers of capital.

At first glance, it is hard to see why Canada’s union with the lower provinces would have made the legal environment in Upper Canada more hospitable to lenders. After all, the usury laws of Nova Scotia and New Brunswick were even more stringent,80 and the assimilation of the various provincial laws towards a national compromise rate would have been unfavourable rather than

76 LAC, Tilley Fonds 17, Edward Watkin to Tilley, 30 March 1865.
78 The impact of the usury laws of the North American colonies were discussed at the AGM of the Bank of British North America in June 1866. At this point, interest rates in London were higher than the maximum legal rate in the North American colonies: the usury laws made arbitrage in borrowing impossible. See “Bank of British North America,” Bankers’ Magazine (July 1865), 846-8.
79 “Commercial,” Canadian News (7 June 1866), 365. In 1865-1866, a bill was introduced into the Canadian legislature to lower the rate of interest non-bank institutions could charge from eight to six percent. See An Act to Amend the Act Respecting Interest (Ottawa: Hunter, Rose, 1865).
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beneficial to lenders in Upper Canada, however welcome it would have been to people who supplied capital in the east. Why then did Chapman, the director of a company operating only in Upper Canada, believe that Confederation would lead to “free trade in money”?

In the 1865 Confederation Debates in the Canadian legislature, several speakers objected to the allocation of jurisdiction over interest to the federal government on grounds related to issues of democracy and social class. J.B.E. Dorion, a *rouge* opponent of colonial union, stated that regardless of his personal opinion of the wisdom of laws limiting interest rates, if “nine-tenths” of the population of Lower Canada desired such laws, he, as a democrat, was obliged to vote for them. Dorion argued that a truly democratic constitution would give authority over this issue to the legislative body best able to reflect the popular will in each community, concluding that the decision to assign jurisdiction over usury to the central government was yet another illustration that the proposed union was not a “real Federal system.”

John Sandfield Macdonald, a fierce opponent of the Quebec Resolutions, also declared his opposition “to what is called free-trade in money” in the Confederation Debates. Macdonald argued that “moneyed corporations,” such as “the Canada Loan and Credit Company” and the “Trust and Loan Company,” were harming the province by draining profits back to Britain. Something should be done to protect the farmers of the province from this menace, he said, and tough usury laws were the answer. Given that populist politicians such as Sandfield Macdonald were attempting to create animosity towards British money-lenders, one can well understand why the owners of capital would have approved of a constitutional arrangement that would vest control over interest and banking in the hands of a remote central government. Sandfield Macdonald’s tirade against the usurers and the Trust and Loan Company suggests that the decision to give jurisdiction over “interest” with Ottawa rather than provinces was more than a technical point of constitutional detail. Indeed, the debate over the usury laws shows that British investors had a stake in Canadian political decisions that went well beyond railways, canals, and other projects with high visibility.

British investors welcomed Confederation because it promised to improve the business climate in the North American colonies. Many opponents of Confederation attacked the proposed federation as a scheme designed to line

81 *Confederation Debates*, 9 March 1865, 859.
82 Ibid., 7 March 1865, 738. The eventual BNA Act gave the federal government jurisdiction over “interest,” sec. 91(19) and sec. 91(21). However, post-Confederation finance ministers failed in their efforts to pass national usury legislation due to local opposition. In the 1870 debate on whether to establish a uniform national usury law, participants mentioned that in Nova Scotia the legal maximum on most forms of interest was six percent. Canada, House of Commons, *Debates*, 1st Parliament, 3rd session, (1870), 6 April 1870, 906 et seq.
the pockets of rich London bankers. In view of the host of other factors, linguist-
ic, sectarian, diplomatic, and military, involved, it would be foolish to assert
that investment-related considerations were the only motivators driving British
support for Confederation. However, we need to place capital, capitalism, and,
above all, individual capitalists at the centre of our analysis of Confederation.
Doing so illuminates both the relationship between Britain and its North
American colonies as it existed in the 1860s and the subsequent political and
economic history of the Dominion. Thinking about Confederation in politi-
cal economy terms is a useful exercise for non-historians as well, for careful
consideration of how public decision-making is influenced by constitutional
structures and territorial scale can provide insights into important issues of
political economy and social justice. In fact, Canadians seeking to understand
many contemporary issues of identity, sovereignty, and the culture of the politi-
cal economy would do well to reflect on the importance of foreign capital in
their history.

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