Document generated on 04/19/2024 12:54 p.m.

Report of the Annual Meeting
Rapports annuels de la Société historique du Canada

Report of the Annual Meeting

British Finance and Confederation

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Volume 6, Number 1, 1927

URI: https://id.erudit.org/iderudit/300052ar
DOI: https://doi.org/10.7202/300052ar

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Publisher(s)

The Canadian Historical Association/La Société historique du Canada

ISSN

0317-0594 (print)
1712-9095 (digital)

Explore this journal

Cite this article

Trotter, R. G. (1927). British Finance and Confederation. *Report of the Annual Meeting / Rapports annuels de la Société historique du Canada*, *6*(1), 89–96. https://doi.org/10.7202/300052ar

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BRITISH FINANCE AND CONFEDERATION

By Professor R. G. Trotter

Even an historian may rightfully approach an occasion such as to-day's with patriotic fervor, provided, of course, that the fervor be of the right sort. Clio has no more dire foe than the wrong sort, the blatant patriotism that would prostitute her to the service of a prejudiced tradition; and she has ever to be on guard, alike against the seductions and against the violence of that enemy, if she would preserve her honor. Fortunately in Canada that foe shows its head less frequently than in some parts of the world. Neither our history nor our political institutions have yet gathered about them, and let it be hoped they never will, such haloes of sanctified popular dogma as to preclude their observation with a candid eye and their study with an open mind. Certainly in this Canadian Historical Association and in this audience one may be confident of finding healthily absent the obscurantist instincts of the historical fundamentalist. Our patriotism is of that more commendable sort which, far from perverting our sense of truth, rather increases our zeal to know as much as can be known about our country's past, to see that past in a mirror that neither dims nor distorts the image.

The student of Canadian history is blessed with another good fortune besides that mentioned a moment ago. In his search for the evidence upon which to reconstruct and interpret the past he is immensely aided and stimulated by the rapidity with which fresh historical sources of great importance are to-day being made accessible to him, particularly at the national Archives at Ottawa. One of the most recent accessions to that collection comprises the papers of the London banking houses of the Barings and Glyn, Mills and Company, donated by those firms through the good offices of Dr. Adam Shortt. These papers are of unique importance for the study of the period when Confederation was taking shape. Both firms were financial agents of the Canadian Government. Both held high place at the centre of the financial world. They had interests and activities connecting them closely with affairs in many parts of the globe, and by no means least with matters closely concerning British North America. Many of the ramifications of their knowledge and influence are revealed in their papers.[1] As these are still in process of sorting I cannot claim to have read all items in them that might illuminate the story of the federation movement, but a reading of a large number which there was opportunity to examine proved well worth while. In the first place it provided information which filled some gaps in the already known materials, here replacing surmise by certainty, there explaining the hitherto misunderstood, sometimes adding new incidents to the tale. In the second place, and perhaps of greater consequence, the general effect was to impress upon one the pervasive importance of the part played by British financial interests in the series of developments

[1] The Glyn Mills Papers mostly deal with routine business and with the technical side of financial transactions, as that firm was senior to the Barings in its relations with the Canadian Government and the formal business therefore passed through its hands. The Baring Papers, by contrast, so far as they include correspondence with Canadian leaders, are largely unofficial, often involving the confidential transmission of points of view and explanation of conditions lying behind and determining the formal financial demands and transactions.

that led to the establishment of the Dominion. It became obvious that this phase of the federation story deserved a more pointed consideration than it had yet received. The purpose, therefore, of this brief paper, is to follow through some of the relations of British finance to the events which brought federation, and to indicate in a measure the significance of the role played by this factor.

I need hardly remind you that early proposals for a political union of the scattered and diverse fragments of British North America received at the hands of the British Government but scant attention; they were greeted at the best with scarcely more than a polite indifference. Until the middle of the nineteenth century such an attitude is wholly explicable if one stops to consider the political and economic backwardness and the social and geographical isolation of the several provincial communities. Even by the end of the fifties the difficulties in the way still seemed unlikely to be surmounted for a long time to come; at least so thought most men on both sides of the Atlantic. As late as 1858 Galt's unusually well-thought-out proposals for a federal union received a markedly cold reception at the hands of one Colonial Secretary, Sir Edward Bulwer Lytton, and when, after a change of government in Britain, they were renewed early in 1860, they were looked upon with hardly more cordiality by a second, the Duke of Newcastle.[2] It is a strikingly significant fact that the situation soon changed radically. When, after two years more, the question was next broached to Downing Street, in a despatch from the Government of Nova Scotia, the same Newcastle expressed a decided interest in the idea and authorized the provinces to confer on the subject, assuring them that whenever they might wish to present to the British Government definite proposals in regard to union he felt confident that they would be dealt with in a favourable spirit.[3] Sudden as this change of attitude appears, explanations for it are not far to seek. In the intervening period Newcastle had enjoyed a highly educative trip to North America on the occasion of the Prince of Wales' celebrated visit, and therefore appreciated better than before the possibilities of development in the provinces as well as the complexity of their problems. The American Civil War, also, had produced a tense international situation fraught with possible peril to the provinces and necessitating unusual measures for their defence. But these facts, significant though they be, constitute only part of the situation. Among other aspects, one of great importance, bearing directly upon the subject of this paper, requires special consideration.

This aspect is financial, and has to do with the railway situation. It is not necessary at this time to go into the earlier railway history of the provinces; enough to notice that the hopes of over-sanguine promoters had been sadly disappointed. This was particularly true in regard to the Grand Trunk, which by 1860 faced virtual bankruptcy. Its system stretched from Sarnia to Portland, Maine, and down the lower St. Lawrence to Rivière du Loup, at that time the largest under one management in the world. Extravagantly built and wastefully mismanaged, it also lacked as yet the necessary traffic to enable it to meet its obligations. The Barings and their associates had been heavily interested in the road from its beginning and were now vitally concerned over its financial condi-

[2] R. G. Trotter, *Canadian Federation: Its Origins and Achievement* (Toronto, 1924), pp. 30f.

[3] *Ibid.*, pp. 40f.

tion.[4] The urgent necessity of drastic measures was obvious. Investigation made clear the incompetence of the existing management. That was shortly remedied by the appointment of a new general manager, C. J. Brydges, a man who deserves more attention at the hands of our historians than he has received—he was one of the unofficial fathers of Confederation. In order to set the Grand Trunk on its feet further financial aid from the Canadian Government was sought, but to no avail; it was soon found that public generosity had been exhausted by the previous heavy drafts upon the provincial treasury. There remained then only the possibility of increasing traffic in some large way. The most practicable method appeared to be to secure the construction of extensions. A railway to the Pacific was looked to by some for an eventual increase of traffic, both from the settlements which it would build up in the west and as a highway for trade with the Orient; but of more immediate concern and easier of execution was an intercolonial railway that would connect the Grand Trunk system in the St. Lawrence basin with the settled regions and ice-free ports of the Maritime Provinces, and would, it was expected, provide the avenue for a large increase in interprovincial travel and trade. The condition of the Grand Trunk made it utterly futile to think of building such a railway with unaided private capital. It must of necessity be built largely with public funds whether as a company or government road. Such being the case, it was desirable to bring about a renewal of negotiations to that end among the provincial governments. The latter, should they undertake the task, would have to float loans in the London market. An Imperial guarantee of loans of this sort was considered essential, both by the provinces because it saved them from paying an inordinate rate of interest, and by London investors because it safe-guarded the investment against the uncertainties of provincial finance. Obviously, then, to secure a satisfactory basis of agreement for the building of an intercolonial railway was no simple task. There must be not only interprovincial conferences in the colonies, but delegations to London as well, and the latter, besides reaching agreement with the Colonial Office, if not for direct aid at least for a guarantee, must also come to terms with the banking houses from which or through which the money would be borrowed.

The man whom the Grand Trunk shareholders, under the presidency of Thomas Baring, picked to promote this campaign was Edward W. Watkin.[5] He was remarkably well qualified for his task. Managerial experience in connection with English railways had given him the requisite understanding of the technical and financial aspects of railroading and, what was no less important, he had the born promoter's expansive view of opportunities for constructive enterprise, coupled with an enthusiastic and genial personality that gave him close and influential touch with many men. Before sailing on his mission in 1860 he held intimate converse about the matters involved, not only with the Barings but also with the Colonial Secretary, and it was with the blessing of both that he entered upon his labours. Once arrived in the provinces he soon made the acquaintance of their political leaders and revived the dormant interest in an intercolonial railway. A delegation from Nova Scotia and New

[4] In 1860 the Barings became more than ever interested in the Grand Trunk's affairs because, the railway being unable to meet its financial obligations, the rolling stock came into their hands.—S. J. McLean, "National Highways Overland," *Canada and Its Provinces*, ed. by A. Shortt and A. G. Doughty, (Toronto, 1914), X, 416.

[5] Sir E. W. Watkin, *Canada and the States: Recollections 1851-1886* (London, [1887]), pp. 11ff. See also Trotter, *op. cit.*, pp. 178ff.

Brunswick toured Canada—Howe called it "one of the most delightful excursions" of his life[6]—and at Quebec, in conference with the Canadian Government, they resolved to renew railway negotiations with London. Watkin hastened back to England to pave the way for the provincial delegates, and in his preparatory discussions with Newcastle, according to an account of them which Watkin gave at a later time, it was agreed not only that the railway project should be backed, but also that it was desirable to make a start as soon as possible at securing communications across the West, and, in addition, that the proposal to unite the colonies should be pushed. When the delegates arrived Watkin introduced them to the duke, helped to stage-manage the negotiations, and saw to it that the delegates and their wives were made socially welcome.[7]

The visit of the delegates is marked by one development particularly worthy of note in connection with the topic of this paper. A British North American Association was instituted, comprising a large number of the financial leaders in the City, most of those, in fact, with interests in British North America. Howe, a prime mover in its creation, urged upon Thomas Baring that however admirable might be the means already being taken to recover the money sunk in the Grand Trunk, the road's final salvation must in the very nature of things depend upon the general progress of the country, which in its turn required a large growth of population. He pointed out that an organization of interested persons in London could do much in gathering and disseminating information about the colonies that would attract immigration, and it would also serve as a valuable rallying point for provincial interests in dealings with the British Government and public.[8] After consulting with his colleagues and with Watkin, Howe drew up a prospectus. The organization was soon effected, and a committee appointed through which a memorial was addressed to the Lords of the Treasury urging the importance of the Intercolonial Railway.[9]

Despite all the pressure, however, that was brought to bear upon it the British Government finally proved unwilling to meet the demands which had been formulated by the provincial delegates before their return home, as those involved dipping into the British Treasury for half of the yearly interest on the necessary loan until it could be met by income from the railway's operation. But, while rejecting this method, the Government did not wish to end the matter and therefore informed the provinces that, if they would pay the interest charges, it was quite willing, as at an earlier time, to give its guarantee and thus make possible a low interest rate.[10] The way was open for renewed discussion, but although Watkin was in the provinces three times during that year, 1862, a change of governments in Canada in May prevented any headway being made till his autumn visit.[11]

It will be recalled that the resignation of the Cartier-Macdonald Government followed the defeat of its Militia Bill providing special defensive measures for the province. The incident deserves attention here for

[6] Howe's diary of 1861, written on shipboard in 1862, *Howe Papers*, Canadian Archives, Cf. Watkin, *op. cit.*, pp. 21f.

[7] Watkin, *op. cit.*, pp. 80ff.

[8] Howe to Thomas Baring, 31 Dec. 1861, *Baring Papers*. See also Trotter, *op. cit.*, pp. 184, 192f.

[9] 25 Feb. 1862, *British Parliamentary Papers*, 1862, No. 209, pp. 5ff. The same paper contains a number of similar memorials from other parts of the United Kingdom.

[10] Newcastle to Monck, No. 93, 12 Apr. 1862, Canadian Archives, *G*167. Printed in Br. Parl. Pap., 1862, No. 210, p. 22.

[11] Watkin, *op. cit.*, pp. 94ff.

a moment. Upon receipt of the news, many persons in Britain, hardly if at all appreciating the degree to which that measure and its defeat were alike matters of party tactics, raised a chorus of caustic and hostile criticism in Parliament and in the press. It was a time when nerves were on edge over the whole Civil War situation, and men joined in the attack who upon other occasions displayed a much better understanding of the British North American point of view. When it is remembered that at that period many in the Old Country expected the colonies before long to reach maturity and drop from the parent stem, hoping at best that the parting could be conducted in friendly fashion, it is not surprising that in the pique of the moment wishes were openly voiced that they might be got rid of before becoming a source of trouble with the States. Understandable as it may be, the temper of the comment was not calculated to improve relations with the provinces or to persuade the latter to a more active defense policy. It is rather significant that among the few who rallied to the defense of Canada in the House of Commons was Thomas Baring. He expressed confidence in Canada's loyalty and avowed a strong belief in the mutual advantages of retaining the colonies. He deplored the fact that lately so much reason had been given the provincials for the unfortunate conclusion, which many of them were reaching, that they were no longer welcome in the Empire. While he voiced his conviction that it was quite unworthy to base one's attitude towards his fellow-subjects upon a mere matter of pounds, shillings, and pence, at the same time it is true that his personal knowledge, upon which his special understanding of the situation depended, was the result of his regular communications with Canada made necessary by his own business connections.[12]

It was shortly before this debate took place that Newcastle sent his despatch, already mentioned, authorizing the provinces to go ahead when they wished with negotiations for union.[13] Enough has now been said to make it clear that one of the things accounting for his changed attitude since he had turned down Galt's overtures early in 1860 was the interest and the influence of London financial men, the Barings and the Glyns and other concerned with British North American affairs.

Negotiations among the provinces were resumed in September at Quebec, where Watkin brought optimistic views from London and agreement was reached as to the respective shares of the provinces in building the Intercolonial. Various related questions were also discussed. Political union, it was decided, had best wait until the Intercolonial Railway should have prepared public opinion for it by increasing intercourse among the provinces. A tariff union, although impracticable for the present, would, it was felt, be an "indispensable consequence" of the building of the Intercolonial. The Canadians were less keen than the Maritime delegates for the Intercolonial, but were willing to support it if their expenditures upon it might be counted at London as a contribution for defense, and if, along with it, they could secure aid for establishing communications westward.[14]

Once more the scene shifted to London, where, as before, private finance was involved as well as the Colonial Office. Watkin continued

[12] J. H. Gray, *Confederation* (Toronto, 1872), pp. 160ff.

[13] Newcastle to Mulgrave, N.Sc. No. 182, 6 July 1862, Sir J. Pope, *Confederation Documents* (Toronto, 1895), pp. 303ff. A few weeks later the Colonial Secretary urged a uniform system of militia training and organization for the provinces.—Newcastle to Monck, No. 163, 21 Aug. 1862, *G168*. *Printed in Br. Parl. Pap.*, 1862, [3061], pp. 40ff.

[14] Trotter, *op. cit.*, pp. 42, 196f.

to work hard both for the Intercolonial project and for "Northwest Transit." Negotiations in regard to the former again fell through, this time because the Canadians balked at the British Government's stipulation of a sinking fund as a condition of its giving a guarantee. As for opening a line of communication across western British America, Thomas Baring would not be persuaded that the project was essential to the welfare of the Grand Trunk, despite Watkin's efforts to convince him that "under present circumstances in the province of Canada" the Intercolonial, which he deemed absolutely essential to the Grand Trunk, was "dependent upon this other movement."[15] Plans were nevertheless drawn up, at a meeting with the Canadian delegates, held at the bank of Messrs. Glyn, for a company to construct a telegraph line and wagon road to the Pacific.[15a] Efforts were made to secure aid from the British Government, by guarantee, or at least in the way of land, but to no avail. Downing Street would give no aid beyond recommending to the colonial governments concerned, Canada, British Columbia, and Vancouver Island, that they join in guaranteeing the necessary loan.[16] The most that the Hudson's Bay Company could be persuaded to do for the project was provide a right of way, but in the course of discussions it developed that it was not averse to selling out altogether. Watkin and his associates, finding it impossible to induce the British Government to become the purchaser, decided to take over the company themselves. Thomas Baring and the elder Glyn held off from a move with no more government backing than these Northwest schemes had, but virtually the rest of the group went ahead with the purchase and took over control of the company. The new proprietors were to carry on the existing trade under the charter, but planned to administer the company's affairs "on such principles as to allow the gradual settlement of such portions of the territory as admitted of it, and facilitate the communication across British North America by telegraph or otherwise."[17] It turned out, however, that even with the Hudson's Bay Company in hands desiring to speed the opening of the Northwest there were too many parties involved and too many questions to be dealt with to permit rapid headway being made.

Watkin spent much of the summer of 1863 in Canada working in the interests of the new Hudson's Bay Company, but for the time being his plans miscarried. Nor, as president of the Grand Trunk, was he able in the following months to accomplish much of consequence in that concern's interest in the east. Western projects and Intercolonial Railway were alike still pretty well up in the air when political crisis in 1864 made federation the issue of the hour.[18]

Just as soon as it appeared that the federation proposal of provincial leaders held promise not only of a new political vitality and unified effectiveness in British North America but of a quickened economic life as well, British investors with a stake in the country rallied to its support. The weighty influence of British finance was thrown wholeheartedly into the scale, to the intense disgust of the foes of federation.[19]

[15] Watkin to Thomas Baring, 4 Nov. 1862, and Nov. [1862], (endorsed "R 8 Nov."), also Geo. G. Glyn to Thomas Baring, 4 Nov. [1862], and 5 Nov. 1862, *Baring Papers*.

[15a] Watkin, *op. cit.*, pp. 97ff.

[16] Watkin, *op. cit.*, pp. 109ff.

[17] Head to Newcastle, 3 July 1863, *Br. Parl. Pap.*, 1863, No. 438, p. 17. On the purchase, etc., see Watkin, *op. cit.*, chs. VIII and XI.

[18] Trotter, *op. cit.*, pp. 207f., 275ff.

[19] E.g.: Dorion in *Confederation Debates* (Quebec, 1865), pp. 250f., 263; E. G. Penny, *The Proposed British North American Confederation: Why It Should Not Be Imposed upon the Colonies by Imperial Legislation* (Montreal, 1867); J. A. Chisholm, ed., *Speeches and Public Letters of Joseph Howe* (2 vols., Halifax, 1909), II, 530.

It strengthened the hand of Downing Street, which under successive ministries, Liberal and Conservative, made persistent efforts to secure acceptance of union in the hesitating Lower Provinces. The British North American Association established in 1862 had rather petered out during the period when railway and other negotiations had hung fire in the provinces, [20] but now it proved a valuable means of rallying support in London to the federation cause when that was under fire from Howe's mission of protest.[21] The British North America Act, and the accompanying Canada Railway Loan Act to guarantee a Dominion loan for building the Intercolonial, were passed in the British Parliament with comparatively little discussion, but when John Bright in the Commons assumed the role of spokesman for the protesting delegation it was E. W. Watkin, M.P. who undertook to refute him.[22] The next year, when the repeal agitation occasioned further debate, Tupper, who was in London to see that no harm was done, seems to have relied no less upon Watkin than upon members of the Government for the defense of Confederation. At any rate he supplied Watkin as well as the Solicitor-General with a brief for his speech.[23] The acquisition of the Northwest by the young Dominion was undoubtedly facilitated and hastened by the fact that the men now in control of the Hudson's Bay Company, while naturally insistent that the Company's rights should receive adequate recognition, were nevertheless thoroughly in sympathy with the ideal of extending communication and settlement in the Northwest.

The foregoing account has made clear, I hope, some aspects of the British contribution to the federation movement. That contribution has sometimes hardly received its full recognition. In regard to it one thing is certain: the official attitude and participation of the British Government are only a part of the chapter. It is true that the provinces had their close and important relations with Downing Street, whose aid and counsel they invoked and whose wishes were not to be lightly regarded; but if London was the political capital of the British world it was also the financial capital, and provincial governments no less than the Imperial Government found their policies affected, and sometimes determined, by the views of financiers, private promoters of Empire, with whom they had constant and important dealings.

Do not mistake my emphasis. I would not, in what has been said, belittle the part played in the federation movement by provincial leaders, those whom an honoring tradition styles the "Fathers of Confederation." Their work was essential and fundamental. They pioneered for the ideal when that still required vision. When at last the opportune crisis came in provincial affairs, they seized the chance, and, with a high determination to hammer out their differences, they wrought compromise after compromise upon the anvil of necessity, shaping the federation scheme with a keen recognition of local and British North American needs,

[20] Jos. Nelson to Howe, 23 Jan. 1864, *Howe Papers*, IV, 13ff.

[21] Trotter, *op. cit.*, p. 214.

[22] Watkin opposed Bright's view that the colonies might as well be let go. He said that "the British Empire was one and indivisible or it was nothing."—*Hansard*, 3d Ser. 185, pp. 1188f. J. McCully of the Nova Scotia delegation, in a "private" postscript to Thomas Baring, April, 1867, expresses gratification that the railway guarantee "has been so handsomely sustained and successfully disposed of. We all feel," he continues, "that your influence has contributed very largely in bringing about this successful result which puts on the top stone of Confederation. Allow me in closing to return my very sincere thanks as one of the Delegates for your kind unremitting attention during our protracted stay in London."—*Baring Papers*.
I, 178.

[23] E. M. Saunders, *Life and Letters of Sir Charles Tupper* (2 vols., London, 1916),

and " building for the future even better than they knew." And the circumstances which rallied to their aid were manifold. Besides the internal political and economic needs of the provinces there were the fears engendered locally by the American Civil War and its aftermath. There was the war's influence upon the British Government in impelling it to welcome a lightening of its own burdens, by the substitution of one strong government for the several weak ones with which it found dealings so complicated and uncertain. But, when that has all been said, this still remains: federation found strong support from men in Britain, of extensive interests and powerful influence, who welcomed it because they believed that it promised for British North America the political stability and the economic security without which existing enterprises must remain in jeopardy and future developments be limited and uncertain. They, too, deserve their meed of recognition at this time of celebration. Without their sympathy and assistance, interested it is true, but, for all that, wide-visioned and of inestimable value to the movement, the story of Confederation would have been a very different tale.