

## CHAPTER SEVEN

### The Crisis of Confederation

If, by 1884, the speculators that comprised the elite of Prince Albert required a rebellion in order to stimulate the local economy, the federal government needed something akin to a full-scale war in the West to salvage its original plans for the development of the nation of Canada. The government in Ottawa had tied its destiny to that of the CPR. By 1884, however, the CPR was facing imminent bankruptcy. The economic collapse of the CPR would certainly spell political disaster for both the Conservative government and its National Policy. Without the railway, there could be no agricultural colony in the West. Without the agricultural colony, there would be no capital to finance the industrial revolution in the East.

The government's system of publicly financed, privately owned monopolies, supported by legislation and protected by high tariffs, had never been popular with the Canadian electorate. The CPR had come into being under the shadow of corruption, involving not only Prime Minister Macdonald but also high-ranking capitalists and aristocrats. Indeed, such was the nature of the National Policy that most of the nation's economic and political leaders were, in one way or another, tarnished by corruption. This corruption began with the first phase of the plan for the public financing of a private corporation (the CPR) and first surfaced during the "Pacific scandal" of 1872, when future CPR syndicate members dumped large amounts of money into the Conservative party's campaign fund.

In 1872, Prime Minister Macdonald had been caught accepting more than \$350,000 for the Conservative election campaign from Montreal financier Sir Hugh Allen in return for making Sir Hugh the president of the CPR. The subsequent publicity exposed only the tip of the iceberg, but the scandal eventually resulted in the demise of the Conservative government, the government that had been responsible for Confederation. The Conservative members of Parliament who were involved in the scandal were whitewashed by a royal commission that was established to look into the affair. Charges were never laid against the prime minister or any of the other members involved in the affair. Lord Dufferin, the governor general, had supported the

prime minister throughout the scandal, even though he had been exposed by the Liberal newspaper, the *Toronto Globe*. Said Sir John A. Macdonald of this affair:

I have never denied being a thief because I was never charged with being one.<sup>1</sup>

The Pacific Scandal of 1872 demonstrated that the voters of Canada, inured as they were to such corruption, nevertheless could place political limits on the use of patronage and public immorality. Macdonald's defeat in 1873 was temporary, however, because the Liberal government that replaced his regime proved to be ineffective. It was evicted from office in 1878 after five years of lukewarm leadership. The Conservatives were returned to power with a mandate that enabled them to place virtually unlimited public funds at the disposal of the railway barons, bankers and entrepreneurs who were involved in the building of private empires through the publicly funded construction of the railway. Thus, in assuming the responsibility of constructing a transcontinental railway, the CPR syndicate was placed in control of the economic destiny of the nation.

Upon its return to power, Sir John A. Macdonald's Conservative government did not wait long to repay its debt to the CPR syndicate. The National Policy Resolution was introduced in the House of Commons on March 12, 1878.<sup>2</sup>

The voters of Canada had no choice but to support the massive giveaway of public money to the CPR. They had to support the National Policy if they wished to remain British subjects. Since public ownership of the railway was unthinkable, failure to publicly finance the private ownership of the nation's vital railway to the West Coast would have resulted in economic stagnation, undoubtedly ending with the loss of the entire Canadian colony to the United States. The railway presented the only practical alternative to the economic stagnation and massive unemployment that had plagued the country since its beginning.

Construction of the CPR would provide work for thousands of Canadian and European labourers who were often out of work during the recurring depressions that struck with exasperating frequency throughout the 1800s. The minister of railways and canals, Sir Charles Tupper, in his presentation to the House of Commons on May 10, 1879, spelled out the government's political rationale for its financial support of the CPR.<sup>3</sup> He claimed that the CPR was required in order to provide a trade route to China for the merchant class of Great Britain. According to the minister, the construction of the railway would provide thousands of jobs for the European immigrants, many of whom were on the edge of starvation; he justified the immense land and money grants to the CPR syndicate on the grounds that the project would

help the poor by creating employment. At the end of his speech he presented this resolution:

Resolved, that reports from the mother country set forth an unprecedented state of enforced idleness of the working classes, and the possibility of a scheme of relief on a large scale [is therefore] indispensable to alleviate destitution.<sup>4</sup>

This massive project was welcomed by the bankers of Europe and America alike, since it provided a government-backed investment bonanza of huge proportions. The railway was to be constructed as a means of creating profits for the banks and the new monopolies that were being brought into existence by the government. Nevertheless, the project was presented to the people as a program designed to end unemployment and therefore benefit the poor. Small wonder that the destitute people of Canada went along with the government's schemes contained in the National Policy: they were implemented as though they were acts of philanthropy.

The CPR was given \$25 million in cash and twenty-five million acres of the best agricultural land in the West. In addition, the government gave the CPR the rail lines of the Lake Superior section which already ran from Fort William (Thunder Bay) to Winnipeg, and the western section which ran from Kamloops to Port Moody, British Columbia. It also handed over some rail lines which existed in Manitoba.<sup>5</sup>

The total value of the gift from the country to the CPR was huge. John Gallagher, a researcher and historian, claimed that the company received \$106,300,000 in cash and 43,962,456 acres of land, including surface and mineral rights.<sup>6</sup> Other historians have estimated the gift to have been somewhat smaller, but there is no doubt that it was immense, probably the equivalent of the entire national budget over a ten- to fifteen-year period during the 1870s and 1880s.

Sir John A. Macdonald had hoped to finance the railway out of profits earned from the colonization companies that formed the second phase of the plan for western settlement. On April 22, 1882, he addressed the members of the House, claiming that the money given the CPR would be returned to the government by the following year through the colonization scheme.<sup>7</sup> It is difficult to say whether or not Macdonald was sincere when he made this claim. Certainly it was expected that the colonization scheme would be a source of great profit for both the land monopolies involved and the federal government. However, the scheme did not work. In the end it cost the government money. All the federal financial assistance given to the CPR came in one form or another from the people of Canada. Unpopular as these massive government giveaways were, the people of Canada continued to acquiesce in the hope that their financial sacrifices would some day pay off through the creation of a healthy national economy.

The loyalty of the Canadian taxpayers, already crumbling under the financial burden placed upon it by the CPR was further shaken by consistent rumours of government corruption involving giveaways to the CPR. These rumours emanated not only from the press, but also from the Liberal opposition. From the beginning, the opposition hounded the government over its support for the CPR and land monopolies. On January 18, 1881, Edward Blake, leader of the opposition, delivered a scathing attack on the Conservatives. Speaking in the House, he accused the government of creating a monopoly that would be disastrous for prairie settlement. Blake alleged that sixteen abrogations of the Canadian Pacific Railway Act were to be found in the existing contract. In all cases, he claimed, more money was handed over to the CPR syndicate than the act allowed for. Blake claimed, furthermore, that all this business had been completed without debate in the House. He said:

What is the reason we could not get the first offers? They are secret, and concealed from us. No advertisement was issued for this contract. The whole work was done in the dark.<sup>8</sup>

Blake was correct. The government had negotiated the contract without parliamentary debate. It had established the CPR contract by an order in council. Furthermore, fresh rumours of corruption were being carried by the press. The following comment, taken from a newspaper clipping found in the Sir John A. Macdonald files, stated:

So far the road [the CPR rail line] had not cost more than \$10,000 per mile, while the land grants were worth \$50,000 per mile, thus getting a subsidy to the Company to the extent of \$40,000 per mile.<sup>9</sup>

It is likely that the CPR syndicate was using this surplus government funding for ventures other than railway construction. It was common practice for railway companies in both Canada and the United States to invest only government money on railway construction, using none of their own capital. This was definitely the policy of the CPR syndicate. George Stephen, CPR president, informed one of his colleagues that "the syndicate were not going to spend a dollar more than they got from the government in money — that they would build as much as they got cash for, and look for profits out of the land."<sup>10</sup>

The smell of corruption lingered long after the Conservatives' defeat brought about by the Pacific Scandal of 1873. It continued throughout the entire period of railway construction which began with the return of the Conservatives in 1878, and remained until after the "rebellion" of 1885.

When the colonization scheme failed as an economic enterprise in 1882, many of Prime Minister Macdonald's former allies who had invested in it

became embittered over their losses and blamed the failure entirely on the prime minister. Charles Mair, who had supported the Conservative government during the Red River crisis of 1869-70, was one of those who had switched allegiance to the Liberal party. In 1882, George Dennison, a close friend of Charles Mair wrote of Macdonald:

In 1873 the Pacific scandal was as disgraceful a thing as ever happened. Then in 1878 Prime Minister Macdonald humbugged the people into the National Policy which after awhile made the people drunk with an inflated prospect, which has been followed by distress and poverty unheard of in Canada before. Then in 1882 the same arch-conspirator and trickster deliberately worked up the North West boom and bribed the people with their own lands and made a second South Sea bubble which has brought ruin to many a Canadian home.<sup>11</sup>

George Dennison's anger should have been directed toward the railway syndicate rather than toward the prime minister. It was the CPR's change in plans that had led to the economic downfall of Charles Mair and the other land speculators in the Prince Albert region. In 1882, when the CPR decided to run the railway far to the south of Prince Albert, Mair, along with other investors who had taken their land grants along the proposed northern route, faced immediate bankruptcy.

The Conservative government had certainly hoped that the Canadian investors in the land monopolies would be successful in the West; the Prince Albert Colonization Company, and other colonization companies as well, had obviously picked their holdings so that they would be near the CPR's future main line. However, the bankers and the real power brokers of the CPR syndicate were not happy with these speculators, because they were buying up the property that could have been used by the CPR for its own future development. In fact, it was these speculators, by choosing their holdings along the original northern route, who caused the syndicate to move the line to the south where the CPR syndicate would be free to control development according to its own needs.

The engineers and professional surveyors employed by the government were under tremendous pressure from the CPR and its political spokesmen to pick a route for the railway that would enable the CPR to control future urban development and to maximize its own profits through the sale of land. The following letter from Acton Burrows, friend and business crony of Charles Mair, described the way in which civil servants Sanford Fleming and Marcus Smith became embroiled in this intrigue:

As you no doubt thoroughly understand, Smith and Fleming do not pull together. Fleming, who is by no means a thorough engineer is jealous of Smith's ability . . . . Unfortunately for the party and the country, Fleming appears to have great

influence over Tupper and carries his point with him as witness the recent selection of the Yellow Head Pass through the Rockies in preference to the Pine or Peace River Passes. There is no doubt that Smith will, in his report, make a hard fight to keep the line well to the North and I think he will recommend that the river be crossed either at Prince Albert, by bridging both streams or at the Pay-He-Non Creek between the forks and Fort a La Corne . . . . Meanwhile it seems to me that it might not be a bad plan to squat on the land to the north and south of the creek named. If it is pretty good farm land nothing could be lost by doing so and things might turn out that a good deal could be gained.<sup>12</sup>

Acton Burrows' analysis was correct. Fleming was, under the influence of J. J. Hill, attempting to locate a new route for the CPR, one that would not pass through territories already owned by hoards of speculators.

Marcus Smith had been employed by the federal government in 1872 to find the best route through the mountains for the CPR. An outstanding professional civil servant, Smith tried to remain aloof from the political and speculative conspiracies that came to bear on the selection of the CPR's route across the West. He stuck to his argument regarding the superiority of the Pine River Pass route because he was sure it was the most practical and efficient choice. Fleming, however, allowed himself to be used by the CPR syndicate to rationalize the choice of the southern route, the construction of which would cost millions of additional dollars. From an engineering standpoint, the southern route was pure folly. The passes of the northern route often followed natural valleys through the mountains to the coast, whereas the "passes" eventually used on the southern route went thousands of feet higher, requiring the construction of lengthy tunnels through the mountains. This, together with the cost of new surveys, would add millions to the overall cost of the railway.

Because of Smith's refusal to succumb to the pressures of the various groups of speculators and their political supporters, his job was constantly threatened by his superiors. By 1879, the Pine River Pass route was known as "the Tory route" because so many cabinet ministers, members of Parliament, and their friends had purchased land along its course. However, these people did not represent the real power behind the economic development processes that were taking place across the West.

The real power was bound up in the CPR syndicate and the syndicate was not in the railroad business to make other people wealthy — neither the immigrants nor the Natives, nor, for that matter, Conservative speculators. Since so many speculators had seized control of the valuable lands along the proposed Pine River Pass route, the syndicate, in 1881, simply made a unilateral decision to run the rail line across the barren lands of the south. Syndicate members could then amass a fortune from land sales and real estate as towns and cities grew up along the line through the virgin territory.

J. J. Hill, the veteran American railroader and “strong man” of the CPR syndicate, left no doubt about why the line was to pass through the south instead of along the originally planned northern route. The change to the new plan had nothing to do with engineering, nor with the question of which route would be best for Canada. From both perspectives it was clear that the northern route was the superior choice. Indeed, when the decision was made by J. J. Hill to use the southern route, new studies and expensive new surveys had to be carried out at government expense; new mountain passes had to be explored and charted. Hill’s decision was quite clearly based on one simple criterion — future profits for the company, based upon ownership of lands and properties along the new route.<sup>13</sup>

This decision to move the rail line to the southern route epitomized the pattern of western development which existed in 1881 and which continued for the next hundred years. Although the decision made no sense in terms of location of resources or in terms of other factors having to do with the general prosperity of the people of the West, it did make sense from the purely commercial perspective of the CPR syndicate.

Along with its generous land and money grants to the CPR, the government also guaranteed it a twenty-year monopoly. This monopoly was extremely important, not so much because higher prices could be extracted in the absence of competition (although that was true) but because it meant that the company could determine where development would occur: development had to follow the CPR’s main line wherever it was. The syndicate could, and did, manipulate the government land grants so that its own holdings determined the location of future rail and urban centres.

But the syndicate needed the assistance of the government’s professional engineers and surveyors to rationalize the sudden change in route. A study had to be produced indicating that the southern portion of the prairies was more suitable for agricultural settlement than was the northern fertile belt. For this, the syndicate employed John Macoun, who had previously worked for J. J. Hill in Minnesota and had travelled with Sanford Fleming across the Canadian prairies during the 1879-80 surveys. Macoun dutifully sang the praises of the land along the proposed southern route. It was his report that was used to justify the expensive change in plans.

In February 1881, J. J. Hill hired an American surveyor, Major A. B. Rogers, to find new passes through the three formidable mountain ranges between the southern prairies and the Pacific Coast. The passes selected along the southern route were much higher and required much more capital for construction than did those along the northern route. The syndicate was never able to produce credible evidence that the southern passes were either cheaper to cross or more efficient for transportation purposes. In fact, all available evidence indicates the opposite. Freight and passengers moving to and from