The Cape Breton Coal Industry and the Rise and Fall of the British Empire Steel Corporation*

Our understanding of regional underdevelopment in Atlantic Canada has been slow to develop. For more than 50 years we have had extensive documentation of the existence of serious regional inequality in Canada. Attempts to explain the reasons for this have been less common. In the 1920s politicians active in the Maritime Rights movement catalogued the "unfilled promises" and "betrayals" of Confederation and demanded increased federal subsidies as compensation.1 A less subjective interpretation was proposed by S. A. Saunders, C. R. Fay and Harold Innis, who attributed the region's troubles to the new era of industrialism. For the Maritimes it was "prosperity so long as their face was towards the sea, and . . . struggle against adversity when the pull of the land increased". Like an "economic seismograph". the Maritimes registered the shockwaves of a "rising tide of continental forces that were destined to dominate the economy of the Maritime Provinces".2 Recent studies have questioned this approach: an economic historian has challenged the myth of the "Golden Age"; an historical geographer has traced the domination of the region by outside forces during the colonial era; an economist has pointed out that during a decisive period in the 1830s and 1840s local entrepreneurs neglected the region's industrial potential.3

* For their constant support and critical comments, I would like to thank Michael Cross, Judith Fingard, Craig Heron, Gregory Kealey, Don Macgillivray, Ian McKay, Del Muise, Nolan Reilly and David Sutherland.

1 Nova Scotia, A Submission of Its Claims with Respect to Maritime Disabilities within Confederation (Halifax, 1926); Nova Scotia, A Submission on Dominion-Provincial Relations and the Fiscal Disabilities of Nova Scotia within the Canadian Federation (Halifax, 1934).
4 Acadiensis

The most important revisionist studies were those published in the early 1970s by Bruce Archibald and T. W. Acheson. In 1971 Bruce Archibald applied a sweeping metropolis/satellite interpretation to the economic history of the region. He argued that the region has "always existed in a dependent relationship with a larger controlling metropolis" and the region must be seen as "the back yard of a dominant economic centre rather than an autonomous but struggling unit". His survey stressed the role of outside exploitation in the underdevelopment of the region: the extraction of resources and capital in response to the needs of outside forces divided the loyalties of local entrepreneurs and produced growing regional underdevelopment.4 In 1972 T. W. Acheson challenged the view that the Maritimes did not experience economic growth after Confederation; his study found that the Maritimes sustained a significant amount of industrial expansion in the late nineteenth century, as a group of "community-oriented" entrepreneurs transferred capital from traditional pursuits to new industrial investments. By the 1920s, however, this industrial structure had collapsed, mainly because no "viable regional metropolis" had emerged to take leadership and central Canadian business and finance had asserted control over the region's economic life.5

In the light of these studies, it seems clear that a new framework is necessary for understanding regional underdevelopment. A tentative approach may be drawn from the Marxist analysis of regional inequalities under industrial capitalism, which explains uneven development between regions as a natural feature of capitalistic economic growth. The continuing search for new economic surpluses, better rates of profit, new raw materials, markets and sources of labour supply, all caused an expansion in the scale of capital accumulation. As part of this process, the operation of the free market system generally led to the concentration and centralization of capital; economic wealth and power tended to become concentrated in fewer hands and centralized in fewer places. Once the structure of an inter-regional market in goods, labour and capital was established, relationships of domination and dependency emerged between regions. As the process continued, regional


disparities deepened and the subordinate communities entered a cycle of capital deficiencies, population losses and economic powerlessness.\(^6\)

By the 1880s industrial capitalism had become well-established in central Canada and began to extend its hegemony over regions and sectors where the growth of industrial capitalism was less advanced. The emergence of this trend towards the concentration and centralization of capital had devastating consequences for economic development in the weaker regions and communities of the country.\(^7\) The concentration and centralization of the Canadian economy affected these regions, especially the Maritimes, in several ways. First, national economic policies under Confederation promoted regional underdevelopment. The political hegemony of central Canada helped shape state policy to aid central Canadian goals and to injure or neglect regional interests, especially in tariff, railway, trade, marine and fisheries matters. The completion of the railway network added a key instrument of national economic integration; the railways brought western goods in and took eastern people out. The creation of a national market in goods undermined local industry as outside competitors conquered the regional market, and the creation of an inter-regional labour market tended to make the region a reserve pool of labour for neighbouring regions. A fourth aspect was the growing division of labour between regions, which often took the form of the export of raw materials and specialized products to the metropolitan market, but also resulted in the location of resource-based and labour-intensive industries to take advantage of raw materials and low wages in the underdeveloped region. A corollary was the emergence of economic sectors, which, because they were not important to the national economy, suffered capital deficiencies (the fisheries) or were absorbed into other economic empires (the forest industries). A fifth aspect of the "Canadianization" of the region was the steady import of central Canadian social and cultural norms; by the time they reached Ottawa, political figures like W. S. Fielding and R. L. Borden readily accepted the assumptions of central Canadian hegemony. Finally, the most effective form of regional subordina-

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tion was the extension of direct metropolitan financial control over the region. Through competition and credit manipulation, and mergers and takeovers in all important industries and financial institutions, the domination of central Canada over the Maritimes was consolidated by the 1920s. Much of the social and political turmoil of that decade expressed the community's response to the crisis of the regional economy.

Nowhere can the results of these developments be seen more clearly than in industrial Cape Breton, where the process of national economic integration was of decisive importance in the exploitation of one of the region's richest natural resources, the coal-fields. At the beginning of the twentieth century, industrial Cape Breton seemed a dynamic and prosperous industrial community. The population of the industrial area, which numbered 18,005 people in 1891, had increased to 57,263 people by 1911. The largest and most valuable in eastern Canada, the Sydney coal-field stretches about 30 miles along the northeastern shore of Cape Breton Island and in the 1920s the field's proven reserves were known to exceed one billion tons. The accessibility and quality of the coal supply gave the Sydney field considerable economic importance. Cape Breton's bituminous coal compared favourably with other industrial coals, although it was no rival for anthracite as a domestic fuel. The inexpensive water route to Quebec enabled Cape Breton coal to penetrate the central Canadian market, and the extensive iron ore reserves at Bell Island, Newfoundland, generated the establishment of an iron and steel industry in Cape Breton; these two markets consumed the bulk of the coal industry's output. By the time of the First World War industrial Cape Breton occupied an important place in the national economy. The coal mines supplied more than 44 per cent of Canada's annual coal production, and the iron and steel industry produced more than one-third of the country's pig iron.

Although the condition of the local economy at the peak of its fortunes inspired widespread optimism, at least one thoughtful observer was troubled by the emerging pattern of industrial development. A Yorkshire mining en-

8 D. A. Muise, "The Making of an Industrial Community: Cape Breton Coal Towns, 1867-1900" (paper presented to the Atlantic Canada Studies Conference, Fredericton, 1976), Appendix I.
engineer who had immigrated to Cape Breton, Francis W. Gray, lamented in 1917 the underdevelopment of the coal resources:

Nova Scotia, as a province, has not reached the stage of industrial and manufacturing activity that should have accompanied a coal mining industry 100 years old . . . . It must be confessed that the potentialities of Nova Scotia have been but meagrely realized. Take away the steel industry from Nova Scotia, and what other manufacturing activity has the Province to show as a reflex of the production of 7,000,000 tons of coal annually? . . . . The coal mined in Nova Scotia has, for generations, gone to provide the driving power for the industries of New England, Quebec and Ontario, and has, in large part, been followed by the youth and energy of the Province. For almost a century, Nova Scotia has been exporting the raw material that lies at the base of all modern industry . . . .

"Briefly", Gray concluded, "Nova Scotia has achieved the status of a mining camp, whereas its full stature should be that of a metropolis of industry". 11 Gray's worries proved well-founded. After the First World War, the local economy experienced a crisis from which it has never recovered. In 1921 the British Empire Steel Corporation assumed control of the coal and steel industries in Nova Scotia. The outcome of a well-established pattern of regional underdevelopment in Atlantic Canada, the rise and fall of the British Empire Steel Corporation marked a decisive turning point in the economic history of industrial Cape Breton.

11 Gray, "The Coal Fields of Eastern Canada", pp. 13-14. The same question puzzled historians V. C. Fowke, S. A. Saunders and Harold Innis, who briefly examined the coal industry in the 1920s and 1930s. They observed that Canada's coal industry was located at the ends of the country, while most industry was clustered at the centre. They stressed the difficulties in shipping a cheap, bulky commodity like coal long distances to market and lamented the inadequacy of local markets within the region. By failing to attract other production factors to generate industrial growth in its own geographic locale, the coal industry seemed to follow an anomalous growth strategy. To explain this, Innis and his associates began to point out the dominant role of central Canada in the construction of the national economy. This approach was supplemented by economist David Schwartzman and labour historian C. B. Wade, who drew attention to the manipulative and exploitative financial policies of the coal companies. They found that the ideas of O. D. Skelton's "financial buccaneers" had blossomed handsomely in the coal-fields and concluded that the industry's chronic instability and mismanagement stemmed largely from this source. See V. C. Fowke, "Economic Realities of the Canadian Coal Situation — 1929" (M.A. thesis, University of Saskatchewan, 1929); S. A. Saunders, The Economic Welfare of the Maritime Provinces (Wolfville, 1932), pp. 30-46; H. A. Innis, "Editor's Foreword", in E. S. Moore, American Influence in Canadian Mining (Toronto, 1941), pp. v-xvii; C. B. Wade, Robbing the Mines (Glace Bay, 1941); Wade, "History of District 26, United Mine Workers of America, 1919-1941" (unpublished manuscript, Beaton Institute of Cape Breton Studies, Sydney, 1950); David Schwartzman, "Mergers in the Nova Scotia Coal Fields: A History of the Dominion Coal Company, 1893-1940" (Ph.D. thesis, University of California, Berkeley, 1953).
Before the 1860s the growth of the coal industry in Nova Scotia was restricted by imperial policy. In 1826, under a royal charter, the General Mining Association (GMA) of London took exclusive control of the mineral resources of Nova Scotia, but advocates of colonial economic development, including Abraham Gesner and Joseph Howe, helped lead a popular campaign against the monopoly. In 1858 the Association's rights were restricted and control of mineral rights was vested in the colony. This successful revolt against colonial underdevelopment opened the way for expansion of the coal industry. Numerous mining companies were formed and a brief boom followed. Under the unusual conditions of the 1854 Reciprocity Treaty and the high demand for coal during the American Civil War, Cape Breton coal entered the long-coveted United States market on a large scale. The boom ended in 1867, however, when Congress restored prohibitive import duties.\(^{12}\)

The collapse of the export trade led to growing protectionist sentiment in the coal industry. The example of British industrial growth, where the coal resources fueled the industrialization of the Black Country, provoked hopes for a large local market based on “home manufactures”.\(^{13}\) But the dominant protectionist impulse was support for a federal tariff to enable Nova Scotia coal to enter the central Canadian market. The idea was influential among pro-Confederates in the 1860s.\(^{14}\) A short-lived duty in 1870 demonstrated the effectiveness of a coal tariff, and during the 1870s the Cape Breton coal operators campaigned for “the same just and reasonable protection as has been afforded to other Dominion industries”.\(^{15}\) This agitation was successful in 1879 when the National Policy established a 50c per ton duty on coal imports, which was raised to 60c the next year. Nova Scotia's coal sales in Quebec rose sharply, and the local market also became important, as the Maritimes experienced industrial expansion under the National Policy. Based


on this twin foundation, the coal industry's long expansionist cycle continued until the First World War.

During this expansionist period the growth of the coal industry demonstrated several aspects of the uneven development between regions which characterized the emergence and consolidation of industrial capitalism in Canada. The growing concentration and centralization of capital in the Canadian economy created a national economic structure based on inter-regional linkages and dependencies. National economic policies encouraged the expansion of the coal industry, but did not promote stability or prosperity for the hinterland resource area. The creation of national markets led to a division of labour between regions, which established the Cape Breton coal industry as a source of industrial energy filling the needs of the central Canadian market. With the growth of strong Canadian financial centres, a corporate consolidation movement unified the coal industry into a few large companies and delivered control of the industry into the hands of powerful financial interests in central Canada.

The division of labour between regions established the coal industry in Nova Scotia as an important — but vulnerable — source of industrial energy in Canada. After the 1870s, imports of British coal into Canada declined sharply. Under the tariff, shipments of Nova Scotia coal to the Quebec market grew from 83,710 tons in 1878 to 795,060 tons in 1896 and 2,381,582 tons in 1914. Simultaneously, imports of American coal into Canada increased heavily, from 331,323 tons in 1878 to 1,451,508 tons in 1896 and 18,145,769 tons in 1913. By the eve of the First World War, Nova Scotia supplied 54 per cent of Canada's coal production — but 57 per cent of the coal consumed in Canada was imported from the United States. Although the tariff promoted expansion of the domestic coal industry, it provided only partial protection. The Ontario market remained beyond the economic reach of the industry, and in Quebec Nova Scotia coal continually faced keen competition. Despite protests from Nova Scotia, the tariff on bituminous coal was reduced to 53c per ton in 1897 and remained at this figure until 1925. As coal prices approximately doubled during this period, the effect of the fixed duty, which had amounted to more than 20 per cent in the 1880s, was seriously diminished. Under a national policy that was never truly national, the coal trade occupied a vulnerable position in the Canadian market.

The coal market in the Maritimes also grew during this period, reaching a

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17 Importance of the Canadian Coal Industry, p. 21. Tariff changes on coal are summarized in Royal Commission on Coal, 1946, pp. 575-7.
peak of more than three million tons in 1913, but the key factor in the coal market was a single customer. In 1913 the steel plant at Sydney consumed 1,362,000 tons of coal, more than half the total coal sales in Nova Scotia. A vital customer for the coal industry, the Nova Scotia steel industry suffered from chronic instability throughout its history; dependence on this market was a source of further vulnerability for the coal industry. In general, the industrial structure of the Maritimes was limited in scope and suffered seriously from its own pattern of underdevelopment and deindustrialization.

The second main trend in the coal industry was the growth of a consolidation movement in the coal-fields. Completion of the railway to central Canada in the 1870s was followed by mergers dominated by Montreal interests in the mainland coal-fields in 1884 (Cumberland Railway and Coal Co.) and 1886 (Acadia Coal Co.). Plagued by the insecurities of seasonal operations, distant markets and inadequate capital, the Cape Breton coal operators also turned to mergers. The formation of the Provincial Workmen’s Association prompted a short-lived defensive alliance among the coal operators in the early 1880s, the Cape Breton Colliery Association. The battle for “survival of the fittest” continued, however, and of the 20 mines opened in Cape Breton after 1858, only eight remained in operation in 1892. The coal operators welcomed the formation of the Dominion Coal Company.

The Dominion Coal Company played an important part in integrating the Cape Breton coal industry into the national structure of industrial capitalism in Canada, although ironically, this was not the original aim of the company’s promoters. The formation of Dominion Coal in 1893 was sponsored by an alliance between Boston financier Henry M. Whitney, who promised to invest capital and revive the lost coal trade to New England, and a group of Nova Scotia coal operators and politicians anxious to expand the coal industry and

21 Important studies of this process are Acheson, “Industrialization of the Maritimes”, and Nolan Reilly, “The Origins of the Amherst General Strike, 1890-1919” (paper presented to the Canadian Historical Association Annual Meeting, Fredericton, 1977).
22 Canadian Mining Review (August, 1894), p. 131.
restore dwindling provincial revenues. An experienced promoter, in 1886 Whitney had created Boston’s West End Street Railway Company, the first extensive electrified rail system in the country, and energy for the railway was supplied by his coal-burning New England Gas and Coke Company. Whitney’s interest in Cape Breton was designed to secure an inexpensive coal supply and improve the financial position of his other companies. The financial arrangements indicate that the formation of Dominion Coal was a typical episode in an age of corporate carpetbagging.24 Dominion Coal also received considerable encouragement from the provincial government. The legislature approved a 99-year lease on all the unassigned coal resources of Cape Breton and the company was permitted to purchase any others; in return Dominion Coal guaranteed a minimum annual royalty at a fixed rate of 12½c per ton for the duration of the lease. Premier W. S. Fielding predicted the coal industry would grow tenfold as Whitney accomplished “what nature intended . . . the shipment of large quantities of coal to the United States”.25

The creation of Dominion Coal marked the integration of the coal industry in Cape Breton into a metropolitan network of financial control. The composition of Dominion’s first board of directors revealed an alliance of New England, Nova Scotia and Montreal capitalists under Whitney’s presidency.26 The establishment of the merger also marked the triumph of the strategy of exporting the province’s coal resources in large volume. Dominion Coal soon acquired control of all the existing operations in the Sydney coal-field, except the GMA’s holdings at Sydney Mines. The unification of the south Cape Breton field under one management rationalized exploitation of the coal resource and the new coal company applied a much-needed infusion of


25 Nova Scotia, Debates and Proceedings of the House of Assembly, 1893, p. 15. Conservative Party critics attacked the generous lease provisions and warned that the future of the coal industry would now depend “upon a thousand and one financial considerations . . . and not upon any consideration for the coal mines or for the people of Nova Scotia”. One protectionist critic opposed the export of a single ton of coal: “This commodity is essential to our success as a manufacturing centre. If we jealously guard this commodity, the day may yet dawn when Nova Scotia will become to the Dominion of Canada what Manchester is today to England, Ireland and Scotland”. Debates, 1893, pp. 41-2, 71-3.

26 Canadian Mining Review (August, 1894), pp. 131-3. In addition to Whitney, the board included his brother-in-law H. F. Dimock, a Mr. Winsor representing Kidder, Peabody and Company, the Boston investment house, and F. S. Pearson, a Boston engineer employed by Whitney. The Canadians included two local coal operators, J. S. McLennan, who became treasurer, and David McKeen, resident manager, two Halifax lawyers, W. B. Ross and B. F. Pearson, and three Montreal capitalists, Hugh McLennan, Donald Smith and Sir W. C. Van Horne.
capital and technology. Hopes of capturing the New England market were disappointed, but the trade into the St. Lawrence ports continued to grow rapidly and Dominion Coal established an extensive network of railways, shipping piers, coal carriers and coal yards to serve this market.

Control of the coal industry again changed as the integration of the regional economy into the national economic structure accelerated after the 1890s. In 1901 Whitney sold control of Dominion Coal to James Ross, the prominent Montreal capitalist. Dominion Iron and Steel, another Whitney company launched with great fanfare in 1899, was abandoned to central Canadian interests at the same time. Ross and his backers briefly controlled both the coal and steel companies, but in 1903 separate control was established, with J. H. Plummer of Toronto as president of the steel company. Ross and Plummer were both important figures in Canadian business circles: in 1906 Ross held 15 directorships in addition to Dominion Coal, including seats on the Bank of Montreal and Montreal Rolling Mills boards, and Plummer, formerly assistant general manager of the Bank of Commerce, held seven directorships in addition to Dominion Iron and Steel. The two companies quarrelled continually; Ross attempted to take over the steel company in 1907, but in 1910 Plummer triumphed and merged the two companies into the new Dominion Steel Corporation. The merger also took over the Cumberland Railway and Coal Company, but failed to win control of the Nova Scotia Steel and Coal Company, the New Glasgow industrial complex. With Plummer as president and Sir William C. Van Horne as vice-president, Dominion Steel represented a powerful alliance of Toronto and Montreal interests. Closely linked to the Bank of Montreal and the Bank of Commerce, the Dominion Steel directors as a group held more than 179 company directorships. Thus, by the eve of the First World War the Cape Breton coal industry had become not only an important source of industrial

27 Reduced in 1894, the U.S. coal duty was restored near full strength in 1897; except for long-term contracts with Whitney's coke company, shipments to the U.S. remained small. Donald, The Canadian Iron and Steel Industry, p. 200.


30 Acheson, "Industrialization of the Maritimes", pp. 25-7, discusses the struggle for Scotia.

31 W. R. Houston, ed., Directory of Directors in Canada, 1912 (Toronto, 1912). In 1912 the Dominion Steel directors included from Toronto, J. H. Plummer, George Cox, Frederic Nicholls, William Mackenzie, James Mason, Henry Pellatt, and from Montreal, W. C. Van Horne, J. R. Wilson, William McMaster, H. Montagu Allan, George Caverhill, Robert MacKay, W. G. Ross, Raoul Dandurand. David McKeen of Halifax was the lone Maritime. The board of Dominion Coal was very similar; Toronto: Plummer, Cox, Mason, Pellatt, Mackenzie, W. D. Matthews, E. R. Wood; Montreal: Wilson, Van Horne, Dandurand,
energy for the Canadian economy, but also an attractive field of investment for Canadian businessmen. These two aspects of the Canadianization of the region's economic life would contribute heavily to the crisis of markets and corporate welfare which gripped the coal industry in the 1920s.

The emergence of the British Empire Steel Corporation (Besco), which was incorporated in the spring of 1920, was the result of extended manoeuvres for further consolidation of the coal and steel industries in Nova Scotia. By 1917 American financial interests had gained control of the Nova Scotia Steel and Coal Company (Scotia) and were actively pursuing a merger with the much larger Dominion Steel Corporation. The same idea attracted interest in Britain at the end of the war, and in 1919 a syndicate of British industrialists began to buy control of Dominion Steel. At the same time, a third group also appeared on the scene; based in Canada Steamship Lines and led by two Montreal entrepreneurs, J. W. Norcross and Roy M. Wolvin.

The Nova Scotia Steel and Coal Company boasted a strong reputation for cautious management, technical excellence and financial success. From humble beginnings in the 1870s in New Glasgow, the Scotia companies had pioneered the growth of the Canadian steel industry, smelting the first steel ingots in Canada in 1883. In 1899 Whitney had attempted to include Scotia in his new Dominion Iron and Steel Company. In 1900 Scotia entered Cape Breton by taking over the GMA's holdings at Sydney Mines and building a steel plant there. Despite growing links with Toronto interests, especially through customers like Massey-Harris and financial backers like the Bank of Nova Scotia, the company remained dominated by Nova Scotia financiers and industrialists.32


32 J. M. Cameron, Industrial History of the New Glasgow District (New Glasgow, 1960), ch. III; Donald, The Canadian Iron and Steel Industry, pp. 194-9, 254-6. The Scotia board included J. W. Allison, Robert Harris, Thomas Cantley, G. S. Campbell, Frank Stanfield, G. F. McKay, J. D. McGregor, J. C. McGregor, all of Nova Scotia; W. D. Ross and Robert Jaffray, Toronto; Lorne Webster and K. W. Blackwell, Montreal; Frank Ross, Quebec City; J. S. Pitts and R. E. Chambers, St. John's, Newfoundland. Houston's Review, XII (1912). The Scotia board was closely linked to the Bank of Nova Scotia and the Eastern Trust Company, itself also close to the Royal Bank; Piédalue, "Les groupes financiers", p. 28. From 1902-1909 Lyman Melvin-Jones, president of Massey-Harris, was a director of Scotia; according to Cantley, half of Scotia's sales were to agricultural implement manufacturers; Eldon, "The Canadian Iron and Steel Industry", p. 489.
In 1915 a number of steps signaled the closer integration of Scotia into the metropolitan financial structure. President since 1905, Robert Harris, the prominent Halifax financier, resigned to take a seat on the province’s Supreme Court. He was replaced as president by Thomas Cantley, Scotia’s longtime general manager. W. D. Ross, a native Cape Bretoner active in Toronto financial circles (and ultimately Lieutenant-Governor of Ontario), became financial vice-president, and N. B. McKelvie of New York joined the Scotia board as a representative of the New York investment house of Hayden, Stone and Company. In 1917 McKelvie’s group supplied a large investment of working capital for Scotia and secured control of the company. Cantley was replaced as president by Frank H. Crockard, formerly vice-president of a Tennessee coal and steel company, “one of the bright stars of the United States Steel Corporation’s galaxy of subsidiary corporations”. The New York investment banker, Galen L. Stone, became chairman of Scotia’s finance committee. Speculation in the press suggested the giant U.S. Steel Corporation was behind the influx of American investment, but Scotia denied this rumour. President Crockard explored plans for amalgamation with Dominion Steel, which he regarded as “absolutely essential” to develop local resources “along broad lines as followed in the States in the Iron and Steel industry”. Efforts to purchase shares in Dominion Steel met resistance and direct negotiations for a merger also failed in the spring of 1918. Dominion Steel President Mark Workman commented favourably on the idea, but insisted that control must remain in Canadian hands. Soon Scotia recruited the general manager of Dominion Steel to its side. A native Cape Bretoner, D. H. McDougall had worked for the Dominion companies for almost 20 years, rising from mechanic’s apprentice to general manager, but in 1919 he accepted an appointment as president of Scotia. A mining engineer, McDougall strongly favoured a merger of the coal operations in the Sydney coal-field, as the haphazard distribution of submarine coal


34 Montreal Herald, 10 July 1917.

35 F. H. Crockard to N. B. McKelvie, 6 February 1918, Thomas Cantley Papers, Box 175, PANS.

36 Montreal Gazette, 5 February 1918; Canadian Annual Review 1918; Monetary Times, 22 February 1918.

37 Canadian Mining Journal (30 April 1919); ibid., (14 September 1923); Who’s Who and Why, 1921 (Toronto, 1921), p. 885.
leases threatened to cause mine closures and costly duplication of effort by the two rival companies. 38

The next steps towards merger took place within Dominion Steel. In 1916 a Montreal clothing manufacturer, Mark Workman, had succeeded Plummer as president, but otherwise the controlling group remained stable. In October 1919 new merger rumours circulated; the “inside story”, denied by Workman, was that Lord Beaverbrook had accomplished a merger of the Scotia and Dominion companies. 39 Soon it was revealed that a British syndicate had purchased a large quantity of Dominion Steel shares and that a London Advisory Committee had been formed to represent the British interests. 40 The London syndicate included a blue-ribbon committee of industrialists from the British steel and shipbuilding industries: Viscount Marmaduke Furness, chairman of the Furness iron, steel and shipbuilding companies; Benjamin Talbot, managing director of the Furness group; Sir Trevor Dawson, managing director of Vickers Ltd.; Henry Steel, chairman of the United Steel Companies of Great Britain; and Sir William Beardmore (soon Lord Inver­nairn), chairman of the large Glasgow shipbuilding company. 41 The most active members of the London group were Sir Newton Moore and Lt. Col. W. Grant Morden. Prominent in the Australian mining and steel industries, Moore had been active in Australian politics before removing to London during the war. There he sat in the House of Commons and pursued his business interests, especially in General Electric and various empire mining and steel companies. Chairman of the London group was Lt. Col. Morden, a Toronto-born entrepreneur who first came to prominence as promoter of the Canada Steamship Lines (CSL) merger in 1912, which had been backed by Vickers and Furness. Morden himself had moved to London, engaged in industrial espionage in Germany and Switzerland during the war, chaired a British chemical firm and sat in the House of Commons. And according to a sketch in the Sydney Record, Morden was also “above all an accountant to the nth

38 Dominion Steel resisted accommodation with Scotia and both the provincial government and the Dominion Fuel Controller were forced to intervene in the dispute. Armstrong Papers, vol. II, Folders 3, 4, 5, PANS.

39 Sydney Post, 3 October 1919. Evidence for Max Aitken’s involvement is circumstantial. In February 1919 Aitken was meeting with both Cantley and Workman in London, and in June 1919 he was accompanied on his trip to Canada by W. D. Ross. “Daily Memorandum Covering European Visit, 1919”, Cantley Papers, Box 167, PANS; Montreal Star, 25 June 1919. Grant Morden, the main Besco promoter, admitted in a New York interview that he was an associate of Aitken; Sydney Post, 13 February 1920. The rhetoric of the Besco promoters reflected Beaverbrook’s vision of imperial economic cooperation.

40 Monetary Times, 28 November 1919; Sydney Post, 15 December 1919, 10 January 1920.

During 1919 a third group also displayed interest in Dominion Steel. Led by J. W. Norcross and Roy Wolvin of Montreal, this group appeared to be working independently of the London syndicate. Norcross had started steamboating on Lake Ontario as a youth and eventually became managing director of Canada Steamship Lines. In a bitter battle early in 1919, Norcross insisted on a distribution of common shares dividends and supplanted CSL president James Carruthers. Vice-President of the Collingwood Shipbuilding Company, Norcross was also a director of the Canadian branch of Vickers. Like Norcross, Wolvin was an aggressive young entrepreneur who came to prominence on the Great Lakes. Born in Michigan in 1880, Wolvin became a leading transportation expert in the shipping trade. As early as 1902, when he was working out of Duluth, Wolvin was known in Halifax as "one of the shrewdest shipping men on the lakes" and praised for his efforts to improve the capacity of the St. Lawrence canal system. Later Wolvin established the Montreal Transportation Company and joined Norcross in CSL and Collingwood Shipbuilding. In the wake of the Halifax Explosion, Wolvin was invited by the Minister of Marine to consider the potential for establishing steel shipbuilding at Halifax, long a fond local hope. The result was the formation of Halifax Shipyards Ltd. in 1918 under the control of Wolvin, Norcross and their associates. Events then proceeded rapidly. Wolvin was impressed by the immense advantages of the Nova Scotia coal and steel industries and hoped to link them to his shipbuilding and shipping concerns. Following a chance shipboard conversation with Mark Workman, Wolvin began to purchase shares in Dominion Steel and entered the board as a director in July 1919. At some point during the year, Wolvin later recalled, he established a "a friendly understanding, you might say", with the London interests. In January 1920 Norcross also entered the board and in March 1920 the London group proved their control of Dominion Steel by installing Wolvin as the new president. A "silent revolution" had taken place in the affairs of Dominion Steel.

Plans for creation of the British Empire Steel Corporation were unveiled in a speech by Morden at a meeting of the Empire Parliamentary Association in Ottawa on 14 April 1920. "If we can combine the capital and experience of

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42 Who Was Who, 1929-1940, pp. 963, 965; clipping, 1920, in Stuart McCawley Scrapbook, p. 6, Miners' Memorial Museum, Glace Bay; Sydney Record, 1 May 1920; Canadian Mining Journal (March, 1934). Two ships in the CSL fleet reflected the links with Vickers: the W. G. Morden and the Sir Trevor Dawson, clipping, Cantley Papers, Box 175, PANS.

43 Monetary Times, 14 February 1919; Sydney Post, 16 October 1919, 31 March 1920; Monetary Times, 26 March 1920; H. J. Crowe to G. B. Hunter, April 1902, H. Crowe Letterbook, PANS.

the Old Mother Land with the resources of our Overseas Dominions”, he explained, “we are going to put ourselves in an economic position that will forever maintain us as the greatest Empire in the world. I have long felt that the so-called ‘silken thread of sentiment’ should be reinforced by ‘golden chains of commerce’, but the difficulty was how to do it”.

In its earliest form, the proposal was to create a $500 million merger which would join Canadian coal, iron and steel resources to the British steel and shipbuilding industries; the frankly predatory design was to use Canadian resources to revitalize British industry in the face of American competition. The proposal involved nine companies. In addition to the Dominion and Scotia companies, the merger would include three companies controlled by Wolvin’s group (CSL, Halifax Shipyards and Collingwood Shipbuilding) and four smaller companies (Canada Foundries and Forgings, Port Arthur Shipbuilding, Davie Shipbuilding and Repairing, and the Maritime Nail Company). The book value of the corporation’s assets was set at $486 million, including an estimated valuation of the coal and ore reserves at $200 million. The plan was to issue four types of shares, to a total value of $207 million: 8 per cent cumulative first preference ($25 million), 7 per cent cumulative second preference ($37 million), 7 per cent non-cumulative preference ($68 million) and common shares ($77 million). The first class of shares was reserved to raise new capital on the British financial market and the remainder were to be issued at advantageous rates of exchange for the securities of the merging companies.

The proposal generated immediate controversy, including a three-hour debate in the House of Commons on the subject of “cosmopolitan grafters”. “Members are afraid that it is some great stock jobbing scheme”, reported the Monetary Times. “They will have to be convinced that there is no huge watered stock promotion job.” Rather than face a threatened investigation, Besco quickly reincorporated in Nova Scotia, where the province was pleased

45 Saturday Night, 8 May 1920; Salient Facts of the Steel Merger (n.p., 1 June 1920); Press Opinions of 'Empire Steel' (n.p., 1 July 1920). The crisis of the British economy in the post-war period led to efforts by prominent industrialists to revitalize the national economy, but they could not always rely on the support of the London financial community. For short summaries, see Sidney Pollard, The Development of the British Economy, 1914-1950 (London, 1962), and John Foster “British Imperialism and the Labour Aristocracy”, in Jeffrey Skelley, ed., The General Strike, 1926 (London, 1976), pp. 3-16. According to Wolvin, the two financiers in the original Besco promotion, Morden and an Austrian banker named Szarvassy, also tried to recruit American support; Duncan Commission, “Minutes of Evidence”, p. 2063.

46 Monetary Times, 7 May 1920.
to receive a $75,000 fee and granted a charter specifying wide powers.\textsuperscript{47} The proposed basis of share exchanges aroused criticism from directors of the Dominion and Scotia companies, who questioned the inclusion of the lesser companies, on which they lacked adequate financial information and on which the promoters of the merger stood to gain substantially through the merger. In response, the organizers made several revisions, dropping Halifax Shipyards and allowing better terms for the Scotia shareholders. But by the time of Dominion Steel's annual meeting in June 1920, a small group of veteran directors were in open revolt against the merger. In addition to Workman and Plummer, the dissident group included E. R. Wood and Sir William Mackenzie of Toronto and George Caverhill, William McMaster and Senator Raoul Dandurand of Montreal. A stormy session followed, as Wood, a Bank of Commerce director, pinpointed irregularities in the Besco balance sheet and protested the dilution of the steel company shares by the inclusion of the weaker companies.\textsuperscript{48} Relying on the backing of the British group and his own holdings, Wolvin was able to control the outcome of the meeting.\textsuperscript{49} The old board was defeated and only five members were retained on the new board: Wolvin, Norcross, Senator Frederic Nicholls and Sir Henry Pellatt (both vigorous defenders of the merger), and the aging Sir William Mackenzie. New members of the Dominion Steel board included Stanley Elkin, manager of the Saint John Maritime Nail Company, Senators Sir Clifford Sifton and C. P. Beaubien, and three of Wolvin's associates from the CSL, Halifax Shipyards, Collingwood and Davie Shipbuilding group. Three representatives of the London group also entered the board at this time: Moore, Talbot and Furness. In July D. H. McDougall of Scotia and Senator W. L. McDougald of Montreal, both directors of companies involved in the merger, were also added to the board.\textsuperscript{50}

Ratified by the three principal companies, the merger was never com-

\textsuperscript{47} Canada, House of Commons, \textit{Debates}, 1920, pp. 1945-67; \textit{Monetary Times}, 7, 28 May 1920. Letters patent authorizing a capitalization of $100,000 were obtained from the federal government on 15 March 1920; the increase to $500 million was obtained in Nova Scotia on 22 May 1920; \textit{Besco Bulletin}, 11 April 1925.

\textsuperscript{48} \textit{Monetary Times}, 18 June 1920; \textit{Sydney Post}, 15, 16, 18 June 1920.

\textsuperscript{49} By this time the London group held about 180,000 shares in Dominion Steel; Wolvin held 50,000 himself and as President controlled another 50,000. The dissident directors polled only 3,000 shares against the merger, which received 298,000 votes. Newton Moore to W. L. Mackenzie King, 1 September 1923, W. L. Mackenzie King Papers, Public Archives of Canada [PAC]; \textit{Sydney Post}, 23 June, 16 July 1920.

\textsuperscript{50} \textit{Monetary Times}, 25 June, 2 July 1920; \textit{Sydney Post}, 23 June, 19 July 1920. The changing composition of the board may be followed in Table 1.
First, an uproar took place over the arrangements with CSL. Cantley suddenly learned that instead of bringing the shipping firm in as one of the merging companies, Wolvin now planned to sign a 25-year lease guaranteeing a fixed return of 7 per cent to CSL shareholders. In effect, this would make dividends to Steamship shareholders a fixed charge on the earnings of Besco, to be paid ahead of returns to other Besco shareholders. Enraged, Cantley protested that Scotia was being “jockeyed out of its property and its resources and earnings” and denounced the lease as a violation of the merger terms; Galen Stone in New York agreed the news was “a tremendous shock” and suggested the merger might be voided as a result. Furthermore, the new corporation encountered great difficulty in raising capital; completion of the merger remained conditional on the issue of the $25 million first preference shares, shown on the balance sheet as available working capital. The London financial market was not receptive. Besco had earned a poor reputation on the London “street”. Initially enthusiastic, the Financial Times grew exasperated at the repeated revisions in the plans and in July 1920 denounced Besco’s “Merger Mysteries”. The lack of adequate information on the merging companies revealed that “so far as British investors are concerned, they have been very cavalierly treated” and the editors warned investors to be cautious:

The efforts of the promoters of the deal seemed to have been concentrated to rush the matter through as quickly and with as little discussion as possible . . . . We do not like this way of doing business, and those interested in Canadian enterprise and anxious to secure the good opinion of the public on this side cannot learn the fact too quickly.

Moreover, the collapse of the postwar speculative boom during the spring
and summer of 1920 caused a contraction of British capital markets and, under an adverse exchange situation, Canadian borrowing in London became more difficult. Wolvin later estimated that the Besco merger "missed the boat" by about two weeks.  

A less frenzied pace characterized the reconstruction of Besco in 1921. Wolvin persisted in his plans for the merger by secretly buying Scotia shares on the open market and had gained about ten per cent of the stock before his activity became known. The London shareholders, heavily committed to Dominion Steel, also continued to favour the merger. The London Committee arranged a meeting in London in January 1921, where Wolvin reached an agreement with D. H. McDougall of Scotia. A new merger plan was prepared, under which Scotia enjoyed improved terms and Wolvin was forced to exclude CSL, although Halifax Shipyards was admitted. The terms were approved by the shareholders of all three companies and the merger went into effect smoothly on 15 April 1921. Variously described as a "British" or "Montreal" company, it was difficult to identify Besco with any one geographic locale. The head office was in the Canada Cement Building in Montreal, but in 1922 the board's directors were distributed by residence among six locations: Toronto 4, Montreal 5, Britain 5, Nova Scotia 1, Boston 1, Quebec City 1. The directors fell into several interest groups. The first board was dominated by Wolvin and his partners Norcross and H. B. Smith. Three directors represented the Scotia company: President McDougall, W. D. Ross of Toronto and Galen Stone of New York and Boston. With expansion of the board the following year, there were several changes. Quarrelling with Wolvin over CSL and Halifax Shipyards, Norcross left Besco; Wolvin added J. F. M. Stewart, Frank Ross and Senator McDougald, all associates from shipping firms and coal agencies in Quebec and Ontario. Bank of Nova Scotia director Hector McInnes of Halifax joined fellow director W. D. Ross on the Besco board. And Sir Newton Moore led a group of five members of the London Committee onto the directorate. The changing structure of the Besco board in the 1920s is shown in Table I.

Restricted to three companies, two of them well-known, the creation of the new holding company seemed less open to charges of stockwatering, although the inclusion of Halifax Shipyards reminded one critic of the "family compact element in the original merger that repelled the average investor". The basis of share exchanges in the creation of Besco is shown in Table II.

54 Monetary Times, 9 January, 2 July, 1 October 1920, 7 January 1921; Duncan Commission, "Minutes of Evidence", p. 2070.
56 Clipping, 25 February 1921, Armstrong Papers, Box 674, PANS.
### Table I

Directors, British Empire Steel Corporation, 1921 - 1929

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(Dominion Steel and Coal Corporation)

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<th>Office</th>
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<th>Glasgow</th>
<th>Halifax</th>
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<td>President</td>
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<td>X</td>
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<td>S</td>
<td>Secretary and Treasurer</td>
<td>G</td>
<td>General Manager</td>
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**Key:**
- B: Boston
- G: Glasgow
- H: Halifax
- L: London
- M: Montreal
- NY: New York
- Q: Quebec City
- S: Sydney
- T: Toronto

**Source:** *Houston's Canadian Annual Financial Review, XX - XXXI (1920 - 1931).*
Table II
Formation of the British Empire Steel Corporation, 1921
($ = millions)

<table>
<thead>
<tr>
<th>Stock issued by merging companies</th>
<th>Stock issued by British Empire Steel Corporation</th>
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<tr>
<td>Stock issued by merging companies</td>
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<tr>
<td>cum pf cmmn</td>
<td>1st pf cum 1st pf 2nd pf pf cmmn</td>
</tr>
<tr>
<td>A 8% 6% cum</td>
<td>B 7% 7% 7%</td>
</tr>
<tr>
<td>Dominon Steel</td>
<td>$7.0 $40.85 $17.2</td>
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<td>6% $7.0 6% $43.0</td>
<td>$3.0</td>
</tr>
<tr>
<td>Dominion Coal</td>
<td>7% $5.0</td>
</tr>
<tr>
<td>7% $3.0</td>
<td>$5.0</td>
</tr>
<tr>
<td>Dominion Iron and Steel</td>
<td>8% $1.0 5% $15.0</td>
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<tr>
<td>Nova Scotia Steel and Coal</td>
<td>$1.2 $13.5 $6.0</td>
</tr>
<tr>
<td>Eastern Car</td>
<td>6% $ .75</td>
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<tr>
<td>7% $3.0</td>
<td>$ .75</td>
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<tr>
<td>Halifax Shipyards</td>
<td>6% $ .75</td>
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<tr>
<td>7% $3.0</td>
<td>$ 15.0</td>
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<tr>
<td>Sub-totals</td>
<td>$19.5 $63.0 $19.95 $57.35 $24.45</td>
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<tr>
<td>Total stock issued</td>
<td>$82.75 $101.75</td>
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</table>

Key: cum = cumulative, pf = preference, cmmn = common

Sources: Houston's Review, XXI, XXII (1921, 1922); Duncan Report, pp. 25 - 8.

share capitalization of the merging companies amounted to $82.75 million; in the merger this was transformed into $101.75 million, an increase of $19 million in stock value. The capital structure of the various merging companies included previous accumulations of “water” amounting to $38.5 million and the distribution of shares among the various classes of stock also allowed a considerable inflation of stock values. All the cumulative stock of the merging companies was exchanged, mainly on a share for share basis (except where 6 per cent stock became 7 per cent) for Series B first preference cumulative stock. On the other hand, the common stock of the merging companies, which amounted to $63.0 million, mainly at 6 per cent, was translated into a small number of common shares and a large block of second preference shares paying 7 per cent. The creation of this new class of stock
was probably the most flagrant aspect of the merger and prompted Eugene Forsey to comment, in 1926: “Bless thee, Bottom, thou art translated”.57

The capital structure of the corporation also allowed the issue of two further categories of stock: 7 per cent non-cumulative preference shares, which would be paid ahead of common stock dividends, and Series A first preference 8 per cent cumulative shares, which would have first priority on the corporation’s earnings. The plan was to issue $24.45 million of the Series A stock as soon as possible in order to raise new capital for the merger’s operations.

While the Besco merger was before the House of Assembly in 1921, acting Nova Scotia Premier E. H. Armstrong requested an independent opinion of the merger arrangements from Ontario Liberal Party leader Newton W. Rowell. Rowell alerted Armstrong to the dangers the capitalization of the company created. The high authorized capitalization of $500 million might lead to the acquisition of new companies, possibly above their fair value. The lack of working capital in the consolidation might require the issue of further stock, possibly below par value. As the terms of such arrangements could not be foreseen, there was a danger of new water entering the merger at a later date, and Rowell suggested that the province require Besco to seek approval of any stock issues or exchanges. As for the exchanges already outlined, a considerable danger existed: “without any addition to the tangible assets of any of these companies and without providing any additional capital for their operation or development”, the share exchanges created a large volume of new stock:

This change in the character of the securities and this increase in the capital stock issued will undoubtedly involve sooner or later a serious Demand from Directors and Shareholders for a substantial increase in the earnings of the coal companies in order to pay dividends on these huge blocks of stock. These dividends can only come from increased efficiency in operation or an increase in price of coal over what would be necessary to pay a reasonable dividend on the old capitalization.58

Despite this warning, Armstrong loyally backed the merger, speaking out strongly against “any action that would intimidate capital from embarking in Nova Scotia enterprises at such a critical time as the present”.59

The British Empire Steel Corporation commenced operations in the unstable economic conditions of the early 1920s. Hopes for an enhanced level of profits were soon defeated, as were visions of new markets for the output

58 N. W. Rowell to E. H. Armstrong, 9, 12 May 1921, Armstrong Papers, Box 663, PANS.
59 *Sydney Post*, 28 May 1921.
of the Nova Scotia coal and steel industries. Throughout its short history, the British Empire Steel Corporation remained in financial crisis. The corporation's financial structure required minimum earnings of about $3 million a year to meet fixed charges. Dividends on the first preference stock required an additional $1.3 million. To make payments on the cumulative second preference stock would require about $4 million annually. Thus Besco required an annual operating profit of more than $8 million in order to meet financial commitments. Additional profits would be needed to build a reserve against less profitable years, to establish a surplus for capital expansion, or to pay dividends on the common stock. As Table III shows, Besco never met these expectations. No dividends were ever paid on the common or second preference shares. About $3.6 million was distributed in first preference dividends, until payments were suspended in early 1924. In 1924 and 1925 profits were too meagre to meet fixed charges and the corporation turned to bank loans and prior surpluses to meet these payments. By the end of 1925 Besco had accumulated a deficit of $5.7 million. Burdened with the unrealistic expectations embodied in Besco's corporate structure, Wolvin and his directors pursued an increasingly desperate strategy of corporate survival during the 1920s. As the industry's traditional markets were thrown into crisis during this period, Wolvin and his directors pursued two central goals: to reduce the cost of labour power in the coal industry and to recruit state support for the coal and steel industries in the national market.

Table III

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<th>Financial Statements, British Empire Steel Corporation, 1921 - 1926</th>
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<td>($ = millions )</td>
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<td>Operating profit</td>
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<td>Sinking funds and depreciation</td>
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<td>1.182</td>
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<td>Balance</td>
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* including $4 million settlement from the federal government

Sources: Houston's Review, XX-XXX (1920 - 1930); Monetary Times, 1920 - 1928.
Firmly convinced his corporation possessed "the greatest known deposits of coal and iron ore, splendidly situated", Wolvin hoped to implement a programme of capital expansion and enlarge the scope and capacity of the steel industry at Sydney. 60 Under Besco in 1922 the Sydney steel plant for the first time in its history made a brief entry into foreign markets for finished steel. 61 Symbolic of the steel industry's aspirations for diversified production was the opening of Canada's first ship plate mill in February 1920; producing steel plate for shipbuilding, the mill represented a key addition to the industrial structure of the Maritimes. The federal government encouraged establishment of the mill during the war by contracting advance orders and in 1920 the new mill had some success in selling plate to British yards. But in 1920 the federal government cancelled its orders and a long dispute ultimately yielded Besco a $4 million settlement. The plate mill closed and was forgotten for 20 years. 62 Another desultory symbol of Besco's expansionist hopes was an unfulfilled agreement to construct a steel plant in Newfoundland by 1926. 63 Demand for the output of the Nova Scotia steel industry fell sharply after 1919. During the 1920s the steel industry at Sydney eked out a hand-to-mouth existence as it lobbied for orders to keep the plant open for months at a time. The smaller Scotia plant at Sydney Mines, though equipped with a new blast furnace at the end of the war, was closed in November 1920 and never reopened. Pig iron production at Sydney dropped from a near-capacity output of 421,560 tons in 1917 to 296,869 tons in 1920 and 120,769 tons in 1922; production then rose slowly but did not exceed 250,000 tons again until 1928. In 1922 the export to the Ruhr of more than 720,000 tons of iron ore, about three-quarters the annual production of the Bell Island mines, signified clearly the failure of Besco's hopes for expansion of the local steel industry. 64

The coal industry also suffered seriously at the end of the war. The sharp drop in steel production curtailed the coal industry's largest single market; by the end of 1920 the Sydney steel plant's consumption of coal had fallen from more than 100,000 tons per month to 40,000 tons. 65 The war itself had also

60 Monetary Times, 2 July 1920.
61 Ibid., 14 July 1922.
63 Monetary Times, 9 June 1922.
64 Monetary Times, 13, 27 May 1921; McCracken, "Steel Industry", Appendix: Houston's Review, p. 180. Overexpansion, competitive disadvantages and deteriorating tariff protection caused a general problem of excess capacity in the Canadian steel industry during the 1920s; the hinterland steel plants at Sydney and Sault Ste Marie, specializing in basic steel and rails and located at a distance from the industrial heartland, suffered the greatest contraction; Eldon, "The Canadian Iron and Steel Industry", p. 132.
65 Armstrong, untitled manuscript, 1921. PANS.
disrupted the traditional pattern of markets for coal. The loss of the coal fleet to war service closed the St. Lawrence market, though this loss was compensated during the war by the vigorous local demand and the wartime shipping trade. When the war ended, readjustment was necessary. The return of coal vessels was slow and the Quebec market could not be entered aggressively until the 1921 season. Always costly, the alternative of rail shipments was uneconomic and the capacity of this route was limited by the Canso Strait. Also, high prices in the postwar bunker trade and potential export markets in France, Belgium and Britain tempted the coal operators more than the resumption of sharp competition in Quebec. Recapturing Nova Scotia's share of the Quebec market took place slowly and with difficulty. The most formidable obstacle was the entrenched position of American coal suppliers, who shipped more than 3.5 million tons of coal to Quebec in 1920. Over-expansion of the U.S. coal industry during the war had led to the entry of large quantities of cheap coal into the Canadian market and the Nova Scotia coal industry did not regain its former share of this market until 1927. In the Sydney coal-field, where production had reached a peak of 6.3 million tons in 1913, output fell to 4.5 million tons in 1920. The number of man-days worked in the coal industry plunged by one-third, from a peak of 4.5 million man-days in 1917 to 3.0 million in 1921; for the next two decades the level of activity never exceeded 3.3 million man-days per year and the industry was marked by irregular employment and a declining work force.

Wage reductions in the coal industry promised substantial savings for Besco. The coal industry remained surprisingly labour-intensive and the potential for generating surpluses from the coal operations without new capital investment or a large amount of working capital, was attractive. Furthermore, since Whitney's time the coal operations had supplied hidden subsidies to allied companies, through below-cost contracts for coal (which the New England Gas and Coke Company and the Sydney steel plant enjoyed) or through the transfer of credits and surpluses within mergers (which took place within Dominion Steel after 1910). Wolvin made no secret of the

67 The Quebec market normally obtained two-thirds of its coal supply from Nova Scotia, but in 1920 Canadian coal accounted for only 250,880 tons; by 1923 Canadian coal accounted for 1,540,284 tons and U.S. coal 2,922,991; by 1927 the more normal proportions were re-established: Canada 2,307,185, U.S. 1,572,692 tons. As late as the 1940s, central Canada continued to derive half its energy needs from coal. See Canada, DBS, Coal Statistics for Canada, 1922, pp. 23 - 4; ibid., 1927, pp. 22 - 7; J. H. Dales, "Fuel, Power and Industrial Development in Central Canada", American Economic Review, XLIII (1953), pp. 182-3.
fact that he regarded all assets within the merger as common ones and the transfer of earnings or materials from one to the other was the equivalent of changing money from one pocket to the other. The Duncan Commission criticized this policy in 1926 and revealed that Dominion Coal had remained a profitable operation during most years in the early 1920s, in spite of Besco's claims that losses had required wage reductions. David Schwartzman has reconstructed a series of estimates to show the financial position of Dominion Coal during the period when Besco did not issue separate reports for its constituents. When set beside the corporation's financial record, these figures reveal that in the merger's first years the coal operations contributed profits to the merger; by 1923, however, Besco could no longer lean on the coal operations to sustain the corporation.

The coal miners' resistance to Besco's campaign of wage reductions made it impossible for Besco to implement this strategy of survival. In 1920 Wolvin reluctantly signed an agreement for substantial increases for the coal miners. When this contract ended, Besco began its campaign to reduce wages. In 1922 the corporation sought a reduction of about one-third, but after a dramatic struggle was able to win only half this amount. In 1924 and 1925 Besco sought 20 per cent reductions; in 1924 the coal miners won a small increase and in 1925, after a long and bitter strike, a royal commission allowed the corporation a ten per cent reduction. The outstanding feature of industrial relations in the coal-fields in the 1920s was the tenacity of the coal miners' resistance to wage reductions. Besco's notorious labour policies did little to endear the corporation to public opinion and the coal miners' determined resistance placed an insuperable obstacle in the path of Besco's survival.

To improve the competitive position of the coal and steel industries in the national market had long been a goal of the coal industry in Cape Breton.


71 *Duncan Report*, p. 15. The financial data convinced the commissioners that no reduction of miners' wages was justified in 1922, that a reduction in 1923 would have been suitable, that the 1924 increase was not unjustified and that a ten per cent reduction was appropriate in 1925.

72 Schwartzman, "Dominion Coal", p. 182, estimates that for the year ending March 1921 Dominion Coal's profits were $4.2 million gross ($2.9 net), for December 1921 $3.4 million gross ($2.4 net), for December 1922 $2.6 million gross ($1.3 net), for December 1923 $1.4 million gross ($1 net), for December 1924 $7 million gross ($6.7 net).

The coal duty never provided effective protection for a national market in coal. Wartime shortages alerted central Canadian consumers to the vulnerability of their fuel supply, as did postwar disruptions in the coal trade. Sentiment for an all-Canadian coal market rose high during the early 1920s, but had little impact on public policy. After a thorough review of proposals for more protection for coal, the *Monetary Times* concluded that higher duties would “restrict the operation of Ontario and Quebec industries and increase general living and production costs throughout these provinces.” In Nova Scotia improved protection for coal was a major theme of the Maritime Rights movement, a coalition which harnessed various regional grievances to the political ambitions of the Nova Scotia Conservative Party. The main demand was for an increase of the 14c per ton duty on slack coal to the general level of 53c and for a programme of subsidies to help Nova Scotia coal penetrate deeper into the central Canadian market.

The relationship of Besco to this agitation was a complex one. In 1924 and 1925 the corporation did not participate in the large Maritime Rights delegations which visited Ottawa. In February 1925, however, Besco commenced publication of the *Besco Bulletin*, which campaigned for a “Bluenose tariff” to protect local industry. Besco’s campaign grew most active in 1926, when the federal government appointed a tariff board to consider changes in protection for iron and steel. Wolvin in 1926 appealed for a 75c duty on coal and blamed the deteriorating protection for primary iron and steel over the previous two decades as the chief difficulty facing his corporation. Yet Besco's

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74 *Monetary Times*, 3 January 1919, 15 September 1922. “Canada can only be politically independent so far as she controls and supplies her own bituminous coal”, warned F. W. Gray; by his estimate Nova Scotia was producing two million tons less than capacity during the 1920s and with adequate capital investment could supply 10 million tons of coal per year. F. W. Gray, “Canada’s Coal Supply”, Canadian Institute of Mining and Metallurgy and the Mining Society of Nova Scotia, *Transactions*, XXIII (1920), pp. 300–1, 304; Gray, “Canada’s Coal Problem”, *ibid.*, XXV (1922), pp. 293–300.

75 *Monetary Times*, 6 March 1925. To economic historian J. H. Dales, the coal tariff “appears to be nothing but a mischievous hidden tax on Canadian manufacturing” whose effect was to “retard the industrial development” of central Canada; Dales, “Fuel, Power and Industrial Development in Central Canada”, p. 183.

76 Forbes, “The Maritime Rights Movement”, pp. 147–9, 222–7, 280–2; Associated Boards of Trade of the Island of Cape Breton, *Memorandum with Regard to the Conditions Presently Existing in the Coal and Steel Industries of the Province of Nova Scotia* (n.p., 1925). Slack coal provided 1/5 of imported coal in 1920, but almost 2/5 in 1923. The lobby also sought abolition of the 99 per cent rebate on the coal duty allowed since 1907 to consumers using coal for steelmaking. Cantley favoured a duty of $1.50 per ton; *Monetary Times*, 10 February 1928.

enlistment in the ranks of Maritime Rights did not present a credible appearance. “At once the giant and the ogre of the Maritimes”, Besco earned frequent attacks from local politicians and small businessmen who regarded the corporation as an embodiment of the outside exploitation which had destroyed the region’s economy. When Arthur Meighen came out “flat-footed for protection” for the coal industry in February 1925, he provoked dismay among party leaders in Nova Scotia. Gordon Harrington, the Glace Bay lawyer and future premier, warned Meighen that it would be unwise to become associated with protection for Besco, “until some very severe restrictions are placed upon it in the handling of the monopoly it has obtained of the industries based on the natural resources of our country. The absurdity of this corporation asking for tariff concessions on the one hand, and the reduction in already too meagre wage scales on the other hand, must be apparent. Further, the corporation appears to be financially hopelessly unsound and its direction is beyond comment”.

The campaign for state intervention in the coal industry did meet some success by the end of the 1920s. In 1924-25 a limited system of rail subventions was tested, but abandoned. The intense lobbying in the winter of that year, the bleakest and most desperate months in the coal-fields in the 1920s, caused the Liberal government that spring to standardize the duty on all bituminous coal at 50c per ton. While the Duncan Report failed to endorse tariff changes or subsidies, it called for wider use of Canadian coke in central Canada. The report concluded with an eloquent personal appeal by commissioner Hume Cronyn, a native Maritimer and Ontario businessman, who called on residents of Ontario and Quebec to make sacrifices to help this important Maritime industry. In the comfort of a steamship en route to Nassau that winter, Cronyn also penned a second addendum to the report in a private letter to Sir Robert L. Borden:

There are two main difficulties in Nova Scotia which could not be set forth openly in a public document. In the first place the industry is economically unsound and must remain so until the cheaper Virginian and Kentucky coals cease being dumped on our market. Next (quite confidentially) the company (Besco) is in the wrong hands. If it could be re-organized under a new President and staff and could obtain some relief by way of duties or bounties there would be hope for the future. Otherwise I can see nothing ahead but liquidation with all its attendant distress and loss.

78 Monetary Times, 25 March 1927; Halifax Herald, 14 March 1924.
79 G. S. Harrington to Arthur Meighen, 16 March 1925, Arthur Meighen Papers, PAC.
80 Duncan Report, pp. 30 - 1; Hume Cronyn to R. L. Borden, 14 February 1926, Robert L. Borden Papers, PAC.
As a result of the tariff board hearings, protection for iron and steel was raised substantially in 1930 and 1931, and the coal duty was increased to 75c in 1931. Railway subventions were renewed in 1928 and soon became a large factor in the transportation of coal to central Canada. But these important changes came too late to help Besco, and too late to rescue industrial Cape Breton from a condition of economic dependency and decline.

At stake in Besco's strategy of corporate survival was the corporation's inability to raise new capital or to return a satisfactory profit. As Besco's fortunes deteriorated, internal tensions grew. To one observer, Besco in the 1920s was "a vicious circle of ancient rivalries and new antagonisms". The battle on the board of Dominion Steel in the summer of 1920 was followed by new manoeuvres two years later, at Besco's first annual meeting. The most powerful financial figure in Canada, Royal Bank President Sir Herbert Holt, was reportedly ready to assume the presidency of Besco and provide the financial backing the corporation needed. Besco stock values rose with this speculation, but the London group continued to support Wolvin and retained control of the corporation for him. In November 1922 Wolvin raised new capital by issuing Dominion Iron and Steel mortgage bonds worth $4.6 million, which were financed by director Galen Stone's investment house. At the next annual meeting, in an effort to make the corporation more attractive to investors, Wolvin reduced the corporation's authorized capital by half to $250,000. The intense labour conflict of the summer of 1923 created more anxieties for the corporation. The popular vice-president and general manager, D. H. McDougall, resigned and was replaced by E. H. McLurg, general manager of Halifax Shipyards. The most influential of the directors, Moore and Stone, remained active behind the scenes attempting to raise capital. In September 1923 Moore pleaded with Prime Minister Mackenzie King not to obstruct their efforts by appointing a royal commission to investigate the summer's labour strife. Moore sounded a plaintive note:

A good many of us have put the savings of years into this Canadian enterprise and have been bitterly disappointed that the Company has not been

82 Canadian Mining Journal (26 August 1927).
84 Monetary Times, 8 December 1922.
85 Monetary Times, 30 March 1923.
86 Houston's Review, 1924, p. 175.
able to return some interest on the capital invested . . . the present mar-
ket value of our shares represents only 1/4 of the amounts of the pur-
chase money.  

The turning point in the rise and fall of Besco was evident in the record of financial success. Operating profits fell sharply from $4.4 million in 1923 to $9 million in 1924, when the corporation lost $2.3 million. In March 1924 the directors suspended dividend payments on all stock. Though additional capital was secured through the issue of Dominion Coal bonds, the year ended with a net loss of $1.3 million. Besco's dividend policy awakened shareholder dissatisfaction. Wolvin received a "great many" letters criticizing the non-payment of dividends on the second preference stock and with the suspension of all payments, complaints multiplied. The condition of Besco grew worse in the winter of 1924-1925, and the hardship and suffering of the local community starkly dramatized the plight of the coal industry. After the annual meeting in March 1925, a dejected Besco shareholder and director, Montreal Herald publisher Senator J. P. B. Casgrain, poured his heart out to Mackenzie King:

I am a director of the British Empire Steel Corporation, and an unfor-
tunate shareholder for a very large amount. I have never had one cent of dividend on that merger-stock. However, that is my own affair . . . . I do not plead for myself — although since the merger I have very foolishly invested, in money, in that enterprise $123,000. My wife, 25 years ago, after a visit to Sydney with Sir Laurier, Lady Laurier and myself, invested of her money $40,000. I know all this has nothing to do with the question of bounties and duties and it is not for that that I write. Forget about us but think of the 22,500 men who will be out of work when we close up. With their families, there will be over 100,000 who will probably have to leave Nova Scotia.

Wolvin's intransigence in the 1925 strike, when he and McLurg refused to meet union leaders and closed company stores, further damaged the corporation's reputation. In July 1925 the Liberal government was overwhelmingly defeated in a provincial election, partly as a result of their association with the corporation. Tory premier E. N. Rhodes, who had promised to settle the five-month strike, now found it impossible to deal with

87 Newton Moore to W. L. Mackenzie King, 1 September 1923, King Papers, PAC.
88 Monetary Times, 4 April, 29 August 1924. See Table III.
89 Roy Wolvin to E. H. Armstrong, 4 March 1924, M. C. Smith to Br Emp S Co [sic], 1 March 1924, Armstrong Papers, PANS.
90 J. P. B. Casgrain to W. L. M. King, 19 March 1925, King Papers, PAC.
Wolvin; "Wolvin is, I think, the most stubborn man with whom I have ever come in contact", he complained to Borden, "and his stubborness [sic] is increased by the fact that his Companies are almost bankrupt". E. R. Forbes has found that Wolvin finally came to terms as a result of financial pressure from Bank of Commerce chairman Sir Joseph Flavelle, whose bank threatened to deny short-term money to Dominion Coal. The strike ended with a temporary agreement and the appointment of a provincial royal commission, which, under the chairmanship of British coal expert Sir Andrew Rae Duncan, vice-president of the British Shipbuilding Employers' Federation, criticized Besco's unrealistic capital structure and financial policies.

In the spring of 1926 the Bank of Commerce and Bank of Montreal refused Besco additional short-term financing, and Wolvin resolved to allow Dominion Iron and Steel, the weakest part of the merger, to go into receivership. In July 1926 Dominion Iron and Steel defaulted on bond payments and National Trust, closely linked to the Bank of Commerce, was appointed receiver for the company. No surprise, the collapse nevertheless caused a sharp fall in Canadian bond prices that summer and marked the beginning of Besco's disintegration. Bondholders' committees were appointed to guard the interests of various investors, and early in 1927 National Trust began court proceedings for the winding up of Besco and Dominion Steel. The Supreme Court of Nova Scotia refused to wind up Besco, but agreed to the liquidation of Dominion Steel, appointing Royal Trust, which was allied to the Bank of Montreal and the Royal Bank, as the receiver. In July 1927 Wolvin submitted a reorganization scheme to his shareholders, but could not win their support. Soon Wolvin agreed to sell his holdings to Herbert Holt and a group of his Royal Bank associates. At the annual meeting in January 1928 Wolvin resigned as president of Besco.

Wolvin's successor as Besco president was C. B. McNaught, a Toronto director of the Royal Bank. With the entry of seven new directors onto the Besco board in 1928, the coal and steel industries passed into the hands of a

92 E. N. Rhodes to R. L. Borden, 3 August 1925, Borden Papers, PAC.
96 Monetary Times, 10 September 1926, 25 March 1927.
97 Houston's Review, 1928, pp. 216 - 7; ibid., 1927, pp. 182 - 3; Monetary Times, 28 October 1927.
98 Monetary Times, 3 February 1928. Wolvin re-established himself in the Canadian shipping and shipbuilding industry and on his death was chairman of the executive board of Canadian Vickers Ltd.; New York Times, 8 April 1945.
financial grouping dominated by the Royal Bank. The group began plans to reorganize the corporation. McNaught and J. H. Gundy visited London to reach agreement with the British investors. In March 1928 the group incorporated a new holding and operating company, the Dominion Steel and Coal Corporation, which was capitalized at $65 million and took over the Besco properties. With the completion of this transfer in May 1930, the British Empire Steel Corporation ceased to exist. The new company represented an alliance of old and new interests. The Royal Bank group held half the seats on the Dosco board, but Sir Newton Moore and Lord Invernairn remained as directors to represent the continued British interest; Moore served as vice-president and from 1932 to 1936 was president of the corporation. The new company ended a decade of financial turmoil and disappointment and placed the corporation in a strong position to weather the troubles of the 1930s.

As an episode in Canadian economic history, the development of industrial Cape Breton between the 1880s and the 1920s revealed a pattern of rapid growth culminating in severe crisis. Far from a backwater of economic inactivity, industrial Cape Breton performed important and useful functions for the national economy. Through the coal industry, the region supplied a basic industrial raw material, supported the local iron and steel industry and provided a lucrative arena for the financial wizardry of various investors. But industrial capitalism could not provide balanced and harmonious economic growth between regions; on the contrary, the national economic structure which emerged in Canada during this period promoted uneven development and regional dependency. This pattern of uneven development led to the crisis of markets and corporate welfare in the coal industry during the 1920s. Vulnerable in its distant markets and unable to rely on a stable local market, the importance of the Cape Breton coal industry declined. At the same time, the metropolitan search for economic surpluses continued, and in the case of Besco, reached unrealistic proportions. After the 1920s, the main functions of industrial Cape Breton in the national economy changed: the community was now called upon to provide a large pool of labour for the national labour market, and, in time of need, to supply reserve capacity for the national energy and steel markets. The rise and fall of the British Empire Steel Corporation provided the occasion, though not the root cause, for a structural turning point in the economic history of industrial Cape Breton.

The growth of the coal industry in Cape Breton expressed above all the financial opportunism of its successive owners, rather than any commitment to principles of regional economic welfare. Spokesmen for the coal industry from Richard Brown to Roy Wolvin endorsed local industrial development as a strategy for utilization of the local coal and iron resources, but in prac-

99 Monetary Times, 30 March, 18 May 1928.
tice they sought trading links with distant markets and pursued policies of rapid resource depletion. The local business class offered no effective resistance to the integration of the coal industry into the national economy; native Cape Bretoners like D. H. McDougall and W. D. Ross were capitalists foremost and proved no more loyal to the region's welfare than Whitney, Ross, Plummer or Wolvin. The experience of industrial Cape Breton also suggests that in the period between 1890 and 1930 Canadian capitalism featured a powerful and aggressive business class, associated in common purposes although often divided by rivalries. The resources of industrial Cape Breton attracted the interest of American and British investors, but except for the frustrated intentions of Whitney in the 1890s and the London syndicate in 1920, they preferred to leave direct control in Canadian hands. The passage of control over the coal industry from Bank of Montreal circles to a Bank of Montreal-Bank of Commerce alliance before the war, and ultimately to the Royal Bank in the 1920s, paralleled the successive domination of Canadian capitalism by these financial groupings. The route from Van Horne and James Ross to Sir Herbert Holt was interrupted in the 1920s by the intervention of Roy Wolvin and his allies on the Great Lakes and St. Lawrence and in London. But the extreme brevity and catastrophic failure of their regime during the 1920s indicated the distance that separated this group from the real seats of power in Canadian capitalism.

The most important conclusions to this episode in Canadian economic history were those reached by the local community in industrial Cape Breton. At a time when the labour movement was on the defensive across the country, the resistance of the coal miners to the British Empire Steel Corporation caused the eventual collapse of that enfeebled enterprise. The emergence of a militant labour movement in Canada helped begin a new stage in the history of Canadian capitalism. After the 1920s and 1930s, an ever closer collaboration between state and capital was needed to maintain the essential structure of the national economy. In industrial Cape Breton the deteriorating local economy would be propped up by government subsidies, enabling private capital to continue profitably to exploit the region's economic assets, while the deepening underdevelopment of the region would drive Cape Bretoners to leave their homes and enter the national labour market. The local working class continued to resist the progressive destruction of their community by campaigning for improved social standards and equitable national policies, and for public ownership of the coal and steel industries, which was achieved in 1968. In 1928 hopeful members of the Cape Breton Board of Trade celebrated the arrival of the new Besco president, C. B. McNaught, with a ceremonial banquet. But the rise and fall of the British Empire Steel Corporation left most Cape Bretoners with a permanent distrust of outside capitalists.