May 25, 2005

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A Reconsideration of the Political Economy of Canadian Trade
Part I: Escape from the Staple-Trap

Paper presented the annual meetings of the
Canadian Political Science Association
London, Ontario, 2005

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Introduction: staples, trade and Canadian political economy

It is 42 years since the term "staple trap" first, tentatively, crept into the Canadian political economy literature.[1] Tentatively, because in 1963 when Mel Watkins first introduced the term, it was not yet loaded with the significance it was to acquire in later years. Watkins mentioned it as one of a series of possible outcomes that could happen to "new countries" whose economic roots were tied to the export of staples. At first use, there was nothing explicitly attached to the significance of this for Canada.

With the burgeoning of the "left-nationalist" dependency school of thought in the 1960s and 1970s – associated with a New Left which, in English Canada, often saw itself in nationalist terms – the term staple trap came to mean a whole lot more. In brief, it was maintained that Canada had failed to emerge as a mature manufacturing-oriented capitalist economy, because it had become caught in a "staple trap", and that this trap had been sprung by the foreign-domination – which actually meant U.S. domination – of the most important sectors of the Canadian economy.

This is not just of historic significance. In an important way, this understanding of Canadian economic development has acquired the status of common sense. In 1989, Gordon Laxer employed the term to bemoan the lack of manufacturing development in Canada, praising Sweden, by contrast for its capacity to get "out of the staple trap".[2] (There is a certain pessimism to Laxer's analysis. He argues Sweden, in part, was able to escape the staple trap because of its ability to develop an independent, nationally-based manufacture of military equipment. The implications for Canada are clear, and depressing – but that is for another paper.) In 1993, Colin Read contrasted the economic trajectories of Canada and Japan arguing that "the Japanese economy has been spectacularly successful in adapting and evolving, while … Canada and Canadians have been caught in the staples trap."[3] In 1994, CBC's "Ideas" series looked back at the legacy of Harold Innis. Central to the arguments presented was – that while Innis did not use the term staple trap, many Innis-inspired theorists did, with much efficacy, to explain the Canadian reality.[4] In 2001, Roger Hayter and Trevor J. Barnes argued that the claim that Canada is "stuck in a 'staples trap' … should not be dismissed as an old, radical notion, not to be taken seriously any more."[5],

This paper will argue that yes, today's political economists should take the notion of the "staple trap" seriously – because it has played such a central role in picturing Canadian economic development. But at the end of the day, when the notion *is* taken seriously, it has to be rejected – not because it is “old and radical” – but because it is empirically without basis, and theoretically flawed. This paper will first, situate the “staple trap” school of thought in the staple approach school of Harold Innis, from which it developed, second offer a brief empirical challenge to the staple trap claims, third outline an alternative view to the origins of capitalism in Canada rooted in a Marxist notion of the centrality of the development of a home market economy.

I have elsewhere argued that Canadian political economy ended up in a cul-de-sac because of misapplying notions of “dependency” to Canada’s economic reality.[6] One part of this cul-de-sac is the decades long attempt to argue that Canada has never escaped being “the hewers of wood and the drawers of water”[7]. This paper is just a small part of the much bigger project of refitting Canadian political economy for the challenges of a new century. If trade was seen as central to the establishment of capitalism in Canada (built into the notion of staple production is the notion of trade – staple production in a small, developing economy makes no sense without an orientation on an export market), in later years trade has again taken centre stage as an explanation for, Canada’s “arrested industrialization”. Glen Williams’ classic and influential *Not for Export*[8] makes this case in a way that, again, has become a kind of common sense in Canadian political economy. Developing a critique of the modern use of “trade” to explain the trajectory of Canada’s manufacturing sector will have to wait for a subsequent paper. But the implications from a dissection of the claims associated with the “staple trap” are all too clear.

Harold Innis and the Staple Approach

Any discussion of trade and the origins of Canadian capitalism necessarily invokes the figure of Harold Innis and his analysis of Canadian staples. There is some danger in making overly-sweeping generalizations as to what exactly constitutes this "staple approach" an approach taken over and developed by dependency theory. Mel Watkins has said that, "methodologically, Innis' staple approach was more technological history writ large than a theory of economic growth in the conventional sense".[9] However, political economists such as Watkins and Drache appropriated much of the work of Innis and out of it constructed a theory, incorporating Innis into the radical theories of underdevelopment current at the time. This "staple approach" to analyzing the origins and development of Canadian capitalism was hegemonic in the analyses of left-nationalist dependency theory.

Trade between a developed industrial metropolis and an underdeveloped and non-industrialized hinterland is at the heart of the staple approach. G.W. Bertram has defined export staple industries as those "based on agricultural and extractive resources, not requiring elaborate processing and finding a large portion of their market in international trade".[10] The staple approach is appropriate to the " 'new country' … overrun by the white man".[11] In such a new country, according to Innis, "the migrant is not in a position immediately to supply all his needs and to maintain the same standard of living as that to which he has been accustomed".[12] He obtains the goods needed to improve this standard of living by direct transportation from the homeland, the most important transportation device being trade.

> Goods were produced as rapidly as possible to be sold at the most advantageous price in the home market in order to purchase other goods essential to the maintenance and improvement of the current standard of living.[13]

This sets the pattern for economic development. For at least the early years,

> staple exports are the leading sector, setting the pace for economic growth and leaving their peculiar imprint on economy and society; the importation of scarce factors of production is essential; and growth, if it is to be sustained, requires an ability to shift resources that may be hindered by excessive reliance on exports in general, and, in particular, on a small number of staple exports.[14]

It is one thing to make such a claim with reference to the early years of development. However, based on parts of Innis' writing, the staple approach was extended to Canada in the 20th century by left-nationalist political economy. Watkins describes modern Canada as a:

> ... small and open economy, a marginal area responding to the exogenous impact of the international economy. The basic determinants of Canadian growth are the volume and character of her staple exports and the ability to borrow, adapt and marginally supplement foreign technology.[15]

Bertram and others use the analytic framework in a way that assimilates Canadian economics into the problematic of the underdeveloped world in general.

> The export staple model continues to be a useful approach in the Canadian economy, and with allowances for differences in production functions, may also be a useful analytical tool in determining economic policy in certain underdeveloped countries where the export

> sector may continue to be regarded through colonial eyes.[16]

Putting the staple approach into the school of underdevelopment theories is based largely on a now-famous section from Innis' *The Fur Trade in Canada*.

> The economic history of Canada has been dominated by the discrepancy between the centre and the margin of western civilization. Energy has been directed toward the exploitation of staple products and the tendency has been cumulative. ... Agriculture, industry, transportation, trade, finance, and governmental activities tend to become subordinated to the production of the staple for a more highly specialized manufacturing community. ... [Canada] has continued ... chiefly as a producer of staples for the industrial centres of the United States even more than of Great Britain.[17]

There is a striking similarity between this and the "metropolis-hinterland" model of the underdevelopment school.[18] The underdevelopment or dependency school was developed to analyze the way in which modern imperialism prevented the modernization of the countries on the periphery of advanced capitalism. The dependency of these peripheral countries on the economies of the metropolis was seen to lead to systematic economic underdevelopment. The staple school in Canada offered a variant on this approach. Canadian development (such as it was), theorists of the school argued, was driven by demand for Canadian staples from more developed countries - particularly the United States - a relationship that locked Canada into a "staple-trap", making Canada's economy unnaturally reliant on the export of unprocessed or semi-processed natural resources, and retarding the development of an indigenous manufacturing sector.

Empirical failure

The problem is – Canada did industrialize. Elsewhere myself and others have provided evidence for this in the contemporary period.[19] To be honest, this is a relatively straightforward exercise. Any patient examination of the facts makes it overwhelmingly clear that Canada’s economic trajectory is not atypical of advanced capitalist economies. It is a member of the G8 and the Quad group of the World Trade Organization because of its place towards the top of the hierarchy of nations, not in spite of it. The aggressive capitalist expansion overseas of Canadian-based multinationals – into the Caribbean, the Philippines, Indonesia, Africa and elsewhere (including the United States) – is overwhelmingly out of proportion to the small size of Canada's population. There is nothing undeveloped or dependent (if the word is to retain any significance in the political economy lexicon) about the modern Canadian economy.

But this "escape from the staple trap" is not a recent story. Canada has for quite a long time had an industrial structure more similar to than different from the United States.

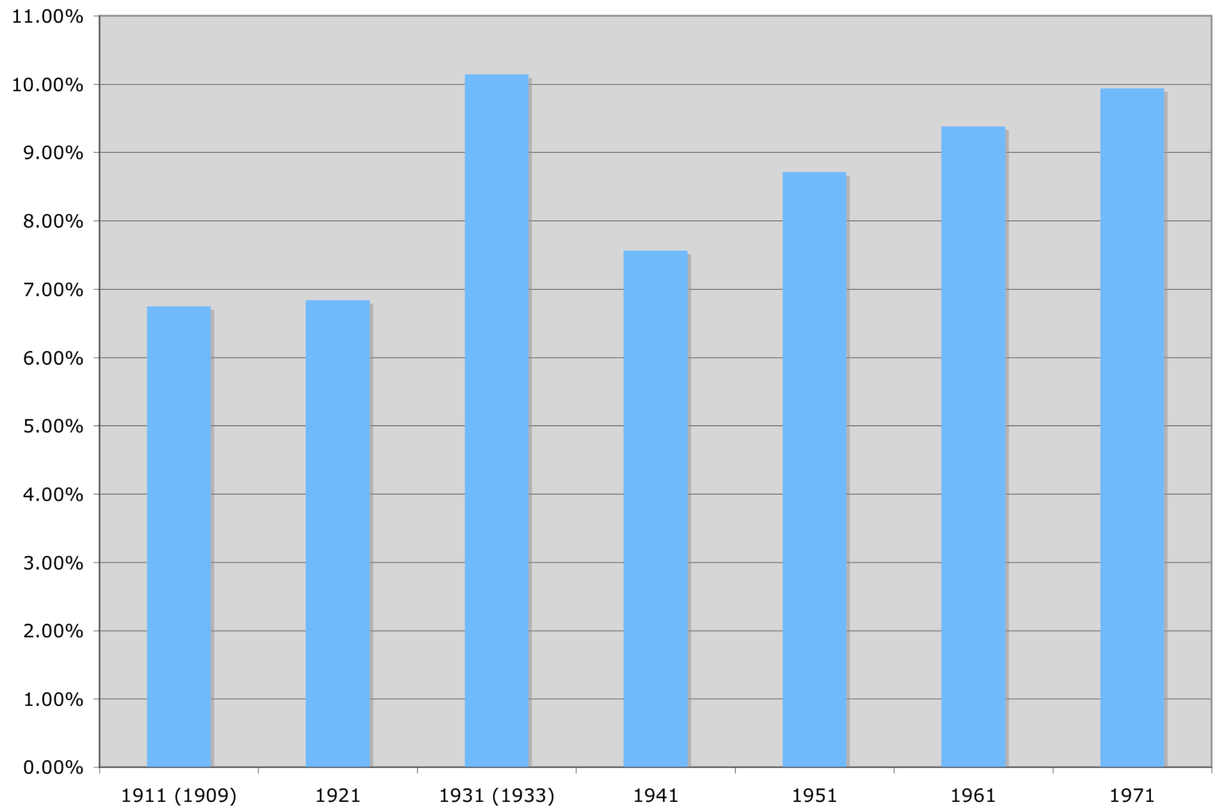
There is no need to repeat here statistical evidence presented elsewhere. But if the claim of the staple trap thesis is that failure to diversify from a reliance on staple export led to a withering of Canadian manufacturing, then presumably an examination of the trajectory of Canadian manufacturing would be relevant. And given that the "active element" in the staple trap thesis is seen as U.S. domination of the Canadian economy, then the relevant point of comparison would be to U.S. manufacturing.

Chart 1 makes an attempt to build such a comparison through an examination, over time, of the employment of workers in manufacturing in the Canadian and U.S. economies. Bearing in mind that the Canadian economy is roughly one-tenth the size of the U.S., these figures are interesting. Also bear in mind that these are figures for manufacturing, not industry. There is a sometimes arbitrary distinction made between these two categories. Paul Bairoch summarizes this well.

> [I]ndustry is the totality of those activities whose object is to produce, or to transform, material goods, excluding all those activities properly described as agricultural (including everything up to the harvest) … [T]he term 'manufacturing industry' embraces all forms of industry except mining, construction, as well as electricity, gas, water and sanitary services.[20]

Given Canada's enormous mining and energy sectors, such an exclusion will necessarily under-state the level of Canada's industrialization.

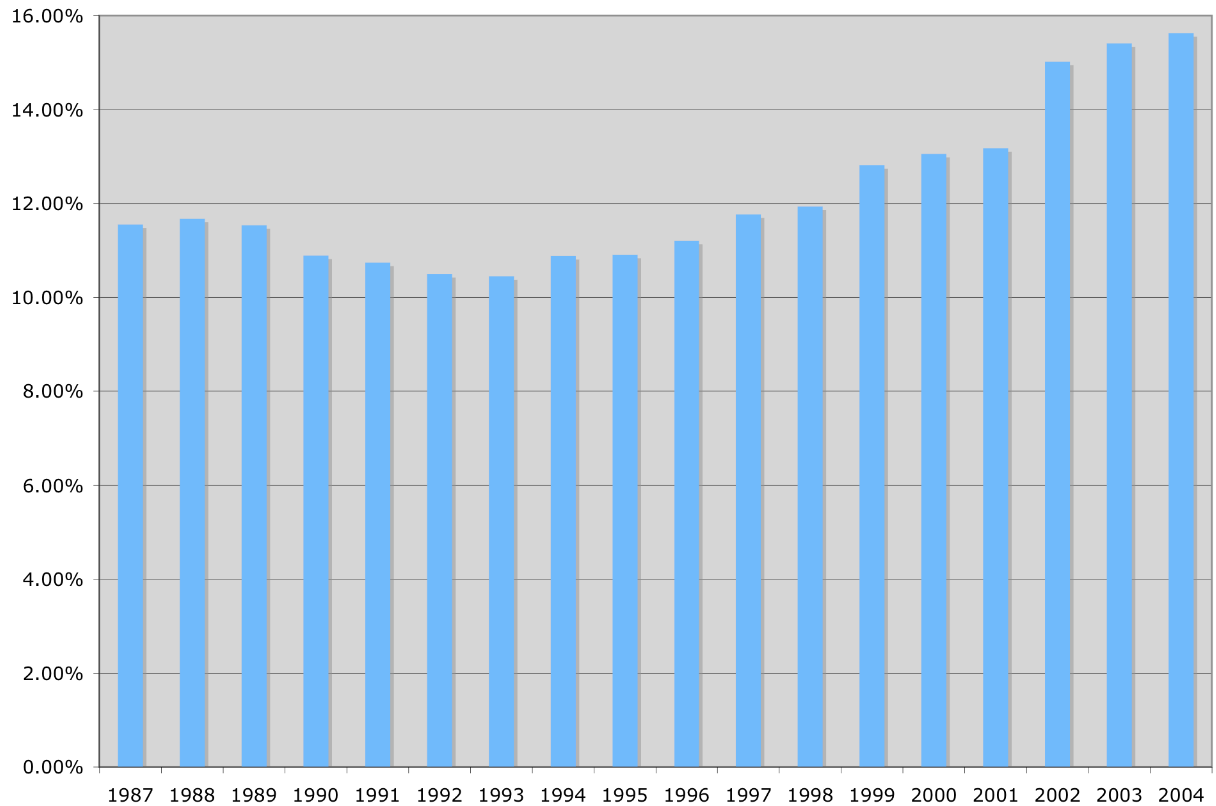
Chart 1 – Employment in manufacturing, Canada as a percent of U.S., 1911-1971 (selected years)[21]



The picture that emerges is quite clear. At the beginning of the twentieth century, Canadian manufacturing employment, at just under 7 per cent of the U.S., indicated an economy somewhat behind the U.S. in its level of manufacturing. But there is a slow and steady increase in the years after World War II, until by 1971, Canadian manufacturing employment sits at 10 per cent of the U.S. – in line with a country one-tenth the size of the United States.

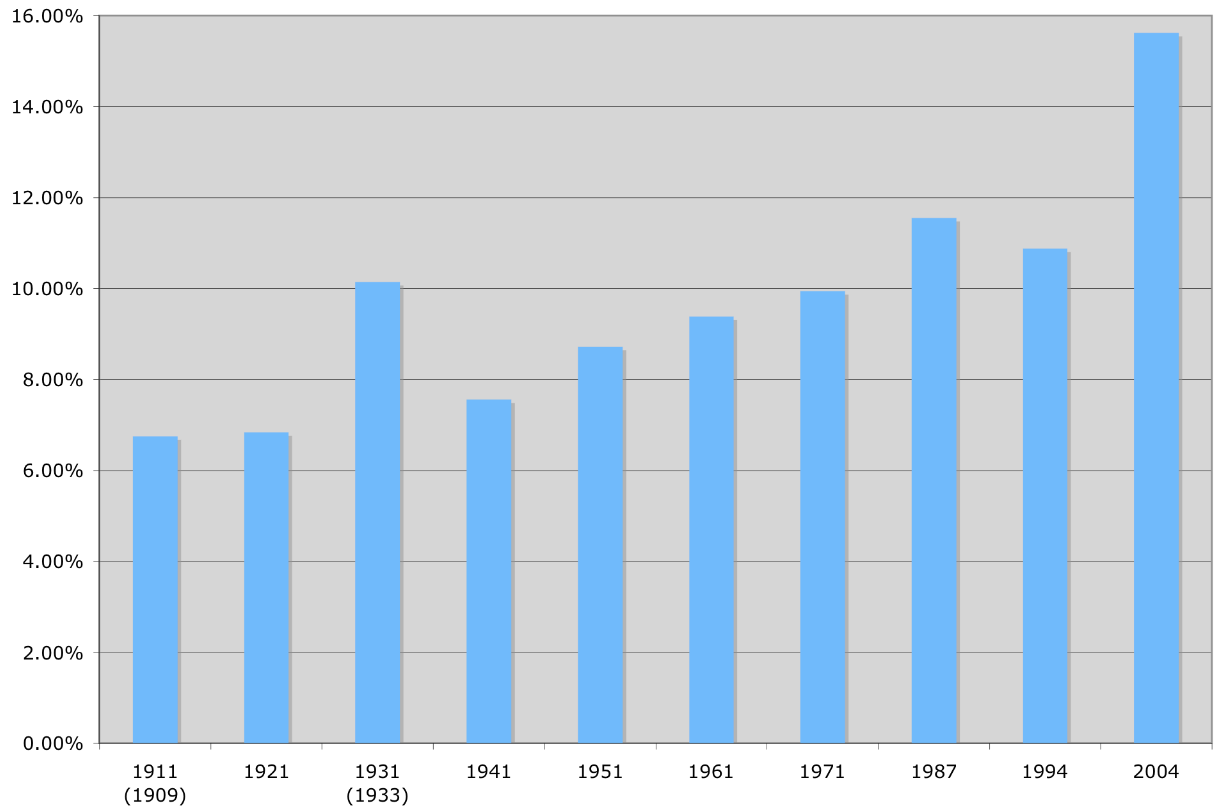
There is an argument in the political economy literature that, if accepted, would pose a challenge to these statistics. Many argue that much of Canadian manufacturing employment is not really a sign of industrial development. Automobile manufacturing, in particular, is often read out of the record because it takes place in plants owned by U.S. capitalists, and thus does not represent "real" development. And if you do remove the several hundred thousand Canadian workers employed in U.S. owned automobile assembly plants, this does change the picture considerably. The validity of this standpoint has been seriously challenged elsewhere.[22] But when the statistical window is updated with contemporary statistics, this "challenge" disappears completely. Chart 2 extends the picture of comparative manufacturing employment from 1987 until 2004.

Chart 2 – Employment in manufacturing, Canada as a percent of U.S., 1987-2004[23]



A picture really is worth a thousand words. For a decade, from the late 1980s to the late 1990s, the Canadian figure fluctuates around the 10 per cent mark. But from the late 1990s to the present, the percentage figure rises steadily, until by the end of 2004 it is nearing the 16 per cent mark. This is extraordinary. Far from this being evidence of a "staple trap", this is evidence of Canadian manufacturing seriously outperforming (or at least out-surviving) U.S. manufacturing. (And the United States – as the world's biggest economy, Canada's biggest trading partner, and traditional source of most of Canada's foreign direct investment – is the most relevant point of comparison for the Canadian economy.) The staple trap thesis argued that precisely this could never happen – that "hewer of wood" Canada was doomed to a future as a diminished manufacturing power, especially when compared to the U.S. The facts simply do not support this. This can be seen most vividly, in Chart 3, which combines the data from the two previous charts, giving a continuous picture of Canadian manufacturing employment relative to the U.S. from 1911 until 2004.

Chart 3, Employment in manufacturing, Canada as a percent of U.S., 1911-2004 (selected years)[24]



Now – statistics are tricky things. Taken by themselves, the numbers presented here could paint a picture of a dynamic, expanding Canadian manufacturing sector. This is not exactly the case. Table 1 reproduces the raw data which are used for Chart 2.

Table 1 – Employment in manufacturing in Canada and the U.S., 1987-2004[25]

	Employment in manufacturing-Canada	Employment in manufacturing - U.S.
1987	2,034,200	17,609,000
1988	2,091,000	17,906,000
1989	2,075,200	17,985,000
1990	1,927,000	17,695,000
1991	1,832,800	17,068,000
1992	1,763,800	16,799,000
1993	1,752,500	16,774,000
1994	1,852,500	17,021,000
1995	1,880,300	17,241,000
1996	1,932,200	17,237,000
1997	2,050,400	17,419,000
1998	2,096,200	17,560,000
1999	2,220,000	17,322,000
2000	2,254,500	17,263,000
2001	2,166,200	16,441,000
2002	2,292,200	15,259,000
2003	2,235,700	14,510,000
2004	2,239,300	14,329,000

From 1988 until 1993, the table paints a stark picture of the recession which savaged manufacturing in Southern Ontario – manufacturing employment dropping by a quarter of a million in all of Canada. That recession hit Canada much harder than the U.S. But from 1994 until 2004, there is a steady recovery of manufacturing employment in Canada. The U.S. figures stay steady until 2000, but in the 21sth century there is revealed a terrible decline in U.S. manufacturing employment – down by more than three million from its peak in 1998. So, the relatively better performance of Canadian manufacturing employment, when compared to the U.S., is not so much a story of Canadian industrial dynamism, but of suddenly revealed U.S. weakness.

That is not irrelevant to the discussion of this paper. If the "staple trap" dependency theorists painted a picture of inevitable Canadian industrial decline, it was usually accompanied by a picture of an inexorably expanding U.S. economy. The picture painted here is the mirror opposite.

The mistake, however, is explicable if you approach the Canadian dependency school as an extended justification for a politics of Canadian nationalism. A "weak Canada" under threat from an ever-expanding United States is a picture which can be used to justify a Canadian nationalist response as appropriate to a left and workers' movement which must rally progressive forces to defend not just class interests, but a nation under threat. But what if the real picture is of a declining U.S. empire[26], and an aggressive Canadian capitalist class looking for ways to take advantage of this decline? In such a case, nationalism makes no sense for the left and the workers' movement.

Table 2 provides one final window useful in assessing the relative strength of manufacturing in the two countries – measuring the average number of production workers per manufacturing establishment from 1905 until 1967.

Table 2: Average Number of Production Workers Per Manufacturing Establishment, U.S., Ontario, Canada, 1905-1967 (Selected Years)[27]

	U.S.	Ont.	Canada
1904/5	24.3		22.9
1914	24.6		
1919	31.3		22.0
1921	33.7		17.8
1925	42.8		21.5
1935	42.9		19.1
1939/40	44.9		24.6
1947	49.5		28.8
1950	45.3		26.5
1958	39.1	37.6	30.0
1963	39.9	38.3	30.3
1967	45.6	43.7	35.1

One of the key indicators of an economy's health is factory-size. It is impossible to compete internationally without keeping pace with other economies in terms of the scale of production. But even a century ago, Canada and the United States were similar in the scale of their manufacturing enterprises. Between the two world wars, the U.S. jumped ahead considerably, by the 1930s employing almost twice as many workers, on average, in each manufacturing establishment as Canada. But after World War II, Canada gradually began to close the gap. If the focus is narrowed to Ontario, where most of Canadian manufacturing is concentrated, the scale of manufacturing by the 1950s and 1960s, is identical to that of the U.S.

The point is, there is no evidence of permanent, structural, underdevelopment of manufacturing in Canada, as the left-nationalist approach to the origins and subsequent development of Canadian capitalism insists that there is. There are differences between the Canadian and American manufacturing economies, there are periods of time when the Canadian develops much slower than the American - but there are also periods (such as in the post World War II era and in the first years of the twentieth century) where Canada's develops faster than the U.S. There is certainly no evidence for a long-term imprisonment in the left-nationalist “staple-trap”.

The Home-Market Alternative

The staple trap approach is clearly less than adequate as an explanation for the development of Canadian capitalism. But political economists need not search for an alternative. One of the interesting footnotes to a history of Canadian political economy is the ambivalent history, in that tradition, towards the writings of classical Marxism. Most of the left nationalists who took up the dependency paradigm in the late 1960s and early 1970s were heavily influenced by Marxism. Most would have called themselves Marxist. Often this has led to a polarization in the debate around Canadian political economy, where a critique of the left-nationalist analysis was seen as an attack on the left. But the truth is, the best alternative to left-nationalist political economy, and its staple trap view as to the development of Canadian capitalism, can be found in the classical Marxist tradition.

This tradition has two distinct planes of analysis, both of which exist in clear form in the writings of Vladimir Lenin.[28] The first is similar to the view of the dependency theorists – conceptualizing the consequences of attempting development in the context of a hierarchical world system dominated by a handful of imperialist powers. This is the best-known aspect of the Marxist canon, and has often been used and cited by dependency theorists, particularly the short pamphlet by Lenin written in the midst of world war.[29] The pamphlet, with all its flaws, clearly paints a picture of a world divided into a handful of imperialist powers and a mass of what could accurately be called dependencies. But too often this is the only aspect of Lenin's analysis emphasized by the early dependency theorists – the hierarchical chain of the world system, and the impediments to further economic and social advance. The second plane of analysis, also in Lenin, concerned the establishment of capitalist class relations even in those parts of the world system most firmly caught in the web of "dependency". The subject matter of Lenin's *The Development of Capitalism in Russia*,[30] was the manifestly underdeveloped economy of late nineteenth century Russia. The book is subtitled "The Process of the Formation of a Home Market for Large-scale Industry" and in the preface to its first edition, Lenin wrote that he had "set himself the aim of examining the question of how a home market is being formed for Russian capitalism".[31] In other words even in Russia, with its massive peasantry, powerful semi-feudal classes, and foreign-ownership of much of its new industry, even here a key plane of analysis was the formation of a capitalist home-market and the development of a capitalist class and a working class.

If such a plane of analysis was important for a semi-feudal country like Russia, it is doubly important for a place like Canada where there was (with the exception of Quebec) no legacy of feudalism to overcome. This classical Marxist approach was part of the unquestioned framework of Canada's Stanley Ryerson in his *Unequal Union.* For Ryerson, the home-market approach was central.

> Railways in British North America served both as an instrument of colonialism - extracting raw materials and semi-processed products required by the metropolis - and as engines of industrialization, stimulating the growth of local manufactures and of a home market.[32]

Ryerson does not develop this analysis. However, several non-Marxists — in particular H. Clare Pentland in his decades-old, but long unpublished *Labour and Capital in Canada*,[33] and to some extent John McCallum in his *Unequal Beginnings: Agriculture and Economic Development in Quebec and Ontario until 1870*[34] — go some way towards fleshing-out a home-market explanation of the early years of Canadian capitalism.

Pentland's work has had one of the more interesting histories of any piece of Canadian political economy. For years it existed only in manuscript form and was accessible solely to diligent academics browsing through university libraries. It only became widely available after Pentland's death. Reading it was a "rite of passage" for any who wished to enter the ranks of Canadian political economy. Incorporating its ideas into those ranks was another matter. Watkins articulated a fairly widespread view of staple-school theorists, when in 1977 he warned us to be "on our guard" when dealing with Pentland's work.[35] It is important that Pentland's work, which remained out of circulation for a generation in the face of a hostile audience, was finally made accessible.

Pentland accepted that staple-export was important in Canada, but only until 1820. Canada did not get caught in a "staple-trap", cannot be considered as one of the world's underdeveloped countries, but must rather be treated as an advanced industrial society. Pentland argued that through the course of the nineteenth century, Canada did develop a "national economy of an industrial type". Until 1820 Canada's economy could be described in terms of staple production. And the terms of staple production still make sense for many of the peripheral economies of the twentieth-century - but not for Canada. Indeed by 1870, Canada distinctly did not fit the picture painted by the staple approach. Between 1820 and 1870, Canada developed the basic structure of an advanced industrial society, and it is only in the terms appropriate to such a society that it can be adequately analyzed. "It is true" says Pentland;

> ... that Canada's transformation was not as rapid, nor as certain and decisive, as that of the United States. It is also true that the Canada of 1870 was a small and rather immature specimen of an industrial country. Nevertheless, Canada's economic integration; its diminished dependence on a single export, or a single market, and on foreign trade in general; the versatility of a labour force shifting from extensive to intensive forms of production; the bustle and variety of activities of its expanding cities; all these distinguish the 1870 economy from its staple-producing predecessor of a half-century before.[36]

There is, as Pentland says, scanty data concerning nineteenth century Canadian economics. But what exists shows the dominant place occupied by agriculture in this period. Pentland here is making a sharp distinction between the commodities involved in staple-export and an agricultural economy per se. The point is important. Most staple theorists tend to include commodities such as fur, lumber, wheat and corn under the general label of "staples" in a fairly undifferentiated manner. Pentland's point is that the economic impact of the production of these different "staples" is quite different. The process of the "production" of a fur pelt is quite labour intensive and does little to stimulate local demand. Agriculture is - or can be - very different. The dominant place of agriculture in the early Canadian economy was, for Pentland, "a necessary condition to shift the weight of the economy away from the gathering of surface products, and to provide the base required for manufactures." The shift away from the gathering of surface products as the chief staple export to the production of agricultural staples corresponded with a "considerable expansion of commercial, transportation and professional activities ... a marked decline of domestic services and finally, though this trend is the less emphatic, the correlative expansion of industrial activity, proportionally as well as absolutely".[37]

Both Pentland and McCallum have done some work to pull together what data does exist. Based on the Canadian censuses of 1871, 1881 and 1891, Pentland has compiled a chart showing the occupational distribution of the Canadian population.[38] From such a chart, some generalizations are possible about the changing nature of the Canadian economy. They show that "... Canada was becoming more and more an agricultural country up until 1871, and more industrial, commercial and professional at the same time".[39] This is consistent with Pentland's argument that Canada industrialized on the backs of a productive agricultural sector.

A less extensive, but more detailed chart is provided by John McCallum which shows the slow but steady growth of Canada's industrial working class between 1851 and 1870.[40] McCallum takes his data from the decennial censuses of 1851, 1860 and 1870.

Donald Creighton provided a similar schema for the development of Canadian industry in a path-breaking essay published in 1937. In "The Economic Background of the Rebellions of 1837" he identified the decades after 1820 as a watershed for the economies of Lower and Upper Canada, a watershed where the "shift from the older trades" (the fur-trade in particular) to agriculture was accelerated, and where this shift created a demand for new markets and spurred economic development.[41]

The decisive change in Upper Canada between the 1820s and the 1870s, according to Pentland, was the creation of a home-market economy in that interim. Before the 1820s, Upper Canada was a backwoods society where "local self-sufficiency was encouraged, even necessitated, by the absence of transport facilities capable of drawing the back country into a national or world economy." In this period, staples were undoubtedly important. Yet even here, Pentland challenges the usual contention that they were the leading sector of the economy. He argues that even at its peak, no more than 15% of the Canadian labour force was involved in the fur trade. The early colonies in what is now Canada were predominantly agricultural in nature "in which farming was the main occupation and support of the people." This agriculture, even at its beginnings, began to support crafts in the towns and villages, "the local mills, the ironworks and the shipyards, [and] a respectable level of secondary industry".[42]

The thing that transformed this backwoods agricultural economy was, ironically, the development of inland transportation systems in Ontario. Ironic, because the "successful completion of a canal network in the 1840s and the triumphant sweep of railway lines in the 1850s ... were conceived by those who dreamt of binding Canada more firmly into the system of transatlantic exchange ... yet had the opposite effect of creating a viable Canadian economy".[43] Transportation systems, then, designed to promote the export of staples had a subsidiary effect that was equally if not more important - the stimulation of local industry and the creation of a home market.

Ryerson makes much the same point. The building of the railways, he argues:

> ...gave an impetus to industrialization generally, but its most direct and immediate effect was in the local manufacture of the railways' own equipment. As Montreal, Kingston, Toronto, Hamilton became centres for turning out engines, rolling stock, equipment,

> supplies, a heavy industry - until then largely lacking - was brought into being.[44]

Another effect of this railway boom is drawn out by Pentland — the economic impact of the penetration of Ontario's hinterland by the railway lines.

> Masses of subsistence farmers along the lines were suddenly enabled to sell in a wide market and to buy consumer goods and machinery with their earnings, and were encouraged to maximize their outputs. ... food surpluses brought from remote farms by the railways usually found their market in the growing Canadian cities. Still more important, the purchases of the masses thus introduced to exchange as the normal way of life, while they included cloth and crockery and tea from abroad, were most often of goods produced in Canada. ... The net effect of Canada's revolution in transport, then, was much less the stimulation of exports, or of imports, than the presentation to Canada's farmers and manufacturers of the coherent home market which they would have had the greatest difficulty in creating for themselves.[45]

The way in which the development of inland transportation fostered the development of the home-market economy has been vividly illustrated by John McCallum with reference to the experience of the port of Oakville during the 1840s and 1850s. "The townspeople" he writes "financed and built the road that tapped the agricultural hinterland, and the transportation of wheat to the port was handled locally." The impact of this trading role on the local economy was to stimulate the development of secondary manufacturing. "The town's foundry made the machinery that milled the wheat, and most of the ships used in the export trade were built in the town." McCallum goes on to claim that this development of a secondary manufacturing sector to the economy was all-pervasive. Almost all aspects of the process "starting with the planting of the wheat and ending with its delivery as grain or flour in Montreal were performed by the local economy".[46]

This and many other aspects of McCallum's approach parallel the treatment given to the origins of Canadian capitalist industry developed by Pentland. In a very interesting section of his book, McCallum demystifies the development of the Ontario and Quebec economies, poking a hole in the arguments of those who take a "Canadian-exceptionalist" line to the development of the Canadian economy as a whole. Using the research of American historian Douglass C. North, he parallels the development of Ontario to that of the American west, and that of Quebec to the American northeast. The parallels are indeed striking. By implication, he is saying that the Canadian economy is a smaller version of the American - a proposition that if true, makes suspect much of the underdevelopment approach to the Canadian economy.

In his comparison of Ontario to the American west, McCallum argues that the most important changes in the economy of the American west were "the surges of western expansion associated with high prices of wheat and corn, the redirection of trade from the south to the east and to Europe, the accelerated shift of population out of self-sufficiency during periods of expansion, and the development of a diversified economic structure". He quotes North to indicate that the effect of the spread of the wheat economy was to foster economic development, not lock the west into a staple trap. North writes that "locally oriented manufacturing trade and services developed along with the widespread pattern of towns in order to serve the local consuming market." McCallum acknowledges that there were differences between the experience of the American west and that of the Ontario, the most important being "the latter's concentration on a single export crop". The American west exported both wheat and corn, and products derived from them, while Ontario was almost solely reliant on wheat. "Despite this difference, the dynamics of growth and the resulting economic structure were very similar in the two regions".[47]

The point for our investigation bears repeating: staple-export as a category can obscure more than it reveals about the underlying dynamics of the economy. If the export staple is a commodity such as a beaver pelt, it can indeed be accompanied by a very underdeveloped local economy, given the labour-intensive nature of the work in the production of those pelts. But if the export staple is wheat or corn, this is often "staple-export" that is only sustainable by an economy developing a local, secondary manufacturing sector. Agriculture requires implements that need to be produced. Its trade requires roads, canals and railroads that need to be built. The production of these implements and the building of these transportation lines - to facilitate a staple-export - can lay the necessary infrastructure for a modern, industrial economy.

Paralyzed by Custom?

It is clear that McCallum views agriculture as central to industrial development. Trade between town and country was a necessary prior development to that of industry.

> Until the late 1860s, Ontario wheat was the engine of economic growth. Scores of towns dotted the province, and most of these owed their existence to the handling of wheat and the servicing of the local farm population. Agriculture created both the means and the

> need for locally based transportation developments, while for the country as a whole, agricultural exports, which made up well over half of total exports after 1850, provided the traffic and credit-worthiness necessary for the larger transportation projects.[48]

Pentland shares this view. In all developed capitalist economies, he argues, there is a high "correlation between agricultural efficiency and industrial advance." He claims that, with the possible exception of Switzerland, "countries that never had a strong agriculture have failed to become important industrially".[49] An economy based on agriculture that is "efficient in the capitalistic sense" - that is oriented towards growing cash crops for exchange and not towards self-sufficiency, increasing productivity through mechanization, and accumulating a surplus - has two qualities that encourage industrialization. First, its ability to attract large-scale settlement, and secondly, its ability to support a large population indefinitely. On such a base, industrialization becomes possible. The closing "of their export markets" he argues, "if the inhabitants are not paralyzed by custom or confusion or outside control, may hasten the development of a diversified economy. An agricultural population ... is an obvious and permanent market for manufacturers".[50] Ontario farmers were not "paralyzed by custom" but Quebec farmers were, and it is to this that Pentland attributes the first-place Ontario took in the new industrial society.

It is here that he and McCallum part company. Both focus on the development of a home-market economy as central to Canada's economic growth. Both agree that Ontario's agricultural sector was much more productive than Quebec's. McCallum points out that in 1850, "the average Ontario farmer had a value of cash sales at least five times that of his Quebec counterpart, and this ratio never fell below three in the years before Confederation".[51] Both argue that this more productive agricultural sector in Ontario was the frame around which Ontario's industrialization took place. But they are radically at odds as to why Ontario and not Quebec provided that agricultural frame.

McCallum gives pride of place to poorer geography and unfavourable soil and climate conditions in Quebec - in other words he locates Quebec's economic backwardness in backward technical factors in the economic process.[52] This is a point picked up by Leo Panitch who argues that “In the case of Quebec … the farmer was unable to produce a wheat staple competitively, mainly due to climatic factors.”[53] Pentland agrees that these were obstacles to development. He says however that the greatest obstacles were, what Marx called, the social relations of production – the way in which labour and the economy in Quebec society were organized. McCallum mentions this approach, but downplays its importance. For Pentland:

> ... continual frustration withered the power and will to produce. The obstacles to efficiency (in a capitalistic sense) imposed by feudal institutions were accentuated by continual subdivision which produced strip farms less and less economic or capable of improvement.[54]

The habitants were "paralyzed by custom," and that custom was part of their inheritance from feudal France.

Watkins describes North America at European contact as an "empty land" (a characterization which ignores the not inconsiderable history of Native society). Yet that "emptiness" was filled by more than bodies and commodities. England, France and Spain exported as well, their civilization and its customs, their social relations of production. For France and Spain that meant feudalism - lords and serfs, seigneurs and habitants. For England it meant capitalism - bosses, workers and capitalist farmers. And as in Europe, Pentland argues, the social relations of production associated with capitalism - in terms of industrial development - proved superior to those associated with feudalism.

> A population used to maximizing production and surpluses over local needs is likely to exchange, and consume also, at a high level. The attitudes and institutions that flourish in an agricultural economy that is efficient in the capitalistic sense are well suited to produce successful industrial managers and workers. A flourishing export trade invites the transport media that bind the regions they penetrate into a coherent national economy. The surpluses of a prosperous and market-oriented agriculture are likely to be one important source of the capital required for industrial development. In several respects, then - as a market, as a source of labour and capital, as a coherent economy whose permanence seems certain - a surplus-producing agriculture offers superior conditions for industrialization.[55]

Now Pentland's limitations are that he emphasizes the cultural manifestations of a material and historical phenomenon. This is part of the particular eccentricity of Pentland as a theorist. His discussion is too parallel to that of Marx's to have not been seriously influenced by Marxism. But it is not an explicity Marxist work. According to Paul Phillips:

> Pentland never considered himself a Marxist ... He was an independent thinker who rebelled against the

> constraints of any orthodoxy ... Pentland was .. an independent and original scholar who did not disdain any tradition, but whose own Canadian analysis coincided rather well with the radical or Marxist tradition in European and even American scholarship.[56]

Thus while incredibly useful as a pathbreaking analysis of the early years of capitalism in Canada, Pentland does what a Marxist would avoid. He emphasizes "culture" and "tradition" and "habits" of accumulation as the difference between Ontario and Quebec. It is possible to read these as comments of someone who is ethnically biased. His case would have been much stronger had he more fully incorporated the key categories of Marxism and showed, as Ryerson does, that the root of these "customs" lay in the oppressive feudal system that was inherited from France, and imposed on Quebec by the conquering English. The retardation of development in Quebec, then, was not because of national traits, but because of feudalism and imperialism.[57]

Once again, this is an investigation that proceeds along the same lines as Creighton's. For Creighton, the prime difference in the economic development of Lower Canada and Upper Canada was because the population of the former was "still devoted to subsistence agriculture and to a debased feudal land-holding system".[58]

The debate over the different trajectory in Quebec and Ontario aside, the main point for our purposes is that the impact of agricultural-production as a "staple" for export was to stimulate the growth of a home-market by creating a demand for farm implements, creating the need for expanded transportation facilities which in turn created new manufacturing needs - for rolling stock and canal building - and create new marketing opportunities, by opening up the hinterland and creating the possibility of the marginalized subsistence farmers turning to surplus-production.

It is an entirely different perspective than that of the dependency school. Canada's twentieth-century "underdevelopment" was seen by that school as being rooted in its nineteenth-century pattern of economic development which locked Canada into a staple-trap. Given the manifest economic development that has taken place in the twentieth-century, a certain plausibility is given (with the clarity of hindsight) to the home-market approach, an approach that argues that through the creation of a home-market in the mid to late nineteenth century, Canada could best be described with the language appropriate to industrial societies - even if a rather small and immature industrial society when compared to its southern rival - not the language appropriate to peripheral, dependent, underdeveloped ones.

Conclusion – Political Economy Outside the Trap

In its analysis of the origins of Canadian capitalism, the staple-approach attempted to assimilate the Canadian experience into that of the underdeveloped economies of the Third World. This disarmed the left because it allowed no room to anticipate the development that manifestly has occurred in Canadian capitalism, the development of a mature, imperialist industrial power - one of the largest advanced capitalist economies in the world in spite of a very small population base.[59]

Gordon Laxer is quite confusing on this point.[60] He situates an examination of Canadian capitalism in a clear comparative framework, using (as many others have done) the pioneering work of Paul Bairoch. Bairoch – in a table cited by Laxer – documents that Canada, in 1860, was the world's 20th leading manufacturing power. By 1913, it had moved to thirteenth position. By 1953, it was number nine, and in 1980 was number 10.[61] This is evidence of the *development* of manufacturing, not its truncation. But in spite of this evidence – made available in his own work – Laxer proceeds to discuss how Canada's manufacturing base could have done as poorly as it has!

There is no need to avoid the evidence of the facts. This is the great strength of the home-market approach. It provides a basis for coming to terms with these facts. In focusing on the way in which staple-production gave way to the development of capitalist agriculture, the way this in turn created a demand for manufactured goods which stimulated the development of local industry in the surrounding towns, the way transportation lines developed to facilitate trade actually had their greatest impact in stimulating demand for local manufacture - in short by focusing on the creation of a home market - the approach of Pentland and McCallum provides us with an alternative to the staple-approach's focus on dependency and underdevelopment. By seeing beyond a simple "staple-trap" argument, the home-market approach is much more strongly situated to theorize the development of an advanced capitalist economy in the Canadian context.

An extremely important qualification must be added here. The argument developed in this paper is quite historically-specific. It is one thing to identify the ability of the Canadian economy to escape the staple-trap in the 19th-century through economic spin-offs laying the basis for industrialization. It would be a mistake, in this author's opinion, to mechanically apply this path of development to other economies in the 20th century, let alone the 21st century. Canada was not the first to undergo the transformation to industrial capitalism. But it can by no means be considered a "late-follower" as Laxer attempts to. It lagged a little behind the United States, but faced nothing like the obstacles of real late followers – Iran in the twentieth century, Indonesia, the Philippines, etc. As capitalism ages and the scale of production increases, it becomes harder and harder for underdeveloped economies to make the breakthrough into sustained industrial development. Rostow's "stages of growth" approach to development is completely wrong in this regard and the dependency theorists were right in their argument that "takeoff" to economic development in the 20th century faced huge obstacles in the form of the domination of the world economy by the major imperialist powers (including Canada).

But if the dependency school was right in this general sense, it was fundamentally wrong in its attempt to bend the Canadian experience into that of the real late-followers. Russia, for instance, was a true late follower. Industrialization there, as was indicated above, was hampered by a massive peasantry, a conservative and powerful landed aristocracy and foreign control. In Canada there was foreign control, but with the exception of Quebec, feudal relations were simply not an issue. There was no massive peasantry to be driven off the land and no landed aristocracy which stood as a barrier to capital accumulation.

This does not mean that industrialization is impossible. China and India today are both in the throes of industrial revolutions that are transforming the world economy. But those revolutions follow a very different path and have far greater obstacles than those faced by Canada 150 years ago.

Many questions remain unanswered. The Canadian economy did become incredibly entangled with the American. There was an extraordinary and unusual degree of foreign ownership of every sector of the Canadian economy for more than two generations. But a) this U.S. control has been declining steadily for a generation; and b) these questions can be incorporated into an approach that gives pride of place to the development of a home market.[62]

Twenty years ago, Daniel Drache and Wallace Clement argued that the rejection of dependency theory by many new left scholars had left a void "that remains to be filled".[63] In the filling of this void, all aspects of this old orthodoxy must be carefully examined and re-assessed. As well as analyses of contemporary conditions and anticipations of future developments, political economists must look back in history and test their analytic tools' ability to make sense of that past.

Part of the "filling of the void" left by the inadequacies of the dependency staple-trap approach, in the Canadian context, involves critiquing and rejecting the staple trap analysis of the development of Canadian capitalism, and applying instead a "home-market" approach. This paper has attempted to indicate the outlines of such a project.

Notes

[1] The term “staple trap” originated with M.H. Watkins, “A Staple theory of Economic Growth”, in *Canadian Journal of Economics and Political Science* Vol. 29, No. 2 (May, 1963), p. 151. This according to William Burgess in his very useful William Burgess, Doctoral Dissertation, *Canada’s Location in the World System: Reworking the Debate in Canadian Political Economy*, (Vancouver: University of British Columbia, Department of Geography, 2002), p. 226. Watkins oft-cited piece was republished in W.T. Easterbrook and M.H. Watkins, eds., *Approaches To Canadian Economic History* (Toronto: Gage Publishing Ltd., 1980).

[2] Gordon Laxer, *Open For Business: The Roots of Foreign Ownership in Canada* (Don Mills: Oxford University Press, 1989).

[3] Colin Read, “Review – *Canada and Japan in the Twentieth Century*” in *The Canadian Historical Review*, Volume 74, Issue 2 (June, 1993), p. 313.

[4] CBC, Radio Transcripts, Ideas, “The legacy of Harold Innis” (Toronto: December 20, 1994), available through www.proquest.com.

[5] Roger Hayter and Trevor J. Barnes, “Canada’s resource economy,” in *Canadian Geographer*, 45, 1 (Spring 2001), p. 38.

[6] Paul Kellogg, “Kari Levitt and the Long Detour of Canadian Political Economy,” paper presented to the annual meeting of the Canadian Political Science Association (Winnipeg: University of Manitoba, 2004). Forthcoming in *Studies in Political Economy*.

[7] Read, “Review”, p. 313. This is, of course, just one instance of the use of a term, nearly hegemonic as a phrase that “captures” the Canadian economic reality.

[8] Glen Williams, *Not For Export: Toward a Political Economy of Canada’s Arrested Industrialization* (Toronto: McClelland and Stewart, 1983). Republished a decade later with an interestingly altered title – Glen Williams, *Not For Export: The International Competitiveness of Canadian Manufacturing* (Toronto: McClelland and Stewart, 1994).

[9] Watkins, "A Staple Theory of Economic Growth", in Easterbrook and Watkins, p. 50.

[10] G.W. Bertram, "Economic Growth in Canadian Industry, 1870-1915", in W.T. Easterbrook and M.H. Watkins (eds.), *Approaches To Canadian Economic History* (Toronto: Gage Publishing Limited, 1980), p. 75.

[11] Watkins, “A Staple Theory”, in Easterbrook and Watkins, p. 53.

[12] Harold A. Innis, *The Fur Trade in Canada* (Toronto: University of Toronto Press, 1962), pp. 385-6.

[13] Innis, *The Fur Trade*, p. 384.

[14] Watkins, "A Staple Theory", in Easterbrook and Watkins, p. 53.
[15] Watkins, "A Staple Theory", in Easterbrook and Watkins, p. 70.
[16] Watkins, "A Staple Theory", in Easterbrook and Watkins, p. 98.
[17] Innis, *The Fur Trade*, pp. 385-6.
[18] See especially Kari Levitt, *Silent Surrender* (Toronto: Macmillan of Canada, 1970), especially chapter 6, "Metropolis and Hinterland", pp.92-115.
[19] See among others Burgess, *Canada's Location in the World System*; William Carroll, *Corporate Power and Canadian Capitalism* (Vancouver: University of British Columbia Press, 1988); Paul Kellogg, "After Left Nationalism: The Future of Canadian Political Economy," paper presented to the annual meeting of the Canadian Political Science Association (Halifax: Dalhousie University, 2003). Published in *Marxism No. 2 – A World To Win* (2004), pp. 21-31; Kellogg, "Kari Levitt and the Long Detour"; Kellogg, Doctoral Dissertation, *Arms and the Nation: The Impact of 'Military Parasitism' on Canada's Place in the World Economy* (Kingston: Queen's University, 1990); Steve Moore and Debi Wells, *Imperialism and the National Question in Canada* (Toronto; s.p., 1975).
[20] Paul Bairoch, "International Industrialization Levels from 1750 to 1980" in *Journal of European Economic History*, Vol. 11, No. 2 (Fall 1982), pp. 321-2.
[21] Canadian statistics compiled from Series D8-85, "Work force, by industrial category and sex, census years, 1911 to 1971" in F.H. Leacy, ed., *Historical Statistics of Canada* (Ottawa: Statistics Canada, 1983) available online at www.statcan.ca. U.S. statistics compiled from Series P 1-12. Manufactures Summary: 1849 to 1970, U.S. Department of Commerce, *Statistics of the United States: Colonial Times to 1970, Part 2* (Washington: Bureau of the Census, 1975) and U.S. Bureau of Labor Statistics, "Employment, Hours, and Earnings from the Current Employment statistics survey (National), available online at www.bls.gov. Brackets indicate years for which U.S. statistics were not available for relevant Canadian statistics.
[22] See Burgess, *Canada's Place in the World Economy*; "Kellogg, "After Left Nationalism" and Kellogg, "Kari Levitt and the Long Detour".
[23] Canadian statistics from CANSIM (Canadian Socioeconomic Information Management) II, "Canada; Total Employment; Manufacturing; Both Sexes" (Series V3437501, Table Number 2820011). U.S. statistics compiled from U.S. Bureau of Labor Statistics, "Employment, Hours, and Earnings from the Current Employment statistics survey (National), available online at www.bls.gov.

[24] See Charts 1 and 2.

[25] See Chart 2.

[26] For more on this see Kellogg, "Kari Levitt and the Long Detour" and Kellogg, "Contradictions of the American War Economy", paper presented to the annual meetings of the Society for Socialist Studies (Halifax: Dalhousie University, 2003), published in *Socialist Studies Bulletin* 74 (Fall/Automne 2004). A revised and expanded version, "Contradictions of the American Empire" was published in *Marxism No. 3 – War, Resistance, Revolution* (2005), pp. 3-15.

[27] Compiled from F.H. Leacy, ed. *Historical Statistics of Canada* 2nd edition (Ottawa: Statistics Canada, 1983); and U.S. Department of Commerce, *Historical Statistics of the United States, Colonial Times to 1970 Part 2* (Washington, D.C.: Department of Commerce, 1975).

[28] A long footnote in David McNally's 1981 critique of Harold Innis provided the initial impetus for the research that went into this section. McNally – after indicating the importance of the work of H. Clare Pentland – stated that "we still lack any general study comparable to Lenin's *The Development of Capitalism in Russia*." (David McNally, "Staple Theory as Commodity Fetishism: Marx, Innis and Canadian Political Economy" in *Studies in Political Economy: A Socialist Review 6: Rethinking Canadian Political Economy* Autumn, 1981, p 61). Lenin's method in his study of early Russian capitalism is, in fact, quite relevant to a discussion of the early years of Canadian capitalism. Too often, when the name Lenin is invoked, it serves only to signify the still raging debates about the merits or demerits of the Russian Revolution. But apart from his role as a revolutionary organizer, Lenin was a very serious Marxist in his own right – including in the field of political economy. It is this Lenin that will be examined here.

[29] V.I. Lenin, *Imperialism, The Highest Stage of Capitalism,* in Lenin, *Collected Works*, Volume 22 (Moscow: Progress Publishers, 1977), pp. 185-304.

[30] V.I. Lenin, *The Development of Capitalism*. Russia, in Lenin, *Collected Works*, Volume 3 (Moscow: Progress Publishers, 1977), pp. 21-607.

[31] Lenin, *The Development of Capitalism*, p. 25.

[32] Stanley Ryerson, *Unequal Union: Confederation and the Roots of Conflict in the Canadas, 1815-1873* (Toronto: Progress Books, 1975), p. 258.

[33] H. Clare Pentland, *Labour And Capital: Canada 1650-1860* (Toronto: James Lorimer & Company, 1981).

[34] John McCallum, *Unequal Beginnings: Agriculture and Economic Development. Quebec and Ontario until 1870* (Toronto: University of Toronto Press, 1980).
[35] Mel Watkins, "The Staple Theory Revisited", *Journal of Canadian Studies*, Vol. 12, No.5, Winter, 1977, p. 95.
[36] Pentland, *Labour and Capital*, p. 130-1.
[37] Pentland, *Labour and Capital*, pp. 134-5.
[38] Pentland, *Labour and Capital*, pp. 132-4.
[39] Pentland, *Labour and Capital*, p. 134.
[40] McCallum, *Unequal Beginnings*, pp. 130-1.
[41] Donald Creighton, "The Economic Background of the Rebellions of 1837". In Creighton, *Towards the discovery of Canada* (Toronto: Macmillan of Canada, 1985), p. 105.
[42] Pentland, *Labour and Capital*, pp. 131 and 141.
[43] Pentland, *Labour and Capital*, p. 146.
[44] Ryerson, *Unequal Union*, p. 260.
[45] Pentland, *Labour and Capital*, p. 147.
[46] McCallum, *Unequal Beginnings*, p. 8.
[47] McCallum, *Unequal Beginnings*, p. 108. The quotations from North are taken from Douglass C. North, *The Economic Growth of the United States, 1790-1860* (Englewood Cliffs: Prentice-Hall, 1961), p.135 and pp. 153-5.
[48] McCallum, *Unequal Beginnings*, p. 5.
[49] Pentland, *Labour and Capital*, p. 139.
[50] Pentland, *Labour and Capital*, p. 140.
[51] McCallum, *Unequal Beginnings*, p. 5.
[52] McCallum, *Unequal Beginnings*, pp. 25-44.
[53] Leo Panitch, “Dependency and Class in Canadian Political Economy” in *Studies in Political Economy 6*, p. 15.
[54] Pentland, *Labour and Capital*, p. 141.
[55] Pentland, *Labour and Capital*, p. 140.
[56] Paul Phillips, “Introduction” to Pentland, *Labour and Capital*, pp. xi-xii.
[57] It can of course be disputed as to whether there was any retardation of development in Quebec at all. Ryerson himself notes that in the mid-nineteenth century, the "most impressive concentration of ... metal work [in Canada] was at Montreal." Similarly, Montreal had a very large ship-building industry. "The Canada Marine Works at Montreal in the space of less than two decades built and launched 111 vessels" (Ryerson, *Unequal Union*, p. 45). But to make the case, it is not necessary to deny that some industrial development did occur in Quebec. What is important is why it was so slow to develop, given its many advantages over Upper Canada and why it steadily lost ground to the new capitalist economy centred on Toronto. At the time of conquest, in what is today Canada, the principal corridor

was not Montreal-Toronto but Montreal-Quebec City. Ontario was an undeveloped hinterland, distant from markets and largely unsettled. It took a century of state policy which consciously benefited English-Canada to the detriment of Quebec before the balance was shifted. From cutting off the borders of the conquered territories of New France denying it access to much of the fur trade and the most lucrative fishing areas, to propping up in power the conservative, feudal land-based clergy and aristocracy which prevented the land-hungry immigrants from the New World finding habitation in Quebec, to forcing the Province of Quebec to pay for the debts incurred by what is today Ontario in the completion of its canal and road system - all these conscious acts of British imperialist policy served over time to diminish the role of Montreal and Quebec and increase the role of Toronto and Ontario. (See Ryerson, *The Founding of Canada* (Toronto: Progress Publishers, 1972), Ryerson, *Unequal Union* and Fernand Ouellet, *Lower Canada 1791-1840: Social Change and Nationalism*. Trans. Patricia Claxton (Toronto: McClelland and Stewart, 1980)).

[58] Creighton, "The Economic Background", p. 106.

[59] It is notoriously difficult to rank the size of national economies. In the world of "advanced capitalist economies", Canada is clearly number seven. When the universe is expanded to include emerging economies that are large in absolute terms (China, India, Brazil and Russia), but far less advanced than Canada and the other G7 countries (U.S., Japan, Germany, France, U.K. and Italy), *and* when the size of these economies is measured in Purchasing Power Parities, then Canada's is the eleventh largest economy in the world. But regardless – seventh among the rich economies, or eleventh among all economies – either number is quite impressive for a small country of just over 30 million people (CIA, *The World Factbook* available at www.cia.gov/cia/publications/factbook).

[60] Gordon Laxer, *Open for Business*, p. 43.

[61] Bairoch, p. 284.

[62] McNally, for instance, accepts Pentland's view that Canada emerged as an industrial society in the late nineteenth century, but one that was smaller, and less extensively developed than its American neighbour. This left it vulnerable as the Canadian economy entered the realm of international competition. Between 1890 and 1921, McNally points out, international capitalism entered a new phase of extreme centralization of capital – a phase marked by the creation of monopolies. This rapid and extreme centralization was accompanied – as it always is – by the

rapid introduction of brand new production technologies, technologies that while necessary for the maintenance of large industrial undertakings, were at the same time prohibitively expensive for any of the “small” players left on the field of international competition. World War I brought this round of monopolization to a fever pitch. At the onset of the war, American branch plants controlled only 10% of capital formation in Canada, McNally indicates, yet the American control that existed was “concentrated overwhelmingly”: “in the new growth industries – electrical goods, chemicals, petroleum, rubber and autos – which were to dominate the world economy of the twentieth century. Canada's industrial ‘dependency,’ then, may best be understood as a product of attempting to complete the transition to industrial capitalism at a time when the strongest sections of world capitalism were undergoing intensive concentration and centralization. The younger and smaller units of Canadian capital appear to have been the victims of an historic phase of capitalist competition which culminated – as must all such phases – ‘in the ruin of many small capitalists, whose capitals pass into the hands of their conquerors, and partly vanish completely.’ Such an hypothesis would certainly seem to offer the prospect of a richer understanding of economic dependency in Canada” (McNally, “Staple Theory”, p. 55). Although it is unclear why he retains the term “dependency” in any form, in every other respect McNally’s point complements the analysis developed in this paper.

[63] This void was announced by Daniel Drache and Wallace Clement in the introduction to their *New Practical Guide to Canadian Political Economy* (Toronto: James Lorimer, 1985). Where they argue: "With the enormous changes that have taken place in the economy in the last decade alone, dependency theory is no longer adequate for understanding our relations either with the U.S. or with other countries. Clearly, neither dependency theory nor any other single theory can explain the variety of forces defining the relations between the world economy and the national economies. However, the rejection of dependency theory by Canada's state theorists and most of the new labour historians as the unifying perspective in the discipline has left a void that remains to be filled" (Drache and Clement, *New Practical Guide*, p. x)