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STEEL AT THE SAULT: SIR JAMES DUNN AND
THE ALGOMA STEEL CORPORATION, 1906-1956

by

DUNCAN L. McDOWALL, M.A.

A thesis submitted to the Faculty of
Graduate Studies in partial fulfill-
ment of the requirements for the de-
gree of Doctor of Philosophy

Department of History

Carleton University
Ottawa, Ontario

15 May, 1978

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"Steel at the Sault: Sir James Dunn and the Algoma Steel Corporation, 1906-1956"
submitted by Duncan L. McDowall, M.A., in partial fulfillment of the requirements for the degree of Doctor of Philosophy.

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ABSTRACT

The achievement of Canadian nationhood in 1867 brought in its wake the desire for a well-diversified and self-sufficient national economy. At a time when industrial might was commonly equated with national virility, Canadians looked longingly to the prospect of a flourishing iron and steel industry within their borders. A century later Canada possesses an iron and steel industry that stands as one of the unqualified successes of the policies of economic development initiated in the era of the National Policy. Canadian "big steel" is not only able to meet the major proportion of Canadian steel demands but is internationally competitive and is in large measure indigenously controlled. This thesis is a study of the place of Algoma Steel in this evolution of the modern Canadian steel industry.

The thesis focuses upon the formative influences shaping the emergence of the primary iron and steel industry in Canada. The dictates of geography, geology and international economics are examined as well as the policies of all three levels of Canadian government designed to attract and accommodate the nascent industry to Canadian conditions. A strong emphasis is placed upon the nature of the entrepreneurship molding Algoma's growth, notably the pivotal roles of F.H. Clergue and Sir James Dunn.

The first four chapters of the thesis sketch the necessary background to the emergence of Dunn as president of Algoma in 1935. The special problems confronting the earliest promoters of the iron and steel industry in Ontario are examined, as are the strategies of the provincial and federal governments designed to overcome these obstacles. F.H. Clergue's adept exploitation of these policies in founding his Sault Ste. Marie industrial complex is analyzed as is the tangled legacy he bequeathed to his successors. The impact of railway and war induced prosperity is shown in the years down to 1920. The exhaustion of federal and provincial development strategies is then evidenced in Algoma's struggle for industrial survival during the 1920's.

The fifth chapter shifts to the early career of Sir James Dunn, his meteoric rise to preeminence in world finance and his early association with Algoma. The succeeding chapter plots in detail Dunn's ascendancy to the Algoma presidency, an ascendancy aided and abetted by Ontario politicians, financiers and lawyers. The final three chapters follow Dunn's contribution as president from 1935 to 1956, including his financial and production policies, his continental resources strategy, and his relations with government and labour before, during and after World War II.

Sir James Dunn is depicted as a hard-driving and at times unscrupulous businessman, prepared to exploit the credulity of investors and politicians as well as the opportunities presented by economic and military crises to his own advantage. But Dunn also brought exceptional financial and managerial skills to bear on Algoma's problems. Largely due to his efforts, Algoma Steel, which had tottered on the verge of bankruptcy in the 1920's, not only survived a receivership in the

early Depression but by the 1950's had become a well-integrated, financially stable and profitable enterprise and a major element in the Canadian steel industry. An epilogue briefly examines Dunn's legacy and the fortunes of Algoma and the Canadian steel industry through the 1960's.

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CHAPTER ONE

The Iron and Steel Industry in Ontario: Troubled Beginnings to the 1890's

The coming of the frontier of settlement to Upper Canada in the late eighteenth century brought inevitably in its wake the age of iron. Many of the essential implements which supported the rough and ready existence of the early backwoodsman reflected the ever-growing iron technology of the European and American culture which they had brought to their new land. The axes, plough points and chains with which the settlers tamed the forest and built their new life were all products of the iron furnace and forge.¹ These same tools made possible the colony's early exports of potash, wheat and timber, the staple commodities which provided the colony with the purchasing power to finance further imports of the necessities of frontier life. Just as they depended upon England and the American Loyalists for their political culture, these earliest Ontarians relied heavily upon the mother-country and the fledgling American Republic for their supplies of iron goods. As the maturing colonial society began to develop a sense of identity and a desire for a greater measure of political independence, a parallel drive for a greater degree of economic independence emerged in areas of the colonial economy. Eager to reduce the cost of weighty imported pig iron, Upper Canada embarked upon its first efforts to mine, smelt and fashion its own iron.

From the outset it was apparent that the production of crude pig iron in Upper Canada could only be profitably undertaken in those few locations which offered readily accessible raw materials and at the same time afforded inexpensive access to the province's scattered

markets. Small pockets of bog ore lying in swampy ground or exposed veins of higher grade ore attracted the promoters of the first crude furnaces, provided nearby sources of running water, for power and cooling, and hardwood for fuel could be found. Proximity to navigable water was also indispensable in a colony lacking all but the most primitive roads. These dictates of geography and geology imparted a distinctly local character to the production and distribution of iron goods in early Upper Canada. Although iron had been successfully refined at the St. Maurice forges of Lower Canada as early as 1729,² the first sustained smelting enterprise in Upper Canada was initiated at Lansdown, near Brockville, in 1799, followed closely by one at Furnace Falls on the Gananoque River in 1800. Of the numerous small furnaces that sprung up in the wake of these early ventures, the Normandale smelter in Norfolk County was perhaps the most illustrious. Founded about 1815, the Normandale forge was taken over in the early 1820's by Joseph Van Norman, an American who gained considerable repute over the next three decades as Upper Canada's preeminent iron master. Elsewhere in the colony, the Marmora Iron Works, established north of Belleville about 1820, struggled precariously, even after the ubiquitous Montreal entrepreneur, Peter McGill, acquired ownership in the early 1830's.³

From its inception, the Ontario iron industry laboured under most trying circumstances. Rapid depletion of low grade and frequently sulphurous bog ore deposits repeatedly forced furnaces out of production, while the lack of indigenous technical expertise and capital impeded deeper exploitation of ores lying below ground.

Non-renewable timber resources adjacent to most furnace sites were also quickly exhausted and the complete absence of coal in Ontario deprived furnaces of any alternative fuel supply. Distance from other sources of fuel and ore precluded the economic importation of supplementary raw materials. An early 1865 attempt mounted by an American syndicate to exploit reported iron deposits in the Michipicoten area on the shores of Lake Superior foundered because of the prohibitive distance from southern markets for the ore.⁴ Montreal capitalists also speculated on the unknown mineral wealth of the rocky Superior country, chartering companies that bore little fruit except for the isolated silver bonanza on Silver Islet⁵ in the late 1860's.

Lack of entrepreneurial and technical expertise further debilitated the fledgling industry. Few in the agrarian colony had the technical knowledge to operate even the most rudimentary furnaces. John Mason, the original proprietor of the Normandale furnace, complained in 1817 to Robert Gourlay that there was "... not a man in the country that I know capable of working in the furnace." Mason also bitterly noted the "many experiments" and "enormous expense" needed to perfect his smelting technique, a task made all the more difficult by the unwillingness of the government to subsidize the passage of English workmen to operate the furnace.⁶ The provincial government was also subject to incessant petitioning from the owners of the Marmora Iron Works, who in the 1830's saw the provision of cheap prison labour from Kingston and improved water transport on the Trent River, both at government expense, as the solution to their woes. From an early date, would-be Ontario iron producers developed

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the habit of looking longingly to the provincial government for succour.

Beside these inherent obstacles, the Ontario iron industry in the second half of the nineteenth century experienced a further decline in its ability to compete with foreign producers as a result of the rapid and radical changes taking place in the technology of iron making. The decades between 1850 and 1890 witnessed a dramatic acceleration in the rate and scope of technological innovation in the manufacture of iron. In the first place, the iron industry now became the iron and steel industry. The work of Henry Bessemer, Charles Siemens and Thomas Gilchrist revolutionized the industry by introducing relatively inexpensive and efficient methods of smelting a metal of great strength, plasticity and hardness. The Bessemer converter and the open hearth furnace dramatically increased the applications and versatility of ferrous metals and at the same time progressively lessened the cost of the industry's products. As David Landes has commented, "... the primary feature of the technology of the last third of the nineteenth century ..." was "... the substitution of steel for iron and the concomitant increase in the consumption of metal per head."⁷ One of the greatest stimulants to these technical advances was the almost insatiable appetite of the growing railway networks of both Europe and North America for iron and steel. The advent of steel sealed the fate of the brittle iron rail and hastened the adoption of the heavier, more durable steel rail. Moreover, unlike iron, steel could be rolled and shaped, making it an ideal substance for rails, fishplates, and the endless variety of shapes and angles demanded by railway builders.⁸

Tremendous as they were, the advances of "the age of steel" remained almost exclusively within the purveyance of the British, German and American economies. Production of iron in the United States increased from 919,770 net tons in 1860 to 4.3 million tons in 1880, a year which saw 681 blast furnaces operating in 25 states. By 1874, there were 69 rail mills ceaselessly turning out the crucial ingredient of the United States sensational railway expansion, while throughout the period 1867-80, the average price of rails steadily dropped from \$135.60 to \$65.42 per ton.⁹ Under the pressure of this expansion, the American industry shed its localized character and gravitated to geographically more advantageous locations. These years witnessed the growing preeminence of Pittsburgh and the industrial north-east as the steel heartland of the United States. Blessed with abundant local supplies of bituminous coal, Pittsburgh relied upon the railway and waterways to supply its flux and ore requirements. Responding to this demand, the American canal at Sault Ste. Marie was opened in 1855, thereby allowing eastern steel centres to draw upon the newly discovered rich hematite ores of the Superior ranges to such an extent that by 1880 Superior ore constituted 33% of American iron ore consumption.

Emasculated by its own internal weaknesses, the infant Ontario iron industry simply buckled under the pressure exerted by the bounding expansion of the American and British industries. Britain's adoption of free trade in the 1840's had left the colonies virtually defenceless in terms of tariff protection to face the onslaught of cheap foreign rails. In the years after 1847, the embryonic Canadian tariff policy

provided only negligible protection and encouragement for the Canadian iron industry. Although duties inched gradually upwards in 1847, 1849, 1856 and 1858, the protection given the Canadian industry afforded little shelter from the influx of cheap foreign iron goods, especially during the 1854-66 period of American reciprocity. The Cayley tariff of 1859, the first acknowledgement of the primacy of tariffs for protection over tariffs for revenue, imposed duties as high as 20% on iron goods, although an extensive free list was maintained.¹⁰

Early tariffs tended to provide more generously for the protection of secondary iron and steel goods, such as nails, wire and agricultural implements, while leaving the primary stages of production "to be conducted on its own merits at practically all times."¹¹ This gaping hole in the Canadian tariff wall was principally due to the inability of the local smelters to supply Canadian consumers with sufficient quantities of pig iron. Unable to match American supplies of ore and coal or to equal the cheapness of English pig iron, the Canadian industry specialized increasingly in the secondary levels of production in which it could compete on nearly equal terms.¹² Indicative of the primary industry's flimsy existence was the failure of Van Norman's attempt to forge railway wheels at the Houghton Iron Works in the 1850's.¹³ About 1860, prominent railway promoters Casimir Gzowski and David Macpherson established a plant to produce bar iron and to reroll rails, but this too failed by 1873. The Toronto Steel, Iron and Railway Works Company, founded in 1866, lasted only until 1872, despite the fact that it used prison labour. Not surprisingly B.J. Harrington of the Geological Survey of Canada concluded in 1874 that

"the history of iron smelting in this country is neither a long one nor a brilliant one."¹⁴ In the age of steel and railways, Canada was waging a losing battle to supply the sinews of its own industrial growth.

Undoubtedly the most crippling weakness of the Ontario iron industry in the mid-nineteenth century was its failure to locate alternative domestic ore resources to replace the now depleted or economically unviable pockets of ore in southern and southeastern parts of the province. With the American industry employing its efficient water and rail networks to tap both eastern coal and Lake Superior ore, the Canadian industry took the course of least resistance by relying upon ever larger importations of British and American pig iron.

Scattered evidence suggests that American firms surveyed and attempted some exploitation of Canadian ores at Madoc and Marmora, but in almost every other sense the Canadian primary iron and steel industry came to occupy a peripheral and "submarginal" position in the continental economy. As long as the level of tariff protection remained low, there seemed little alternative for the Ontario industry but to remain enslaved to this continental resource pattern.¹⁵ Reviewing the development of the industry to 1885, one publicist gloomily concluded:

Not only does the position of the few iron manufacturers we have steadily get worse, in fact they can hardly be said to exist, but from it being the most important manufacture in the late Province of Canada, fifty to seventy five years ago, when iron and stoves were articles of export, it has fallen off to such a point that a sort of hopeless feeling has been engendered, and a great number of people believe that we have not the facilities to enable us to manufacture iron in Canada.¹⁶

The move to confederation by four of the Canadian colonies in 1867.

signified the first consolidated attempt to provide the proper conditions for sustained industrial growth in a nation almost totally overshadowed by the feverish industrial activity of England and the United States. "Federation," as Harold Innis once perceptively noted, "was a device to secure ample supplies of capital for the construction of railways from the Atlantic to the Pacific in a region handicapped by concentration on staples such as fur, timber, and agricultural products and without an iron and steel industry."¹⁷ Equally clear was the belief at Confederation that the new federal government's role in stimulating industrial growth extended no further than that of fostering an enlarged national market and in subsidizing an encompassing national transportation network. Most Canadians, however, came to regard protection as "an ambitious gamble for success," as one historian of economic thought has noted, "and free trade as stoical acceptance of combined dependence on Great Britain and the whims of world markets."¹⁸ Despite the prodding of such isolated protectionists as Isaac Buchanan,¹⁹ the pre-Confederation tariff structure remained essentially intact. 1868 tariff revisions shifted many iron goods, such as bars, sheets and rods, off the free list but gave them only nominal 5% protection. Even when the Mackenzie government, with its distinct free trading bias, was forced to hike tariff levels in the mid-1870's for revenue purposes, iron and partially manufactured iron goods were given only a 5% revenue duty.

While the influence of the tariff on industrial growth in Canada was predictably unimpressive in the decades after Confederation,²⁰ other forces conspired to stifle the progress of Canadian iron smelting.

Continued technological sophistication in the English, American and awakening German steel industries gave these countries an almost unsurmountable lead in terms of diversified, large scale production of steel goods. Coupled with the deflationary economic depression that pervaded the late decades of the century, the efficient size of foreign industry accounted for the continuing steady drop in the price of industrial goods.²¹ Under such conditions, only those areas of Canada that were naturally endowed with ready supplies of iron ore and coal and adjacent to substantial markets or cheap transportation could survive. Thus the venerable St. Maurice forges persevered until 1883 in Quebec, while in Nova Scotia, with its abundant supply of Cape Breton coal, the Londonderry Iron Works and the Hope Iron Works produced small quantities of pig iron through the 1870's.²² In Ontario, the primary industry lay dormant. Surveying the provincial industry in 1874, the geologist B.J. Harrington lamented the lack of surveying for ore bodies in the northern area of the province and complained that the known ore in Ontario was too "titaniferous" and would require mixing with imported ores if ever to be brought into production. "So long," Harrington concluded, "as other ores can be obtained in abundance the demand for the highly titaniferous ores cannot be great."²³ By 1879, there were no blast furnaces in Ontario.

As faith in the precepts of free trade economics crumbled, the demand for tariffs to encourage industry became more insistent. Tilley's National Policy budget of 1879 heralded the first concerted attempt to foster an indigenous iron and steel industry in Canada through protection. A panoply of tariffs was imposed on iron and

steel goods, including a \$2 a ton duty on pig iron and scrap, duties on coal and coke and duties of between 12½% and 20% ad valorem on puddled iron, beams, forgings and other iron and steel goods.²⁴ Notable exceptions from dutiable status were iron ore and rails, the government arguing that demand for railway steel was too imperative to be tampered with. Advocates of protection prophesied that the National Policy would supply the elixir to rouse the Canadian iron and steel industry from its slumber. In the Commons, the Hon. John Beverly Robinson confidently but naively predicted that since in the United States there were 700 blast furnaces sustained by a population of 40,000,000, Canada could soon rightfully expect to support 70 furnaces with its population.²⁵

Steady increases in the iron and steel tariff in the early 1880's were capped in 1887 by a wholesale upward revision, including provisions for establishing minimum applicability levels for ad valorem tariffs to guard Canadian producers against falling international prices. The thrust of these tariff adjustments tended to better the competitive position of the secondary or "finishing" level of iron and steel production. Agricultural machinery, for instance, was now dutiable at rates as high as 35%. On the other hand, many of the basic products of the primary industry, constituting the raw materials of the secondary level of the industry were exempted from tariff coverage. A federal act of 1881 empowered the government to transfer by order-in-council items from the dutiable to the free list, a provision that was liberally employed to afford the C.P.R. duty-free fishplates, steel plates and railway bars as well as to reduce the duty on iron

scrap. This tendency to differentiate between the primary and secondary sectors of the industry revealed at an early date a basic flaw in the practice, if not the conception, of the National Policy. Pressured by the demands of the railroad builders and the owners of a growing number of factories processing iron and steel into a myriad of finished goods,²⁶ the government reneged on its original intentions and allowed the primary iron and steel products to flood freely into the country. Defending this tariff lenience, the government took refuge in the argument that should the primary industry begin to emerge, adequate protection would be provided or, as finance Minister Tilley put it, "... there was a proposition to establish a steel manufactory in this country and it was left in that manner... as a declaration of the policy of the Government if the manufacture was undertaken in the meantime."²⁷

To combat the widening schism between the dormant primary industry and the awakening secondary sectors of the trade, the Macdonald government in 1883 devised a system of bounties on the production of iron and steel. Adopted only as a temporary expedient, a bounty of \$1.50 per ton of pig iron smelted from domestic ore was to be paid for three years. Extended for another three years in 1885, decreased to \$1 per ton in 1889 and subsequently increased in 1892 to \$2, the bounty shed its impermanent character and became a fixture in both Conservative and Liberal government policy until it was finally jettisoned in 1912. Bounties proved an excellent political expedient, for they extended a stimulus to primary producers while not placing an undue burden on secondary consumers of crude iron and steel. Introducing the measure,

Leonard Tilley spoke of the "richest quality of ore" available in Canada and said that he hoped the bounty would reduce the nation's dependence upon imported, foreign pig iron, amounting to 63,431 tons in 1882.²⁸ Although Edward Blake in his free trading zeal prophesied that no government or tariff could protect the unaccomplished entrepreneur from disaster, the bounty scheme was well received, especially by one ebullient government member who cockily predicted profitable iron mines within five miles of parliament.²⁹

Despite its enthusiastic promoters, the policy of tariff protection and bounties was by no means an unqualified success in stimulating the growth of a well-rounded primary iron and steel industry in Ontario. Ensured of a fairly solid shield of tariff protection, the Canadian rolling mill and finishing industry had begun to take root throughout the 1880's. Nail, screw and bar rolling mills were established with considerable success in urban areas of Ontario, Quebec, New Brunswick and Nova Scotia.³⁰ Exemplary of this trend, were the Montreal Rolling Mills and the Pillow-Hersey plant in Montreal, firms that had their beginnings before the National Policy but which quickly expanded and diversified under the protective tariff.³¹ Similar establishments sprung up in Ontario at Hamilton, Toronto and Belleville. The nascent iron and steel finishing industry remained for the most part reliant upon imported pig iron and scrap, only using domestically smelted pig iron where competitively available. Staunchest support for the status quo in the National Policy tariff structure thus came from this secondary sector of the iron and steel industry. When, in 1888, demands were made for greater protection for the primary industry, the representatives

of bar and plate rolling mills from Halifax to Hamilton informed Sir Charles Tupper of their belief that the tariff was "on the whole satisfactory." Since, the petition continued, "... the present capacity of those interested in developing the resources of the country in the making of Pig Iron, Puddle Bars etc., is yet limited ... you will see at once that the time has not yet come for making any advance in the rate of duty on wrought Iron Scrap or Steel Scrap."³²

The filial affection of secondary manufactures for the established iron and steel tariff was not shared by would-be primary producers. A.T. Paterson of the Londonderry Iron Works vented the frustrations of the primary producers when he wrote to Justice Minister J.S. Thompson in 1887:

... In fact, the tariff being framed to meet individual views, was a piece of patchwork inconsistent in itself, and therefore incapable of developing the Home Industry of Iron making from Canadian ore, although possibly well calculated to put money into the pockets of manufacturers who employ a small amount of Canadian labour in manipulating foreign Iron, partially manufactured, admitted at a low rate of duty, utterly disproportionate to the expenditure in labor required to produce it in this country.³³

Between 1879 and the early 1890's, the record of Canadian iron and steel producers was studded with many failures and few successes. Nova Scotia sustained the most successful activity on this front, due principally to its indigenous sources of ore and coal. A resurrected Londonderry Iron Company operated intermittently from 1887 to 1896, by which time it was "hopelessly embarrassed" financially and hampered by low grade ores.³⁴ The Nova Scotia Steel Company, founded in 1882, utilized an open hearth furnace, and, when amalgamated with the Nova

Scotia Forge Company of Trenton, became the first integrated steel works in Canada³⁵ capable of producing pig iron through to finished steel goods. In 1888, the New Glasgow Coal, Iron and Railway Company secured a sufficient supply of local hematite ore to operate a large capacity furnace totally reliant upon local ore.³⁶ With the opening of the rich Wabana ore bodies in Newfoundland and the more intensive exploitation of Cape Breton coal fields near Sydney, the Nova Scotian industry found itself on a firmer footing. Progress in the Maritime industry up to 1900 was characterized by vertical and horizontal integration capitalizing on the natural community of interest between primary iron and coal producers and the finishing stages of the industry, a movement best typified by the emergence of Nova Scotia Steel in 1895.³⁷

The progress of the Nova Scotia industry contrasted starkly with the faltering progress of iron smelting in Ontario. In the Canadian Magazine of May, 1893, W.H. Merritt, a prominent mining engineer and son of founder of the Welland Canal, reminded Ontarians of the "shame" that there was not a single blast furnace in their province. "I boldly make the assertion," Merritt persisted, "that Canada's greatest deficiency lies in not producing her own iron and steel."³⁸ The members of the 1890 Royal Commission on Natural Resources noted with regret that in their travels only the Wilbur iron mine, north of Kingston, was in operation while "the other deposits visited were either undeveloped or lying idle and full of water."³⁹ In the years since the closing of Van Norman's pioneer furnace in the 1850's, the challenge of smelting had not however gone untried in Ontario. Throughout the 1880's, numerous attempts had been made to establish furnaces in

Ontario towns such as London, Toronto and Kingston. All met quick and dismal ends. The 1890 Natural Resources Royal Commission attributed "this hapless record of failure" to the persistence of American tariffs which blocked export of Canadian ore to American furnaces, thereby denying the nascent Ontario industry sufficient demand to initiate production on a profitable scale. The exploration for ore that did take place was largely dependent upon initiative and expertise supplied by American capitalists eager to locate high grade ore which could be profitably shipped south despite the American tariffs on imported raw materials. Between 1886 and 1894, 150,800 tons of Canadian ore were in fact exported; primarily to the Pennsylvania heartland of the American steel industry.⁴⁰

Attempts to initiate smelting in the populated areas of southern and south-eastern Ontario foundered because they perpetuated the old pioneer reliance upon isolated pockets of bog or vein ore of varying quantity. Readily exhaustible, these reserves of ore provided a flimsy base for the primary industry. Exacerbating the situation was the ever quickening development of the American iron ore industry. As early as 1856, the first shipments of Marquette Range ore made their way by lake and rail to eastern furnaces. In the remaining decades of the century the iron frontier of Superior moved progressively westward into the Menominee, Gogebic, Mesabi and Vermillion Ranges, so that by 1895 the region had shipped 10.4 million tons of high grade ore to eastern consumers.⁴¹ It was a classic example of high grade ore coupled with low cost bulk transportation serving a relentless and expanding demand. The prosperity of iron ore mining on the

American shore of Superior did not however sponsor the growth of an integrated iron and steel industry in the same locale. Mindful of the lack of markets in the northwest, American steelmakers opted to bring the ore and flux to the coal in Pennsylvania thereby relegating the Superior area to the status of a resource hinterland.⁴² It was Ontario's inability to develop a comparable resource hinterland that stultified early efforts to foster a smelting industry in the province.

Writing in 1891, W.H. Merritt complained of the reluctance of Ontarians to scour the northern reaches of their province for iron ore. This reluctance, he suggested, was attributable to:

... the great bug-bear held before our prospectors or investors that there is no certainty as to the persistency of the magnetite deposits of north-eastern Ontario, as has been shown by many of them playing out in the small development which we have attempted in the past. There is no doubt that many small deposits may prove disappointing in the future, as they have done in the past, but when we fully realize that the continuation of the same series has yielded such results as I have above indicated in the United States, we may rest satisfied that under the stimulation of a permanent demand and a systematic mining development, there can be no question whatever, geologically speaking, about the ultimate permanent supply to be derived from the magnetite deposits of north-eastern Ontario.⁴³

Merritt's prophecy was for the time being an act of faith, for there was little point in engaging in costly explorative works in the wilds of northern Ontario while iron ore remained ensconced on the free list of the Canadian tariff schedule. Penetrated by only one railway and far distant from Ontario's infant industrial community in the south, the geologically unexploited reaches of the province's north-land were destined to remain untapped for some years to come. Dr.

A.R.C. Selwyn, of the Geological Survey of Canada brazenly declared at Onatrio's Natural Resources commission hearings in 1890 that "the typical Laurentians" were "very barren of economic minerals." "One of the best proofs of this," he elaborated, "is that in the great breadth crossed by the Canadian Pacific Railway on that formation there is almost an entire absence of mineral veins of any importance." Yet, Selwyn affirmed, Ontario still held great mineral potential. "Not one-tenth part of the country has been explored," he concluded.⁴⁴

The 1890 Royal Commission Report likewise complained that "... knowledge of the extent of our natural resources is necessarily imperfect" and that much of the mining industry's "slow progress" was due to the lack of systematic surveying. Too much reliance was placed upon "aimless" prospecting by surveyors who travelled "through the region at random, trusting to chance to make a discovery." While reiterating the belief that the mineral potential of the north was "simply incalculable," the commissioners lamented that so far there were only "indications" of this wealth and little specific knowledge.⁴⁵

Another major factor militating against smelting in Ontario was the province's total lack of coal. In both Ontario and Quebec the obsolescence of charcoal fired furnaces and the distance from American or Nova Scotian bituminous coal supplies placed severe constraints upon attempts made to utilize domestic ores.⁴⁶ Ontarians in the 1890's must have at times questioned God's beneficence in apparently bestowing such bounteous supplies of ore and coal upon their American neighbours while seemingly leaving them without coal or iron ore at the foot of the barren and inhospitable Canadian Shield. Surveying the period from

his vantage point in 1915, political economist W.J.A. Donald crystallised the Canadian dilemma. "In short," he said, "there was little hope for good returns on an investment in the Canadian pig iron business, and no matter what the ambitions of Canadian producers, Canada could not have got along well without importing some American or British pig iron."⁴⁷

When Merritt declared in the early 1890's that he could not "point out any great nation which does not manufacture its own iron and steel," he was underscoring the failure of the National Policy to stimulate the growth of an autonomous primary iron and steel industry in Canada.⁴⁸ Ontario in 1894 could boast of no blast furnaces and only paltry amounts of iron ore mined within its provincial boundaries. Quebec's few scattered furnaces persevered on ever-diminishing ore supplies while at the same time sharing with Ontario central Canada's acute lack of fossil fuel. Only in Nova Scotia had relatively abundant sources of fuel and ore combined to sustain a nascent primary industry. The Maritime sector of the industry thus constituted the productive backbone of Canadian steel. Between 1886 and 1894, of the 793,137 short tons of iron ore mined in Canada, 562,732 tons or 70.9% was mined in Nova Scotia. Ontario contributed 6.8% while Quebec's ore represented 17.5%. British Columbia's 4.7% contribution was mainly comprised of ore from Texada Island, a mine which closed in 1891. In terms of pig iron output, Nova Scotia enjoyed a substantial lead over Quebec, producing 82% of the country's 238,005 tons for the years 1886-1894.

Resource deprivation was not the only impediment to central

Canada's aspirations for a solid foundation at the primary level of the ferrous metals industry. Under constant pressure from the producers of secondary iron and steel goods not to allow any upward adjustment in existing tariff structures, the federal government maintained a tariff wall behind which potential primary producers could take only insubstantial refuge. Cowering in the face of insuperable British and American competition, the incipient Canadian steel industry had also to contend with several devastatingly debilitating gaps in the facade of the tariff wall, most notably exemptions of duty on such key items of Canadian growth as steel rails. During the 1881-87 period, years in which the Canadian Pacific was constructed, Canada imported \$5,397,204 worth of steel rails, 67% of which came from Great Britain and the rest from the United States. In the same span of time, Canada imported a total of \$95,255,585 of primary and secondary iron and steel goods, both dutiable and free under the tariff schedule. Further evidence of Canada's lack of self-sufficiency in primary iron and steel output was the \$12,615,483 of imported bar and ingot iron, equivalent to 13.2% of total iron and steel imports throughout 1881-87. Although Tupper proposed a duty of \$13 a ton on steel rails to Macdonald as early as 1889,⁴⁹ the Conservative government stood resolutely by its contention that protection would only be bestowed once the industry began to show signs of life, and that in the meantime the nation's appetite would be fed with foreign rails. Like secondary producers, the railways vigorously sought to preserve this generously lenient tariff structure. When, for instance, American promoter S.J. Ritchie applied to Ottawa in 1891 for a federal subsidy

to build a Central Ontario Railway with provision for an iron smelter along its route, the request was rejected after vehement protestation by Van Horne of the C.P.R.⁵⁰ With the fall of the Conservatives from power in 1896, the iron and steel tariff had already become a contentious political issue, a discomfort for whatever party found itself in office. Newly installed Trade and Commerce minister Cartwright was given little repose before being confronted by the pent-up frustrations of would-be primary producers.

... I say [one irate industrialist told him] the Government ought to recognize that fact and to give us a fair chance to establish this industry here.... It is an awful thing to think that all the rails used in our street railways as well as our steam railways are brought in from other countries. The⁵¹ money they cost has got to go out of this country.

While federal policies offered a convenient target for the barbs of aspiring but thwarted Ontario steelmakers, there was considerable wisdom in W.J.A. Donald's 1915 judgment that it was not only the protective policies of the federal government but, more importantly, "... other conditions, such as the high cost of production and sometimes the low price of iron..." that were the "real factors" checking the growth of the iron industry in Canada.⁵² It was these technological and economic forces, governed by continental and at times global conditions, coupled with the inadequacies of the protective policies of Ottawa, that stunted the growth of Ontario's primary iron and steel industry. This failure must be balanced against the imperatives of nation building. In the 1880's and 1890's the primal necessity of a nation drawn together by railways outweighed, in the mind of the Macdonald government, the necessity of autonomous production of iron and

steel. In later years the tension between the established and relatively prosperous secondary iron and steel industry and the precariously balanced existence of the primary industry would plague the tariff calculations of future politicians. Sympathizing with the plight of early primary producers in the 1890's, W.H. Merritt reiterated his concern that Canadians were "practically standing still, if not actually receding, in our manufacture of pig iron" whereas the Americans were "... advancing with marvellous strides." It was, Merritt concluded, a question of "immense, nay, of vital importance" for the citizens of Ontario to convert the annual volume of imported pig iron equivalent to the output of 27 or 28 blast furnaces into domestically mined and smelted pig iron.⁵³ By the mid-1890's the iron and steel industry found itself in the largely anomalous position, for the Canadian economy, of relying upon foreign staple exports to feed the demands of the indigenous secondary and tertiary levels of production. As the Ontario Bureau of Mines Annual Report gloomily reported in 1892.

... Iron ore has been discovered in numerous localities, east and west, but mostly in association with the Huronian rocks, and some of the deposits are known to be very large, and the quality of the ore is claimed to be very good. During recent years however there has been no inducement to explore the country for iron, and little progress has been made in our knowledge of its occurrence, saving in two or three localities beyond Lake Superior.⁵⁴

Notes

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²Albert Tessier, Les Forges Saint Maurice 1729-1883, Trois Rivières, 1952.

³T. Ritchie, "Joseph Van Norman, Ironmaster of Upper Canada," Canadian Geographical Journal, August, 1969, Vol. 77, No. 2, pp. 46-51; F.E. Leonard, "The Normandale Furnace, 1829," Papers and Records of the Ontario Historical Society, Vol. XX, 1923, pp. 92-3, Senator Alex McCall, "Normandale and the Van Normans," ibid., pp. 94-7, W.J. Patterson, "The Long Point Furnace," Papers and Records of the Ontario Historical Society, 1944, pp. 70-78, and A.H. Lang, "Discovery and Benefits of the Marmora Iron Deposit," Canadian Mining Journal, Aug. 1970.

⁴D.Eldon, "American Influence in the Canadian Iron and Steel Industry," Ph.D. thesis, Harvard University, 1952, p. 27.

⁵Gerald Tulchinsky, The River Barons: Montreal Businessmen and the Growth of Industry and Transport 1837-53, Toronto, 1977, pp. 20-26 and B.H. Scott, "The Story of Silver Islet," Ontario History, Vol. XLIX, No. 3, 1957.

⁶J.H. Bartlett, The Manufacture, Consumption and Production of Iron, Steel and Coal in the Dominion of Canada, Montreal, 1885, p. 27.

⁷David Landes, The Unbound Prometheus: Technological Change and Industrial Development in Western Europe from 1750 to the Present, London, 1970, pp. 249-50; J.C. Carr and W. Taplin, History of the British Steel Industry, Cambridge, Mass., 1962.

⁸The railways' role as steel consumer and as "leading sector" in industrial change has been vigorously debated. See, for instance, W.W. Rostow, The Stages of Economic Growth, London, 1960, chp. 4 and R.W. Fogel, Railroads and American Economic Growth: Essays in Economic History, Baltimore, 1964, chps. 5 and 6.

⁹W.T. Hogan, Economic History of the Iron and Steel Industry in the United States, Lexington, Mass., 1971, vol. 1, pp. 13, 40 and 117.

¹⁰O.J. McDiarmid, Commercial Policy in the Canadian Economy, Cambridge, Mass., 1946, p. 89.

¹¹W.J.A. Donald, The Canadian Iron and Steel Industry: A Study in the Economic History of a Protected Industry, Boston, 1915, p. 67.

¹² see, for instance, W.G. Phillips, The Agricultural Implement Industry in Canada: A Study in Competition, Toronto, 1956.

¹³ J.A. Bannister, "The Houghton Iron Works," Papers and Records of the Ontario Historical Society, 1944, pp. 79-82.

¹⁴ B.J. Harrington, Notes on the Iron Ores of Canada and their Development, Montreal, 1874, p. 57.

¹⁵ Eldon, op. cit., p. 40.

¹⁶ Bartlett, op. cit., p. 1-2.

¹⁷ H.A. Innis, introduction to E.S. Moore, American Influence in Canadian Mining, Toronto, 1941, p. ix, see also, H.A. Innis, "Iron and Steel, Wheat and Finance," in Problems of Staple Production in Canada, Toronto, 1933, pp. 17-23.

¹⁸ C.D.W. Goodwin, Canadian Economic Thought: The Political Economy of a Developing Nation 1814-1914, Durham, N.C., 1961, p. 70.

¹⁹ Isaac Buchanan, Relations of the Industry of Canada with the Mother Country and the United States, Montreal, 1864.

²⁰ McDiarmid, op. cit., chp. 7.

²¹ W.A. Mackintosh calculated a 58% drop in the price of iron and steel between 1872/4 and 1897/8, The Economic Background of Dominion-Provincial Relations, McClelland and Stewart edition, Toronto, 1964, p. 38.

²² Monetary Times Annual, 1916, pp. 230-43 and T. Naylor, The History of Canadian Business 1867-1914, Toronto, 1975, vol. 1, pp. 52-5.

²³ Harrington, op. cit., pp. 53-62; by titaniferous Harrington meant ore containing abnormal amounts of impurities such as phosphorous and silica.

²⁴ Donald, op. cit., p. 55, and McDiarmid, op. cit., chp. 7.

²⁵ Debates of the House of Commons, (hereafter DHC) 22 April, 1879, p. 1450.

²⁶ see "Report of A.H. Blackeby on the State of the Manufacturing Industries of Ontario and Quebec," Sessional Papers 1885, #37, No. 10. Blackeby reported that the National Policy had proved "decidedly beneficial to manufacturing industries" "in the period up to 1884. Describing sizeable increases in capital invested, labour used and value of production, Blackeby concluded that 1882 and 1883 were "probably the most successful periods ever experienced in the history of this country" for such industries as foundries and stove making.

²⁷DHC, 24 April, 1879, p. 1531.

²⁸DHC, 19 April, 1883, p. 710; domestic production of pig iron was about 20,000 tons in 1882.

²⁹DHC, ibid., p. 715-18.

³⁰Donald, op. cit., chp. 6, especially pp. 118-20.

³¹William Kilbourn, The Elements Combined: A History of the Steel Company of Canada, Toronto, 1961, pp. 14-18.

³²Joint petition to Sir Charles Tupper, 15 Feb., 1888, Macdonald Papers, #63277-80. The petition was signed by the Ontario Rolling Mills Co., Hamilton Iron Forgings Co., Pillow-Hersey Manufacturing Co., Montreal Rolling Mills, Nova Scotia Steel Co. and others.

³³ibid., 21 April, 1887, #62543-4.

³⁴Donald, op. cit., p. 108.

³⁵ibid., p. 111.

³⁶ibid., p. 112.

³⁷ibid., pp. 113-4; Monetary Times Annual 1916, pp. 230-43.

³⁸W.H. Merritt, "Let Us Smelt Our Own Steel," The Canadian Magazine, May, 1893, Vol. 1, No. 3, pp. 181-5. A graduate of the Royal School of Mines in England, Merritt at various times served as a lecturer at the Kingston School of Mining, a member of the 1890 Royal Commission on Mineral Resources and on the executive of the Ontario Mining Institute.

³⁹Report of the Ontario Royal Commission on Natural Resources, Toronto, 1890, p. 123. The commissioners toured mines in the Eastern Ontario, Sault Ste.-Marie-Killarney and Atikokan areas.

⁴⁰ibid., p. 827; statistics from the Advisory Board on Tariffs and Taxation, R.G. 36/11, vol. 5, file 2-29, tables supplied by minerals Division, Dept. of Mines, Ottawa, Jan. 1927.

⁴¹Iron ore's commercial attractiveness is governed, aside from transportational factors, by its iron content and the relative presence of various impurities such as silica, sulphur and phosphorus which dictate both the method of smelting and the quality of iron and steel subsequently produced. Generally, the ores best suited for iron and steel are hematite (Fe_2O_3) and magnetite (Fe_3O_4) with raw iron content usually between 55% and 60%, followed by siderite (FeCO_3) and pyrite (FeS_2) with iron contents in the 40% range or lower and containing higher proportions of impurities. Variations in these ore types are of course enormous. See Crowell and Murray Inc., The Iron Ores of Lake Superior, Cleveland, 1927, p. 11 and Lake Superior Iron Ores Association, Directory of Mine Operators and Statistical Data, Duluth, 1935, p. 26.

42 K. Warren, The American Steel Industry 1850-1970: A Geographical Interpretation, Oxford, 1973. Warren describes the "... intrinsic unsuitability of the upper lakes district" (p. 73) for integrated steel production, citing such "flash in the pan" projects for establishing mills on Superior shores as the 1903 scheme to build a mill at Sault Ste. Marie, Michigan (p. 75).

43 Merritt, "Notes on the Possibilities of Iron and Steel Production in Ontario," Transactions of the Canadian Institute, 1890-1, in pamphlet form, p. 3.

44 Report ..., op. cit., pp. 65-9.

45 ibid., p. xvii and pp. 464-7.

46 Donald, op. cit., pp. 121-2; George Mackenzie, "The Iron and Steel Industry of Ontario," Ontario Bureau of Mines, Annual Report, vol. 17, 1908, Mackenzie complained that lack of fossil fuels was "... our greatest drawback in Ontario ...", p. 199.

47 Donald, op. cit., p. 98.

48 Merritt, "Let us smelt ...", op. cit., p. 181.

49 C. Tupper to J.A. Macdonald, 11 Nov., 1889, Macdonald Papers, #17617-23.

50 ibid., #116460.

51 John Milne testimony before Tariff Commission, Toronto, 1 Dec. 1896, RG35/8, vol. 1.

52 Donald, op. cit., p. 68, see also E. Porritt, Sixty Years of Protection in Canada 1846-1907, London, 1908.

53 Merritt, "Notes on the ...", op. cit., p. 15.

54 Ontario Bureau of Mines, Annual Report, 1892, Vol. 2, p. 63.

CHAPTER TWO

The Birth of an Ontario Iron and Steel Industry: Iron and Steel in "New Ontario"

Up to the 1890's, the policies designed to incubate a Canadian iron and steel industry had fallen almost exclusively within the domain of the federal government. The distinctly lacklustre response of would-be industrialists to Ottawa's proddings soon however stimulated the provincial and municipal governments of Ontario into providing their own inducements. While federal policies were predicated upon Ottawa's constitutional hegemony over trade, commerce and certain aspects of industry, the provincial and municipal levels of Canadian federalism saw their opportunity in the active promotion of natural resource exploitation and remission of certain direct taxes. "Encouragement of the industry, not its discouragement, is the office and duty of governments," concluded the commissioners of the 1890 Ontario Royal Commission on Mineral Resources. "To instruct, to inform, to ascertain and publish facts, to lighten the industry, to enlighten the men employed in it and deal with them in a generous spirit," they insisted, "is the true national policy for governments to pursue in promoting the development of our mineral resources."¹ The councils of innumerable Ontario municipalities echoed these sentiments in near perfect harmony. The promotion of an iron and steel industry in Ontario from the 1890's was to be a pas de trois, with the three levels of government sometimes performing in unison and more often vying for the leading role.

Federal tariff and bounty policies dating from 1879 displayed a

remarkable durability, outliving their Tory creators after the election of 1896 and remaining more or less intact under the regime of the Laurier Liberals. Despite the incessant hammering administered by Grit critics to National Policy tariff policies and bounty largesse, the Liberals, once elected in 1896, reluctantly accepted the role of protector and rewarder of industry.² Scepticism about the efficacy of Tory protectionism did however persist in Liberal ranks. "But the fact remains," Sir Richard Cartwright told Toronto manufactures in late 1896 "that though an immense amount of duty has been levied and an immense sum paid in bonuses, the result, up to the present time, is nothing like what was promised."³ Citing the overwhelming competitive advantages of American iron smelters, an irate industrialist protested that "... the government ought to recognize that fact and to give us at least a fair chance to establish this industry here. We want at least five years without being interfered with at all."⁴ Caught on the horns of this dilemma, Finance Minister W.S. Fielding adroitly juggled the tariff and bounty clauses of his 1897 budget in order to appease free trade interests, a traditional bulwark of Grit support, and at the same time not alienate the masters of Canada's "infant industries." Sizeable cuts in duty were applied to imports of pig iron, scrap, and steel ingots and forms, while an extensive free list was preserved.⁵ The brunt of these reductions was borne by the primary level of the industry, while the secondary level of production, already firmly installed in the Canadian economy, was less affected. To offset the impact on primary producers, the bounty system was generously expanded. Pig iron smelted from domestic ore was now to

receive a \$3 per ton bounty and iron produced from imported ore, previously excluded from the schedule, qualified for a \$2 per ton bonus. Bounties on puddled bars, ingots and steel billets were hiked from \$2 to \$3 a ton. The effect of these changes was to heighten the incentive for the primary industry while lessening the stimulus for the extractive industry. By admitting imported ore to the bounty schedule, the federal government invited Canadian furnaces to import American Lake Superior ore, a duty free commodity, to be smelted in Canada where it qualified for a \$2 bounty, just a dollar less than the bounty on iron smelted from Canadian ore. A one dollar differential hardly made the ore from a virtually non-existent Ontario iron ore industry competitive with that of the booming American industry.

It was to promote the extractive industry that the Ontario government first adopted the role of sponsor of a provincial iron and steel industry. Responding to the awakening consciousness of the vast northern reaches of the province, the Liberal government of Oliver Mowat had in 1888 appointed a royal commission to investigate the mineral resources of the province. The commissioners, including eminent Canadian geologists W.H. Merritt and Robert Bell, vigorously advised the government of its obligations to mineral enterprise. "Explorers, prospectors and miners," they recommended, "deserve just consideration and liberal treatment. Mineral lands should be held for development, not for speculation."⁶ In the wake of these proposals Ontario initiated measures intended to lighten the burden on the prospector and mining entrepreneur. A Bureau of Mines was created in

1891, followed in 1893 by a provincially subsidized School of Mines in Kingston. A year later a Provincial Iron Mining Fund of \$125,000 was established to provide a \$1 bonus on each ton of domestic ore smelted in Ontario, although the impact of this measure was limited by an annual ceiling of \$25,000 imposed on payments. Queen's Park later supplemented its active encouragement of the iron industry with the less direct but equally important subsidization of the Temiskaming and Northern Ontario Railway, designed in the early years of the new century to link the resource-rich wilds of "New Ontario" with the capital-rich commercial and manufacturing centres of southern Ontario. The provincial government had thus created for itself an active role as the inducer of an environment most conducive to the exploration and exploitation of the Ontario northland, acting, as H.V. Nelles has perceptively put it, "... as intellectual entrepreneurs, carrying information, ideas and opportunities to labour and capital."⁷

If Queen's Park was chiefly responsible for fostering a salubrious climate in which the primary iron and steel industry might germinate, it was municipal governments that provided the specific conditions in which the industry actually took root. With the coming of the railway and industrial age in the mid-century, many Ontario towns had first indulged in an almost fanatical bout of "boosterism" in hopes of breathing economic life into their slumbering environs. Civic inducements in the form of tax exemptions, free land, guaranteed capitalizations and straight cash bonuses had done much to dictate the locational pattern of Ontario industry and to introduce foreign capital to Canadian industrial opportunities.⁸ It was this localized drive for

industrialization that reintroduced the primary smelting of iron and steel to Ontario in the 1890's. In 1893, Hamilton City Council dangled tax exemptions, free land and a cash bonus before would-be industrialists who were invited to erect a blast furnace and open hearth steel plant. Once the offer had been snapped up by a New York syndicate, Hamilton extended inducements to manufacturers, notably Westinghouse Electric, in a bid to create secondary production dependent upon the output of the Hamilton Blast Furnace Company.⁹ On the shores of Georgian Bay, the civic fathers of Midland pledged themselves to the support of the Midland Iron Company to the extent of a \$50,000 cash bonus and a ten year exemption from taxes, except on a nominal \$25,000.¹⁰ It was this municipal munificence towards aspiring industrialists that first brought the hum of industry to Sault Ste. Marie in the Algoma district.

From the earliest days of the European penetration of the Canadian interior, the rapids between Lakes Superior and Huron had made an indelible impression upon the mind of the explorer. The St. Mary's River falls between 21 and 23 feet, depending upon year and season, along its 64 mile length. At the Sault rapids, the river tumbles twenty feet and, when measured in 1890 by a young Canadian engineer, Alan Sullivan, was found to disgorge 125,000 cubic feet of water per second into Lake Huron.¹¹ Cradled in a trough cut into the Laurentian Shield, the rugged and spectacular physical features surrounding the St. Mary's figured prominently in the accounts of the early Jesuit missionaries, not because of their geophysical potential, but because they acted as an impediment to navigation and therefore

served as a natural gathering place for the unconverted native peoples.¹² Although the fur trade soon supplanted the Bible, the Sault rapids remained an integral part of the voyage to the interior. An awkward but not insurmountable obstacle to the missionary or the canot du maitre, the St. Mary's rapids proved a more formidable obstacle to the larger vessels so necessary for opening up the commercial possibilities of the western interior. In 1798, the Northwest Company constructed a crude canal and lock system to circumvent the swirling waters, but it was not until 1855 that the first large lock and canal was opened on the American side. The American lock, enlarged to a commodious 515 feet in 1870, was a technological response to the demand for cheap bulk transport of iron ore from the pitheads of the Superior ranges to the Lake Erie railheads and on to eastern smelters. By 1872, over 1,000,000 tons of ore annually moved through the canal.¹³ Americans were quick to exploit other aspects of the rapids' potential. In the early 1880's American entrepreneurs sought to harness the St. Mary's for hydro power generation, so that by 1890 the Edison Sault Light and Power Company was feeding the Michigan Sault's appetite for "white coal" as well as supplying the power needs of a giant Union Carbide plant producing calcium carbide. American progress in converting the rapids from obstacle to industrial base produced a state of mind in which "... a combined Chicago and New York was believed by every citizen to be the immediate future of the two Soos."¹⁴

Progress on the Canadian side of the rapids since the mid-nineteenth century had however proceeded at a drowsy pace. With the fur trade in eclipse and the absence of any intensive pressure to open

up arterial routes to the west, Sault Ste Marie slumbered in the shadow of its American neighbour. As the administrative centre of the Algoma district, the Sault benefitted from being made the district judicial seat in 1866, but there was little else to enliven the local economy.¹⁵ An attempt was made in the 1870's to open the Canadian side of the rapids by canalization but with the arrival of the Canadian Pacific at the Sault in 1887 the rapids ceased to be a practical impediment to westward expansion. The coming of the railway at least served to arrest the gradual decline in the Sault's population, which had shrunk from 879 in 1871 to 780 in 1881.¹⁶ Under the stimulus of the railway the Sault was incorporated as a town in 1887 and grew to 2414 by 1891, but at this level the town seemed to have reached its limits to growth. If the town was unable to seize economic advantages from canals or railway, the barren, uninviting Algoma hinterland dissuaded all but the hardiest settlers from leaving the train at the Sault. While the settlement literature of the Department of Crown Lands advertised "lands for thousands of settlers," the pamphlets could not avoid mentioning that the "only serious drawback" of the area was the "broken character" of the land.¹⁷ Such euphemistic descriptions of the Canadian Shield deluded few, with the result that by 1891 there were only 41,856 people spread over the 143,517 square miles of the largest district in the province.¹⁸

Inhospitable to the farmer, the Algoma District was more attractive to prospectors and miners. Scattered reports of the presence of precious minerals had lured occasional prospectors to the area throughout the 1870's. In 1880, for instance, the English-financed Michipicoten

Native Copper Company began operations, only to stumble into liquidation by 1887.¹⁹ In evidence given before the 1890 Ontario Royal Commission on Mineral Resources, numerous prospectors and mining engineers, inspired by the Silver Islet bonanza, spoke optimistically of a treasure house of valuable minerals within easy distance of the Sault. T.A. Keefer described the richness of gold, zinc, galena and copper ores in the Huronian rock of the north Superior shore.²⁰ Although one prospector decried the "general apathy" displayed towards the resources of the area, he prophesied that "... as soon as capitalists fully realize the mineral wealth of the Algoma and Nipissing districts there will be a great improvement."²¹ W.H. Plummer, a prominent Sault businessman and booster, protested that, although several American and English mining firms had come to the Sault area, he did not "... think that so far any company has given the district a fair trial," and that the companies had failed because of "their injudicious expenditure" and lack of "proper men."²² In 1897 the Bureau of Mines Report stated that although there were ample indications of valuable ore in the Sault area, "... almost nothing is yet known definitely as to the occurrence of any of these."²³

It was amid these somnolent circumstances that the civic leaders of the Sault adventurously, if not somewhat desperately, took the initiative into their own hands. In 1888, a group of local promoters, spearheaded by W.H. Plummer and the extraordinary politician-cum-promoter, James Conmee, purchased a rudimentary power plant, erected on the river by an unsuccessful American syndicate, and secured a provincial charter for the Sault Ste. Marie Water, Gas and Light

Company with the idea of harnessing the rapids and using the resultant power to attract industry to their still-born city.²⁴ Renamed the Ontario Water, Light and Power Company in 1889, the company initiated construction of a power canal and power house. With the cave-in of the head race channel, the company collapsed, saddling the municipality with an unfinished power plant and a debt of \$263,000.²⁵ Lacking capital and expertise, the Sault's dream of entering the age of electricity flickered out.

The "experience, money and imagination"²⁶ necessary for sustained industrial growth, civic attributes that the Sault seemed unable to muster by itself, soon forcibly presented themselves to the local citizenry in the form of an ebullient, hard-selling American entrepreneur, Francis Hector Clergue. While details of Clergue's mercurial career with its strange blending of glory and ignominy have been related elsewhere,²⁷ elements of Clergue's involvement in the early years of the Sault industries cast a special light on the formative stages of Ontario's iron and steel industry. Born in Brewer, Maine in 1856, Clergue was a lawyer by training but, although his legal expertise complemented his business acumen, his energies were soon directed towards engineering and promotional activities. By the time he presented himself to Sault citizens in the 1890's, Clergue could boast of ample "experience" in promoting public utilities, hotels, shipbuilding, railways and mining. His peripatetic business career included endeavours throughout the United States and as far afield as Persia and Russia. Without exception, Clergue's ventures were typified by "imagination" in abundance. In most cases he strove

to combine several industries into an integrated whole, such as the water works, pulp and paper, hydro power and street railway project he concocted for his hometown in Maine or the shipbuilding/industrial complex he proposed for Mobile, Alabama. Clergue proved himself an adept marshaller of capital, joining the financial interests of Boston, Philadelphia and London with the various industrial opportunities he so assiduously promoted.

Clergue's most compelling promotional weapon was the overpowering salesmanship with which he disarmed potential investors of their doubts and instilled in them the profoundest confidence in both his own abilities and the merits of his schemes. To one contemporary, he was one of the "greatest word painters in the line of modern promoters."²⁸ "His well-disciplined mind, scientific knowledge, calm, tireless enthusiasm," commented G.M. Grant of Queen's University, "along with remarkable powers of exposition, made me say 'There is no such word as impossible in the dictionary of that man'."²⁹ Clergue was thus the archetypal "captain of industry" of the Veblen mould, "a man of workmanlike force and creative insight into the community's needs, who stood out on a footing of self-help, took large chances for large ideals..."³⁰ F.H. Clergue would undoubtedly have won lasting repute as a capitalist of the classic American variety, bringing capital and opportunity together for profit, if it had not been for the tendency of his ventures to fail with "such monstrous regularity."³¹ Caught in the spell of his own visions, Clergue seldom measured up to the practical challenge of his bold plans and all too often embroiled his backers in reckless overexpenditure on grandly conceived but poorly implemented

projects. As his meteoric career subsequently revealed," Ontario Deputy-Minister of Mines, T.W. Gibson, later noted, "Clergue's vision occasionally outran his judgment, and at times he took things for granted which had not been proven."³² "Mr. Clergue just willed that a wilderness should become an industrial community," Sir James Dunn somewhat more kindly noted years later, "and laid it out on a broad and generous scale and the chinks are gradually being filled in."³³

Clergue's initial attraction to the Sault was not for its potential as a base for iron and steel production but as a source of plentiful and cheap hydro-electric power. Touring central Canada at the behest of American capitalists in search of investment opportunities, Clergue was invited to assess the incomplete Sault power project. Loosing his eloquent and persuasive selling talents, he sought the backing of the Sault civic fathers and Philadelphia capital to harness the unused energy of the rapids, which to this time had remained little more than "a health resort for the whitefish," as he picturesquely described them.³⁴ Buying out the town's stake in the defunct power company in late 1894, Clergue promised to pump \$200,000 into the local economy within a year, in return for which the City Council extended a 20 year exclusive franchise for its water and electricity supply and a 10 year tax exemption on Clergue's endeavours.³⁵ Returning to the United States, Clergue secured the financial backing of eastern coal and railroad capitalists, E.V. Douglas, E.J. Berwin and John Terry, using their capital to incorporate the Lake Superior Power Company under Ontario charter with a capitalization of \$2,000,000.³⁶ It was from this kernel that Clergue built his sprawling network of

Sault industries, all dependent upon and integrated by the power generated by the rapids and the capital generated by Philadelphia, "that enlightened community," as Clergue put it, which was "really responsible for the present happy auguries of Sault Ste Marie."³⁷ After the power company was supplemented by the Tagona Water and Light Company and the Sault Ste Marie Pulp and Paper Company, the Consolidated Lake Superior Company (C.L.S.) was incorporated under Connecticut law to act as an umbrella or parent company for future additions at the Sault. With a bloated capitalization of \$117,000,000, the C.L.S. was already displaying signs of Clergue's recklessness and venality. In the years up to 1902, Clergue used the C.L.S. as a corporate broodhen to hatch a wide range of subsidiaries including pulp and paper, transit, railway and, most significantly, steel concerns.³⁸

Clergue's interest in exploiting the iron ore potential of the Algoma district was first aroused in the late 1890's at a time when many of the governmental stimuli designed to foster a Canadian iron industry had begun to show signs of fruition in Ontario. With the incentive of both federal and provincial bounties and the municipal sponsoring of blast furnace companies, the search for iron ore in Northern Ontario had intensified.³⁹ Canadian prospectors were joined in their search by Americans eager to locate exploitable sources of ore to supplement or competitively undercut Superior ores. By 1894, a Cleveland Rolling Mill was backing exploration at the Stobie mine east of the Sault while the Belmont iron mine near Cobourg had been leased to American interests.⁴⁰ Canadian exploitation of iron ore also accelerated in the late 1890's with mining at scattered south-

eastern mines, such as Calobogie and Madoc, and in isolated northern locations near the Seine River, Michipicoten and the Mattawin River.⁴¹ In 1896, for instance, iron ore of 47.26% purity was reported in the basin of the Montreal River, north of the Sault.⁴² While overshadowed by more valuable nickel and silver discoveries, iron was in its small way contributing to the unfolding of "New Ontario".

The growth of Ontario iron mining was paralleled and prodded by the progress of the primary smelting industry. In December, 1895, the Hamilton blast furnace was "blown in" and in the next three years produced 165,653 tons of pig iron.⁴³ Although the Bureau of Mines Annual Report proudly noted that the technical advisor at the Hamilton Furnace was trained at the Kingston School of Mines, the fledgling operation was heavily reliant upon Mesabi ore, Pennsylvannian coal and American technical expertise.⁴⁴ Ontario's other two blast furnaces, at Deseronto and Midland, also imported large quantities of Michigan ore, only "experimenting" with native ores.⁴⁵ While dependence upon foreign ore and coal remained high, the Ontario iron and steel industry had developed a primary capacity for smelting pig iron with the result that between 1896 and 1902, provincial furnaces produced a total of 543,762 tons of pig iron and, in the three years after steel production began in 1900, 86,092 tons of steel.⁴⁶ 288,381 tons of native Ontario ore were fed into provincial furnaces in these years, as compared with 469,472 tons of imported ore. Such progress aroused eager hopes for national self-sufficiency in this vital industry. "It may be hoped....," stated the Bureau of Mines Report in 1903, "that when the time comes for mining iron ore on a large scale in

Ontario, the demand for pig iron and steel for use in our own Province and country will have correspondingly increased, and that we may see the ore smelted into pig, the pig converted into steel, and the steel worked up into manufactured articles--all within the bounds of Ontario or at any rate of the Dominion of Canada."⁴⁷ A tremendous stride in this direction was made by Clergue's development of the Helen mine in the Michipicoten area, north of the Sault. For the next six decades the fluctuating fortunes of the Helen were to serve as a barometer of the whole Ontario iron ore industry, a history of long stints of drought and brief periods of frantic activity.

In the summer of 1897 two itinerant prospectors had stumbled upon a vein of hematite ore beside a lake several miles inland from Michipicoten Harbour.⁴⁸ Reported to be 58.7% pure, the ore was an immediately attractive commercial proposition. "In general", the Bureau of Mines Report boasted, "one may say that the Michipicoten iron bearing rocks resemble, often quite closely, those of the famous iron ranges of Minnesota and Michigan, the greatest producers of high grade iron ore in the world."⁴⁹ Aroused by the prospect of an exploitable body of rich, brown hematite, Clergue purchased the Boyer Lake claim, dubbed it the Helen mine and proceeded with his usual bravado and confidence:

... Scientists [he told the Toronto Board of Trade] have said that there was no real hematite on the Canadian side of Lake Superior; that God had put it all on the American side of Lake Superior. I always thought that a mistake and now I am ready to prove it. We will show you an iron mine up there equal to anything on the other side.⁵⁰

To tap the Helen's wealth, Clergue reasoned, a railway was

absolutely necessary and once again the dominion and provincial governments proved eager and generous benefactors of private enterprise. In 1899, a federal charter was obtained for the Algoma Central Railway and surveys were hastily initiated. Renamed the Algoma Central and Hudson Bay Railway in 1901, the line was endowed with a \$6,400 per mile federal subsidy and a provincial land grant of 2,000,000 acres.⁵¹ Clergue reciprocated the government's largesse with an extravagant promise to implant 10,000 settlers in "New Ontario", as well as exploiting the Helen's potential. By 1903, 56 miles of tortuously twisted and steeply climbing track had been laid north from the Sault, including a 15 mile spur line from Magpie Junction past the mine to Michipicoten harbour. With the start of mining operations at the Helen in 1900 there was a dramatic increase in the amount of iron ore raised in the province. A meagre 16,911 tons of native ore mined in 1899 grew steadily through the early years of the new century to 357,288 tons in 1902, of which the Helen provided 334,231 tons whereas the four mines in eastern Ontario contributed a paltry 23,057 tons.⁵³ An exploration department of the corporation, established by Clergue to ferret out additional sources of iron ore, spent over \$100,000 in 1901, "... an amount," the Bureau of Mines reproachfully pointed out, "quite in excess of that which the Government devotes yearly to similar surveys for the whole province."⁵³

To complement the Helen as the next link in the iron and steel production chain, Clergue chartered the Algoma Steel Company in April, 1901 and began erection of American-made Bessemer steel converters and blast furnaces.⁵⁴ Significantly, Clergue opted to construct the steel

furnaces before the iron smelters, thus forcing the infant plant to rely upon costly pig iron purchased from other primary producers, notably the Canada Iron Furnace Company in Midland.⁵⁵ Clergue's vision of steel making at the Sault defied the traditional wisdom that the ore, the relatively least weighty ingredient in the process, be brought to the fuel supply and ensured the greatest proximity to market. It was this economic dictum that lay at the root of the success of the Pennsylvannian steel industry. The production of steel at the Sault, Clergue reasoned, could be profitably undertaken because of the abundance of hydro power and ore, coupled to the ease and cheapness of water transportation. He also, rather naively, planned to minimize the Sault's coal requirements by operating his blast furnaces on large quantities of local charcoal. Besides having Lake Superior as its "mill pond",⁵⁶ one informed observer of the Sault steel plant sagaciously commented that:

... The process of making iron and steel now under scientific control and the price of labor having become more uniform, largely owing to the influence of labour-saving machinery, the suitability of any given place for producing pig iron or steel resolves itself into a question of proximity to raw material and to the market for the finished product or briefly stated it becomes a question of cost of haulage.⁵⁷

Clergue needed fewer words to convey the same message. "From the days of the first baboon," he picturesquely emphasized, "there has never been an industrial failure where the raw material existed to the best advantage, combined with the force necessary for its transformation into practical use."⁵⁸

On 18 February, 1902, Algoma's bessemer converter was "blown-in"

and fed with Midland pig iron made from Helen ore. With the rolling of the first steel rails in Ontario in May, 1902, Clergue's vision of an integrated steelworks at the Sault was seemingly complete, although the blast furnaces were still under construction. When Premier Ross visited the Sault in April, 1902, Clergue boasted that 7,000 people were engaged in the operations of his industries and that a monthly payroll of \$170,000 was pumped directly into the community.⁵⁹ At the same time he confidently assured the Sault citizenry that there was "... no industrial undertaking on the globe where there is a more complete absence of recklessness, and a more complete presence of the soundest and most conservative and logical business reasoning."⁶⁰

The subsequent history of Algoma Steel and the Ontario primary iron and steel industry were to belie the rosy predictions of Francis H. Clergue.

Algoma had found its origins in the inducements of the Sault municipality, but it was in the largesse of the federal and provincial governments that it found its means of survival. Once in production, Algoma became eligible for federal and provincial bounty payments on both its pig iron and steel output. Through the period of July, 1902 to June, 1906, Algoma collected \$988,433 in federal payments.⁶¹ The bounty was seen as the birthright of the "infant" iron and steel industry, one which had grown increasingly more permanent as Liberal Finance Minister Fielding became more reluctant to remove the industry from the crib of government assistance.⁶² While Clergue could be sure of the cooperation of the other Canadian primary producers, especially the Hamilton Blast furnace and Nova Steel and Coal companies

in pleading with Ottawa for continued bounties, there was less unanimity on the question of increased tariff protection for the nascent industry. Clergue perceptively argued that Algoma Steel could best carve out a prosperous industrial future for itself by capitalizing upon the enormous Canadian demand for steel rails, a demand previously conceded to foreign producers.⁶³ With plans afoot for two new transcontinentals and a steady demand for track renewal and branch lines, a vast potential existed for the Canadian production of rails, provided adequate tariff protection could be secured. It was the quest for federal tariff and subsidy assistance for steel rail manufacture that first brought Algoma Steel to the corridors of power in Ottawa.

Ministers of Finance in the National Policy era had habitually taken refuge, whenever pressured for a tariff on steel rails, in the proposition that tariffs would be applied whenever the rail industry displayed signs of life. Pointing to the Consolidated Lake Superior Corporation's large investment in the Sault works by 1901, Clergue persistently reminded Prime Minister Laurier that the time had come for the government to honour its promise.

We are just starting in operation on a steel rail mill, costing with its blast furnace and other accompanying plants over five million dollars. We have solicited business of all the railroads in Canada, but are confronted with the statement that American manufacturers do not propose to allow us to take any orders, but that they will keep our works shut down, even if they be obliged to give away rails to Canadian railroads.... There being no duty on rails into Canada what is the prospect of successful operations of our plant under such conditions.⁶⁴

Alleging that American producers were "dumping" rails at \$25 a ton,

three dollars below the prevailing price, Clergue introduced a theme that would long typify debates between Canadian steel producers and legislators, that of the American steel industry as predator, ever circling and ever ready to devour the struggling Canadian industry. Domestic producers, Clergue insisted, could not hope to compete with the emerging giants of the United States industry, primarily because the Canadian firms would "... get to the end of our purse long before the American rail makers will."⁶⁵ Clergue's argument had an ironic double twist, for while it held out the gloomy prospect of the abrupt extinction of the Canadian industry, it also implicitly reminded Laurier that extensive American investments in Canada could not be left unguarded. "I am satisfied that if disaster should overtake this company," A.E. Dymont, Algoma East Liberal M.P. and Soo booster, told his federal leader, "it would be impossible to secure any further capital for the development of what is known as 'New Ontario' for many years to come."⁶⁶ To impress these propositions upon the federal government, Clergue lavishly entertained Laurier and various other Canadian political luminaries at the Sault, where the Algoma works were displayed as living proof of the wisdom of the National Policy and where the politicians could be introduced to Philadelphian financiers, each to form confidence-inspiring impressions of the others' integrity and ability.⁶⁷ Especially close to Clergue in federal Liberal ranks were J. Isreal Tarte, J.K. Kerr and Raoul Dandurand, all of whom accompanied the industrial captain to public functions and made representations for him abroad.⁶⁸ Kerr and Dandurand, in particular, proved tireless stalwarts for the Sault industries,

incessantly pressuring Laurier to nurture Clergue's steelworks with sturdy tariffs. "C'est un question de vie ou de mort pour sa compagnie," Dandurand bluntly told Laurier in early 1903.⁶⁹

Clergue's persistent lobbying in Ottawa won him two early concessions from the Laurier government. In late 1901 the government amended the Railway Act to stipulate that all federally subsidized railways be required to use Canadian-made steel rails, when competitively available. This rather "lenient regulation" was followed up by the more substantial piece of government assistance in the form of a federally sponsored rail contract for the Intercolonial Railway.⁷⁰ Under P.C. 2303 of 9 October, 1900, the Lake Superior Power Company was to supply 150,000 tons of rails over five years at a guaranteed price of \$32.50 a ton. The contract was remarkable in several respects. Unlike earlier federal measures to foster the industry, the contract applied not to the industry as a whole but to one specific company. Furthermore the contract was granted to a company that had yet to roll a single rail, although Clergue promised full production by 1902. Finally, the contract was let without tender or parliamentary debate just a month before the federal election of November, 1900. Like the bounty system, the rail contract was an adroit attempt to pacify the demands of primary steel consumers with those of primary steel producers intent on a larger share of the home market. As a compromise, it proved a dismal failure.

In the session of 1901, Laurier and his Minister of Railways, A.G. Blair, were exposed to withering criticism from the Tory benches. Led by their new leader R.L. Borden, the Conservatives castigated the

"secret" rail pact as a piece of pre-election chicanery. Borden pointed out that since the contract had been made the price of rails had dropped and the government was now obliged to pay Algoma as much as \$7 a ton above the current American price for rails.⁷¹ Discomfited by the attacks, Laurier spoke of the "misfortune" of Canada's reliance upon foreign railmakers, while obliquely admitting that Blair had erred in letting the contract in so surreptitious a fashion. For his part, Blair defended the contract because it would serve to establish a "permanent" rail industry in Canada and to generate employment, goals he felt "would appeal very strongly to the sympathetic consideration of the Canadian people."⁷²

By the early years of the new century, Laurier had little option but to support Clergue's ventures. Fearful that failure at the Sault would scuttle an important new national industry and deeply tarnish Canada's attractiveness to American investors, Laurier reluctantly gave in to the implications of the situation which Clergue had placed before him. Hounded by the Kerr-Dandurand lobby and advised by Premier Ross in Toronto of the "great benefit to the Province and to the Dominion" of the enterprise, the federal leader accommodated Clergue's fait accompli, although not without serious misgivings about the Soo King's integrity. "J'ai dit dix fois à Clergue," he grumbled in early 1903, "que j'étais prêt, pour ma part, à imposer des droits sur les rails d'acier du moment que nous pourrions en fabriquer au Canada, et Clergue n'est pas encore en état de le faire."⁷³

Laurier's inescapable obligation to succour the vision of F.H. Clergue was further attested in October, 1903 when legislation was

passed to allow Ottawa to impose by order-in-council a \$7 a ton duty on imported rails.⁷⁴ In August, 1904, with rail mills at the Sault and Sydney finally in operation, the \$7 a ton duty was enacted.⁷⁵ A major concession to Clergue and the Sault industries, the tariff instantly raised the hackles of many Canadian steel consumers. Even before the official announcement, railway interests rallied in defence of their long-standing right to low duty steel imports. An irate Sir Thomas Shaughnessy of the C.P.R. cabled Fielding in April, 1903 that Clergue

... cannot make rails to meet the requirements of ourselves nor could anybody else in Canada. Time enough to talk of duty when efficient rail mill established ... Mr. Clergue has been unable to turn out rails that we could use although given an opportunity of doing so.⁷⁶

C.M. Hays of the Grand Trunk sternly warned Fielding that a \$7 a ton duty would "... add to the burden the railway companies already are carrying."⁷⁷ Retaliating for such allegations, Clergue had assured Ottawa that the capacity of his Algoma works "... exceeds all the requirements of street and steam railway uses in Canada last year..." and that an upward tariff hike was imperative "... to prevent the United States Steel Trust from destroying the usefulness of the industry so established."⁷⁸ Most compelling in Clergue's arsenal of arguments was the calculation that while the Algoma works would annually generate \$2.5 million for the Canadian economy, this could only be achieved behind a tariff wall. "Steel plants must operate at full capacity," he lectured the Prime Minister.⁷⁹ Laurier proved a dutiful student and with the imposition of the \$7 duty on heavy rails, Clergue

had scored a major victory for Algoma and the Canadian steel industry.

The first rails rolled at the Sault were as much the product of the policies of sympathetic Liberal governments in Ottawa and Toronto as they were the fruit of F.H. Clergue and Philadelphia capital.

Clergue's plans for a rail mill had flattered the hopes of federal politicians for an autonomous Canadian primary steel industry, and at the same time appealed to provincial aspirations for the well-rounded economic development of "New Ontario". The Sault industries were soon befriended by the Liberal government of George Ross who saw in the Sault endeavour a potential industrial base for Northern Ontario, a coordinating centre in the bid to colonize the reported agricultural richness of the "Clay Belt" and a beachhead for the assault on the mineral wealth of the northern hinterland.⁸⁰ Appreciative of the sup-

port of the provincial Liberals, the Lake Superior Corporation had actively backed the Grit candidate, C.N. Smith of the Sault Express, in the 1902 provincial election. Unable to unseat the Tory incumbent in 1902, the corporation again promoted the candidacy of Smith in a "more flagrant manner" during a 1903 Algoma East by-election.⁸¹ Smith took the seat, but only after the Minnie M, a small steamer owned by the corporation, was employed to ferry Americans to the Helen polling station to cast fraudulent ballots. Losing the seat in an election trial and being exposed to considerable political embarrassment over the questionable navigations of the Minnie M, the Liberals amazingly regained the riding in the 1905 provincial election. Despite a seismic shift in provincial loyalty from the Ross Liberals to the Whitney Tories, Sault voters backed the party that had given their town

industrial life.

For an infant industry upon which federal and provincial Liberal politicians had staked so much, Algoma Steel had a disappointing childhood. Despite Clergue's profuse assurances that Algoma would fulfill all the rail requirements of Canada's railways, the company failed to achieve full operational capability until June, 1904. By that time it had failed to meet its contract obligations to the Inter-colonial and when an early batch of Algoma rails was found to be of deficient quality, Mackenzie and Mann reneged on their Algoma contracts and turned to German suppliers.⁸² In the wake of this cancellation Clergue was forced to shut down the steelplant in December, 1902, after only 33,950 tons of rails had been rolled. Chastened in his zeal for Clergue's rosy promises, Laurier wrote to the Algoma president in April, 1903:

I beg to call your attention to the fact that similar statements were presented to us last year, and even the year before, which proved to be over-sanguine, I do not say this merely for fault finding, but simply to remind you that circumstances can arise ... to put back these circumstances.⁸³

Unfortunately for Clergue, such unforeseen circumstances continued to arise with such devastating frequency that on 18 September, 1903 the entire Sault complex closed down when company coffers could not cover payroll needs. Up to that date in 1903, only 1,243 tons of rails had been rolled. At the root of Clergue's problems lay two basic flaws in the conception and implementation of his enterprise. In the first place, Algoma was not a balanced industrial operation. Still heavily reliant upon imported, Bessemer grade iron ore and coal, the

company's bessemer converters depended upon costly pig iron smelted at Midland and elsewhere because its own blast furnaces were as yet incomplete.⁸⁴ There was no smooth, cost efficient flow of iron from pithead to finishing mill at the Sault and it was not until 1905-06 that Algoma completed its own blast furnaces. While the absence of furnaces was overcome in relatively short order, the second flaw in Clergue's imposing industrial edifice was to have a more permanently debilitating effect upon corporate fortunes. From the smelting of the first steel at the Sault, Clergue had conceived of Algoma as a rail producer and it was this reliance upon the needs of the national railways that was to prove to be both its greatest weakness and its greatest strength. Bound to rail manufacture by a relatively inflexible and heavy capital outlay, Algoma was destined to live a precarious boom or bust existence, ever reliant upon the fluctuating demand of the railways. A wise business strategy in the heady years of railway expansion at the turn of the century, Clergue's commitment to rolling rails shackled Algoma to an industrial orientation unsuited to the steel demands of future periods of national growth.

Algoma's dependence upon rail production was given added rigidity by the Liberal tariff revisions of 1906/7 which enshrined the \$7 duty on heavy rails as the protected mainstay of the primary steel industry in Canada. Faced with the increasingly vocal demands of the agrarian and secondary manufacturing lobbies for low duty imports of raw steel, the Laurier government struggled for a compromise between the divergent interests of primary producers and secondary consumers. Clergue, joined by Henry M. Whitney, the American promoter of Cape Breton steel,

persisted in his demands for continued tariff and bounty assistance on rails while holding out the promise that "... a year or two should see this industry permanently and successfully established, when it may be assumed that this bounty will be discontinued."⁸⁵ Acutely aware of the dangers of overreliance upon a protected rail market, Clergue launched a campaign for a more extensive panoply of protection. Carrying his case to the Fielding tariff inquiry in 1905, Clergue assailed the low tariff demands of western farmers, whose fields "... require but a little tickling of the plow to yield almost a fortune in a single season." After sketching the rigorous life of industry on the Shield, where nothing could survive "except the Indian," Clergue was forthright in declaring that "... our industries require special action by the Government."⁸⁶

Clergue's request for "special action" to allow Algoma profitable manufacture of structural steel for bridges and rail cars⁸⁷ elicited a visceral reaction from steel consumers. As early as 1902, the president of Canadian Bridge had flatly declared:

... it is perfectly safe to say that no steel producing company in Canada will be able to cut any important figure in furnishing our raw materials for many years to come ... Mr. Clergue will not be able to supply any portion of our wants until he has installed open hearth furnaces...⁸⁸

Further opposition to Clergue's demands came from the president of Massey-Harris, who concluded that "time" and "experience" were necessary to produce "reliable output" in a steel industry in which "... too much capital had been hurriedly expended."⁸⁹ Faced with Clergue's

already fractured credibility, Fielding sided with the secondary manufacturers. "There is", he told Clergue in 1905

an important difference between what you propose and the condition that existed in reference to the duty on rails. In the case of steel rails you were asking for a duty for a particular article which was your finished product. No other manufacturer was standing at the door with a club to object but if you propose to affect the price of what would be the material of some other manufacturer he will be standing at the door ready to object.⁹⁰

While Clergue lamely protested that the railways were intentionally victimizing the steel makers,⁹¹ Fielding's patience was exhausted. The tariff revision of 1906 put into solid and, what was to prove lasting, form the tariff tinkering of the previous decade. Products in which the Canadian steel industry had shown some proficiency, notably rails, were afforded considerable protection at all levels of the tariff and in the anti-dumping schedules. Products in which the Canadian industry had yet to show any prowess but for which secondary producers had a healthy demand were left either duty-free or with low protection. Having left iron ore on the duty-free list, Fielding announced that the bounty system was to be phased out over a period that was eventually stretched to 1912. "[T]hese industries," he declared, "should become self-sustaining--at all events, they should no longer have any claim for bounties."⁹² Primary steel producers vigorously protested this retraction, contending that the industry lacked the stamina to withstand American competition.⁹³ When the stream of bounty payments eventually dried up in 1912, representatives of the primary steelmakers petitioned the newly incumbent Borden government for compensating tariff increases, "... declaring that the

protection afforded the iron and steel industries ... was now quite inadequate to enable them to hold the business they had hitherto had under the assistance of the bounties."⁹⁴ Confronted by western anti-pathology to any further succour for the steel industry, the Tories adhered to the decision of their Liberal predecessors.⁹⁵

The solidification of the iron and steel tariff structure in the 1906 revisions had a crucial, lasting significance for the Canadian economy. On the one hand, a small core of steel products, notably rails, had been adequately protected, thereby placing Canadian producers on a competitive footing with foreign producers. The security of a relatively impregnable market in some products had to be balanced against the broad spectrum of steel items still permitted low tariff entry to Canada. Relations within Canadian steel were hereafter typified by the constant struggle between the primary producers, anxious to minimize their precarious reliance upon a restricted line of products, and the consumers of steel in the manufacturing sector, zealously guarding their right to low cost imports of raw steel. Progress at the primary level of the industry would in future be governed by its ability to establish sufficient productive capacity to displace various iron and steel imports.

These tensions within the steel industry repeatedly caught the federal government on the horns of a dilemma. In 1912, for instance, representatives of the primary producers reminded Borden that:

The manufacturing of the most important lines of agricultural implements, of springs, axles, tools, bedsteads, windmills, etc., have in effect, free iron and steel, and in many cases the materials made free are those whose manufacture had been

specially promoted by the tariff as it stood before the exemptions were granted. These exemptions are one of the main causes of the difficulties in which we find ourselves...⁹⁶

From the other flank, Ottawa was exposed to vehement opposition to tariff alteration from secondary industry. H.S. Howland, of the Graham Nail Co., warned Borden that should primary producers be afforded adequate protection to enter into the production of wire for nails, the effect on established nail producers would be disastrous.

We understand that they [primary producers] are at present equipped to manufacture, what are our finished products, namely wire and wire nails, so that if they are given sufficient protection to keep out foreign rods, it means a monopoly for them and a very poor show for us. We therefore would ask we be considered before anything is done which might put us entirely out of business.⁹⁷

Whereas the secondary iron and steel producers were fairly cohesive in their defence of high protection on finished steel goods and low duties on raw steel, the primary producers often suffered from a lack of common purpose. While secondary manufacturers were ably represented on the federal scene by the Canadian Manufacturers' Association,⁹⁸ the primary producers frequently could not find common ground on which to stand. There could be, for instance, little accord between Ontario and Nova Scotian primary producers on the question of duties on coking coal. Nova Scotia Steel and Coal was anxious to exclude American coal from Canada, thereby enlarging the market for its Maritime coal. Ontario producers like Algoma, on the other hand, lobbied intensively for free entry of American coal.⁹⁹ Further differences could be seen amongst the Ontario producers themselves. Algoma, with its heavy emphasis upon primary production, eagerly sought to broaden

the base of its protection, whereas the Steel Company of Canada, the product of a 1910 merger, had less reason to seek added protection because of its limited primary production and its already diversified output in the protected areas of secondary production.¹⁰⁰ From the beginning Algoma had therefore learned that it would be forced to stand alone in its struggle for industrial survival. F.H. Clergue had in one sense acquitted himself admirably in this contest. He had won a high degree of tariff protection for rails, on the production of which Algoma had so heavily staked its future. But this strategy augured well only as long as Canadian demand for rails remained high. Any downswing in railway demand would expose the corporation's lack of diversification. Thus, despite the boldness and verve of his original conception, Clergue had bequeathed the Sault a steel industry lacking in well-rounded productive capacity. This deficiency was to haunt Algoma's operations for the next three decades. As Sir James Dunn recalled in 1924:

Whatever credit is due to Mr. Clergue, and I give him first place for courage and a boundless imagination, the fact remains that neither he nor his successors built a sound steel industry. Its earning power from the start was the rail mill. I am speaking at random but I suppose two thirds of the present rail mileage of Canada was rolled at the Soo.¹⁰¹

Clergue's troubled legacy at the Sault lay not only in the unbalanced nature of the Algoma plant, but also rested in the snarled and overextended financial structure of the Consolidated Lake Superior Corporation. On 18 September, 1903, the exhaustion of corporate coffers had forced the corporation to turn its workers away at the gates and bring its varied operations to a standstill. Clergue's dream

had been rudely halted by a combination of factors, most of which found their roots in his overzealous and headlong approach to corporate organization. In a herculean but futile bid to maintain personal control over all aspects of Sault operations, Clergue simultaneously tried to play the role of promoter, financier and executive, predictably failing in all tasks. In the course of his slide to defeat he managed to overextend and tangle the financial and managerial affairs of the corporation in such a way as effectively to hobble its operations for the next thirty years.

While the original vision of a series of industries mutually dependent upon the water power of the St. Mary's had a general economic validity, there was little economic benefit and great liability involved in Clergue's rapid diversification of the corporation into railways, steamships, traction companies and even an express company. Many of these subsidiaries were launched in such a reckless and ill-considered fashion that their ultimate profitability was clearly never considered. The Algoma Central and Hudson Bay Railway was, for instance, routed over such rugged territory that it soon encountered exceptionally high construction costs, forcing Clergue to plead for special aid from both Toronto and Ottawa. In 1905, Clergue begged Laurier to guarantee the principle and interest of the Michipicoten branch line at the rate of \$30,000 per mile, claiming that this was "not an ordinary line into a wilderness."¹⁰² Clergue and his successors were to discover that the weaker links in the chain of Sault industries were a permanent liability upon those which managed to sustain themselves profitably. Clergue's Consolidated Lake Superior Corporation was little more than

an unstable symbiosis, brought together by the initial impact of his own hucksterish salesmanship and held together by the joint desire of Philadelphian investors to exact a profit on their investment and of Ontario politicians to see their vision of "New Ontario" flower.

In April, 1903, investors alarmed by the faltering fortunes of the Sault industries forced the replacement of Clergue as general-manager by Cornelius Shields, formerly general manager at Dominion Steel¹⁰³. Poor corporate structure and inadequate management were symptoms of the deeper problem of absentee ownership. By July, 1903 the corporation had issued \$102,000,000 in capital stock of which \$70,000,000 was held by Philadelphia interests.¹⁰⁴ Although the corporation claimed in June, 1902 to have assets of \$99,987,654.50, there was considerable evidence to suggest that the Sault industries were "overcapitalized" or "watered".¹⁰⁵ Opponents of the primary industry's tariff demands revelled in maligning the motivation of the steel promoters. As one incensed steel consumer charged, "... the promoters of the large Eastern concerns, who started their business and ran it, not on business principles, but for the sake of what they could make out of it in a stock-jobbing way..."¹⁰⁶ deserved little sympathy. It was the discrepancy between the earning power of the corporation's subsidiaries and its financial obligations to its investors that finally brought the giant at the Sault to its knees in September, 1903. As E.H. Bronson privately noted to Premier Ross at the height of the Sault "smash-up", it was "... the original shareholders, who seem to have made themselves more or less culpable in that they have so largely watered the stocks of the various companies as to make the consolidation unwieldy and

in that way to precipitate the present crisis."¹⁰⁷

The immediate cause of the stoppage was the failure of the corporation to honour a \$5,050,000 loan from Speyer and Company of New York and the consequent inability to finance daily operations. Severely shaken by the fact that the militia had to be called in to contain the wrath of 3,500 unpaid Sault workers, Clergue embarked upon a frantic, whirlwind bid to restore financial confidence in the industries. As he later told Laurier, he had "... solicited the cooperation" of Senators Dandurand and Kerr to visit England and the United States "... for the purpose of assuring capitalists in these money centres of the commercial importance of these industries." Dandurand carried with him a letter signed by Laurier expressing the "sincere hope" that the Algoma mill would reopen, while Kerr was "especially commissioned" by the Ontario government to impress upon foreign investors "... the strong desire of the people of Ontario and of Canada for the successful establishment of this rail mill..."¹⁰⁸ Interim assistance was forthcoming from the Ontario government on 1 October when Premier Ross guaranteed by order-in-council the corporation's now overdue wages. Trying desperately to ward off the sale of the Sault properties by Speyer and Company in New York, Clergue dashed between London and Philadelphia proposing various schemes for the refinancing of the corporation. Successful in gaining reelection to the corporation board in late October, Clergue was unable to stave off the mounting corporate debt, with the result that the corporation was put into liquidation by court order on 14 December, 1903. At a court sale in New York on the following day certain holdings of the Clergue empire were bought

by Speyer and Co. for \$4,500,000.¹⁰⁹

It was not until late February, 1904 that Clergue was able to reconstruct the shattered corporation. Re-christened the Lake Superior Corporation (L.S.C.) with head offices in New York, the new company had a dehydrated capitalization of \$40,000,000 capital stock, \$3,000,000 income bonds and \$10,000,000 first mortgage bonds,¹¹⁰ a considerable reduction from the bloated capitalization of \$117,000,000 of the previous corporation. Although chartered under New Jersey law, control of the Sault complex remained firmly in Philadelphian hands. The debts of the old company were funded with fixed charges "of about \$600,000", an obligatory encumbrance for the new corporation. When the directors of the L.S.C. found in early March of 1904 that there was a discrepancy of \$8 million between the \$35 million share capital subscribed and the \$27 million actually paid in, the corporation was again in jeopardy. The reorganization committee was able to supply \$6 million of this money on an ad hoc basis and turned to the Liberal government of Ontario for the remaining \$2 million, "not as a bonus," Clergue stressed, "but merely as a loan of credit."¹¹¹ Premier Ross presented a bill to the legislature on 8 March stipulating that a two year, \$2 million guarantee was to be extended to the corporation on the surety of the Algoma Central Railway together with various promises on the part of the corporation.¹¹² Ross vigorously defended the government's action on the grounds that the province's toehold in the iron and steel industry must be nurtured liberally and, secondly, that the security the government had extracted from the corporation was eminently safe and would be protected by three government-appointed

directors on the board. Provincial aid to industry, Ross continued, had many precedents in Ontario's past and the Algoma Central loan was strictly a business matter that would "re-animate, revive, and re-vitalize" the industrial hub of New Ontario.¹¹³

Drawing parallels with the Russo-Japanese war, the Toronto Daily Star noted that "the opposition wants to make this Soo loan the Yalu River of the session."¹¹⁴ Led by James Whitney, the Conservative benches fought every aspect of the bill, attacking the Sault industries as an "inflated bubble" that deserved to be pricked. Pointing to the fact that two Liberal members, James Conmee and C.M. Bowman, held contracts from the Algoma Central, the Tories questioned the propriety of a loan they described as a "book-keeping extravaganza" and an "open and scandalous bribery" of Sault voters. Whitney could see no reason why government should bolster the fortunes of private enterprise and warned the House that it would "... create a precedent whereby other struggling institutions will have just as much right to come to the Legislature for assistance."¹¹⁵ With Conmee and Bowman barred from voting, the bill was passed amid an uproar by a two vote margin, one of the crucial deciding votes being cast by an invalid Grit member transported to perform his duty on a stretcher.¹¹⁶ Once the bill passed, Ross secured a pledge from Laurier that the Algoma Central guarantee would receive "sympathetic consideration" from Ottawa.¹¹⁷ To represent the province's newly reaffirmed faith in the Sault complex, Ross stipulated that Queen's Park have the right to appoint three directors, including Toronto Lawyer N.W. Rowell, to the new corporation's board.

The electoral landslide that brought Whitney and the Conservatives to power in 1905 surprisingly wrought little change in the provincial attitude to the Sault industries. During the campaign, Tory leader James Whitney fully aired the "notorious and unsavoury memory," as the Canadian Annual Review described it, of the Minnie M, a scandal Whitney likened to the record of a "rotten South American Republic."¹¹⁸ Eager to escape such invidious comparisons, the Liberals upheld the Sault industries and the beneficence of Queen's Park towards them as cornerstones of provincial prosperity. N.W. Russell told a Toronto audience at the height of the campaign that the province's \$2 million loan guarantee to the corporation had sparked a "revival" of the Sault's fortunes, transforming "clamouring creditors" into "enthusiastic investors" once again and fostering "... the renewed activity of great industrial institutions where before was the deathlike silence of stagnation and idleness."¹¹⁹ While the campaign abounded with charges that the Grits toadied too much to swashbuckling northern developers to the neglect of broad and balanced growth, Whitney embraced the hope of "New Ontario" as eagerly as any of his Liberal predecessors. Although the new ministry housecleaned many of the province's northern timber agreements and introduced new mining legislation, it respected the terms of the Ross guarantee to the Lake Superior Corporation.¹²⁰ Installing a politically sympathetic nominee, R. Wilson-Smith, as its representative on the Lake Superior Corporation board, the new Conservative government cooperated with Lake Superior president C.D. Warren, a Toronto promoter and financier less prone to recklessness than his predecessor. Buoyed by the knowledge that the

corporation was receiving hefty rail orders, the province released half of its collateral holdings in the corporation in May, 1906, allowing the Canadian Improvement Company to assume responsibility for \$1,000,000 of the loan without a guarantee and passed an act guaranteeing 5% interest on the remaining portion of the 1904 loan held by the Morton Trust in New York.¹²¹ In January, 1909 the Provincial Treasurer, A.J. Matheson, travelled to New York where the remaining \$1,000,000 was finally paid off.¹²²

F.H. Clergue, his entrepreneurial and financial credibility deeply tarnished, was gradually eased from the reins of control of the Sault Corporation until he was dropped from the Board of Directors in 1908. He left behind him a monument that on the one hand honoured his precocious vision of creating an industrial complex on the edge of the Canadian Shield and on the other bore damning witness to his spendthrift excesses. For the next three decades, Clergue's successors would labour to undo many of the consequences of the "Soo King's" original vision. Algoma Steel, the productive backbone of the corporation, battled to alter the overreliance upon rails and the accompanying federal tariff structure that Clergue had given it, while the parent corporation searched vainly to extricate itself from the financial maze into which Clergue had led it. Politicians were not quick to forget Clergue's deviousness and in future years treated him with extreme suspicion. "It has been said of him," Mackenzie King privately noted after a 1936 encounter with Clergue, "that he has tried to pull the legs of most Governments in Canada but has never been able to reach either Mr. Bennett or myself."¹²³ Despite their growing doubts of

Clergue's integrity and proficiency as a captain of industry, federal and provincial politicians had little choice but to support the Sault industries. To Clergue's credit, he had almost single-handedly made the corporation with its diverse subsidiaries an economic reality with significant national and provincial implications. His dream of industry at the Sault masterfully flattered the hopes of all three levels of Canadian government. Welcomed by municipal politicians as an elixir for regional stagnation, the prospect of thriving industries at the rapids coincided perfectly with provincial aspirations for a northern hinterland in "New Ontario". At the federal level, the whole thrust of the National Policy predisposed federal politicians to the emergence of Algoma Steel. Once committed to Clergue's vision, there was little escape from the ongoing implications of the initial decision to succour Clergue's fait accompli for any of the three levels of government. The federal tariff and bounty structure and the emergency financial aid to the corporation from Queen's Park in 1904 bore witness to the way in which Clergue had conscripted federal and provincial developmental policies for duty in the service of a foreign corporation. As the Lake Superior Corporation annual report noted in 1905:

The disposition of the Canadian government and people to foster and protect home industries, particularly those which are developing the mineral resources of the Dominion has been generously manifested towards the enterprise.¹²⁴

Notes

¹Report of the Royal Commission on the Mineral Resources of Ontario and Measures for their Development, p. xvi, N.V. Nelles, The Politics of Development: Forest, Mines and Hydro-electric Power in Ontario 1849-1941 (Toronto, 1973), chp. 3 and R.S. Lambert and P. Pross, Renewing Nature's Wealth, A Centennial History of the Public Management of Lands, Forests and Wild Life in Ontario 1763-1967, Toronto, 1967.

²O.J. McDiarmid, Commercial Policy in the Canadian Economy, Cambridge, Massachusettes, 1946, p. 206. Interpretations of the Liberals' volte face range from Edward Porritt's allegation of "industry leaning on the politician" in his Sixty Years of Protection in Canada 1846-1907, London, 1908 to W.J.A. Donald's assertion in his The Canadian Iron and Steel Industry: A Study in the Economic History of a Protected Industry (1915) that Liberal policy represented "a nice balancing of warring interests," p. 138.

³Fielding Tariff Commission, hearing of 20 Nov. 1896, pp. 373-4, RG 36/8, vol. 1.

⁴ibid., testimony of John Milne, 1 December 1896, pp. 570-1.

⁵McDiarmid, op. cit., chp. 9.

⁶Report, op. cit., p. xvi.

⁷Nelles, op. cit., p. 152.

⁸T. Naylor, The History of Canadian Business 1867-1914, Toronto, 1976, vol. 2, chp. 13 and J.M. Bliss, "Canadianizing American Business: the Roots of the Branch Plant," in Ian Lumsden, ed., Close the 49th Parallel, Toronto, 1970.

⁹W. Kilbourn, The Elements Combined: A History of the Steel Company of Canada, Toronto, 1961, pp. 48-9.

¹⁰Ontario Bureau of Mines, Annual Report, vol. 9, 1900, p. 102.

¹¹James Dunn to L.H. Derrer, 30 April, 1946, Dunn Papers, vol. 328 and Report Upon the Existing Conditions at Sault Ste. Marie, International Waterways Commission, 1913-14, Borden Papers, vol. 174, file 210.

¹²R.G. Thwaites, The Jesuit Relations and Allied Documents, New York, 1959, 72 vols.; K. Punch, "Sault Ste. Marie," Canadian Geographical Journal, Dec. 1966 and G.A. MacDonald, "The Ancient Fishery at Sault Ste. Marie," ibid., April/May, 1977.

¹³W.T. Hogan, Economic History of the Iron and Steel Industry in the United States, Lexington, Mass., 1971, vol. 1, p. 19.

¹⁴G.M. Grant, "The Jason of Algoma: An Account of the Wonderful Industrial Development in New Ontario," The Canadian Magazine, Oct. 1900, p. 485.

¹⁵L.L. Prior, "Sault Ste. Marie and the Algoma Steel Corporation Ltd.," unpublished M.A. thesis, University of Toronto, 1956, chp. 1.

¹⁶Canadian Census of 1941, Dominion Bureau of Statistics, Ottawa, Vol. 1, p. 590 and M. Van Avery, "Francis H. Clergue and the Rise of Sault Ste. Marie," Ontario History, Vol. LVI, #3, Sept. 1964.

¹⁷The Algoma District and that part of the Nipissing District North of the Mattawan River, Lake Nipissing and the French River, Their Resources, Agriculture and Mining Capabilities, Toronto, 1884; and Northern Districts of Ontario, Canada, Nipissing, Temiscaming, Algoma, Thunder Bay, Wabigoon, Rainy River, Toronto, 1899.

¹⁸Canadian Census of 1891, Vol. 1, p. 3 and p. 144.

¹⁹Evidence before Ontario Royal Commission on Mineral Resources, 1890, pp. 60-1.

²⁰ibid., pp. 62-4.

²¹ibid., p. 20.

²²ibid., p. 231.

²³Ontario Bureau of Mines, Annual Report, Vol. 6, 1827, p. 205.

²⁴E.H. Capp, The Story of Baw-a-ting, Being the Annals of Sault Sainte Marie, Sault Ste. Marie, 1904, p. 247, and Lake Superior Corporation "family tree", Algoma Steel historical files.

²⁵Van Avery, op. cit., p. 192 and F.N. Speller, "Metallurgical Industries at Sault Ste. Marie," Ontario Bureau of Mines, Annual Report, Vol. 10, 1901, pp. 61-8.

²⁶see Alan Sullivan, The Rapids, University of Toronto Press edition, Toronto, 1972. The details of Sullivan's fictionalization of the Sault's rise to industrial status cannot be taken as historical evidence per se but because Sullivan served as an engineer in Clergue's works, his impressions provide valuable insights into the problems faced at the Sault. For instance, Sullivan's hero entrepreneur Clark talks of his failure to "find any evidence of growth" in the Sault and attributes it to the "lack of three things--experience, money and imagination," p. 23.

²⁷see Donald Eldon, "The Entrepreneurial Career of Francis H. Clergue," Explorations in Entrepreneurial History, April, 1951, pp. 254-68; M. Bliss, introduction to The Rapids, op. cit., M. Van Avery, op. cit., W.R. Stewart, "Francis Hector Clergue," The Cosmopolitan, Vol. 36, Dec. 1903, pp. 179-83 and Bangor Daily Commercial, 20 Jan. 1939.

- ²⁸ cited in Eldon, op. cit., p. 256.
- ²⁹ Grant, "Jason ...," op. cit., p. 489.
- ³⁰ T. Veblen, Absentee Ownership and Business Enterprise in Recent Times, in The Portable Veblen, Viking edition, 1948, p. 380.
- ³¹ Eldon, op. cit., p. 256.
- ³² T.W. Gibson, Mining in Ontario, Toronto, 1937, pp. 126-7.
- ³³ Dunn to T. Arnold, 8 Feb. 1939, Dunn Papers, Vol. 320.
- ³⁴ F.H. Clergue, An Address by Francis H. Clergue at a Banquet Given in His Honor by the Citizens of Sault Ste. Marie, 15 Feb. 1901, n.p., p. 5.
- ³⁵ Ontario Statutes, 57 Vict. sec. 23, Chap. 80 and Sault Ste. Marie, civic by-law, 322, 1894.
- ³⁶ Eldon, op. cit., pp. 258-60 and Lake Superior Corporation "family tree," op. cit.
- ³⁷ F.H. Clergue, An Address by Francis H. Clergue at Sault Ste. Marie, Michigan at a Banquet given in his Honor, 21 Feb., 1901, p. 3.
- ³⁸ Documents Relating to the financial agreements of the Consolidated Lake Superior Company, 1903-04, Dunn Papers, vol. 386, Clergue was never actually President of the Corporation. F.S. Lewis served as president nominally while Clergue as vice-president directed policy.
- ³⁹ see, for instance, A.P. Coleman, "Iron Ranges of the Early Huronian," Ontario Bureau of Mines, Annual Report, Vol. 10, 1901, pp. 192-4.
- ⁴⁰ ibid., vol. 3, 1894, pp. 249-50.
- ⁴¹ ibid., vol. 9, 1900, pp. 102-3.
- ⁴² "Geology of the Nipissing-Algoma line," ibid., vol. 5, 1896, pp. 167-84.
- ⁴³ ibid., vol. 8, 1899, p. 18.
- ⁴⁴ Kilbourn, op. cit., pp. 49-50.
- ⁴⁵ Bureau of Mines, Annual Report, op. cit., vol. 9, 1900, pp. 101-2.
- ⁴⁶ see Table A.

- ⁴⁷ Bureau ..., op. cit., vol. 12, 1903, p. 22.
- ⁴⁸ A.B. Willmott and A.P. Coleman, "The Michipicoten Iron Range," Bureau ..., op. cit., vol. 8, 1899, pp. 254-8; "Josephine Mine" file, Ross Papers, special series, P.A.O.
- ⁴⁹ Bureau ..., op. cit., vol. 8, 1899, p. 257. A.B. Willmott, "The Iron Ores of Ontario," Journal of the Canadian Mining Institute, vol. 11, 1908 and D.M. Le Bourdais, Men and Metals: The Story of Canadian Mining, Toronto, 1957, chp.18.
- ⁵⁰ F.H. Clergue, An Instance on Industrial Evolution in Northern Ontario, n.p., Toronto, 1902, p. 17.
- ⁵¹ J. Konarek, "Algoma Central and Hudson Bay Railway: The Beginnings," Ontario History, June, 1970 and O.S. Nock, Algoma Central Railway, London, 1975.
- ⁵² Bureau ..., op. cit., vol. 12, 1903, p. 19.
- ⁵³ ibid., vol. 11, 1902, p. 94.
- ⁵⁴ C.H. Speer, History of the Algoma Steel Corporation, typescript manuscript, P.A.C., MG 31 B3, pp. 12-14.
- ⁵⁵ F.N. Speller, "Metallurgical...", op. cit., pp. 62-8. Clergue's reluctance to plunge directly into the smelting of pig iron may have been due to reports that Helen ore "contains too much phosphorous to be of bessemer grade" (Bureau ..., op. cit., vol. 10, 1901, p. 192) and fears that no further hematite ore would be found in "New Ontario", ibid., vol. 8, 1899, p. 258.
- ⁵⁶ Clergue, An Instance ..., op. cit., p. 4.
- ⁵⁷ Speller, op. cit., p. 63.
- ⁵⁸ Clergue, An Address ..., op. cit., p. 14.
- ⁵⁹ Canadian Annual Review, (henceforth C.A.R.) 1902, p. 298.
- ⁶⁰ F.H. Clergue, An Instance ..., op. cit., p. 15.
- ⁶¹ E. Porritt, "Iron and Steel Bounties in Canada," Political Science Quarterly, Vol. 22, No. 2, June, 1907, pp. 193-223. The Hamilton Steel and Iron Company which had collected bounties since 1898 collected \$1,416,469 up to June, 1906.

⁶²The bounty system was a hotly debated subject with most contemporary observers conceding, as W.J.A. Donald did in 1915, that they were a "political makeshift" designed to provide a reasonable incentive for primary producers while not penalizing secondary producers heavily dependent upon imported pig iron and unfinished steel. see The Canadian Iron and Steel Industry ..., op. cit., p. 153. E. Porritt depicted the bounties as "this lavish bestowal of government largesse" not as an incentive but as a reward for already profitable steel producers. see Porritt, op. cit., p. 223. Of the total of \$17.4 million in bounties paid out, pig iron producers received \$7.7 million, steel producers \$6.7 million and steel fabricators \$2.9 million. There was a rough correlation between bounties paid and steel produced, peaking in 1908, indicating that the system did provide a degree of stimulation to the industry. In the absence of any detailed study of the bounties, one can conclude that the bounties gave some incentive to the industry, but were overshadowed in their effect by such non-political factors as resource availability and technical change.

⁶³see "Buying German Rails," Industrial Canada, Dec. 1902, pp. 234-5 and "The Duty on Rails," ibid., Sept. 1904, p. 70.

⁶⁴Clergue to Laurier, 22 Nov. 1901, Laurier Papers, #60125-29.

⁶⁵ibid., and G.G. Schroeder, The Growth of Major Steel Companies 1900-50, Baltimore, 1953.

⁶⁶A.E. Dymont to Laurier, 10 Aug. 1903, Laurier Papers, #75974-5.

⁶⁷On one such occasion, Clergue invited the Lauriers to the Sault, where they would enjoy a private guest house, guard dogs and a "French family" to wait on their table and make them feel at home. Clergue to Laurier, 15 July, 1905, Laurier Papers, #99726-9. Laurier had first met Clergue in the mid-1890's, when the latter had pestered Ottawa for a Franco-Canadian steamship scheme that ultimately bore no fruit.

⁶⁸C.A.R., 1902, p. 299 and Clergue to Laurier, 18 May, 1905, Laurier Papers, #97675-86.

⁶⁹Dandurand to Laurier, 9 April, 1903, Laurier Papers, #72010; see also Kerr to Laurier, 16 Feb. 1902, ibid., #62777-83.

⁷⁰Donald, op. cit., p. 174; Montreal Star, 27 April, 1901.

⁷¹D.H.C., 9 April, 1901, pp. 2629-40, 23 April, 1901, pp. 3547-95.

⁷²ibid., p. 2629. Although vigorously supported by A.E. Dymont, Liberal member for Algoma, Blair eventually turned his back on the opposition, ibid., pp. 3631-4.

⁷³Laurier to Dandurand, 10 April, 1903, Laurier Papers, #72011.

- ⁷⁴3 Ed. VII, 1903, c. 15 and Donald, op. cit., pp. 177-8.
- ⁷⁵6-7 Ed. VII, 1906, c. 11.
- ⁷⁶Assistant to Sir Thomas Shaughnessy to W.S. Fielding, 23 March, 1903, RG 36/17, vol. 16.
- ⁷⁷Hays to Fielding, 17 April, 1903, ibid.
- ⁷⁸Clergue to W. Paterson, Min. of Customs, 4 April, 1902, Laurier Papers, #71791-2, and Algoma Steel and Drummond McColl to Fielding, 13 Feb. 1902, RG 36/17, vol. 11.
- ⁷⁹Clergue to Laurier, 20 March, 1903, RG 36/17, vol. 16.
- ⁸⁰H.V. Nelles has aptly described the Clergue enterprises as the "natural children of its Ontario's resource development policies," The Politics ..., op. cit., p. 132 and pp. 133-8.
- ⁸¹B.D. Tennyson, "The Political Career of Sir William Hearst," unpublished M.A. thesis, University of Toronto, 1963, pp. 12-14; Tennyson, "The Cruise of the Minnie M.," Ontario History, June, 1967.
- ⁸²C.A.R., 1903, p. 400.
- ⁸³Laurier to Clergue, 6 April, 1903, Laurier Papers, #71794.
- ⁸⁴W.R. Williams, "The Midland Blast Furnace," Inland Seas, vol. 19, No. 4, 1963, pp. 308-10.
- ⁸⁵Clergue to Laurier, 18 May, 1905, Laurier Papers, #97675-86.
- ⁸⁶Minutes of Sault Ste. Marie sitting of Fielding tariff inquiry, 21 Dec. 1905, RG 36/17, vol. 5. Clergue at this point was seeking an abolition of import duties on coke.
- ⁸⁷ibid.
- ⁸⁸F. McMath to R.F. Sutherland, M.P., 11 March, 1902, RG 36/17, vol. 11.
- ⁸⁹L. McKim Jones to Fielding, 31 March, 1903, ibid., vol. 14.
- ⁹⁰Minutes ..., op. cit., 21 Dec. 1905.
- ⁹¹Clergue to Laurier, 31 March and 4 April, 1906, Laurier Papers, #103972-8, and -109178-80.
- ⁹²D.H.C., 23 April, 1907, p. 7458.
- ⁹³C.A.R., 1905, p. 150.

94 "Statement in Support of Bounty on Pig Iron submitted by all the Iron and Steel Manufacturers in Canada," 21 Nov. 1911, Borden Papers, vol. 13.

95 C.A.R., 1912, p. 184.

96 "Statement ...," op. cit.; an editorial in the Monetary Times Annual, 1915, p. 18, protested that "... large secondary industries are growing up whose existence may depend on the maintenance of supplies of raw material entering at low duties..."

97 Howland to Borden, 28 Nov. 1911, Borden Papers, vol. 132.

98 see, for instance, C.A.R., 1905, p. 159; S.D. Clark, The Canadian Manufacturers Association: A Study in Collective Bargaining and Political Pressure, Toronto, 1939.

99 Clergue evidence to Fielding Tariff Inquiry, Sault Ste. Marie, 21 Dec. 1905, RG 36/17, vol. 5.

100 Kilbourn, Elements ..., op. cit., pp. 83-4.

101 Dunn to Wm. Lilley, 21 March, 1934, Dunn Papers, vol. 311.

102 Clergue to Laurier, 7 July, 1905, Laurier Papers, #99468.

103 C.A.R., 1903, p. 512.

104 ibid., p. 513; by Dec. 1902, \$99,684,400 of a total authorized capital of \$117,000,000 had been issued, Dunn Papers, vol. 386.

105 C.A.R., 1904, p. 271; Iron and Steel of Canada, August, 1923, p. 156 and Financial Post, 24 August, 1928.

106 Sigmund Samuel to W.S. Fielding, 2 July, 1903, RG 36/17, vol. 15.

107 E.H. Bronson to G.W. Ross, 2 Oct. 1903, Bronson Papers, P.A.C., vol. 695.

108 Clergue to Laurier, 18 May, 1905, #97675-86, Laurier Papers.

109 C.A.R., 1903, pp. 511-5 and C.A.R. 1904, pp. 268-74. A young B.K. Sandwell was dispatched by J.S. Willison of the Toronto News to investigate the "smash at the Soo." In later years, Sandwell described the Clergue empire as "... a fine example of the evils of absentee ownership." Sandwell to W.H. Moore, 22 Nov., 1928, RG 36/11, file 2-1. See Sandwell's perceptive report in the Toronto Daily News, 26 Sept. 1903.

C.A.R., 1904, p. 269, details of reorganization

110 C.A.R., 1904, p. 269, details of reorganization in Dunn Papers, vol. 386.

- 111 Toronto Daily Star, 4 April, 1904.
- 112 ibid., 9 March, 1904; The company promised among other things to complete the railway north to the C.P.R. mainline, to pay off the Speyer loan, repay its other liabilities and to reimburse local banks for guarantees on Sault wages.
- 113 C.A.R., 1904, p. 271 and M. Prang, N.W. Rowell: Ontario Nationalist, Toronto, 1976, p. 50.
- 114 21 March, 1904.
- 115 C.A.R., 1904, pp. 270-4.
- 116 Sault Daily Star, 13 May, 1935.
- 117 Ross to Laurier, 7 April, 1904 and Laurier to Ross, 9 April 1904, Laurier Papers, #84253-6.
- 118 C.A.R., 1905, pp. 195-204.
- 119 ibid., p. 195. Sault voters returned Liberal C.N. Smith by 110 votes.
- 120 Lambert and Pross, op. cit., pp. 258-9, and Peter Oliver, G. Howard Ferguson: Ontario Today, Toronto, 1977, pp. 28-32.
- 121 C.A.R., 1906, p. 312. Warren reported in the 1906 Lake Superior Corporation Annual Report the "great development and improvement" at the steel works, citing a record of 1004 tons of rails rolled in one day.
- 122 C.A.R., 1909, p. 364.
- 123 King Diaries, 3 Nov. 1936, King Papers, J13 series, vol. 80. Clergue later became a director of Canadian Car and Foundry Co. Ltd. and was president of Universal Engineering Corporation in Montreal until his death in 1939. A further example of Clergue's entrepreneurial derring-do can be gained from the North Railway project, a 1912-4 scheme to build a railway between Montreal and James Bay. "I need scarcely say," Finance Minister White warned Prime Minister Borden, "that the proposal made by Mr. Clergue should be subjected to careful scrutiny on the part of the Government before negotiations proceed any further....", White to Borden, 22 Sept. 1913, White Papers, #10152-4.
- 124 All L.S.C. Annual Reports filed in Dunn Papers, vol. 386.

CHAPTER THREE

Rails and Shells: Algoma Steel and the Precarious Rewards of National Prosperity 1905-1918

The financial reorganization of the Lake Superior Corporation in 1904 brought to a close "a long period of idleness with its attendant demoralization and accumulating disadvantages" and heralded the arrival of sustained activity and relative prosperity for the Sault industries.¹ This prosperity was not only the product of the company's less profligate and more conservative policies but was clearly predicated upon the effervescent prosperity of the Canadian economy as a whole in the years down to 1913. Mammoth export shipments of wheat, two new trans-continental railways and the myriad demands of industrialization and urbanization resulted in an unprecedented demand for iron and steel goods. Algoma Steel felt the full brunt of this demand as its rail mill struggled to meet the almost insatiable demands of Canadian railways.² The commercial collapse of 1913 and the ensuing brief depression ended this lucrative spurt of national growth; but prosperity quickly returned, induced by the totally different stimuli of the Great War. It was in toto a period of paradox for the Sault industries. The activity induced by national prosperity and a war economy served to mask the deep-seated industrial and financial deficiencies at the Sault and give the period a deceptive sense of unity. Revealed briefly in the depression of 1913-15, Algoma's inner weaknesses would not be fully revealed until the exhaustion of national prosperity in the 1920's.

Clergue's decision to specialize in rail production brought

sizable short-term rewards to Algoma. Throughout the years 1905-15, the plant rolled 2,179,795 tons of rails, and in only one of those years, 1909, did Algoma produce less than half of the total national output of rails. This demand affected a speedy recovery of Algoma's fortunes. By April, 1906, the Sault steel plant had rail orders totalling 146,000 tons from the Grand Trunk Pacific, Canadian Pacific, Canadian Northern and Michigan Central and could boast that its mills had produced a record 1,004 tons of rails in a single day.³ Although the 'panic' of 1907 did reduce production in 1908 and 1909, the high demand for rails remained steady through 1913, when national production peaked at an all-time record of 506,709 tons, 289,343 tons of which were rolled at the Sault. At times the demand nearly overwhelmed the company. Although Premier Whitney could boast to a potential investor in September, 1908 that Algoma had a backlog of 85,000 tons of rail orders, Lake Superior president T.J. Drummond later confided to Prime Minister Borden that he was "... inclined to think that the disposition of some of the railways is to overcrowd some of the rail manufacturers" in hopes of obtaining some relaxation of tariffs on foreign rails.⁴ Despite this persistent suspicion of the railways' motives, company management was undeniably pleased with the relative financial health that rail business brought to the corporation. By the fiscal year 1908/9, the corporation reported combined net earnings from its subsidiaries of \$1,083,482, the bulk of which was generated by the steel works.⁵

Beneath the surface of railway-induced prosperity lurked many potentially crippling dangers for the Sault industries. In the first

place, the steel complex was still not self-sufficient. The 1907 annual report pointed out that "the output of the two blast furnaces is not nearly sufficient to supply the rail mill with pig iron" and advised that if costly and unreliable purchases of pig iron were to be avoided in the future Algoma would have to both expand its primary iron capacity and diversify away from Bessemer steel into open hearth steel with its more varied uses. The cost of the subsequent installation of open hearth furnaces seriously cut into the earnings of the corporation and in the years up to 1910 precluded the payment of dividends to investors. Another weak link in the Algoma chain of production was the necessity of mixing the hematite ore from the Helen mine with imported ores in order to make satisfactory bessemer steel. Of the 1,584,571 tons of Helen ore mined in 1909, only about 175,000 tons was consumed at the Sault; the rest being sold to other companies. Moreover when, in 1913, the company opened the Magpie mine to exploit its lower quality siderite ore, it was faced with heavy expenses for crushing and concentrating the ore.

Other ventures proved more beneficial. Algoma attained greater self-sufficiency through vertical integration into the furnishing of coal and limestone for its furnaces. In 1910, both the Cannelton Coal Company of West Virginia and the Fiborn Limestone Company were bought outright and made subsidiaries, as was the Lake Superior Coal Company in 1914. Such corporate incursions into the American economy ensured that by the outbreak of the First War the Company had, to a significant degree, insulated itself from the uncertainties of external sources for its raw materials.⁶

The two most enervating factors sapping corporate vitality were the steel company's inability to widen its productive output, and the shaky scaffold of subsidiaries surrounding the parent company. "It is increasingly evident," the directors of the corporation reluctantly told their investors in 1915, "that in order to have a balanced and thoroughly commercial steel plant, another mill is necessary, otherwise the operation is confined practically to the manufacture of steel rails alone, and to the comparatively small tonnage that can be made on the existing merchant mills."⁷ Stelco and Dominion Iron and Steel Algoma's chief rivals in primary steel production, enjoyed a far greater measure of diversification in finishing their primary steel output.⁸ In an effort to reduce its lopsided reliance upon rails, Algoma began construction in 1910 of 12" and 18" merchant mills to enable it to roll various steel shapes. When the merchant mill began operation in 1912 it produced 39,466 tons of steel shapes but this output dwindled to a meagre 8,903 tons by 1915, indicating that the company had yet to break out of the constricting groove of rail production. Although plans were unveiled in 1916 for a 32" billet mill, the directors warned that even greater amounts of capital would be needed in the future to put the plant "on a proper footing in reference to the manufacture of a much more diversified product."⁹

The corporation's inability to sponsor a more rapid diversification of steel output was attributable to the financial constraints placed upon it by its motley collection of subsidiaries. Since the Lake Superior Corporation acted as the common purse for all the Sault industries, guaranteeing their securities and paying their interest

in return for their earnings, it was frequently forced to juggle its finances to accommodate the less profitable enterprises. The original rambling group of companies was in fact added to in the years preceding the First War with the inclusion of the Lake Superior Iron and Steel Company, the Algoma Iron Company, both ancillary to Algoma Steel, and the Manitoulin and North Shore Railway. Some attempt was made to streamline the unwieldy corporate structure either by amalgamation or sale. In 1912, the Algoma Steel Corporation Ltd. was incorporated to amalgamate the old Algoma Steel, Lake Superior Power and the Algoma Commercial Company and in 1914 the Tagona Water and Light Company was sold to the city. While the corporation sought to shed those subsidiaries it could not profitably integrate, it could not circumvent the financially dismal performance of the Algoma Central and Algoma Eastern railways. As guarantor of both railways' securities, the parent corporation had to sustain the high construction and operating costs of the lines in the face of skimpy earnings. By 1915, the L.S.C. had advanced \$317,489 to the Algoma Central to cover its costs and was forced to admit the "inability of this railroad to earn its fixed charges."¹⁰ Unable to stave off the inevitable any longer, the corporation allowed the two railways, together with Algoma Central Terminals Ltd. (1912), to fall into liquidation and to be managed by a bondholders committee. Since the railway bondholders had a lien on the corporation's holdings, little corporate rationalization could be attempted by the parent company until a settlement, which was to prove elusive, was made.

Financial woes plagued even the steel company, the profit-earning

workhorse of the corporation. In constant need of advances to finance plant extensions, Algoma Steel stretched its finances to such a point that in 1915 a committee of bondholders was formed in London "... for the purpose of protecting their interests and advising with the Board of the Steel Corporation from time to time." Forced to surrender its Algoma holdings to the committee, the parent corporation urged in its 1915 report a "readjustment" of the steel company securities, resulting in a "voting trust" arrangement that continued to 1917. The effect of these several financial predicaments was to force the corporation into a cautious and conservative stance in policy matters, which, although it might avoid the excesses of the Clergue period, impeded sensible attempts to rectify corporate shortcomings.¹¹ As late as 1923, a trade journal sarcastically noted that the corporation's legal and financial situation was "... so tangled that it will take a Philadelphia lawyer to unravel it."¹³

Largely because of the unsettled financial and operational condition of the enterprise, executive control of the corporation proved an exacting and at times unrewarding task. Confronted with the assumption of the L.S.C. presidency in 1905 by C.D. Warren, F.H. Clergue had rallied his forces in opposition but was finally ousted from the Board in 1907. Warren, with his broad experience in Canadian banking and promotional activities, was much more acceptable in the presidency to both Queen's Park and the majority of Philadelphia investors. To signify Warren's triumph over the old management, the corporate headquarters was moved, albeit temporarily, from Philadelphia to Toronto. While Warren, as president, and the Canadian directors appointed by

the Ontario government gave the corporation a nominally Canadian executive, financial control remained firmly rooted in Philadelphia.¹³ By 1908, though a chink had appeared in the armour of Philadelphia's monopoly on the Sault industries' affairs and from this developed the first major shift in the control of the corporation away from Americans and into English hands. The linchpin in the financial dealings of late 1908 was the Canadian Improvement Company, the Toronto investment firm which had acted as the intermediary between the Ontario government, the defunct Consolidated Lake Superior corporation and the new corporation in the \$2 million loan of 1904. The Ross government had made the loan to the Canadian Improvement Company under a Deed of Trust with the United States Mortgage and Trust Company of New York acting as trustee and holding large amounts of collateral in trust. Although \$1 million of the loan had been shifted from the Improvement Company to the Sovereign Bank of Canada,¹⁴ the Ontario Government had renewed its loan on the remaining \$1 million held by the Improvement Company, eventually extending the due date to 1 October, 1908.¹⁵ As this date neared, it became apparent that the Improvement Company would be unable to make payment, primarily because the Philadelphia bankers who had financed the loan balked at any further renewal. The Ontario government countered by refusing to perpetuate its commitment "on the ground that if the Philadelphia banks which are in control of the management of the Corporation did not consider the enterprise one of sufficient merit to justify them in carrying its securities as collateral, the Government was not justified in assuming a risk which they declined."¹⁶ Caught in the

vulnerable middle ground between the two intransigent parties, the Improvement Company, with collateral in the corporation and its subsidiaries totalling over \$19 million, presented a delectable financial plum for any group intent upon seizing a controlling interest.

The opportunity of swallowing this collateral block was seized by the illustrious Scottish investment trust banker, Robert Fleming, and an American engineer and promoter, F.S. Pearson, egged on by two young city financiers, James Dunn and Walter Whigham. It was a partnership of English capital and American promotional skill. The group was encouraged to intervene by H.S. Fleming, president of the Improvement Company, who suggested that when the loan was defaulted upon "[i]f friendly interests were at that moment ready to take the place of the Government, repaying the \$1,000,000, they would become the owners of the property."¹⁷ Pearson was despatched to inspect the works at the Sault, from where he pronounced that with alterations costing \$2.5 million the Sault industries could become profitable on a continuous scale. "Bear in mind," Dunn emphasized to Pearson, "that we are really getting control for a few million dollars and on a basis that it will not be difficult to find the money for a group of enterprises in which something like \$35,000,000 has already been expended and to which in addition belong valuable Government rights and concessions."¹⁸ With this incentive, Fleming, joined by Dunn and Robert Nivison, also of the City, bought out the Canadian Improvement Company at a greatly deflated price and promptly lodged their newly found holdings in the Sault corporation under the aegis of the Lake Superior Investment Company, a New Jersey holding company.¹⁹

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Signifying the switch to English control, T.J. Drummond of Montreal was installed as president and Whigham was given a seat on the board to represent English interests. With Philadelphia interests in eclipse, Fleming utilized his prowess in English investment markets to underwrite, on generous terms for himself and his syndicate, a series of securities issues for the corporation and its subsidiaries in the years up to 1912, most notably \$5 million of 5% collateral trust gold bonds to finance plant extensions in 1909.²¹

Throughout this period of partial prosperity and partial re-organization, the Sault industries remained a favoured child of the Ontario and Ottawa governments. "The practical evidence of our goodwill exists in the Statute Books," Laurier informed George Drummond in 1904, "which show that we have offered a substantial bonus in cash on steel manufactured in Canada, that we have provided for a \$7 per ton duty on rails ... and ... required the subsidized roads to give the preference to Canadian made rails."²² While the Ross Liberals remained in power in Ontario, liaison between Ottawa and Toronto in matters pertaining to the Sault was expedited by intermediaries such as N.W. Rowell, the Toronto corporate lawyer already conversant with the industries' needs.²³ By the time the Whitney Tories took power provincially, the fortunes of the Sault industries had become synonymous with those of the whole of "New Ontario" in the minds of politicians and investors. Descriptions of the northern complex were couched in bold adjectives as politicians, foreign investors and journalists toured the "immense industry."²⁴ Members of the Whitney government, especially Frank Cochrane, Minister of Lands,

Forests and Mines, and W.H. Hearst, member for the Sault from 1908, waxed near lyrical in describing the agricultural and mineral potential of the "Clay Belt" and Shield country in the Sault's hinterland.²⁵ An eloquent advocate of northern development, Hearst, like Rowell, had done legal work for the Lake Superior Corporation before seeking political office.²⁶

The province's commitment to the Sault industries extended beyond the painting of visions. As the Canadian Improvement Company neared financial collapse in 1908, Premier Whitney actively cultivated the interest of the English syndicate, cabling Hearst at the Sault to afford every convenience to F.S. Pearson on his inspection tour, assuring Dunn of the corporation's profitability and ordering the Provincial Treasurer to open the company accounts "for the information of the British capitalists anxious to understand situation."²⁷

Quick to detect the importance the government placed on the success of the enterprise, the capitalists operated from a position of strength.

"[B]y helping the Government in taking care of this loan," Whigham pointed out to Fleming, "we would put ourselves in a very good position with the Government party, and also strengthen their hands in giving us facilities in the future."²⁸

The federal government played a less prominent role in the encouragement of iron and steel production in the years from 1905 to the war. Satisfied with a steadily growing volume of rail orders down to 1913, primary steel producers prospered under the now firmly established federal development policies set in place by Finance Minister Fielding, although the producers were still quick to plead for a broader base

of tariff protection and the retention of the bounty system. Ottawa was also frequently called upon to arbitrate frictions arising between the railmakers and rail consumers, especially the financially-plagued Canadian Northern. While T.J. Drummond remained a frequent correspondent with the Prime Minister, Senator Dandurand was retained as a corporate solicitor in Ottawa. When Dandurand's name was forwarded as a potential director however, James Dunn objected on the grounds that "... if he were a Director and outside of the political influence, I cannot conceive that he will be of any value to the Company."²⁹

If Ottawa was unresponsive to suggestions that it provide further direct assistance to the corporation, its sponsorship of experiments in the electrical smelting of iron ore at the Sault in 1907 attested a willingness to assist the Sault industries indirectly. Under the direction of the Department of the Interior, the tests conclusively proved that the electrical smelting of iron ore was economically prohibitive, thereby belying much of Clergue's original contention that the power of the rapids alone could support the whole Sault complex. The Sault, like the rest of Ontario, would continue to rely upon imported coal.³⁰ Apart from such peripheral assistance, the overriding contribution of the federal government to the iron and steel industry was in facilitating the tremendous pre-war railway boom that satiated the rail mills of Sydney and the Sault with orders.

The corporation for its part had developed by the First War a pragmatic response to most political situations. During the reciprocity election of 1911, a contest fraught with dangerous implications for much of the Canadian business community, the Lake Superior Corpora-

tion remained seemingly untroubled by the prospect of free trade that did not effect the staples of its steel production. Only in the natural products in which the corporation's subsidiaries dealt did President T.J. Drummond, a staunch protectionist and opponent of reciprocity, take a firm stand, insisting that in its export policy for pulp and paper "... Canada is right in the position she has so far taken and that any withdrawal would be hurtful."³¹ While the reciprocity proposals of 1911 did not directly affect Algoma's prospects, George and T.J. Drummond, both prominent in Sault affairs, took active roles in the Canadian Manufacturers Association anti-reciprocity campaign. Algoma undoubtedly welcomed the advent of the Borden Tories to power, primarily in the hope that some reprieve could be won for the iron and steel bounties or, failing this, some degree of added tariff protection over and above that afforded by the Liberal schedule. In both aspirations, the corporation was summarily disappointed.

While the burdens of acting as salesman, guarantor and bounty payer for the Sault corporation were often onerous and at times politically embarrassing for Ottawa and Queen's Park, the results were by the same measure gratifying. By 1913, Algoma produced about 56% of the provincial output of pig iron and about 32% of national production. Although the Atikokan Iron Company had begun iron mining and smelting near Port Arthur, Algoma still dominated the iron industry in "New Ontario".³² By 1910, Algoma had three of Ontario's eight blast furnaces.³³ As the provincial appetite for iron and steel grew, Ontario found itself progressively less able to supply its own needs in iron ore. While it could satisfy 56% of its own ore needs

in 1901 it could only muster 17.4% in 1910.³⁴ Only the hematite and siderite production from the Lake Superior Corporation Helen and Magpie mines kept the province from near total dependence upon imported iron ore.³⁵

By the end of the first decade of the century the Sault industries provided tangible proof to both federal and provincial politicians that a nascent primary iron and steel industry was taking root in Canada and, despite continuing large imports, the hope for a self-sufficient national industry was still alive. In October, 1910 this achievement was honoured at a Sault banquet attended by Frank Cochrane and W.J. Hanna, representing the province, and the young W.L. Mackenzie King, representing the federal government. Before an audience which included A.M. Grenfell, the London financier, and W.C. Franz and T.J. Drummond, of the corporation's executive, Provincial Secretary Hanna praised the loans and bounties that had brought industrial life to the Sault and prophesied unbounded growth for its hinterland, "a reservoir of untold wealth."³⁶ The bountiful prospects of "New Ontario" were underscored by the fact that the Sault's 1901 population of 7169 had grown 53% to 10,984 by 1911 and, by the Canadian Annual Review's calculation, the value of the Sault's annual industrial production had expanded 610% in the first five years of the new century.³⁷ As W.H. Hearst, now Minister of Lands, Forests and Mines, told the Canadian Club in 1912:

Take the Lake Superior Corporation, one of the heads of which I am pleased to see sitting beside me. With its pulp, paper and steel industries, today it is employing an army of ten thousand men, paying in wages more than \$6,000,000 a year. The Sudbury mines

and mining plants employ thousands, and their pay-rolls run into the millions. What does that mean not only to the Sault and the whole Province of Ontario? It surely means that the Province at large must be benefitted by these industries.³⁸

Such confidence in the corporation, built up as a result of a decade of relative prosperity,³⁹ was suddenly dashed by the financial collapse of 1913 and the ensuing commercial depression. Always the creature of foreign capital, the corporation soon found itself starved for capital on the increasingly unresponsive European and American markets. As early as 1912, underwriters were unable to float £ 1,130,000 of Lake Superior first and Refunding Mortgage Gold Bonds on the London market. With 93% of the bonds unsold, it was, said the Financial Times, "... simply a case of the investor ... having been offered too many good things at once."⁴⁰ On the heels of the drastic tightening of credit in London and New York in 1913, the corporation announced in its 1914 report that "capital expenditure has been curtailed as far as possible." Far more serious was the impact of the slump on the railways, Algoma's primary customer. By 1915, the directors reported a "sharp falling off in demand" as rail production tumbled 46% from the previous year. In late 1914, Algoma president J. Frater Taylor ruefully described his worries to federal Finance Minister White:

I had arranged to discuss finance in October with London, in connection with our contemplated extensions to the mills here, but all our schemes were of course upset by the European situation, and my great difficulty now is to keep our plant going at all, seeing that we manufacture only steel rails. We are operating at 40% of our capacity, and as matters stand I regret to say that we cannot even operate from now on without some assistance....⁴¹

Marginally responsible for corporate woes was the Canadian Northern Railway,

which was chronically in arrears in payments for delivered rails. Mackenzie and Mann's profligacy, coupled with the lack of C.P.R. rail orders for the winter of 1914/5, left Algoma's future outlook, Frater Taylor emphasized, "exceedingly depressing". A request for federal guarantees for Canadian Northern rail purchases was flatly rejected by White, because the railway was "... in control of its own affairs until default in payment of principle or interest of the guaranteed securities."⁴² Suddenly, the corporation's prospects had become "somewhat uncertain", in the words of the 1914 annual report, as the effects of commercial and financial depression laid bare the weaknesses in the corporate strategy of the Sault industries.⁴³

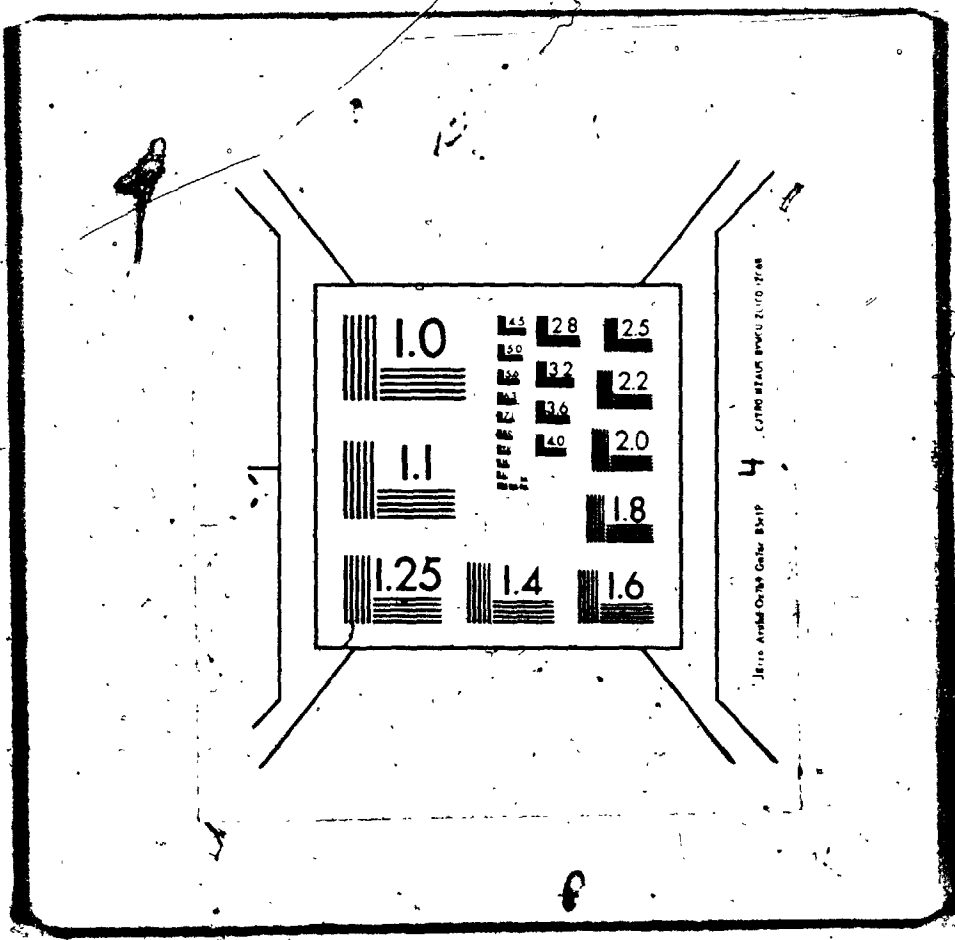
While the outbreak of the First War brought a sharp break in most spheres of Canadian economic activity, the effects of the pre-war depression lingered in the steel industry. Once the delayed-action effect of hostilities was felt; it dramatically changed the face of Canadian iron and steel production. The steel industry lay at the heart of the enormous Canadian contribution to the allied munitions industry, bringing forth from the industry new techniques, new anxieties and a new relationship with government. In other significant ways, the war perpetuated and often enlarged the pre-war pattern of the industry. Algoma Steel felt the brunt of both these developments. If the war fostered short lived prosperity, its long term implications were often largely detrimental. The war thus fulfilled few of the politicians' and businessmen's dreams of a nationally self-sufficient and diversified steel industry and in many ways exacerbated its traditional shortcomings.

In the initial stages of the war Algoma had hoped that the diplomatic wall that cut German steelmakers off from their export markets would create a "German vacuum" into which the company could pour its rails. In this belief the company was sadly disappointed. The end of the pre-war railway boom coincided disastrously with wartime demands for steel for military applications that seldom included railways. By 1916, only 81,497 tons of rails were rolled⁴⁴ and as the government shunted railway needs ever lower on its list of production priorities the shortage of rails became acute. In that year, the railways brought heavy pressure to bear on the government to alleviate the severe rail shortage situation by permitting the duty-free import of rails,⁴⁵ alleging that domestic producers were failing to meet orders. "Steel rails can be obtained," Algoma president Frater Taylor retaliated, "by those who have placed their orders in good time."⁴⁶ Irritated by the tardiness of the railways' response to his requests for rail orders, Frater Taylor pointed out that "... Algoma might have pursued a selfish policy and have booked nothing but high priced shell steel and high priced war orders but generally, we have deliberately gone out of our way to reserve tonnage for all of our Canadian customers."⁴⁷ Nonetheless, in the face of intense western pressure to see the line completed, the Canadian Northern was permitted duty free rail imports during 1916.⁴⁸ In 1917, despite having dismantled parts of their rail mills, Algoma and Dominion Steel were permitted to roll 32,500 tons of rails.⁴⁹ So acute was the rail shortage that by that year track was actually torn up from secondary lines to provide mainline replacements.⁵⁰

Instead of rails, the steel industry was called upon to produce massive amounts of shells for the munitions industry. Although rails and shells were both standardized products, the transition from one to the other placed severe strains upon the industry, especially because shell manufacture entailed new processes, skills, and materials that had not been generated by traditional steel production.⁵¹ Munitions and war materiel, for example, greatly accelerated the adoption of open hearth steel production, as opposed to the bessemer method with its reliance upon high phosphorous ore. Canada's 645,062 ton open hearth output of 1912 grew to 1,245,488 tons by 1916 while bessemer output withered from 207,509 tons to 10,968 tons by 1916.⁵² Since Algoma had specialized in bessemer steel almost exclusively before 1914, it was forced into an expensive and rapid furnace conversion program, an exercise made doubly difficult by the company's tight capital situation.⁵³ Despite such problems, Algoma rose to the challenge given it by the Imperial Munitions Board. By March, 1916, for instance, Flavelle noted to Borden that Algoma had "... recently placed at our disposal the entire output of steel for 1916 (110,000 tons) over and above the quantity required for orders already booked."⁵⁴ Out of over 400 munitions contractors, Algoma was consistently the leading producer, producing 825,200 tons of finished steel between 1916 and 1918 and in 1918 alone just a fraction under a half million tons of steel ingots.⁵⁵ In 1917, Flavelle of the I.M.B. confided his esteem of Algoma's "patriotic" contribution to Borden:

The Algoma Steel Corporation has a rather remarkable record with this Board. They have consistently taken the ground that it was wrong for the steel manufacturers

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in the United States to seek to extort the last price possible from the Allies for this basic requirement of war. They have supported their view by contracting for their complete output of steel at a price much below the value at which contracts were made by this Board in the United States and in Canada....

The whole attitude of the company has been one to command our respect and confidence. They have cooperated to the full in all our mutual responsibilities, and have placed us under real obligation.⁵⁶

Flavelle's lavish praise did not offset the problems that shell production brought in its wake. The feverish pitch at which munitions production was conducted accentuated the lack of self-sufficiency in the Canadian steel industry. Forced to compete for ore, coal and pit iron with other, better integrated producers in the overstraining North American steel industry, Algoma often found its operations restricted by scarce raw materials. Although the Lake Superior Coal Company had acquired additional American coal holdings in 1913, the company still required sizeable imports of coal. Similarly, the exhaustion of hematite and siderite ore at the Helen and Magpie mines by 1918 forced Algoma back onto a costly and precarious reliance upon foreign ore. On a broader scale, the national industry was afflicted by the same lack of self-sufficiency. Faced with a prospective continental "steel famine", a confidential report to Flavelle and N.W. Rowell gloomily estimated that for the 2,150,000 tons of steel ingots needed in Canada during 1918, only 1,000,000 tons of the basic pig iron could be domestically produced.

I fear, however, Flavelle commented they [the estimates] may break down through the difficulty of securing the necessary raw product from which to secure a full supply of steel from the present equipment in Canada. Low phosphorus pig iron from the United States is an absolute necessity if the cast steel

plants are to produce the tonnage necessary for their side of the programme.⁵⁷

Algoma's productional shortcomings, coupled to the sense of "real obligation" felt by officials of the munitions programme, brought the federal government to the aid of the national steel industry. Besides the federally operated "national" munitions plants,⁵⁸ Ottawa proffered assistance to private sector producers to help alleviate their deficiencies and expedite munitions supply. There was basically an acknowledgement on the part of both business and government that the war constituted a national emergency under which the ad hoc intervention of the state into business could be sanctioned. "We feel that owing to the abnormal conditions," Algoma president Frater Taylor told Finance Minister White in 1916, "we must all be prepared to give and take and to recognize the fact that all the time war orders (shell steel, etc.) must have precedence."⁵⁹ Ottawa, for instance, provided incentives for Algoma to accelerate its transition from bessemer to open hearth steel, offering an interest-free \$500,000 loan to enable a third open hearth furnace to be brought into operation at the Sault. The loan was to be amortized out of the proceeds of a 162,000 ton shell order.⁶⁰ In 1918 Algoma entered negotiations with the government for capital assistance in constructing a plate or structured steel mill together with some assurance of government guaranteed orders. Although the federal cabinet had extended no definite commitment for assistance, Algoma forged ahead with initial construction of an ambitious structural mill, only to abandon it in the post-war years when the government balked at any suggestion of assistance.⁶¹

Government intervention was also solicited by Algoma to alleviate its labour problems. With its skilled labour force severely denuded by military enlistment, Algoma vehemently complained in 1916 to federal officials "... that having undertaken serious contracts for the Imperial Munitions Board there should be some measure of protection which would enable us to secure ourselves in respect of sufficient labour, skilled and unskilled, to enable us to rise to our obligations."⁶²

Facing drastically reduced labour productivity from inexperienced labour, Algoma became a staunch advocate of some form of national labour rationalization. "This is something," Frater Taylor urged, "which under conscription, we should not in all probability have to ask."⁶³ When, in January, 1917, Algoma production was abruptly halted by an enginemen's strike, Flavelle and Borden vigorously intervened to restart production.⁶⁴ All such direct government involvement in the business of making steel was predicated on the belief that peace would see an immediate "return to normalcy". When, for instance, W.C. Franz of Algoma, frustrated by chronic labour shortages, suggested "... some form of Government control at their works ...", he was met with astonished silence from Ottawa politicians.⁶⁵

The spurt of activity induced by the war did little to correct the lack of industrial balance from which the company had suffered since the days of Clergue. Shell production was an industrial cul de sac which would close as soon as hostilities ended. The 1918 Annual Report reported the directors' resolve "to have the Algoma Steel Corporation emerge from the war times as a well balanced plant, able to hold its own with any competitors." While the war had seen a marked

increase in pig iron capacity, including the purchase of a fourth blast furnace, coking facilities and open hearth furnaces, it was the capability of finishing basic steel into a wide range of shapes, angles, beams, sheets and channels that Algoma so sorely lacked. Despite some additions to its overstrained, pre-war merchant mills, Algoma was easily outdistanced in finishing capacity by Stelco, with its 290,000 ton capacity in billet, sheet and bar milling.⁶⁶

Further progress toward diversification at the Sault was barred by the continuously perilous state of the Lake Superior Corporation's finances. While most Canadian steel companies had suspended dividends in the depressed pre-war years, Stelco, Dominion Steel and North Scotia Steel were all declaring handsome profits by 1916/7.⁶⁷ The Lake Superior Corporation similarly recovered from the pre- and early war doldrums and reported healthy net earnings throughout the war, peaking at \$6,973,433 in 1918. Unfortunately these earnings did not filter through to the corporation's shareholders, who were not to receive full interest payments on bonds and preferred shares until 1919. Once again the corporation's ability to cope effectively with its shortcomings was severely restricted by the tangled financial affairs of its subsidiaries, especially the two Algoma railways, which by 1918 were \$2 million in arrears.⁶⁸ Not only did the railways require constant suckling by the parent corporation in the form of advances, but after they defaulted in 1916 the railway bondholders' committee had the right to place a representative on the parent corporation's directorate. Coupled with the Voting Trust on the steel company's securities, these financial arrangements shackled corporate

management to the demands of the least profitable components of the corporation. In a bid to lighten corporate indebtedness, the International Transit, the Lake Superior Pulp and Paper and the Lake Superior Power companies were all sold. The jettisoning of the power company, to a Chicago syndicate for \$1.1 million, irreparably damaged the steel company's self-sufficiency by estranging it from an assured source of electrical power.⁶⁹

Underlying these recurrent financial woes was the ongoing contest for control of the corporation waged between Philadelphia and London. With the death of T.J. Drummond, the English syndicate had installed J. Frater Taylor, an English engineer later described as "... the best doctor of sick companies that I have ever met,"⁷⁰ as president, backed up by W.K. Whigham as chairman of the Board. London's grip on the corporation was considerably weakened by the collapse in June, 1914 of Chaplin, Milne, Grenfell and Co. and its Toronto wing, the Canadian Agency, both of which provided financial support for the Fleming group's block of Sault securities. With most of the corporation's bonds held in England and the stocks predominantly held in America, the wartime struggle revolved around which group could impose its strategy on the company's affairs. London's advocacy of corporate rationalization and a more integrated steel works was squarely opposed by Philadelphia's inflexible insistence upon maximizing profits from the existing works. By 1916, the American group had gained the upper hand, displacing Frater Taylor and installing W.H. Cunningham, a Philadelphia banker, as president. Although Cunningham clung to his office until 1928, enlightened and progressive

executive control was by no means assured. As early as 1919, at least one Philadelphia director of the corporation had concluded that the kind of close financial control exercised over the company by absentee interests was one of the corporation's endemic problems.

I think that all of these [Philadelphia] people have about concluded that running a steel plant at Sault Ste. Marie, Canada, financing it, keeping it up to the mark, and making some money out of it, is no easy job; and they would not hesitate to assume the responsibility of changing, either to a different and less direct and less personal kind of technical administration, or to a financial management emanating from some banking house in the United States.⁷¹

Less charitable in his assessment of Philadelphia management was an American investment broker:

... The Lake Superior management was very happy to take their salaries, enjoy a trip to the Soo once a year, and etherize the stockholders with honeyed words and long promises ... Those interests had been barnacles. They put nothing in and took out as much as they could without upsetting the boat.⁷²

With the railway bondholders threatening on the one hand to exercise their lien on corporate assets and the desperate need on the other hand to meet the service charges on its various other liabilities, Algoma Steel and its parent Lake Superior Corporation entered a period of stalemate, during which the imperatives of corporate survival would at all times supersede any concerted effort at corporate reform. It was, as journalist B.K. Sandwell put it, "... a fine example of the evils of absentee ownership."⁷³

With the armistice of 1918, Algoma Steel, like the rest of the Canadian iron and steel industry, faced the future with great apprehension. "[W]hilst the financial situation is vastly improved," Frater

Taylor warned the Board of Directors in 1918, "great care will have to be taken to conserve finances, especially against the unknown conditions that may have to be faced in these times."⁷⁴ At a meeting of the federal Reconstruction and Development Committee in late 1918, Sir Joseph Flavelle candidly revealed "... that he viewed with frank apprehension the domestic situation in Canada incident to the stoppage of the munitions industry," noting that a capacity of 30,000 tons of steel a month would be freed when munitions business ceased.⁷⁵ As if to underscore Flavelle's anxieties, the Canadian Annual Review for 1919 pointed to the fact that of all the war production industries, iron and steel had "the greatest adjustments" to make in the post-war economy.⁷⁶ Fearful that war production had saddled them with a monstrous overcapacity in lines for which there was little peacetime demand, Canadian steelmakers, sharing Flavelle's apprehension, instinctively pinned their post-war hopes upon a resuscitation of the pre-war mainstays of production. For Algoma this meant an unavoidable reliance upon rail production and a small amount of merchant mill business. In this expectation, Algoma's hopes were bolstered by the prediction of federal deputy-minister of railways and canals, G.A. Bell, that the national railways would generate 200,000 tons of rail orders in the wake of hostilities.⁷⁷

Less willing to revert to traditional and at times precarious patterns of production, more optimistic Canadian steelmakers concluded that the safest future for the industry lay in diversifying their output both to satisfy more fully the needs of traditional consumers and to capitalize upon the steel demands of the many "new industries"

spawned by the war. Heartened by the belief that the "present equipment and capacity" of the industry was "a great deal more than sufficient to supply the total Canadian demand,"⁷⁸ steelmen looked eagerly to Ottawa for tariff alterations and federal assistance to achieve this goal. David Carnegie, prominent in Imperial Munitions Board administration, pointed the way to the future in a speech of early 1919.

If Canadian manufacturers will follow Britain's example by determining to supply its domestic trade more fully than in the past, Canada will go a considerable distance in using its surplus steel capacity. Canada should have at least one structural mill for rolling heavy structures. The home demands, alone, of the electrical industry for higher quality steel sheets is not by any means insignificant. The growing demands for alloy steels for motor cars, tractors, and all kinds of engines and high class machinery ... should arouse the most earnest attention of the makers of electric and crucible steel...⁷⁹

Eager to anticipate this development, Algoma had embarked upon construction of a \$6-\$7 million structural mill, which its new president, W.C. Franz, confidently predicted would make a deep cut into the foreign dominated structural steel market in Canada. "The Algoma Corporation", Iron and Steel of Canada editorialized, "is to be congratulated on its vision in commencing the manufacture of structural steel and small commercial sections."⁸⁰

In 1919, this shining vision of a prosperous future for steel seemed very distant. With no landslide of post-war orders having materialized, the Algoma rail mill was by mid-1919 operating at 46% capacity. Operating at less than 50% of productive capacity throughout 1919 and 1920, the corporation reluctantly informed its shareholders

in 1921 of a "marked decline" in profits "... due wholly to conditions that could not be surmounted and were not foreseen."⁸¹ Symptomatic of Algoma's misfortunes was the abrupt stoppage of construction on the proposed new structural mill in May, 1920. Work on the mill, upon which the company had pinned its diversification hopes, was never resumed, although \$2.1 million had already been expended.⁸² Faced with this worsening situation, Algoma entered the 1920's frantically trying to retrieve the bygone prosperity of rail production and bitterly witnessing the fading of its hopes for diversification. While Algoma's prodigious output of munitions had won it broad acclaim in the industrial effort "to smother the Hun,"⁸³ the war and ensuing commercial downswing had done little to alleviate its corporate ills. More broadly viewed, the war had only marginally accelerated the drive for national self-sufficiency in iron and steel that had persisted since the framing of the National Policy. As early as 1916, the Monetary Times remarked that the lack of self-sufficiency should "... provide a moral to the country at large to build up what is one of the most fundamental national assets--a strong, well-rounded and self-dependent iron and steel industry."⁸⁴ "One fault of the larger steel companies of Canada," Iron and Steel of Canada grudgingly admitted in 1919, "has been their reliance on one main product, necessitating large tonnage production for profitable operation, and somewhat out of balance with the requirements of Canada itself."⁸⁵

Notes

¹ Lake Superior Corporation, Annual Report, 1905.

² Railway mileage in operation in Canada more than doubled between 1905 and 1915 from 20,487 miles to 45,833 miles. M.C. Urquhart and K. Buckley, Historical Statistics of Canada, Toronto, 1965, pp. 528-32.

³ L.S.C., Annual Report, 1906, and C.A.R., 1906, p. 313. Precise comparison of Algoma rail production and national rail production is difficult because company production was measured on the basis of the fiscal year (ending 30 June), while the federal government measured production on the basis of the calendar year.

⁴ J. Whitney to J.H. Dunn, 18 Sept. 1908, Dunn Papers, (hereafter DP) vol. 254 and Drummond to Borden, 12 March, 1912, Borden Papers, vol. 132.

⁵ The L.S.C. fiscal year ended every 30 June. L.S.C., Annual Report, 1909.

⁶ L.S.C., Annual Reports, 1907-14; memo, re: Coal subsidiaries, 24 November, 1933, DP 313.

⁷ L.S.C., Annual Report, 1915. On his first visit to the Sault industries in 1909, James Dunn commented that "... a steel plant making only one product such as steel rails cannot operate as economically as a steel mill making many products." Dunn to G. Ridpath, 8 October, 1909, DP 256.

⁸ In the year ending 31 March, 1913, Dominion produced 321,020 tons of pig iron, from which it rolled 174,802 tons of rails and 113,233 tons of other steel forms. Algoma's output of 236,073 tons of pig iron by 30 June, 1913, contributed to 289,343 tons of rails and only 26,295 tons of merchant mill products. C.A.R., 1913, p. 113 and L.S.C., Annual Report, 1913. See also, W. Kilbourn, The Elements Combined: A History of the Steel Company of Canada, Toronto, 1960, p. 83.

⁹ L.S.C., Annual Report, 1916.

¹⁰ ibid., 1914; O.S. Nock, Algoma Central Railway, London, 1975 Chps. 7 and 8.

¹¹ ibid., 1917.

¹² Iron and Steel of Canada, August, 1923, p. 156.

¹³ From 1905 to 1915, Americans controlled the majority of the corporation's directorships, Canadians never holding more than five seats.

¹⁴ Matters were further complicated by the collapse of the Sovereign Bank in 1907/8. C.A.R., 1907, p. 34.

¹⁵ W.K. Whigham to R. Fleming, 18 Sept. 1908 and H.S. Fleming to W.K. Whigham, 18 Sept. 1908, DP 254.

¹⁶ H.S. Fleming to W.K. Whigham, 18 Sept. 1908, ibid.

¹⁷ ibid., Dunn was drawn to the opportunity by the ubiquitous Clergue, who led the City financier to believe that he controlled the Improvement Company. Dunn later scolded Clergue for "... putting me in a position to make statements that are so different from the facts," Dunn to Clergue, 24 Oct. 1908, DP 254.

¹⁸ Dunn to Pearson, 4 Sept. 1908; ibid.

¹⁹ The C.A.R., 1909, p. 167, reported the switch as "the end of a long, spectacular series of financial changes and ups and downs." The "actual purchased holdings" were said to be \$19,000,000, while the C.A.R., 1910, p. 79, noted that Fleming had captured 78,000 shares of L.S.C. The Lake Superior Investment Company had capitalization of \$1 million in 10,000 shares, of which the syndicate had the controlling interest. DP 385, file 5.

²⁰ Drummond, with his brother George, had extensive interests in the Canadian iron and steel industry and had long championed the Sault industries. See; G. Drummond to Laurier, 27 Jan. 1904, Laurier Papers, #81629-30. Besides extensive ties with Drummond, McCall & Co., T.J. Drummond was also a director of the Royal Bank and the Canadian Improvement Co.

²¹ Dunn to Fleming, 20 June, 1909, DP 256; C.A.R., 1909, p. 165. There were rumours that Fleming and Pearson were attempting to sponsor a giant amalgamation of Nova Scotian and Ontarian Steel plants; see Dunn to Fleming, 22 Feb. 1909, DP 255.

²² Laurier to G. Drummond, 18 Jan. 1904, Laurier Papers, #81388.

²³ G.W. Ross to Laurier, 7 April, 1904, Laurier Papers, #84253-6.

²⁴ Both Lord Grey and Lord Northcliffe visited the Sault. C.A.R., 1910, p. 338.

²⁵ C.A.R., 1908, p. 280.

²⁶ B.D. Tennyson, "The Political Career of Sir William H. Hearst," unpublished M.A. thesis, University of Toronto, 1963, chp. 2.

²⁷ Whitney to W.H. Hearst and A.J. Matheson, cables, Sept. 1908, DP 11.

- ²⁸ Whigham to Fleming, 18 Sept. 1908, DP 254.
- ²⁹ Dunn to Whigham, 31 Dec. 1909, DP 13. H.M. Price, a L.S.C. director from 1909-13, also served as a corporate lobbyist in Ottawa.
- ³⁰ E. Haanel, Report on the Experiments Made at Sault Ste. Marie, Ontario, in the Smelting of Canadian Iron Ores by the Electro-Thermic Process, Department of the Interior, Ottawa, 1909.
- ³¹ T.J. Drummond to R. Dandurand, cable, 22 March, 1910; Laurier Papers, #168571; see C.G. Curtis, "The Parting of the Ways: The Manufacturers, the Liberals, and the 1911 Election," unpublished M.A. thesis, Carleton University, 1977. In October, 1910, a C.M.A. delegation had toured the Sault industrial complex.
- ³² "Pig Iron Industry at Port Arthur," Industrial Canada, 20 Sept. 1907, pp. 28-9.
- ³³ C.A.R., 1910, p. 394. Hamilton Steel and Iron had two furnaces and these were small capacity furnaces at Midland, Atikokan and Deseronto.
- ³⁴ Ontario Bureau of Mines, Annual Report, vol. 22, 1913, p. 28.
- ³⁵ Other iron ore mines were at Atikokan, Bessemer and Moose Mountain, but only the Helen mine yielded good hematite ore, comparable to American Superior ore, Report of the Ontario Iron Ore Committee, Toronto, 1923, pp. 158-61.
- ³⁶ C.A.R., 1910, p. 563.
- ³⁷ C.A.R., 1907, p. 242.
- ³⁸ W.H. Hearst, "Northern Ontario: Its Wealth of Resources and Future Greatness," C.A.R., 1912, Supplement p. 67; see also C.W. Humphries, "The Political Career of Sir James P. Whitney," unpublished Ph.D. thesis, University of Toronto, 1966.
- ³⁹ A.E. Ames of Toronto suggested in 1909 that Lake Superior securities be offered for Canadian sale "now that the finances of the company have been put in a strong way, with backing of the first class." Ames to Dunn, 5 May, 1909, DP 18.
- ⁴⁰ 12 June, 1912.
- ⁴¹ Frater Taylor to Thomas White, 14 Dec. 1914, White Papers, #7389-91.
- ⁴² White to Frater Taylor, 17 Dec. 1914, ibid., #7392.

⁴³The 1913 economic downswing caught other Canadian iron and steel producers off-guard. Dominion Steel and Nova Scotia Steel were both shut down for considerable periods in 1914. For Steelco, the winter of 1914/5 was "a lesson in grinding poverty". Kilbourn, Elements, op. cit., p. 95. The Monetary Times, 14 March, 1914, ironically described the industry's fortunes: "It was sometime however, before substantial improvement occurred in an industry which was producing 50% less than it did ten years before while the country was importing 250 per cent more and had been building railways in every direction."

⁴⁴Iron and Steel of Canada, Feb. 1918, p. 28.

⁴⁵T. White to Borden, 7 Sept. 1916, Borden Papers, #113208; White to President, Algoma Steel, cable, 23 June, 1916, White Papers #9031.

⁴⁶Frater Taylor to White, cable, 23 June, 1916, ibid., #9038.

⁴⁷ibid., 24 June, 1916, #9039-42.

⁴⁸ibid., 15 July, 1916, #9081-2.

⁴⁹J. Flavelle to Borden, 10 Oct. 1917, Borden Papers, vol. 186, file 566.

⁵⁰Borden to Sir Henry Drayton, 29 June, 1917, ibid., vol. 221, file 1613.

⁵¹see, for instance, "Making Shrapnel Shells in Canada," Industrial Canada, Feb. 1915, pp. 718-21; Iron and Steel of Canada, Sept. 1918, p. 333 and C.A.R., 1917, pp. 386-7.

⁵²Iron and Steel of Canada, Feb. 1918, p. 28

⁵³Lake Superior Corporation, Annual Report, 1915.

⁵⁴Flavelle to Borden, 14 March, 1916, Borden Papers, #108996.

⁵⁵Lake Superior Corporation, Annual Reports, 1916-19 and memo of 4 Feb. 1916 "... in respect to the booking of steel with the Algoma Steel Corporation," Flavelle Papers, vol. 3, file 19.

⁵⁶Flavelle to Borden, 5 Jan. 1917, Borden Papers, vol. 216.

⁵⁷"Report to Hon. N.W. Rowell on steel situation," by F.P. Jones, 17 Jan. 1918, Flavelle Papers, vol. 13; Flavelle to Rowell, 29 Jan. 1918, ibid.

⁵⁸ see David Carnegie, The History of Munitions Supply in Canada 1914-18, London, 1925; R.C. Brown and R. Cook, Canada 1896-1921: A Nation Transformed, Toronto, 1974, chps. 11 and 12; J.M. Bliss, "A Canadian Businessman and War: The Case of Joseph Flavelle," in J.L. Granatstein and R.D. Cuff, eds., War and Society in North America, Toronto, 1971.

⁵⁹ Frater Taylor to White, 24 June, 1916, White Papers, #9039-42.

⁶⁰ "History of Algoma Steel," unpublished manuscript by D.A. Machum and D. Johnston, n.d., Algoma Steel Historical Files, pp. 185-9.

⁶¹ C.H. Speer, "History of the Algoma Steel Corporation," P.A.C. MG31 B3, pp. 82-3.

⁶² memo: concerning Algoma Steel labour force," 9 March, 1916, Borden Papers, #108997-109011.

⁶³ ibid.

⁶⁴ Flavelle to Mayor of Sault Ste. Marie, cable, 5 Jan. 1917, Borden Papers, #121849; Department of Labour strike files, RG27, vol. 306.

⁶⁵ Flavelle to Borden, 30 Jan. 1917, Borden Papers, #121860.

⁶⁶ Kilbourn, Elements..., op. cit., chp. 7; C.F. Whitten, "The Present Position and Future of the Iron and Steel Industries in Canada," Iron and Steel of Canada, Feb. 1918, Algoma had a finishing capacity of about 105,000 tons annually by 1918.

⁶⁷ C.A.R., 1918, pp. 325-6.

⁶⁸ L.S.C., Annual Report, 1918.

⁶⁹ details of sale in J.A. McPhail Papers, P.A.O., box 7.

⁷⁰ E.R. Peacock to C.D. Howe, 16 July, 1953, Howe Papers, vol. 181.

⁷¹ J.S. Dale to Rbt. Fleming, 6 Sept. 1919, DP 76.

⁷² N.J. Greene to D.A. Machum, 28 July, 1964, Algoma Steel Historical Files.

⁷³ B.K. Sandwell to W.H. Moore, 22 Nov. 1928, RG 36/11, file 2-1.

⁷⁴ "General Report on Algoma Steel Situation," submitted by J. Frater Taylor to Board of Directors, 29 Jan. 1918, Algoma Steel Historical Files.

75 "Memorre: a Conference between the Reconstruction and Development Committee, and various officials of Canadian Railway Companies, Steel Manufacturers and Car Manufacturers," 15 Nov. 1918, White Papers, #11534-41. G.A. Irwin represented Algoma.

76 C.A.R., 1919, p. 405.

77 "Memo re: a conference ..., op. cit., Iron and Steel of Canada, Feb. 1920, editorial, p. 1.

78 C.F. Whitton, "The Present Position, ..., " op. cit.

79 C.A.R., 1919, p. 414.

80 Iron and Steel of Canada, Feb. 1920, p. 39 and Sept. 1919, p. 199. In February, 1920, Algoma president W.C. Franz told Joseph Flavelle that Sir Henry Drayton had promised "special legislation" to aid "our construction," which he predicted would be complete in fifteen months. Franz to Flavelle, 2. Feb. 1920, Flavelle Papers, P.A.C., vol. 22.

81 L.S.C., Annual Steel, 1921.

82 C.H. Speer, "History", op. cit., pp. 82-3.

83 Iron and Steel of Canada, June, 1918, p. 215.

84 Monetary Times Annual, 1916, p. 243.

85 Sept., 1919, p. 199.

CHAPTER FOUR

Frustrated Ambitions: Algoma Steel in the 1920's

Canadian iron and steel producers faced the new decade of the 1920's with considerable trepidation. Plagued by internal deficiencies and assailed by external challenges, steelmen concluded that "... it would look as if a very quiet time were to be experienced in Canadian steel circles in the near future" and that the industry had entered "a waiting period."¹ Wracked by financial, organizational and operational defects, all induced by the callous indifference of an absentee ownership and faltering national policies of industrial development, Algoma made little headway during the decade towards balanced and self-sufficient production and in fact slipped deeper into the financial morass that had threatened to engulf it since the days of Clergue.

Instead of major plant extensions and modifications, the first five years of the 1920's witnessed a steady slide into corporate indebtedness. Construction of new large-scale merchant and structural mills, which had been envisaged as a sure remedy to post-war depression, was reluctantly abandoned in May, 1920 and only partially resumed almost a decade later, as Algoma, like other Canadian steel concerns, found that shrunken capital resources resulting from reduced business forced curtailment of large expenditures.² In these years, Algoma made some small additions to existing machinery, notably a new splice bar department added to the 18" merchant mill.* Failure to supplement its physical plant was the direct result of the vicious economic circle in which the corporation

*A merchant mill, often generically called a rolling mill, consists of a series of horizontally mounted rolls used to shape and change the mechanical properties of crude steel into various flattened or elongated sizes, one of which is a splice bar. A merchant mill per se usually produces large volumes of rolled steel of a specific size (e.g. 18").

found itself entrapped. In times of national prosperity when the steel works were fully and profitably employed in rail production, Algoma had shortsightedly exploited its reliance upon rails to the hilt. In less halcyon commercial times when the rail mill simply idled on piecemeal orders and when the need to diversify production became acutely obvious, the corporation found itself starved of the capital necessary to break out of the rut of rail dependence, principally because the rail mill was not generating sufficient corporate profits. The early 1920's were not years of national prosperity and consequently Algoma lived a kind of half-existence, unable to regain past prosperity and incapable of fostering a secure future.

The crucial factor depressing Algoma's fortunes was the lethargic recovery of railway demand for iron and steel. "No one would suggest," Iron and Steel of Canada had somewhat mistakenly predicted in 1920, "that we have finished building railways in Canada, not to mention deferred replacements of track."³ Yet by 1922-3 the Sault rail mill was subsisting on small and infrequent orders from the C.N.R., C.P.R. and Temiskaming and Northern Ontario, none of which were sufficient to warrant steady operation of the mill.⁴ The minutes of the Board of Directors through these years record how Algoma president, W.C. Franz, reported to his Philadelphia masters on his frantic efforts to secure rail orders.⁵ The relatively meagre quantities that were booked imparted a highly uneconomic stop-start character to operations at the Sault. When C.P.R. and C.N.R. orders were booked in late 1922, 1000 men were hired to work the rail mill for two ten hour shifts a day, only to be laid off when the order was completed.⁶ Steel firms

with a broader product range, notably Stelco, were partially cushioned against the danger of such sporadic production and, because of their linkages with the secondary industry, tended to feel the effects of any recovery before the solely primary producers.⁷ Moreover, reduced railway orders affected the other activities of the Algoma works. With the rail mill operating for only 194 days in 1922, Algoma made continuous use of only one of its blast furnaces, a situation that mirrored the national scene, where as few as two of Canada's twenty blast furnaces were, on average, in blast.

The steel situation was further depressed by the steady fall in iron and steel prices from wartime highs. New lows were reached in the early 1920's; when during 1922, for instance, pig iron plunged from \$45 per ton to \$24; while the price of steel ingots sank from \$58 to \$40 a ton. Under this pressure, Algoma's 18" and 12" mills remained idle throughout 1922.⁸ Other factors commonly cited by Lake Superior executives to explain the dismal performance of the steel plant included: high exchange rates on American currency which inflated the cost of coal and ore supplies; shortage of railway freight capacity and orders cancelled as a result of the general commercial malaise. By 1921, net earnings of the corporation had tumbled to a very precarious \$5962.35 and by 1923 a deficit of \$1,307,949.48, including a loss on annual operations of \$581,639.71 for the steel plant, had to be carried forward.⁹ Although the corporation had by 1921 reduced itself to seven subsidiaries, the lack of earnings from the steel company placed the parent corporation in tight financial straits. Desperate for capital, the Lake Superior Corporation sold

off over a half million acres of Algoma Central lands for \$1.3 million to ease the financial pressure. Despite this injection, no dividends were paid throughout the 1920's by any of the Sault industries, except by the miniscule express company.

Exasperated by the unremunerative nature of their investment, the U.S. Mortgage and Trust Company, trustee of the Algoma Steel bonds, commissioned Coverdale and Colpitts, New York consulting engineers, to appraise Algoma. Their 1923 conclusion was blunt and damning:

The Algoma Steel Corporation plant is unbalanced, its working capital is inadequate for its needs, and its normal income is inadequate to meet its fixed and current interest charges.

Estimating Algoma's operational losses over the decade 1913-23 at \$1,021,503, the report made the obvious point that added structural steel and finishing capacity was urgently required. The \$11 million necessary to construct a structural mill, Coverdale and Colpitts emphasized, "cannot be furnished with the present financial structure. The corporation's working capital was insufficient for its needs in 1913 and it is insufficient for its needs today." While the report painted a grim picture, it was not enough to force the issue of corporate reorganization. Even a subsequent report by the Chicago engineering firm of Freyn, Brassert and Co., tabled in May, 1924, failed to jolt the corporation's executive with its conclusion "... that inability to operate at full capacity is undoubtedly directly responsible for the unsatisfactory earnings of the plant and is almost entirely due to a lack of diversity in output of rolled steel products."¹¹ Discussing mooted plans for a Sault structural mill in 1923, Iron and Steel of Canada pointed out:

The investment required will be large, but not prohibitive. The trouble is the company has not the money, its credit has been stretched to the limit, and the involved state of its finances, with numerous conflicting interests, is enough to frighten new capital.¹²

Inability to tackle the corporation's structural and financial maladies in the mid-1920's was again attributable to the centrifugal pulls of London and Philadelphia for corporate control, causing management to atrophy between the jealousies of the vying interests. "The unfortunate thing now," complained Algoma president Franz in 1927, "is that there is as much or more deadlock between London and Philadelphia as there has been at anytime in the past."¹³

There was near universal accord in the depressed years of the early 1920's among Canadian steel producers concerning the underlying maladies of their industry. Seeking a scapegoat for their lethargic fortunes, primary iron and steelmen pointed relentlessly to the failure of the Canadian industry to become self-sufficient. The passion for self-sufficiency focused in the 1920's on two crucial deficiencies: the dwindling supply of native iron ore for the primary industry and the domination of much of the Canadian primary steel market by foreign producers. A sense of vulnerability pervaded the industry. Not only did Canadian plants have to compete with the American industry for coal and ore, but at the same time faced the influx of foreign steel through what they pictured as an imperfect tariff wall. Furthermore, the prospect of foreign "branch plant" steel works in Canada seemed very real in the wake of the war. In 1913, a subsidiary of United States Steel, the Canadian Steel Company, had begun construction

on an integrated mill at Ojibway, Ontario. After \$3 million had been expended, work on the plant was suspended, primarily because E.H. "Judge" Gary of U.S.S. was unable to extract "special concessions" in the tariff structure from Prime Minister Borden.¹⁴ Lying dormant, the Ojibway mill served as a potential Trojan horse for American penetration of the Canadian industry. Even if Americans stayed at home, Canadian steelmen feared their competition. As early as 1918, one observer had warned that, although there were 16 rolling mills in Canada, domestic producers could not compete with American "specialty mills" in turning out 16", 18" and 20" special shapes.¹⁵ The cost of producing a gross ton of structural shapes, over 35 lbs. per yard, was, for instance, \$20.45 in the United States and \$29.40 in Canada, a difference which was hardly obviated by the \$3 a ton Canadian tariff on such shapes.¹⁶ One of the prime considerations behind the attempts of 1919-20 to merge various Nova Scotian Steel concerns into the British Empire Steel Corporation (BESCO) was the desire "... to have something big enough in Canada to compete with the gigantic iron and steel interests of the United States."¹⁷

Broad agreement that self-sufficiency and a fortified tariff were the key issues retarding the industry did not necessarily lead to a working consensus within Canadian "big steel" on the specific nature and solution of the problem. Steelmen discovered that while it was easy to treat national problems with rhetoric, regional differences and the conflicting interests of steel producers and consumers at the primary and secondary level of the industry often impeded any cohesive attempt to solve the industry's problems. "There is no

unanimity, and no common policy," complained Iron and Steel of Canada.

"A provincial outlook has obscured the national aspects of the case, and we all drift along, we know not whither."¹⁸ Hope of arriving at a satisfactory solution to the steel industry's problems was further dimmed by the delicate balance of federal political power throughout the 1920's. Any positive federal action on contentious issues such as the tariff and natural resources development might seriously aggravate the smouldering antagonism between Ottawa and the provinces or offend the susceptibilities of the Progressive Party. Throughout the 1920's the iron and steel industry was schooled on the realization that it could no longer automatically expect favoured treatment from Canadian governments as a leading national industry. Other economic interests in the country, many of them also the fruit of the National Policy, organized and brought to bear their demands, jealousies and counter-proposals on the government. Unable to muster a solid phalanx themselves, Canadian steel producers, especially Algoma, made little progress towards effectively making themselves a more diversified and self-sufficient industry.

Ontario's bid to emulate the prosperous American iron ore industry on Lake Superior died a quick death with the close of the Great War.¹⁹ In April, 1918, with its hematite ore exhausted, the Helen Mine was abandoned, so that in 1919 only 4.3% of ore charged into Canadian furnaces was of Canadian origin. Canada had returned to "the beaten path of imported ore."²⁰ With the closing of the Magpie and Moose Mountain mines, both low grade ore sources, the province surrendered its last vestige of iron mining.²¹ From 1921 down to the eve of the

Second War Canada mined no iron ore, relying instead on imported Wabana ore from Newfoundland or high-grade American ore. Between 1919 and 1925, for instance, the United States exported 6,176,199 tons of ore to Canada at an average price of \$4 per ton.²² Such dependency had potentially dire effects, for although Ontario was actually importing less iron ore in the 1920's than it had before the war, it was paying a considerably higher average price per ton for it.²³ The economic squeeze lay in the fact that steel prices generally fell throughout the early 1920's, meaning that while more was paid for the foreign controlled raw materials, less was received for the domestically consumed finished product. Since an ever increasing amount of American ore production was integrated into the big U.S. steel firms, Canadian firms enjoyed a low priority when ordering, especially at times of shortage induced by strikes in the U.S.

The iron and coal trades in Canada [warned Iron and Steel of Canada] therefore are in a position of much uncertainty. We are so entirely at the mercy of events in the United States, and so unable to control these events in the slightest degree as to suggest that those who have the management of Canadian steel enterprises must make careful study of tendencies below the line, if they are to anticipate events at home.²⁴

For the more prescient observers of the Ontario steel industry, there was another inherent danger in dependency upon foreign resources. As the provincial deputy-minister of mines, T.W. Gibson, bluntly put it: "The mines south of Lake Superior will not last forever."²⁵ Canadian furnaces could not depend upon American altruism when ore supplies ran short. Already by 1921, smaller furnaces at Atikokan, Midland and Deseronto had been closed, leaving the two Stelco and

four Algoma furnaces as the last bastions of provincial smelting.²⁶

The absence of an indigenous iron ore industry had significant implications for the national economy. In the first place, it aggravated the national balance of payments by making a primary, national industry dependent upon foreign raw materials. As Iron and Steel of Canada graphically put it, "what we get for wheat we pay for coal and iron."²⁷ The iron and steel industry in the 1920's turned the classic Canadian economic conundrum on its head. Instead of hewing and drawing Canadian staples for foreign manufacture, Algoma and Stelco imported American coal and ore to work them in Canada. The lack of a indigenous extractive industry, in the second place, gave one of Canada's crucial industries an essentially unbalanced structure, in that the relatively flourishing secondary level of the steel industry had as its foundation a primary level that, in the words of Algoma general manager J.D. Jones, was no more than "an overflow of the industry on the American side of the lakes."²⁸ Too much finishing of imported raw steel and too little smelting of domestic ores had resulted in what Iron and Steel described "... the inverted nature of our industrial pyramid."²⁹

The complete quiescence of the Ontario iron ore industry in the inter-war years was the product of several unfavourable factors. There were in the first place sound geological reasons favouring the American side of Lake Superior. When R.J. Manion plaintively asked the Commons in 1927 why "... the good God did not let all the good ore stop at the 49th parallel...", he had unwittingly struck a vein of basic geological truth.³⁰ The rich and relatively pure hematite ore extracted from the Superior mountain ranges like the Vermillion and Mesabi lay

at the root of the vitality of the American steel industry. The richness and concentration of these ores was the product of a unique set of geological circumstances that were not generally duplicated on the Canadian shore. What pockets of high-grade ore did exist on the Canadian shore of Superior, such as the Helen hematite body and later the Steep Rock discovery, were scattered and presented awkward problems of extraction.³¹ In Canada, the Huronian and Keewatin rock in which the laying down of rich iron deposits had taken place in the American ranges had been largely superseded by the old pre-Cambrian, Laurentian rock which constituted the Shield.³² Since the sparse Canadian deposits had not benefitted from the same intensive leaching and concentration as most American ores, they tended to be "lean", or low in iron content, and full of impurities. As the Honourary Advisory Council for Scientific and Industrial Research noted in 1925:

Unfortunately, in contrast to the iron deposits of the Lake Superior states, most large Canadian deposits, contain either titanium or sulphur, or a relatively high percentage of silica. Some of our deposits are of excellent grade but too small to be of importance to the industry. Some are too far removed for treatment in the present centres of industrial activity.³³

Ontarian iron ores therefore tended to be hard and dense magnetites or siderite, neither of which had the commercial attractiveness of the soft brown and red American hematites. Since the 1890's, Ontario miners had faced the frustrating fact that as long as easily accessible, high grade American ore was plentiful and as long as the Canadian government allowed duty-free entry of iron ore to Canada while Americans levied a high tariff on non-American ore, there would be little

hope of a profitable indigenous iron ore industry. Ontario's few hematite deposits like the Helen eked out an existence on the periphery, but when the hematite veins withered and only siderite remained, mines like the Helen were abandoned and left, as one prospector complained, to become "a mere moose-run."³⁴ "I believe that someday high grade iron will be found," Algoma's Franz told Finance Minister Drayton in 1920. "I cannot believe that the Helen mine is the only deposit of ore of this kind that we have along this north shore."³⁵

Modern mining technology in the period after the Great War brought some hope of breaking the supremacy of American high-grade iron ore. As premium grade iron ore began to be exhausted and more low grade ore was encountered on the American shore, attention focused upon practical methods of "beneficiating" or concentrating and purifying lean ores. Beneficiation entailed the treatment of lean ores such as siderite to effect "... the removal of such impurities that will leave a product admitting of economical transportation, qualified for proper smelting, yielding good iron and yielding a profit to the ore producer."³⁶ During the ore-hungry years of the Great War, experimental beneficiation had been attempted at special mills in Duluth and Babbitt with encouraging but uneconomical results.³⁷ In Canada, low grade ores were "sintered" into higher yield briquettes at the Moose Mountain and Magpie mines. Feasibility tests conducted by Stelco in 1922 on Moose Mountain briquettes concluded that there was "no reason why a large percentage of Moose Mountain briquettes could not be used in place of Lake Superior ores."³⁸ A 1917 geological survey of the Lake Superior Corporation's siderite ore body at the

Helen enthusiastically concluded that, if beneficiated, it could satisfy 40%-60% of Algoma's ore needs and would "make available to Canada the largest and highest grade iron product yet known within its boundaries."³⁹ If quality was acceptable, costs made beneficiation prohibitive. Despite Ontario's extensive low grade ore deposits, there was little profit to be gained from them once the costs of beneficiation were added, as was the case when the Moose Mountain mine closed. As one Ontario geologist reluctantly noted in 1925, "... the cheaply-mined, high grade American ores render impossible at present the exploitation of low grade deposits yielding ores requiring beneficiation" and that instead of siderite Ontario should look "... with confidence to the eventual discovery of large bodies of high grade iron ores."⁴¹ Throughout the 1920's many in Ontario were to dispute this judgement.

The staunch advocates of a Canadian iron ore industry as the base of a self-sufficient national steel industry argued that if all that held Canada's iron ore mines back from profitable production was the small margin between their operational costs and American costs, some level of Canadian government should cover this small margin and thereby launch a truly Canadian industry. In true "infant industry" fashion, it was reasoned that a Canadian iron ore industry is "... within immediate sight of realization and prove that there is another great industry which is ready to spring up in Canada so soon as the conditions are made just a little more favourable for its development."⁴² With almost universal accord, a renewal of the bounty system was seen as the key to this future. "The alternative to assistance and progress is idleness and decline," warned the Honourary

Advisory Council in 1924. "The establishment of an iron mining industry in Canada is possible of realization at a small cost by utilization of known resources."⁴³

Agitation for new bounties came hard on the heels of the cessation of the old bounties in 1912. In March, 1913, a non-party motion calling for federal government assistance to the iron ore industry was passed in the Ontario Assembly. Speaking on the motion, Premier Hearst said that it was Ottawa's place to aid the industry, not Toronto's; while Liberal leader N.W. Rowell stressed that it would be "trenching" on federal powers for the province to provide direct aid.⁴⁴ Sparked by the closure of the Helen mine in 1918, interest in Canada's iron-ore industry rekindled in early 1920 when Toronto lawyer G.E. Kidd petitioned Prime Minister Borden for a 75¢ a ton bounty "... on the immense deposits of low-grade ore" in Canada.⁴⁵ Kidd's request was echoed at a Northern Ontario Development Convention in January, 1920, and later in the year before federal politicians at tariff hearings in Fort William and the Sault.⁴⁶ Also in 1920, the Ontario Mining Association formed a committee, including George Cowie of Algoma's mines department, to lobby for a 75¢ per ton bounty on ore mined and beneficiated in Ontario.⁴⁷

Support for the bounty stemmed from three sources: the steel industry, the mining industry and a loose group of proponents of northern development. Among the arguments marshalled to bolster the bounty case was the ingenious claim that an industrially vibrant northern Ontario would "... wipe out the 'East and West' in Canada" by erasing the hitherto barren gap that had divided the industrial

east from the agricultural west.⁴⁸ "Canada holds within her bosom what might be called without exaggeration, the key to the solution of her national economic problems," contended the president of the Sault Board of Trade.⁴⁹ In 1921 the Sault City Council, backed by local labour groups and the Board of Trade, requested the Ontario Bureau of Mines to survey the iron-bearing district to the north of the city. By this time requests for bounty aid was echoed by the Canadian Manufacturers Association, the Ontario Mine Operators Association and the Canadian Institute of Mining and Metallurgy.⁵⁰ Algoma Steel's perspective on the ore problem coincided perfectly with that of the northern development lobby. Returning from a tour of American sintering mills, Algoma general manager, J.D.Jones, told a Sault lawyer that it was:

... a desirable thing from the standpoint of our Corporation to run on Canadian ores for several reasons. We believe that if proper concentration methods are employed, these ores will drive American ores out of the Canadian market ... the development of Canadian ores in this district is very attractive from our standpoint.⁵¹

In short, there was a persistent and broadly based demand for government intervention at the extractive level of the iron and steel industry and Algoma took a leading role in forwarding the cause of what former Algoma president Frater Taylor dubbed "the doctrine of aggressive government action."⁵²

Requests for a renewed bounty system were directed at both the federal and provincial governments and at first elicited little response. Ontario's Minister of Mines, Harry Mills, told the 1920 meeting of the Canadian Mining Institute that the United Farmers government

"did not feel disposed" to offer a bounty until it was deemed "really necessary" to open up domestic ore supplies.⁵³ In the federal house, R.J. Manion and T.E. Simpson, Tories from northern Ontario ridings of Thunder Bay and Algoma East, performed an annual ritual of urging the federal government to provide bounty assistance for the iron ore industry. Charles Stewart, federal minister with responsibility for mines, perfunctorily replied each year that the matter was under consideration.⁵⁴ Foiled in its efforts to chivy the federal government, the iron ore lobby registered a response at Queen's Park in 1922 when Mills convened a conference of "representative interests" to discuss the iron ore question, "... the most serious single problem" confronting the Mines department.⁵⁵ J.D. Jones of Algoma vigorously argued at the conference that American experience showed that low grade ore, like Helen siderite, could be sintered, although "a very large outlay of capital" would be needed. While making no formal resolution on the bounty, the conference did resolve that "the present methods of beneficiation are satisfactory" and that the "known and probable ore reserves" of Ontario could sustain profitable iron mining.⁵⁶ In November, 1922, Mills followed up the conference by appointing a committee "to investigate the commercial possibilities of mining iron ore in Ontario," appointing G.S. Cowie of Algoma as one of its members.

Having met through the first half of 1923, the Iron Ore Committee's report strongly recommended that "a bounty of one cent per unit of iron on each long ton of merchantable iron ore, natural or beneficiated, produced and actually marketed from Ontario ore" be jointly paid by the federal and provincial governments.

Without attempting, then, to cloak our recommendation in the habit of some paternalistic experiment of questionable value, we have bluntly and directly advocated a bonus, because assistance will be available to all who produce and actually market iron ore from Ontario deposits, and at no time will the province be involved in unsuccessful development.⁵⁷

Together with other recommendations calling for a "properly qualified geologist" to study provincial ore deposits and a mining engineer to study sintering methods, the report prodded the new Conservative government of Howard Ferguson into action. Spurred by the knowledge that British Columbia had offered a bounty on provincially mined and smelted pig iron, Ferguson announced in October, 1923 that Ontario would follow suit.⁵⁸ Significantly, Ferguson made the announcement at Sault Ste. Marie, making it clear that the Ferguson Conservatives would take up the same vision of "New Ontario" that his Tory predecessors had pursued so vigorously. In February, 1924, Charles McCrae, Minister of Mines, introduced the Iron Ore Bounty Act, a measure that provided a one cent per unit bounty on iron ore beneficiated in Ontario, with the proviso that the federal government contribute equally to the payments.⁵⁹

The bounty scheme was conceived by the Ferguson government with Algoma Steel as the prospective chief beneficiary of the provincial largesse. In late 1923, the company had given a vague promise that, once a bounty was enacted, it would build a plant to beneficiate Helen siderite. In 1925, Ferguson described his ambitions for the Sault to a consultant he had dispatched to study Algoma.

I am still extremely anxious to give some impetus to the development of our iron ores. I am convinced that therein lies the foundation of the greatest

and most widespread industrial activity in the Province ... I think the Algoma Steel Company at the Soo is the logical nucleus for the formation of a proper kind of organization. It has the strategic location and already possesses a plant that would play a large part in the creation of a more symmetrically developed metal industry.⁶⁰

Ferguson's desire to see the Sault industries thrive was further displayed in his willingness to consider guaranteeing the steel company's attempts to secure capital for steel plant extensions. In October, 1924, E.R. Wood, of the National Trust Company, and Frater Taylor visited the Premier to sound him out on the possibility of some form of financial backing for Algoma's urgently needed diversification program. "We quite realize," Frater Taylor cabled Wood, "we have perhaps asked for something exceptional but the situation is such that it demands exceptional treatment."⁶¹ Although he considered the request one of "tremendous magnitude," Ferguson was sceptical of Wood's suggestion that Queen's Park back a corporate bond issue, calling the idea a "somewhat radical departure".⁶² Ferguson commissioned a special private study of Algoma and appeared willing to step in except that "... in the expenditure contemplated by the company no provision has been made for iron ore development."⁶³ Ferguson's hesitancy to commit the government was increased by the corporation's endemic inability to reorganize itself.⁶⁴ In the end neither the bond issue nor the government guarantee materialized. Crippled by its tangled corporate affairs and unable to live up to its promise to reopen the Helen mine, Algoma lost the help of an all-too-willing provincial premier. In early 1927 Sault lawyer, J.A. McPhail, wrote Lake Superior president Cunningham that:

He [Ferguson] certainly has been holding out the right hand to us and we have not been in a position to make any response. He is more than anxious to do all that he can to assist the Steel Company in getting on its feet and reviving Sault Ste. Marie and it is difficult for him to understand why our people are so dilatory. It is clear that he is determined upon the establishment of a real steel plant somewhere in Ontario.... I believe that unless we do something in the comparatively near future his kindly feeling will be diverted elsewhere and we may find ourselves in a much less favoured position.⁶⁵

Algoma's failure to prosper under the financial aegis of the province coincided with its failure to reap any benefit from what became the stillborn bounty system of 1924. The federal government never took up the challenge of contributing its half of the bounty. Federal obstinacy stemmed from the grating friction that developed between the federal Grits and the Ontario Tories over the whole question of natural resources development in the 1920's.⁶⁶ This persistent friction was reinforced by the fact that the two most prominent pro-bounty spokesmen in Ottawa were Tory M.P.'s Manion and Simpson and by the fact that Ferguson was a trusted confidant of Meighen. Whenever Manion pounded the government front bench about "... its twilight sleep so far as the development of iron ore is concerned," Interior minister Charles Stewart glibly replied that beneficiation was not yet "commercially workable."⁶⁷ J.A. Robb pointed out that a bounty on Ontario ore would discriminate against mining in other regions of the nation and, taking a verbal jab at Sault M.P.'s Simpson's ties with Algoma Steel, "... the government has to do [sic] with all the iron and steel industries throughout the Dominion. We cannot legislate for one industry alone."⁶⁸ With the coal producers of Nova

Scotia pressing for greater protection, it would have been politically tactless for Ottawa to bonus Ontario iron ore. Within federal Liberal ranks, there also some residual laissez-faire antipathy to bounties. W.S. Fielding, active in the Finance portfolio until 1925, would have vigorously opposed the reintroduction of the system he had dismantled under Laurier. Furthermore Ottawa was still committed to a free-entry policy for raw materials. As Minister of Trade and Commerce, James Malcolm, told the Toronto Board of Trade in 1927: "The expediency of ever increasing imports of raw materials for use in Canadian factories can hardly seriously be called in question."⁶⁹ Angered by Malcolm's profession, Tories like J.A. Fraser described the speech as a "positive intimation that they have absolutely no consideration for the iron and steel industry. We must get our supplies from outside because we are not capable of producing them here."⁷⁰

The provincial response to the federal policy of "no man liveth to himself"⁷¹ was to increase its share of the ante in 1930, increasing the 1924 half-cent bonus to a full cent "per unit of metallic iron contained in each long ton" for a period of 10 years.⁷² Despite rumours of the imminent reopening of the Helen mine, federal intransigence on the bounty issue, Algoma's chronic shortage of capital and the "unusually light" market for iron ore in the mid-1920's ensured that the Helen remained dormant.⁷³ Throughout the late 1920's the fear persisted that dwindling supplies of foreign ore would eventually strangle Ontario's iron producers. As Thunder Bay M.P., D.J. Cowan, warned in 1929:

Iron ore, coal and steel are the three main roots

that give life to and support the trunk of the iron trades tree. No matter how widespread and fruitful its branches, if this tree has its roots outside of Canada it is not a Canadian possession.⁷⁴

Algoma's other overriding preoccupation throughout the 1920's was its concerted bid to broaden the roots of the Canadian iron and steel tariff. Like the campaign to secure some measure of assistance for iron mining, Algoma's desire for diversification through tariff reform was largely thwarted by its own far from glittering corporate record, the failure of steel producers to unify in a common front and an inhospitable environment of national political and economic factors. Only in 1930, after almost a decade of railing against the straight jacket of the 1906 tariff schedule, did Algoma receive a belated measure of tariff relief from Ottawa, a gesture soon nullified by the onslaught of depression.

The 1906 primary iron and steel tariff had been tailor-made to allow big steel in Canada to purvey the sinews of national growth to the rapidly expanding railways. This specialization, typified by Algoma's reliance upon rails, became the source of increasing dissatisfaction in the subsequent decades of the new century as the dynamic role of the railways as a steel consumer was eclipsed by an ever-increasing diversity of steel demands generated by new technologies and industries, best illustrated by the effervescent growth of the automotive and canning industries. Canadian steel producers were faced with the prospect of satisfying the huge appetite of these new industries for sheet, plate and tin plate steel. Not only were new sizes of steel required, such as heavy structural steel for

construction, but new types of steel, like alloy steel, were called upon to supply the elaborate needs of the burgeoning motor trade. While wartime shell production had provided a prosperous, if temporary, aberration from this gradual shift from old to new staples of production for the steel industry, the 1920's brought ever louder demands from Canadian primary iron and steel firms that the structure of the tariff must be altered to accommodate the changing structure of demand in Canada. If the primary industry was to break out of the rut of its infant industry reliance upon narrow, specialized production, the transition to diversified production needed coaxing by alterations to the tariff structure. "The iron and steel tariff as it now exists," stated Thomas Cantley, a Nova Scotia Tory M.P. with considerable steel affiliations, "is the most irrational and confusedly mixed mass of out-of-date schedules imaginable."⁷⁵ Or, as the vice-president of Stelco described it in 1924, the iron and steel tariff was "a thing of shreds and patches" so tatty that the industry was intent upon a new suit of protective clothing.⁷⁶

Steel producers had a series of stock arguments which they incessantly brought to bear on Ottawa's tariff formulators during the Liberal administration of 1921-5. Anxious to secure protection for the many new lines of steel products demanded by the new post-war industries, Canadian steelmen were angered by the extensive list of drawbacks that enabled Canadian manufacturers to avail themselves of substantial tariff reductions when importing steel for specific purposes, when such steel was unavailable from domestic producers. Under drawbacks #1007 and #1008, for instance, spiral and flat-spring together with

axle bars, all vital ingredients in autos, were permitted a 99% rebate if imported by Canadian automotive or rail car producers. In 1926, C.H. Cahon condemned the Liberals for this "covert way of removing a fair protection from one of the great basic industries of the country," estimating that between 1920 and 1924 \$144,000,000 had been lost to Canadian producers "due to the insidious and deceptive policy of drawbacks." 77

Steel producers were further annoyed by the failure of the government to extend tariff protection to areas in which the industry felt that it had acquired some degree of productive competence. The 1906 tariff acknowledged that light weight rolled iron and steel beams, channels, and angles "weighing not less than 35 lbs. per lineal yard" could be manufactured in Canada and dutied them at \$4.25-\$7.00 per ton, but left heavier sections of the same shapes at only \$2.00-\$3.00 per ton. By the 1920's, Canadian producers were clamouring to produce the heavier shapes, so necessary to modern construction and railcar manufacture. Algoma's planned structural mill, aborted in 1920, was based on the hope of capturing part of the estimated, 300,000 tons of structural steel imported into Canada each year. 78 Even in the depressed markets of 1925, when only 73,488 tons of structural was imported, Algoma was still pressing for a boost in protection on structurals.

Even if only a portion of this business could be secured for Canadian mills through the proposed higher tariff rates becoming effective, it would be of immense advantage to them, in keeping their plants working more steadily and for a longer period each year. 79

Another cause for loud complaint was that the incidence of many of the 1906 specific tariff rates had not kept pace with increases in the value of the products duties. Iron and Steel of Canada calculated in 1924 that the level of protection afforded light structural forms represented 24%-26% of the prevailing market price in 1911-15, but by 1924 this had sagged to 15%-16%.⁸⁰

Discontent over drawbacks and tariff reform were indicative of a much deeper sentiment that the needs of the iron and steel industry were being discriminated against by Ottawa Liberals in favour of other economic interests in the country. Steel management complained bitterly that Liberal tariff and economic policy was indecisive and pandered too much to the whims of western farmers. In a memo prepared in 1924 by R.H. McMaster of Stelco for Opposition leader Meighen, the point was made that:

We have had Tariff changes based upon no settled policy--experimental taxation subject to constant change, and ill-administered, half-baked legislation with unconstitutional and uneconomic bills. Necessity and expediency have formulated our policies instead of sound judgment of what was best for the country's interests.⁸¹

That McMaster's conception of what was good for the country differed from Mackenzie King's, was verified by the horrified reaction of steelmen to J.A. Robb's tariff-reducing 1924 budget, or what McMaster described to Meighen as the industry's "annual dose of fears". Tariff reductions on agricultural machinery and machinery for primary production dealt a direct blow to steel production for machinery, second only to the railways in steel consumption.⁸² The 1924 budget put the capstone in place on what the industry viewed as a betrayal by the

Liberals of the principles underlying the 1906 schedule. Iron and Steel decried

... the fact that successive governments reacting to various sectional demands have tinkered with the tariff; they have not revised it wholesale nor as a part of a well-thought-out plan, they have tinkered with it, in patches, first here, then there, according to the loudness of the demand for action on some particular article, but always-- downward.⁸³

Liberal perfidiousness in the industry's eyes was reinforced by a host of other complaints. The steadily expanding volume of steel imports to Canada, which reached \$245,625,703 in volume in 1921, although slipping to \$181,196,800 by 1926, was cited as a serious contribution to the national balance of trade deficit.⁸⁴ The severe deficit situation in Canada's trade in steel was depicted as a direct result of Ottawa's failure to insulate the industry with tariffs. As former Algoma president Frater Taylor complained to Premier Ferguson in 1925:

With exports from the United States to Canada of over 900,000 long tons of iron and steel for the year ending 31 March last, is it any wonder that U.S. Bankers are not keen on aiding development of Canadian Iron and Steel Industry. Canada is too good a market for them.⁸⁵

Pointing enviously to the high level of protection afforded U.S. steelmakers, one Tory M.P. pointed out in 1926 that the U.S. tariff board had even blocked importation of 3,600 tons of Algoma pig iron into the U.S.⁸⁶ By 1924-5, the steel lobby in Canada was incessantly warning that the "ruin" of the industry could only be avoided by "a wise and just protective tariff," "... one that really protects, one that is not a compromise between the demands of different sections of

the country..."⁸⁷ Such a "wise", or as it was often called "scientific", tariff would also have to compensate producers for the exigencies of the Canadian market, notably its sparse and scattered nature. In 1929, for instance, R.B. Bennett visited the Algoma plant and reported that alloys being made there "could not possibly be produced in open competition with the plants engaging in mass production in the United States." Castigating the government for letting Canadians become "economic slaves" of United States Steel, Bennett called for a surtax on alloy steel imports.⁸⁸

Steelmen and Conservative tariff critics did not have far to search to understand why the steel tariff had become "a thing of shreds and patches". Caught in a precarious minority situation, the Liberals could not afford in the years 1921-5 to court the displeasure of the Progressives, who viewed any upward revision of the tariff as a direct addition to the cost of making a living on the farm. John Morrison, a Saskatchewan Progressive, after welcoming the reductions of the 1924 budget, lectured the Commons on his philosophy of tariffs.

My observation leads me to the conclusion that it is about as logical for us to enrich Canada by the bonus and the tariff route as it is for a man to go on a prolonged drunk to overcome his financial difficulties.⁸⁹

Further anti-tariff sentiments were voiced by J.S. Woodsworth and A.A. Heaps, independent Labour members. Heaps in 1927 pointed out that Algoma Steel workers were required to work eleven to thirteen hour shifts for wages between 35¢ and 51½¢ an hour. "All tariff protection in this country," Heaps alleged, "is for the benefit of capital, and nothing else."⁹⁰ From Algoma's perspective, the intransigence of

the Progressives and the pusillanimity of Liberal tariff tinkerers left the protectionist Conservatives as the only political choice. The steel industry as a whole eagerly looked to the Meighen Conservatives in the 1925 and 1926 elections to free them from the economic helotage that Liberal neglect of the tariff had delivered them into.⁹¹

With the election victory of 1926 and the removal of the Progressive threat from the pale of immediate concern, the Liberal government was somewhat freer to entertain the demands of the steel industry for a "scientific tariff". Coinciding with this atmosphere of political stability was an upturn in national economic activity which by 1928 had pushed steel production out of its depression to the highest level of production since 1918.⁹² Much of the revived demand for iron and steel was stimulated by near spectacular growth in the automotive, construction, agricultural and power generation industries, together with a reawakened demand for rails.⁹³ While the Canadian industry participated in serving this burgeoning demand, the prospect of a resuscitated national economy hardened the resolve of steelmen for a broadened tariff to ensure an even greater share of the domestic market. The Liberal response to these demands was to point out that the returning national prosperity provided ample business for the existing industry and that since, in King's words, "the prevailing prosperity is well distributed over the various provinces" tariff changes would only upset the balance.⁹⁴ Like a sphinx, King evasively answered the prodding query of a Nova Scotia steel representative: "I made no intimation of any assistance to the steel industry, neither did I say there would be none."⁹⁵ As early as 1924, the Liberals had realized

that the only solution to the whole thorny question of the tariff was to remove it from politics to a non-partisan arena in which it could be "scientifically" settled. Finally in 1926 King convened the Advisory Board on Tariff and Taxation as his vehicle for transporting the tariff out of politics. In accepting the chairmanship of the Board, W.H. Moore, an Ontario Liberal, told King that he saw it as an opportunity to "weld the diversified interests of the country into an economic whole."⁹⁵

If the intent of the Board had been to mold national economic unity, its hearings soon unfortunately resembled a cockpit in which various economic interest groups wrangled over their proprietary rights in the Canadian economy. Although the Board's hearings focused upon tariff items ranging from frozen rabbits to bituminous coal, the sessions on iron and steel, especially the applications of Algoma and BESCO, were among the longest and most vituperative of the Board's four year history. For the Liberal government the Board did at least remove the tariff from politics, protecting it from the kind of direct, intensive tariff lobbying that F.H. Clergue had skillfully applied to the Laurier cabinet. Flanked by paid publicists and commissioned academics, the steel industry's captains now did battle with the opponents of higher tariffs in a largely non-partisan arena in which the politicians looked on as spectators.

Algoma Steel presented its application to the Board in April, 1926 and, without exception, solicited upward revision of the iron and steel tariff. Submitted by Algoma president W.C. Franz, the application began with a long recitation of the economic adversities besetting the company. Pointing out that freight rates had "a distinct bearing

on the question of tariffs," the brief explained that Sault steel had a competitive advantage over its competitors only in western Canada, while in serving the industrial heartland of Ontario it was at considerable disadvantage vis à vis the Stelco and BESCO plants. Algoma was further penalized in the lucrative central Canadian market by insufficient tariff protection which allowed Buffalo and Pittsburgh steel to sell in Ontario's industrial corridor at a lower delivery cost than Sault steel.⁹⁷ American steel producers had the further advantage of the considerable economies of scale afforded them by their home market. While Canadians demanded the same diversity of iron and steel products, Algoma pointed out, "... the demand for particular sections and sizes is not large, hence the necessity for frequent mill roll changes and such changes add very materially to the production cost per ton of finished product."⁹⁸ The imperative need for upward tariff revisions to stem the flood of imported steel was reinforced by other alleged injustices to the industry, such as out of date "specific" duties and the overabundance of drawbacks. From all angles, the 1906 tariff was portrayed by Algoma as an antiquated hangover that had reached an unproductive old age through the neglect of Canadian politicians. To add a human dimension to the Algoma application, a delegation of Sault steelworkers submitted a handwritten statement describing the plight of Algoma workers whose payroll and numbers had dropped dramatically in the stagnant years of the 1920's.⁹⁹ The stage was thus set for Algoma's specific tariff demands.

Drawn up by company management and presented by Norman Guthrie, an Ottawa lawyer, Algoma's tariff application represented a bold

prescription for industrial health. In its general outlook, although not in all its specifics, Algoma's brief closely paralleled that of BESCO, Canada's other primary steel producer located outside the central industrial markets. At the primary level of the industry, Algoma demanded hefty increases in the pig iron duty to \$5. a ton and on billets, slabs and blooms to \$7 a ton. A 35% ad valorem duty on all alloy steel was requested together with a boost of 35¢ per 100 lbs. on the general tariff for structural steel angles, beams up to 6" and channels to 7". Abolition of drawbacks and exemptions was demanded on many items, notably special steel forms for the automotive and agricultural implements industries. Tariff hikes, the application concluded, must be accompanied by stiffened anti-dumping regulations.

In toto, Algoma's demand represented a breathtaking bid by the primary level of the steel industry to ensure itself stability and diversified production through tariff increases that would markedly increase the captive market for Canadian steel in the automotive, agricultural implement, construction and other secondary industries.

The Tariff Board subjected tariff applications to two forms of assessment, one by "expert" analysis and the other by public hearing. Relying heavily upon academics and professional consultants, W.H. Moore commissioned studies to investigate the claims of applicants before the Board and to provide overall assessment of specific industries. Professor H. Michell of McMaster University studied the steel tariff schedule and produced the damning conclusion that it was full of "glaring inequalities and inconsistencies."

The truth appears, as far as I can see, that the

tariff has never been thoroughly revised since 1907, and has been subject ever since to a series of patching and cobbling operations which have left it in a pretty bad state.¹⁰⁰

W.G. Wilson, chief of the Mineral Resources Division of the Mines Department, surveyed the general state of the Canadian steel industry, and pointed out how much idle basic steel capacity existed in the country and how many diversification projects, designed to soak up excess steel, hovered on the verge of realization.¹⁰¹ Personal inspection of Canadian steelworks by the Board members was supplemented by reports on European steel. The Franco-Belgian industry was described as benefitting from inexpensive labour, modern equipment and steady production runs.¹⁰² Of the huge German Vereinigten Stahlwerken, one Canadian engineer enviously noted: "they roll almost everything under the sun."¹⁰³

If some reports tended to substantiate the general complaints of Algoma and BESCO, others cast considerable doubt upon their requests. A study of Algoma's plans to accommodate a larger slice of the structural market concluded that while ample raw materials were available, the impossibility of cost-reducing, long production runs precluded economic production of large structurals in Canada. The prospective position of Canadian consumers of structural steel relying upon Algoma Steel "will not be as desirable as at present, when they are able to draw their supply of steel from several rolling mills in the United States."¹⁰⁴ W.A. Mackintosh of Queen's inspected the Cape Breton primary steel industry and noted that it was poorly located for serving the central Canadian market and its plant was "badly proportioned".

and subject to "bottlenecks". "[T]he troubles," Mackintosh concluded, "however seemed very much more numerous than the hopes" for the Cape Breton industry.¹⁰⁵

Further damage was done to the aspirations of the primary producers by their own lack of solidarity before the Board. No two steel producers in Canada shared the same perspective on the industry's problems and frequently their differences outweighed their similarities. The weakest plate in the primary industry's armour in its appearances before the tariff Board was the aloofness of Stelco from the requests of its two chief rivals, Algoma and BESCO. Stelco, well diversified into secondary steel production and finishing and less reliant upon primary processing, did not wholly share Algoma's enthusiasm for more protection. Although it did table specific demands for upward revisions on sheet steel and skelp duties, Stelco vice-president H.T. Diplock smugly informed Board chairman Moore that Stelco was generally satisfied with the existing tariff.¹⁰⁶ Stelco's passivity was attributable to the fact that its corporate fortunes had, in comparison with BESCO and Algoma, remained buoyant throughout the 1920's. In 1928, for instance, Stelco unveiled a \$6-\$7 million program of plant additions and instituted a 4:1 stock split.¹⁰⁷ Embittered by critics' unflattering comparisons of Algoma to Stelco, Lake Superior president Robert Dodd told the Board in 1928:

If we had the same [established] tariff protection that the Steel Company of Canada had, we could exist without trouble. They [Stelco] are not here, but if we had it [protection] we would be on Easy Street ... I admit that it was possibly a foolish thing for the people who started this [Algoma] not to go into those things that were highly protected.¹⁰⁸

Other differences gnawed at the solidarity of the primary producers. BESCO's demands for federal subsidization or protection of its coal production grated against central Canadian steel producers' long-standing reliance upon an unrestricted flow of cheap American coal. The request of Dominion Foundries and Steel Ltd. of Hamilton, a steel plate producer with no blast furnace capacity, for abolition of duties on pig iron for steelmaking welded Stelco, BESCO and Algoma in tight opposition to any relaxation.¹⁰⁹ At no time therefore did a solid phalanx of steel interests emerge and confront the Board.

"Big Steel" in Canada was characterized by bickering and internal jealousies, rather than a cohesive front. Although Iron and Steel of Canada admitted to feeling "puzzled" and "a little ashamed" about the divided front, the cause of disunity was not difficult to isolate. The problems of the industry were too deep rooted and too varied in character to be ameliorated by any one easy solution. A fossilized tariff structure and the exigencies of regional economics militated too completely against easy solutions and common fronts.¹¹⁰

When Algoma attempted to pilot its tariff proposals through the Board's public hearings, it encountered an impregnable wall of opposition. In seeking protection for products that had previously enjoyed low tariff or drawback status, it had automatically antagonized large sections of secondary industry that had traditionally relied upon low cost imports of steel. Algoma's profuse assurances that its mills could produce the same goods at a comparable price were greeted with extreme scepticism by Canadian steel consumers. Not unexpectedly, farmers' groups with their traditional antipathy to all forms of

protection opposed Algoma's brief as a matter of course. J.J. Morrison of the United farmers of Ontario told the Board that farmers were "unalterably opposed" to all tariffs and were tired of the steel industry's tales of "impending disaster" that never came.¹¹¹ The Canadian Council of Agriculture, the National Dairy Council and the United farmers of Canada, Saskatchewan Section, all reiterated this sentiment. Labour, although poorly represented before the Board, complained that increased tariffs would only propel the workingman's cost of living upwards.¹¹² The Consumers' League of Canada, represented by R.J. Deachman, doggedly criticized the steel companies' requests, alleging that the already lush steel profits in the 1920's would grow even larger behind a heightened tariff wall. Deachman mustered a wealth of statistics to assail Algoma's case and was able to back top Algoma executives into embarrassing corners by charging that the company's present predicament was the product of "bad judgment" in the past.¹¹³

Farmers, workers and consumers were the steel industry's ultimate clients, but as Deachman pointed out "you reach him by way of the secondary manufacturers"¹¹⁴ and it was from these consumers that Algoma encountered the stiffest opposition. In the words of one irate sheet metal consumer, BESCO and Algoma were to be blamed for "... their rather cold blooded way of looking over the field of steel industry in Canada and selecting what they judge to be luscious plums grown by someone else..." and this therefore "... rather justifies the use of plain unadorned language from the intended victim."¹¹⁵ Afraid that less efficient Canadian producers would invariably push up

prices, the Steel Fabricators of Canada informed the Board that:

Nothing would please us better than to realize that we could obtain all our requirements in rolled shapes, sections and slabs in Canada on a basis of competitive production within the country, with satisfactory deliveries, but we think the country would have to have a very much larger population before that object can be attained.¹¹⁶

The Canadian Locomotive Company of Kingston estimated that increased tariffs on plate and structurals would add \$2500 to \$3000 to the cost of each locomotive, while Dominion Forge and Stamping, maker of auto parts, warned that any tariff hike would lead to the "crucifixion of their drop forge customers."¹¹⁷

Another tactic adopted by secondary industry was to disparage Algoma's ability to supply the Canadian market. "It is our absolute, firm conviction," stated the John Morrow Screw and Nut Company

that if the American market was not available to us for alloy steels, the automobile industry in Canada could not continue, because in our opinion, the Algoma Steel Corporation are not in a position to supply our requirements within reasonable time limits of delivery.¹¹⁸

It was also commonly feared that tariff increases would place Algoma in the monopolistic position of being the sole provider of certain steel goods in Canada and that "it would be unsound, uneconomical and unfair to tie us down to one source of supply in Canada ..."¹¹⁹ The unkindest blow of all for Algoma to bear was dealt by the railways, its oldest customer. Apprehensive about requested hikes in duty for plate and boiler steel, the C.N.R. insisted that "... it would not be in the railway's interest to add anything to the duty which already requires to be paid on articles which we have to import."¹²⁰

The general attitude of Algoma's critics was that the company was seeking government aid to extricate itself from a predicament of its own making. Algoma was depicted as an industrial "lame duck", whose tariff demands would jeopardize the prosperity of companies that "had the courage to pioneer this new field in Canada without special promises of government aid."¹²¹ If Algoma's demands were acceded to, "inexperience, inefficiency and geography will combine to produce industrial chaos."¹²² In the face of such criticism the company was in an awkward position. In late 1926, W.C. Franz had publicly admitted that the corporation would never "show enough profit to pay \$1,000,000 annual interest on its bonds."¹²³ Just as its overreliance upon rails was the legacy of its founders' headlong exploitation of railway prosperity, so too was Algoma's tarnished image as the sickly puppet of foreign ownership in the 1920's the logical outcome of its reckless financial inception. Vainly trying to offset the company's low credibility, Algoma officials struggled to provide an apologia, citing poor location, dependency on rails and plain bad luck to explain corporate failures. "We were victim, perhaps, of the prevailing optimism of the day," Lake Superior president Dodd reluctantly admitted, "if you cast your mind back you will recall that Northern Ontario was looked at through very rosy glasses."¹²⁴ "Your calculations as to your tonnage of ore were hopelessly wrong," Board chairman Moore angrily replied

Your ore petered out. Then you found yourself located at Sault Ste. Marie without ore and away from your market. Your competitor, the Steel Company of Canada, located in Hamilton, is not here today ... We have to take these things into account ... Are the people of

Canada to pay for your lack of balance of industries?¹²⁵

When W.H. Moore had initiated the Board's steel tariff hearings, he declared that it was his object to present "a clear picture to parliament" of the real tariff needs of the industry. Although the Board never tabled a comprehensive report, much of the controversy surrounding the Algoma application must have filtered through to the federal cabinet. Faced with anything but a "clear picture", the government excused itself from tariff tinkering, citing the fact that the Board was still deliberating and relying on the reviving prosperity of the national economy to etherize discontents bred in the depressed early 1920's. It was not until the budget of May, 1930 that the Liberals attempted any reform of the steel tariff schedule. There is little evidence to suggest that the resultant juggling of steel duties was the direct outcome of the primary industry's persistent attempts to entrench itself behind stiffened protectionism. While Finance Minister Dunning acknowledged "the national necessity of maintaining an efficient and self-reliant iron and steel industry supplying Canadian consumer demand at reasonable prices," he confessed elsewhere that the budget was "... frankly framed to enable us to buy more freely from those countries which buy from us most freely those commodities which are of vital importance to us."¹²⁶ This generally entailed aligning more of Canada's import trade with the chief source of her export trade; that is, increasing British trade at the expense of American trade. For Liberal trade policy makers, Canada's massive deficit in steel trade with the United States loomed large in engineering this process of realignment. The 1930 budget therefore left the

British preference intact, but improved the relative competitiveness of English steel by boosting the level of the general and intermediate protection on many steel items, including new sizes of structural steel, rolled steel, steel plate and skelp for pipe. Almost fortuitously, the budget had extended tangible inducements to Canadian steel producers to enter some of the new lines of production they had so vigorously pleaded for before the Tariff Board. To pacify low tariff groups, agricultural machinery was allowed duty free status on the British preference.

Writing from Toronto, Liberal senator James Spence wrote Mackenzie King that Dunning's budget was a "knockout" from the steel industry's point of view, especially since it had stolen the Tories' thunder.¹²⁷ Spence's enthusiasm was indicative of the budget's reception by most steel interests. W.C. Franz of Algoma, writing in Iron and Steel, spoke enthusiastically of the fact that the government had finally "... recognized the needs of a properly co-ordinated iron and steel industry" thereby giving assurance for large expenditures on equipment for structural, sheet and skelp steel. Iron and Steel editorialized that the tariff changes coupled with coal bounties would provide "just sufficient protection from foreign competition," although the British preferential rates might tend "... to take back with one hand what has been given with the other."¹²⁸ In the Commons, although R.B. Bennett complained that the budget did little for "the development of the great resources of Canada," the Conservatives were left with little to criticize. T.E. Simpson, Tory M.P. for the Sault, frankly admitted that he would vote for the Dunning budget, only bemoaning the fact

that the changes had not come earlier. Only A.A. Heaps, J.S. Woodsworth and a handful of Progressives took violent exception to the budget's steel tariff changes, arguing that they constituted a "class policy" by which capital benefitted at the expense of labour and the farmer.¹²⁹

By calling a federal election for July of 1930, Mackenzie King hoped to capitalize on the popularity of the Dunning budget at the polls. For Algoma Steel, with its close ties with Ontario's Conservative government and the federal Tory caucus, the Liberals' last-minute conversion to protection did not dampen its ardent belief that steel's interests would be best served by R.B. Bennett. "I think we are in a good position," W.C. Franz wrote a week after Bennett's election victory, "to get a fair protective tariff on a number of articles that we had to keep away from with the old government so as not to bring opposition from the west." Franz reported that Bennett had asked to see him in Ottawa "within the next two weeks," confidently adding that the new Prime Minister was "fully familiar with our requirements in the way of tariff protection."¹³⁰

Algoma had much to expect from Bennett. The previous decade of Liberal rule had seen little progress towards overcoming the two chief operational obstacles to its prosperity, self-sufficiency in iron ore and diversification of production. This period of stasis had its roots not only in the limitations imposed by the exigencies of national politics but also in the paralysis inflicted on corporate policy making by the tangled and overextended financial affairs of the corporation. While the brief return of prosperity in the last years of the

decade served to push corporate finances out of the red, allowing some expansion of Algoma's rail and merchant mills,¹³¹ the onslaught of the depression soon obliterated these temporary advances. By 1931 the corporation's directors ruefully reported that "severe depression has been experienced in all lines of business, but in none more so than the steel business."¹³² The tariff changes of 1930 had not necessarily been a case of "too little, too late," they were simply too late.

The 1920's witnessed no appreciable change in the position of Algoma Steel as a primary steel producer. Shackled to an outmoded industrial strategy predicated on the railway-building imperatives of the National Policy, Algoma Steel now found itself encircled by the hostile forces of secondary industry and unable to initiate a diversified industrial strategy better suited to the demands of the post-National Policy Canadian economy. As Iron and Steel sardonically noted in 1927:

It may be set forth as an axiom, therefore that steel companies in Canada have prospered in inverse ratio to the extent that they have entered into the production of the primary forms of iron and steel and its products, and in inverse ratio to the extent they have utilized in such production the raw materials of Canadian mines and quarries.¹³³

Notes

¹Iron and Steel of Canada (hereafter I.S.C.), Sept. 1919, editorial.

²see, W.L. Edmonds, "Production Caught Up with Demand in 1920," Monetary Times Annual, (hereafter M.T.A.), 1921, p. 223. When asked by Finance Minister Drayton at an October, 1920 tariff hearing why construction had been halted on the new structural mill at the Sault, Algoma president Franz cited material shortages and the fact that "some question came up in London between the bondholders there and the corporation." \$2 million had so far been expended on the mill. RG 36/8, vol. 6, 18 Oct. 1920

³I.S.C., Feb. 1920, p. 1.

⁴In the year ending May, 1922 Algoma had rail bookings totalling 51,176 tons and by May, 1923, totalling 75,999 tons. M.T.A., 1924, p. 164.

⁵Minutes of Board of Directors' Meetings, 1922-27, book No. 4, Algoma Steel Historical files.

⁶M.T.A., 1924, p. 164.

⁷M.T.A., 1926; p. 182 and Kilbourn, Elements, op. cit., pp. 102-12. Stelco was not however without its difficulties in the early 1920's but by 1921, as Kilbourn concedes, it was "the least damaged of all the Canadian steel companies."

⁸M.T.A., 1922, p. 30 and I.S.C., Annual Report, 1922.

⁹Annual Reports, 1921-3.

¹⁰"Report on Algoma Steel," Coverdale and Colpitts, New York, 15 Aug. 1923, J.A. McPhail Papers, P.A.O., box 7.

¹¹"Condensed Summary of Freyn, Brassert: Company's Report on Algoma Steel Company," 10 May, 1924, Ferguson Papers, P.A.O., 1924 general correspondence.

¹²"Mooted Changes at the Soo," J.C.S., Aug. 1923, p. 156.

¹³W.C. Franz to J.A. McPhail, memo. Sept. 1927, McPhail Papers, Box 8.

¹⁴Gary to Borden, 17 Feb. 1917 and G. Foster to Gary, 26 Feb. 1917, Borden Papers, vol. 218, file 2-29.

¹⁵C.F. Whitton, "The Present Position and Future of the Iron and Steel Industries in Canada," Iron and Steel of Canada, Feb. 1918, p. 29.

¹⁶ ibid., p. 37.

¹⁷ C.A.R., 1920, p. 191.

¹⁸ "Where are the Leaders?," I.C.S., March, 1922, p. 37.

¹⁹ Throughout the 1920's iron ore from the American shore continued to pour into the eastern industrial heartland; 56,814,500 tons being shipped between 1920 and 1930. Lake Superior Iron Ore Association, Directory of Mine Operations and Statistical Data, Duluth, 1935, p. 25. While the extractive industry bustled, efforts to establish integrated steel works on the Superior shore foundered. Plans for steel works at Duluth and the American Sault failed earlier in the century. "The projections," notes an historian of the American industry, "were all sadly awry, ambitions remained unfulfilled, for in each case there was a strange lack of appreciation of the economics of iron and steelmaking, and the intrinsic unsuitability of the upper lakes district." K. Warren, The American Steel Industry: 1850-1970 A Geographical Interpretation, Oxford, 1975, p. 73.

²⁰ Ontario Bureau of Mines, Annual Report (hereafter OMB Report), vol. 28, 1919, pp. 31-2.

²¹ OMB Report, vol. 30, 1921, p. 66.

²² Mineral Resources Division statistics, submitted to the Tariff Advisory Board, RG 36/11, vol. 5, file 2-29.

²³ ibid., Between 1914 and 1918 the price averaged \$3.00.

²⁴ I.C.S., June, 1920, p. 139, T.W. Gibson, Mining in Ontario, Toronto, 1937, p. 136 and Monetary Times Annual, 1924, p. 160.

²⁵ Gibson, op. cit., p. 134.

²⁶ OMB Report, vol. 34, 1925, p. 22.

²⁷ I.S.C., Jan. 1931, p. 9.

²⁸ "Canadian Iron Ores Can Be Used," I.S.C., April, 1923, p. 72.

²⁹ I.S.C., Nov. 1920, p. 292.

³⁰ D.H.C., 21 Feb. 1927, p. 522. For contemporary geological explanations of the formation of iron deposits on both sides of Lake Superior, see: T.W. Gibson, Mining in Ontario, op. cit., p. 134; E. Lindeman and L.L. Bolton, Iron Ore Occurrences in Canada, 2 vols., Ottawa, 1917; W.A. Parks, "The Mineral Resources of Northern Ontario," Journal of the Royal Society of Arts, vol. 73, Aug., 1925 and The Iron Ores of Lake Superior, Crowell and Murray, Cleveland, 1927.

31 It was estimated that Huronian rock comprised only 12% of the Shield. Parks, op. cit., p. 900.

32 A.L. Parsons, "The Productive Area of the Michipicoten Iron Ranges," OMB Report, vol. 24, 1915, pp. 185-203; A.B. Willmott, "The Iron Ores of Ontario," Journal of the Canadian Mining Institute, vol. XI, 1908.

33 On the Utilization of the Low Grade Iron Ores of Canada, Honourary Advisory Council for Scientific and Industrial Research, Ottawa, 1924, p. 12.

34 J.B. MacDougall, "Two Thousand Miles of Gold: From Val d'Or to Yellowknife", Toronto, 1946, pp. 166-7.

35 Sault Ste. Marie tariff hearing, 18 Oct. 1920, RG 36/8, vol. 6, p. 1791.

36 C.P. McCormack, "The Economics of Iron Ore Beneficiation," in Crowell and Murray, Iron Ores, op. cit., p. 118.

37 ibid.

38 On the Utilization ..., op. cit., p. 27 and Report of the Iron Ore Committee of Ontario, Toronto, 1923, p. 161.

39 C.K. Leith, "Report on Helen Siderite Property," 10 Aug. 1917, DP 320.

40 Only 26,385 tons of Moose Mountain briquettes, 63% iron, were produced by 1920

41 Parks, op. cit., p. 909. See also, W.H. Collins, T.T. Quirke and E. Thomson, Michipicoten Iron Ranges, G.S.C. memoir 147, Dept. of Mines, Ottawa, 1926.

42 "On the Utilization ...," op. cit., p. 5.

43 ibid., p. 55.

44 C.A.R., 1914, p. 383.

45 C.A.R., 1920, pp. 252-4.

46 see testimony of R.J. Manion and J.J. O'Connor at tariff hearings of 16 Oct. and 18 Oct., 1920, RG 36/8, vol. 6.

47 I.S.C., Sept. 1920, p. 235.

48 I.S.C., Nov. 1920, pp. 314-5, and June, 1921, p. 146; also, "The Development of New Ontario," speech draft by W.L.M. King, n.d., King Papers, J4 series, vol. 125.

⁴⁹J.A. Hussey at Sault tariff hearing, 18 Oct. 1920, op. cit., p. 1753.

⁵⁰I.S.C., Feb. 1921, p. 3 and May, 1921, p. 104.

⁵¹Jones to J.A. McPhail, 7 Dec. 1922, McPhail Papers, box 4, see J.D. Jones, "The Development and Use of Low Grade Iron Ores," speech to Sault branch of Canadian Mining Institute, Dec. 1922, DP 312.

⁵²"Uncertain Outlook in Iron and Steel," M.T.A., 1920, p. 238.

⁵³I.S.C., March, 1920, p. 50.

⁵⁴see Debates of the House of Commons, (hereafter DHC), 30 April 1924, p. 1619.

⁵⁵I.S.C., July, 1922, p. 113.

⁵⁶ibid., p. 118: The conference also voiced the recurrent complaint that too little mining exploration was done in Ontario. The Canadian Institute of Mining and Metallurgy pointed out that less than 50,000 feet of diamond drilling had been done in Ontario as opposed to over 11,000,000 feet in Minnesota. I.C.S., Feb. 1922, p. 19.

⁵⁷Report of the Ontario Iron Ore Committee, Toronto, 1923, p. 10; see H.V. Nelles, The Politics of Development, op. cit., pp. 431-33 and P. Oliver, G. Howard Ferguson: Ontario Tory, op. cit., chp. 10.

⁵⁸I.S.C., March, 1920, p. 50 and Dec. 1923, p. 243. In 1925, Quebec passed an Iron Ore Premium Act.

⁵⁹C.A.R., 1924/5, p. 274.

⁶⁰Ferguson to E. Fitzgerald, 8 June, 1925, Ferguson Papers, 1924 general correspondence. Fitzgerald had wartime experience with the steel industry with Flavelle and the I.M.B.

⁶¹Frater Taylor to E.R. Wood, 21 Oct. 1924. ibid.

⁶²Ferguson to Wood, 24 Oct. 1924, ibid.

⁶³J.A. McPhail to M.J. Insull, 8 Dec. 1924, McPhail Papers, box 4.

⁶⁴Fitzgerald to Ferguson, 12 April, 1926, Ferguson Papers, 1926 Algoma Steel file.

⁶⁵McPhail to Cunningham, 18 Feb. 1927, McPhail Papers, box 4. "... the Provincial Government," McPhail noted, "is a one man concern and that one man in[sic] the Prime Minister."

⁶⁶ see C. Armstrong, "The Politics of Federalism: Ontario's Relations with the Federal Government 1896-1941," unpublished Ph.D. thesis; University of Toronto, 1972. Armstrong comments that: "Ontario policy-makers made their customary assumption that provincial and national goals were or ought to be identical. The fact that they were not led to interminable wrangling between Howard Ferguson and Mackenzie King." p. 249. See also, P. Oliver, Ferguson, op. cit., Chp. 9.

⁶⁷ DHC, 8 March, 1929, pp. 788-9 and 15 March, 1927, p. 1236.

⁶⁸ ibid., 22 May, 1928, p. 3260-2.

⁶⁹ copy of speech, dated 15 Nov. 1927, Malcolm Papers, P.A.C., vol. 11.

⁷⁰ DHC, 2 March, 1928, p. 991.

⁷¹ speech draft for budget debate of 1928, Malcolm Papers, vol. 11.

⁷² "One Step Nearer to an Iron Ore Supply," I.S.C., Feb. 1931.

⁷³ I.S.C., Jan. 1926, p. 4.

⁷⁴ DHC, 18 March, 1929, p. 1058.

⁷⁵ ibid., 17 May, 1926, p. 3424.

⁷⁶ I.S.C., Nov. 1924, p. 207.

⁷⁷ DHC, 3 May, 1926, p. 3049. In 1928, Thomas Cantley complained to the House that there were seventy items on the free list or with 99% rebate, ibid., 22 May, 1928, p. 3260.

⁷⁸ M.T.A., 1921, p. 246.

⁷⁹ W.C. Franz to J.A. Robb, 3 April, 1926, Advisory Board on Tariff and Taxation Papers, RG 36/11, (hereafter ABTT).

⁸⁰ I.S.C., Sept. 1924, p. 160 and DHC, 13 Feb., 1925, pp. 153-4.

⁸¹ C.C. Ballantyne to Meighen, 8 Feb. 1924, memo attached, Meighen Papers, #034255-60

⁸² I.S.C., May, 1924, p. 86.

⁸³ ibid., Sept. 1924, p. 159.

⁸⁴ Iron and Steel and Their Products, D.B.S., Ottawa, 1926, table

⁸⁵Frater Taylor to Ferguson, 3 Feb. 1925, Ferguson Papers, 1925 general correspondence.

⁸⁶DHC, 23 April, 1926, p. 2753 and W.C. Franz to H. McKinnon, 5 July, 1926, ABTT, vol. 1.

⁸⁷I.S.C., Oct. 1925, p. 203.

⁸⁸DHC, 12 April, 1929, p. 1522 and 6 May, 1930, p. 1821; see also W.C. Franz, "The Steel Industry Needs," I.S.C., March, 1926, p. 97.

⁸⁹DHC, 12 April, 1929, p. 152.

⁹⁰ibid., 16 March, 1927, p. 1264.

⁹¹"I had great hopes that Meighen would come in with a clear majority and we could look for better times in those industries that must have protection." J.H. Dunn to E.R. Wood, 9 Nov. 1925, DP 295.

⁹²C.A.R., 1926/7, p. 268 and 1928/9, p. 271.

⁹³Iron and Steel and Their Products, D.B.S., Ottawa, 1935, tables 49, 52 and 53.

⁹⁴DHC, 9 April, 1929, p. 1384.

⁹⁵King to A.W. McCall, 24 Feb. 1938, King Papers, J1 series, vol. 154.

⁹⁶Moore to King, 29 Jan. 1929, ibid. The Board was convened under P.C. 530, 7 April, 1926 and was responsible to the Minister of Finance.

⁹⁷The Algoma application alleged, for instance, that Buffalo pig iron could be delivered to St. Catherines, Ontario, for \$2.30 per ton, whereas freight from the Sault was \$4.90 per ton. The precariousness of tariff protection was revealed in that Buffalo's freight advantage was only just covered by the \$2.80 per ton tariff. ABTT, files 2-1 and 2-41, vols. 1 and 5.

⁹⁸ibid.

⁹⁹The workers' petition estimated that Sault labour had been deprived of \$17 million in wages by steel imports between 1920-26. ibid., file 2-1, exhibit 10.

¹⁰⁰Report of 10 Aug. 1926, file 2-16, ABTT, vol. 3.

¹⁰¹"Report on the Iron and Steel Industry of Canada," ibid., file 2-29, vol. 4.

¹⁰²A.P. Theuerkauf, "Report on European Steel Situation," 18 April, 1927, ibid., file 2-34, vol. 4.

- 103 ibid.
- 104 Report of J. Dix Fraser and D.M. McDougall, 29 Jan. 1929, ibid., file 2-50, vol. 5.
- 105 Confidential report to W.H. Moore, 15 Sept. 1928, ibid., file 3-15, vol. 9.
- 106 ABTT; Record of Public Hearing, 29-31 Jan. 1929, p. 98; Diplock to Moore, 23 Jan., 29 Jan. and 7 March, 1929, ABTT, file 2-8, vol. 2 and Mail and Empire, 3 Jan. 1928 and 1 Feb. 1929.
- 107 C.A.R., 1928/9, pp. 274, 335; I.S.C., Sept. 1926, p. 240, and Kilbourn, Elements, op. cit., pp. 136-40.
- 108 ABTT Record, 29 Nov. 1928, pp. 112-3.
- 109 Dominion Foundries and Steel application, 25 June, 1926, ABTT, file 2-8, vol. 2.
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CHAPTER FIVE

A Canadian in the "Financial Aristocracy" of Europe: The Financial Career of Sir James Hamet Dunn 1900-30

My idea is that with proper [tariff] protection for this industry we can take hold of the [Algoma] situation together and not only substantially improve our position but make some money out of reorganizing the positions. I have reason to believe that the holders on this side of the Atlantic are rather tired of the situation and would go out pretty cheap. This is confidential but I think I am well informed.¹

This resolve, expressed in late 1925 to E.R. Wood of the National Trust Company by London financier Sir James Dunn, marked the beginning of the first decisive turning point for the foundering Lake Superior Corporation since the days of F.H. Clergue. Although it was to be nearly a decade before Dunn could manoeuvre his way to the command of Algoma's affairs, his intervention would ultimately effect a radical transformation in the corporation's troubled financial and operational fortunes. For Dunn too it was ultimately to mark a most significant watershed in his long career. Up to the mid-1920's, Dunn had operated with breathtaking success in the financial maelstrom of the City of London, spreading his lucrative activities out over four continents. Only twice before had he strayed from the world of finance into the realm of industrial management and on both occasions he had emerged beaten and somewhat poorer. With the decision to launch his putsch on the Lake Superior Corporation, Dunn again sought to marry his financial acumen to the problems of industrial direction. His subsequent triumph as a captain of industry at the helm of Algoma would vividly illustrate that the skills and objectives of mercantile and industrial capitalism in Canada were by no means mutually exclusive.² Dunn's

bid to enroll in the ranks of industry would not only reveal much en route about Algoma and the Canadian iron and steel industry but would also shed much light on the dark recesses of Canadian financial history.

Dunn was a member of a small but illustrious band of Canadians who emerged from the forests of New Brunswick in the late nineteenth century and went on to build stellar careers in business, law and politics throughout the Empire. Andrew Bonar Law and R.B. Bennett captured Prime Ministerships on both sides of the Atlantic. Although born in Ontario, Max Aitken, later Lord Beaverbrook, was raised in Newcastle and was always a New Brunswicker at heart. From Nova Scotia, the Maritime exodus was joined by I.W. Killam and Cyrus Eaton. James Hamet Dunn, born in St. Peter's village outside Bathurst on 29 October, 1874, was immediately confronted with some of the unpleasant realities of life in late nineteenth century Maritime Canada. His grandfather and father, first and second generation Irish-Canadians, had seen the New Brunswick timber trade, the source of their livelihood, steadily decline since the mid-century. When Robert H. Dunn, the father, died from pneumonia caught from a winter spill into Bathurst harbour, young Dunn's upbringing fell upon his hard-working and self-reliant mother, Eliza, who provided the boy with adequate but by no means sumptuous surroundings.³ Other than his unassuming origins, Dunn's early years, he later claimed, were molded by two predominant influences: the set of Presbyterian values inculcated by his Church and the stimulation provided by his exposure to the world of learning. Beaverbrook later claimed that, like himself, Dunn was indelibly

impressed by the message of the Presbyterian Shorter Catechism which made a "bold virtue of getting on in the world."⁴ "Getting on" for Dunn first took shape in the classroom where he apparently proved an "apt and conscientious" student, a status that grew from a lusty appetite for work and a self-assured cockiness. A voracious reader with a taste for historical writing, young Dunn soon displayed a prodigious, if not photographic, memory.

If history gave Dunn an awareness of broader horizons in the world; the bleak parochialism and economic grimness of North Shore New Brunswick must have shown him that Bathurst offered little opportunity for "getting on" in the world. In later years, he claimed that he made his first dime by retrieving stray logs from the beaches of Chaleur Bay. This was obviously not enough; for Dunn's adolescence in the 1890's was marked by brief sallies into the wider world in search of employment and experience, first to Lynn, Massachusetts to wrap armatures for the Thompson Houston Company, then to the Great Lakes to work as a deckhand and finally to England as assistant to a traveling "professor of memory". "From that time on fortune buffeted me about," he later recalled, "and I've always thought the buffets were the best possible things that fortune ever did to anybody because they make you more determined to do something different."⁵ Returning to Bathurst, Dunn determined that a legal career offered the best chance of advancement to one without wealth or social standing. Having articulated under a local solicitor in Bathurst, where he first met Dick Bennett, while on a legal errand to Chatham, Dunn enrolled in Dalhousie law school in 1895. Once in Halifax, he never looked back.

Throughout his life, Dunn harboured a deep nostalgic yearning for New Brunswick. The memory of his North Shore childhood served to remind him, like Beaverbrook, of his humble origins, thereby embellishing the "success" stories he relished telling in the cosmopolitan circles in which he later found himself. "Are there any New Brunswickers in Jerusalem?", Dunn once cabled Beaverbrook.⁶ More importantly, the maritime orientation of the New Brunswick economy provided Dunn and Beaverbrook with a world view that had a decidedly oceanic perspective, an attitude that gave parochial New Brunswick much greater meaning in the world of the empire than in continental Canada. This transatlantic frame of mind was reinforced by the belief, clearly held by Dunn, that New Brunswick's Loyalist heritage gave it a distinct political role to fulfill in the empire. From London, Dunn saluted R.B. Bennett's 1930 election victory as "a great day for New Brunswick and the Empire."⁷ Similarly, Dunn welcomed Beaverbrook's Empire Free Trade crusade as the portent of "a new Elizabethan age"⁸ and told the Montreal Star in 1928 that "England regards Canada as the first hope of the British Empire in the future and the eventual centre of Anglo-Saxon power and culture."⁹ New Brunswick thus bred in Dunn the habit of thinking in expansive imperial terms, much the same outlook that was required in the world of international high finance which Dunn was to frequent for the next four decades.

Hard pressed to finance his legal education, Dunn resorted to casual jobs as a librarian and harbour worker. An opinionated and argumentative student,¹⁰ he caught the attention of both his professors and Haligonian lawyers, with the result that he was taken on at

graduation by the prestigious firm of Pearson and Covert. It was Benjamin F. Pearson, promoter of the Halifax Tramway and ally of American industrial promoter Henry M. Whitney, who first showed Dunn that the legal profession could serve as an entree to many other realms of activity. The interlude at Pearson and Covert supplied the young lawyer with adequate contacts to draw him away from Halifax and into the vortex of central Canadian economic life.¹¹ Through the Pearson offices, Dunn glimpsed the brightest stars of industrial promotion in Canada, ranging from railway mogul William Mackenzie to utilities wizard Fred S. Pearson. Advised by B.F. Pearson to establish a legal career in Alberta, Dunn spent a brief stint in Edmonton as a legal counsel for railway promoters, notably those of the Edmonton, Yukon and Pacific Railway.¹² Although his two young friends Max Aitken and Dick Bennett lingered in the burgeoning West, Dunn chose to return east to lobby for various railway schemes before the Department of the Interior. "The west must pay tribute to the east," he quipped to Aitken, "and I'm off to the east where I can collect tribute."¹³ Again on Pearson's recommendation, "Jimmy" was employed by the preeminent Montreal legal firm, Greenshields, Greenshields and Heneker, where under the tutelage of J.N. Greenshields he handled the firm's railway lobby in Ottawa and Quebec.¹⁴ By 1901, Dunn's peripatetic career had come to a halt in Montreal, only however after he had been called to the bar in Nova Scotia, the Northwest Territories and Quebec.

Montreal provided the salubrious environment in which Dunn's professional and social ambitions took root and blossomed rapidly.

Barely established as a lawyer, Dunn married Gertrude Price, daughter of a wealthy Quebec City lumber merchant, in August, 1901. Borrowing \$20,000 from his father-in-law, H.M. Price, Dunn purchased a seat on the Montreal Stock Exchange in August, 1902 and established a brokerage firm under the name of J.H. Dunn and Co.* Association with Greenshields had brought him a new set of contacts and one step nearer the complex financial nexus that serviced the immense capital demands of Canada's burgeoning economy.¹⁵ It was a business world predicated on a heavy reliance upon English capital market supported by a transatlantic financial fellowship of promoters, backed by an ancillary echelon of brokers and lawyers. A novice in this world, Dunn initially specialized in two brokerage activities: arbitrage¹⁶ and flotations. "Referring again to the question of arbitrage," Dunn instructed his London agent in 1906,

we notice from comments in the London papers that the stock of Montreal Heat, Light and Power Company is dealt in fairly actively on your market. As this is one of the most active stocks on the Montreal market it seems to us that if any sudden rise or fall in its price on this side is promptly communicated to you, profitable business may be done ...¹⁷

To exploit the full potential of this trade, Dunn established a London office in 1905 in partnership with a Swiss-born investment broker, C.L. Fischer, under the name of Dunn, Fischer & Co.

While immense profits could be made by capitalizing upon fractional differences in price between two markets, arbitrage operators stood to diminish their risk and increase their profit if they could in some measure manipulate market movements. Once again, trusts and secrecy were of imperative importance. Groups of brokers or "syndicates" were

*see Appendix A.

formed with the purpose of cornering a stock, seizing control of it and then juggling the price up (a "bull" attack) or down (a "bear" attack). "Do not try [to] clean up [the] Canadian market," Dunn typically instructed London in code, "until I advise you to, as I may need to force some selling here."¹⁸ If a syndicate did not have control, such attacks on the market could backfire miserably, as apparently happened when Dunn tried to force up the price of Dominion Iron and Steel stocks only to see the price collapse, entailing considerable losses.¹⁹ Dunn's arbitrage dealings covered many of the popular Canadian securities of the day including the Electrical Development Corporation, various Latin American utilities ventures, Canadian street railways and national railways. In each case, the arbitrage syndicates sought to inhibit the free play of the market and to induce artificial prices. This cynical exploitation of the market by these syndicates secretly undermined any pretense of equal opportunity for the small investor. As Robert Horne-Payne, English financial lieutenant of Mackenzie and Mann, told Dunn in 1907.

As soon as we find that there are no more [Rio] bonds offered in Canada, we must set to work to draw all the attention to them in Canada that we can, because when once the Canadian public finds that there is no supply with their speculative inclinations, there is nobody like them to run a price up. I think one fine day we shall find there is not a Bond to be had either in Toronto or Montreal and then you must fix fireworks in the local press.²⁰

From arbitrage, it was logical that Dunn would progress to the field of flotations and underwriting. Here again the key to lavish profits lay in gaining control of a new security by forming an hermetic syndicate to underwrite its issue. The underwriter stood to

enhance his investment either by manipulating prices or by taking free stock bonuses on bond issues, gambling that the market popularity of the bonds would pull the stocks' value up in its wake. One of Dunn's first underwriting participations was in Sir William Van Horne's Havana Electric Company, a Canadian incorporated venture capitalized on the London market.²¹ Participation in such syndicates provided Dunn with invaluable contacts among Canada's legal and financial élite, an illustrious group including Sir Henry Pellat, Mackenzie and Mann, Z.A. Lash, Sir George Drummond, E.J. Clouston and lesser but expanding lights such as Amelius Jarvis and G.W. Farrell. Despite occasional setbacks, Dunn quickly exhibited the perspicacity and driving ambition to survive in this Darwinian world of finance. In later years, he would wistfully refer to this halcyon period as "the old developing days" when he imbued the wisdom of established financiers, most notably William Mackenzie and F.S. Pearson, men who "carried out great enterprises and gave some of us younger men a chance."²²

Tempted by the success of Mackenzie and Mann's Canadian Northern, Dunn approached Prime Minister Laurier in June, 1904 as a suppliant for the position of secretary to the commission appointed to build the government section of the Grand Trunk Pacific. Citing his "good legal and business training," Dunn assured Laurier that he was "comfortably independent of financial returns."²³ Rebuffed in this bid for a career as a western railway promoter, Dunn made the momentous decision to leave Montreal and to seek the greener financial fields of London. Selling his seat on the Montreal exchange, he departed Montreal in 1905, consolidating himself in the Dunn, Fischer firm in

the City of London, leaving his junior partners in J.H. Dunn & Co. in Montreal to oversee the Canadian terminus of what he hoped would grow into a thriving transatlantic arbitrage and investment business. For Dunn it was a natural step closer to the centre of world finance, a step soon to be taken by other young Canadian financiers, notably Max Aitken and E.R. Peacock.

While London offered a much broader and more appetizing field for investment, the oceanic shift was chiefly prompted by his growing relationship with Fred Stark Pearson, the dynamic American engineer, promoter and financier who did more to mold Dunn's formative years than any other influence. Born in Massachusetts in 1861 and schooled as an engineer at Tufts and M.I.T., Pearson possessed an uncanny ability to visualize the applications of electric power to the urban and transportational needs of late nineteenth century America.²⁴

This proclivity for invention and adaptation of a new technology was first displayed in his harnessing of "white coal" to the needs of municipal power and streetcar companies in Boston and New York, where he built generators of a size and efficiency that defied the imagination of more timid engineers. Pearson's stellar abilities drew him on assignment to tasks outside the United States, including a stint at Cape Breton's Dominion Coal Company in the 1890's and the construction of the Lac du Bonnet power station outside Winnipeg. The magnitude and ingenuity of Pearson's feats of electrical engineering inexorably drew him into a close alliance with the world of finance. The emerging public utilities barons of the United States, men like the English-born Insull brothers, built their empires on the rudimentary but

convincing dictum, that to be exploited efficiently electric-power must be produced monopolistically. The bigger the producer, the greater the saving to the public. Whereas in Canada this logic led to the people's power movement, culminating in Adam Beck's Ontario Hydro,²⁵ in the United States it fostered the growth of giant utility conglomerates like the Insull's Middle West Utilities Corporation. Such corporate monsters glittered in the eyes of financiers as a potential font of lush profits. Because his projects required massive capitalization, Pearson was inexorably drawn into league with financiers who stood ready to promote and exploit the lucrative possibilities of the engineer's genius. Following in Pearson's path was the more flamboyant but less gifted Percival Farquhar, a Pennsylvanian Quaker trained in law, whose ambitious railway promotions brought him to the London and New York money markets to capitalize his grandiose schemes.²⁶ It was to dextrous financiers like James Dunn that Pearson and Farquhar turned in the City.

Pearson and Farquhar were quick to realize that if handsome profits were to be made from public utilities in North America, even greater profits were to be earned in the technologically starved and capital poor areas of Latin America. Beginning with the surge of interest in the "new Cuba" of 1898, American syndicates calculated that with the promise of supplying relatively cheap electricity, water and public transportation to sprawling Latin American metropolises they could extract from grateful, if unsuspecting, municipal governments monopolistic rights to these services, in some cases, in perpetuity. Besides this "inestimable advantage," as Farquhar put it, Latin

American enterprises were free of all the entanglements of government regulation that had come, in businessmen's eyes, to plague American railways.²⁷ The best means to achieve these ends was often found in a charter obtained under lax Canadian laws, in much the same way as American firms sought refuge under elastic corporate laws of New Jersey and Illinois.²⁸ In the early years of the new century, a steady stream of Latin American, Caribbean and Central American enterprises were chartered under Canadian law.²⁹ Incorporation in Canada afforded a company a nominal domicile and subjected it to company laws that from any point of view, except the promoters', left much to be desired, provided the company guaranteed "that their operations will be carried on entirely without the Dominion of Canada."³⁰ These so-called "4K" companies, replete with Boards of Directors "stacked" by Toronto corporate law offices, exploited legal loopholes permitting the publication of imprecise prospectuses, skimpy audits and irregular annual reports.³¹ Control being the crucial factor in promoters' eyes, Canadian laws endowed the small investor with paltry rights. "The minority shareholder is rarely the subject of compassion," complained one critic of the laws. "He is usually regarded as a 'kicker' or a noisy fellow who has lost in the game and deserves no consideration."³² As Dunn's partner Fischer once arrogantly boasted about a proposed bank: "We will control the board, and, if we find it necessary we can at anytime issue another 100,000 or 200,000 f. of shares and subscribe them ourselves."³³

Since the insubstantial investing public in Canada could provide little of the capitalization needed for these foreign ventures, Canadian

brokerage firms, like Dunn's in Montreal, participated in syndicates that steered their bonds and stocks on to the London and New York markets. "I do not see that Canada has done anything for this enterprise," Dunn noted of the Mexico North Western Railway in 1910,

and the directors he [Pearson] has there outside the firm of Blake, Lash and Cassels who are paid for their work are mere figureheads ... London is entitled to any profits that are to be made on the financing of the company as London will eventually get the bonds any way whether they are sold here or in Canada.³⁴

Immense profits were generated for the brokers of these issues through underwriter's commissions, stock bonuses and what could be skimmed off by arbitrage.³⁵ Dunn was instrumental in flotations of various Pearson and Farquhar enterprises, ranging from the Rio de Janeiro Tramway, Light and Power to the Denver and Northwestern Railway, thereby dramatically expanding his financial horizons and ambitions from the rather narrow possibilities of Canadian finance to the unbounded potential of investment banking on many continents. After 1904, Dunn had only a minimal interest in the possibilities of financing Canadian endeavours. In fact Dunn's Canadian connection was abruptly severed in 1907/8 by the collapse of the Sovereign Bank and J.H. Dunn & Co., in Montreal. The episode vividly exposed the ruthlessness with which the financial world punished those who abused the implicit trust upon which syndicates and transatlantic partnerships were built.

Dunn, who by 1907 was a director of the Sovereign Bank, relied very heavily upon the bank to supply "call loans" with which he financed further investments, using securities already held on margin.

as hypothecated collateral. Such precarious arrangements worked well in times of financial vitality but any financial downswing, such as the "panic" of 1907, caught the borrower over-extended. Faced with \$282,876 in "call loans" from the Sovereign by mid-1907 and a stern demand for repayment, Dunn found his ability to make good his liabilities severely restricted by the prevailing financial downswing. Sovereign president D.M. Stewart had little option but to cover Dunn's position, arranging special terms with the bank's foreign allies, J.P. Morgan & Co. and the Dresdner Bank. Surrounded by "whispers of pessimism and criticism of his methods,"³⁵ Stewart's position became untenable and he fled the country to Alaska, later telling Dunn it was "solely for my health."³⁷ Fortunately for Dunn, Stewart was replaced as president by Amelius Jarvis, a Toronto stockbroker friend, and by the time the Sovereign collapsed for good in 1908, Dunn had extricated himself from his debts.³⁸

Less propitious was the collapse of J.H. Dunn & Co. Caught in the 1907 "panic", Grey and Hughes, Dunn's Montreal surrogates, had financially over-extended themselves without consulting their senior partner. Fearful of Dunn's reaction to his state of affairs, Victor Grey committed suicide. Alleging that Grey personally owed him "more than \$60,000", Dunn insisted that the remaining partner, Hughes, take out life insurance to the extent of his liabilities.³⁹

It was Dunn's ruthless proficiency, tireless energy and insatiable appetite for profit that pushed him to meteoric success in the financial world. The years 1906-14 were for Dunn a period of rapidly escalating success that led to millionaire status, a dazzlingly

lavish style of life and a much heralded international reputation. To his social acquaintances, he was a "galvanic force", a "human dynamo."⁴⁰ To the artistic world which he opulently patronized, Dunn was "the friendly financier",⁴¹ "a man of blustering tempers, kind impulses and excellent business acumen."⁴² Most importantly, he was, in the words of the preeminent Otto Kahn, "a greater financier than all of us."⁴³ From his Threadneedle street office Dunn coordinated and participated in financial syndicates with investments from South America to Norway and from Spain to Mexico. The financial substructure of these enterprises encompassed millions of small investors in Europe and America, all bound together by the salesmanship of the financial moguls of New York, London, Brussels and Berlin. In the dizzy years before the Great War, Dunn had solidly established himself in what a friend dubbed the "financial aristocracy" of Europe. Writing to Dunn in 1912 from what must have seemed relative exile in Davidson, Saskatchewan, one of his old Dalhousie schoolmates admirably noted:

I am always glad to note that you and my old friend Max Aitken, now Sir Max, are top notches in the financial world of the old country, and my best wish is to see you ... a member of what our old friend the Dean called 'the most exclusive club in the world';⁴⁴

Dunn, Fischer and Co. thrived in the charmed circle of merchant banking. Since the Napoleonic wars, the merchant bankers' activities had been sheathed in an aura of mystery and respect. The great houses of Speyer and Baring became synonymous with the spread of industrialism and British economic hegemony, serving to give the term "London banker" a "charmed value", in the words of Stanley Baldwin, and so

Lombard Street, which received money from one part of the world and lent it to the other, became ... a world conception."⁴⁵ With the twentieth century, the role of the merchant banker began to diversify so rapidly that although Speyers, Barings, Seligmans and Rothschilds continued to thrive, they did so in the presence of a new type of merchant banker whose activities defied generalization. The classical definition of merchant banking became debased to the point that "conversationally ... the word 'merchant banker' has come to cover any type of financier, financial adventurer, or promoter of mergers, of whatever standing or achievement."⁴⁶ James Dunn's London career exemplified this development.

The Pearson-Dunn partnership was on the edge of the new frontier of merchant banking, for while Pearson was not a member of a financial house himself, their activities broke down the old barrier that sealed the banker from participation in the actual entrepreneurial process. Not content to be a mere purveyor of capital, Dunn actively cultivated projects which would generate capital demands and, wherever possible, dextrously manipulated both the promotional and the financial aspects of the same project by means of a common syndicate. Hence, while 41 Threadneedle Street acted as head office of the English Construction Company, a Costa Rican firm established by a Dunn syndicate in 1912, it was also the brokerage firm handling the company's flotations.⁴⁷ While himself commissioning agents to ferret concessions out of Latin American governments,⁴⁸ Dunn was also constantly in receipt of proposals forwarded by technological missionaries, like Pearson, Farquhar and Sir Robert Perks, outlining lucrative opportunities

stretching from Havana to St. Petersburg.⁴⁹ The resultant syndicates straddled continents, with underwriters in New York, London and European financial houses linking the throngs of small investors with the promoters and managers of far-flung enterprises. While Dunn's involvement at times stretched over as many as several dozen such syndicates, the real fulcrum of his activities rested on the Pearson enterprises; the Spanish, Mexican and Brazilian utilities ventures so well regarded by the investing public. Increasingly assisted by Alfred Loewenstein, a shrewd and ambitious Brussels' broker, with extensive European connections, Dunn used this investment pipeline to generate staggering profits through commissions, stock bonuses and arbitrage.⁵⁰ To the present, Brazilians describe their tramcars as "bondes", honouring the bonds of the Canadian chartered companies that established their urban utilities.⁵¹

The profitability of any syndicate hinged upon two crucial factors: an airtight and lucrative concession and absolute control for the promoters. The extraction of concessions from foreign state and municipal governments was the forte of F.S. Pearson. Hungry for the civilizing touch of technology and untutored in the intricacies of modern science, foreign governments often succumbed to the blandishments of the promoter, yielding concessions of incredible latitude. The Mexican Tramways syndicate, for instance, secured a franchise for the sole right to operate trams in downtown Mexico City until 1982 together with a perpetual lease of the city's suburban routes.⁵² In 1912, Pearson negotiated a hydro concession with exclusive rights for the Spanish city of Barcelona. After securing Canadian incorporation

and establishing "excellent relations" with the Spanish government and King Alfonso XIII Pearson launched the Barcelona Traction, Light and Power Company which, through concessions and purchases of existent companies, soon enjoyed a near complete grasp on the power potential of the Ebro River, from which Pearson envisaged net earnings of £ 1,184,000 by 1917.⁵³

An ample concession assured, the syndicate's next objective was to ensure itself the inside track on the road to corporate profits. A syndicate could exploit a flotation for much more than the usual underwriter's commission. When contracting the flotation of a 1911 loan for the state of Santa Catharina in Brazil, Dunn sought to buy bonds en bloc from the state at 85½ and to sell them in Europe at between 89 1/8 and 94 5/8, leaving him with a 6% markup profit with the promise of further earnings from accompanying bonuses of stock. These stocks, valueless at the time of issue, represented a windfall profit when and if the enterprise in question became popular in investors' eyes. "Our final position," Fischer reported to Dunn on their commitment to the Havana Docks Company, "in the business will therefore be that we get as [stock] bonus with the bonds 37½% and in addition, ½ of the surplus stock which is 18 3/4% together with 10% of the construction profit in cash."⁵⁴ The whole strategy of syndicate flotation pivoted on majority control, a condition which enabled the participants to subtly induce a "bullish" market onto which they could dump their bonds and stocks. "One must find the psychological moment when the market can be turned and driven in the way that will make the short cover and induce independent buying," Dunn advised Farquhar.⁵⁵ When a "bear"

attack, intent upon depressing prices materialized, Dunn adroitly marshalled a syndicate's "friends" to dike his position. "The different friends of the company," he reported to F.H. Deacon of Toronto, "seem to be working much more in harmony and the bear party have used up their ammunition in the way of scarce rumours."⁵⁶ Dunn was not always so lucky. Having invested heavily in a 1910 bid to refinance the Rock Island Line, a Pearson-Farquhar bid to build a U.S. trans-continental, Dunn lost substantially when two partners sold on a rising market. "Next time," Dunn bitterly concluded, "we will be more sure of our associates and stick to the things that we absolutely control."⁵⁷

The object of all Dunn's intricate and secretive orchestration of the market was to induce independent buying by the small investor, "the most permanent class of investor."⁵⁸ Since this mass of unorganized buyers formed the core of the syndicate's support, it was imperative to cultivate and retain their confidence in the projects into which they so trustingly poured their money. In this respect, the "paid puffing" or "fireworks fixing"⁵⁹ of the press was invaluable. In 1909 Dunn despatched a Financial Times reporter to the Sault industries "for the purpose of acquainting the English public with the Lake Superior property."⁶⁰ If good news could be manufactured, bad news could be suppressed. When the Nexaca dam, the linchpin of the Mexican Light and Power grid, partially collapsed in 1909, Dunn valiantly tried to downplay the news, fearful that a "strong bear party" would take advantage of "the vulnerable bull position."⁶¹

James Dunn's astonishing ascendancy in the City was at root

founded on this manipulative, greedy and ruthless approach to finance, an approach fuelled by unflagging energy, an unerring memory and a keen intelligence. Some indication of Dunn's vindictiveness to those who impeded his progress was revealed in 1913 when Charles Fischer, always very much the junior partner to Dunn, fled London after over-extending himself in the complex web of the firm's affairs. Charging that Fischer had left him bowed under "extraordinary burdens," Dunn despatched detectives to scour Europe for the culprit, took possession of his home and art collection and called his family "liars".⁶² When the ruined Fischer returned to London in 1922, Dunn reinstated him in his junior position, reminding him constantly of his past transgressions.

If the demands of business on Dunn were onerous and at times unpleasant, the sybaritic style of life they supported made the effort bearable. Country homes, French villas, a fleet of limousines and a well-indulged appetite for art, catapulted the New Brunswicker to the centre of English social life. Through fellow expatriates ~~Max Aitken~~ and Hamar Greenwood, Dunn was soon socializing in the distinguished company of Bonar Law, Asquith, Lloyd George and the young Churchill, all of whom seem to have held the bumptious Canadian in considerable esteem. On Dunn's advice, Violet Asquith, daughter of the Prime Minister, invested £ 1,000 in Pearson's Mexican North Western Railway.⁶³ Having met Dunn on a transatlantic passage in 1918, Prime Minister Borden pegged him as "an exceedingly capable businessman and his interests and connections are much wider and much more important than I realized."⁶⁴ As Margot Asquith, the notorious social snob,

told Dunn some years later: "I am glad to hear you have become rich."⁶⁵

James Dunn's interest in Canadian affairs never flagged in these years of London success. Although Beaverbrook later insisted that Dunn was a "lifelong Liberal,"⁶⁶ he welcomed the 1911 election victory of the Tories as the "best evidence of the intelligence and patriotism of the Canadian people triumphing over the superficiality of active commercialism."⁶⁷ Almost simultaneously, he despatched condolences to Liberal W.S. Fielding, later coaching the deposed Finance Minister on land purchases in New Mexico.⁶⁸ Essentially apolitical in his approach to politicians, Dunn cabled "heartiest congratulations" to Borden, Mackenzie King, Meighen and Bennett through the years without distinction.

After his scrap with the Sovereign Bank in 1907/8, Dunn had little enthusiasm for underwriting Canadian securities, except the nominally Canadian Pearson utilities. In 1909, he accepted the position of Agent-General for Alberta in London, not so much because of the profits it offered but for the prestige and "the fact that these high class securities bring with them a following of similarly high class investors."⁶⁹ Otherwise, Dunn studiously avoided Canadian industrial securities, claiming they were "so difficult" to handle in England.⁷⁰ Only with the tottering Lake Superior Corporation was Dunn prepared to break his resolve. In many ways, what F.H. Clergue had done at the Sault was essentially what Pearson had so masterfully done in Latin America. Like the Pearson "group", the Sault industries were planned around a hydro-power base, financed and controlled by foreign capital and incorporated under the auspices of company laws of convenience.

Despite the presence of the steel and pulp industries, Dunn reasoned that the application of Pearson's engineering skills and the backing of syndicated London finance could radically transform the sagging fortunes of the Sault corporation.

As early as 1906, Dunn had observed Clergue's frantic efforts to secure European loans to buoy up the Sault complex. Noting that he did not have "a good opinion of this business under its present control," Dunn fell back on the hopeful strategy that "a condition might arise when these friends of mine could get possession of the property on a different basis, at which time it would be a profitable enterprise for us to embark in."⁷¹ When conditions at the Sault became financially unstable in 1908, Dunn turned not only to Pearson but also to London financier Robert Fleming, a wily and pertinacious Scot who had pioneered the "investment trust" as a versatile vehicle of financial promotion and, in doing so, had made himself the overseer of immense financial power in the City.⁷² Seizing the initiative, Dunn vigorously canvassed Pearson and Fleming, pointing to the "great opportunity here" and the "excellent option for control" and stressing that the Clergue works were "the most important undertaking in Canada after the great railway systems."⁷³ Control, he assured his two seniors, could be secured through purchase of the Canadian Improvement Company's liabilities and offered the chance "to make of this group of enterprises what Clergue and his Philadelphia friends originally set out to do. We would then have right at home on the American continent a business to employ our energies for the next ten years to come."⁷⁴

Aided and abetted by Premier Whitney of Ontario, the Pearson-

Fleming syndicate bought into the Sault industries with much the same set of expectations that had accompanied Pearson's Latin American and Iberian ventures. Yet even with a bloc of approximately \$19 million (nominal value) in Lake Superior Corporation securities, the London syndicate never managed to wrest permanent control of the corporation away from Philadelphia. While London control did pare off some of the unprofitable subsidiaries and facilitated corporate borrowing on the London market, it never addressed itself to the obvious task of radical surgery on the Sault corporation. With Pearson's attention soon diverted again to his other ventures, Philadelphia gradually reasserted its hegemony, finally reinstating its own management in 1917. Dunn, always a junior partner in the syndicate, was powerless to revive London's interest in the Sault. In 1908, he had insisted that Fleming regard him "as a continuing factor in the business" and when he first visited the Sault complex he admitted his surprise at "their extent" and "their structure".⁷⁵ Dunn's commitment to the Sault was one of speculative finance, not industrial promotion. He frankly confessed to being "personally ignorant of what it should cost to make rails." He also boasted to Fleming that he had been of "considerable service" in the Sault venture due to his "acquaintance with Canada and with the local and federal governments." By 1910, Dunn's ardour for his Sault investment had markedly cooled. He complained that Fleming had no "definite plan" for the Sault and confided in a New York financial friend in 1910:

... it was an excellent future but I think as far as the Common stock is concerned the future is a long way off yet. I am not speaking from the mar-

ket point of view but from the point of view of intrinsic value.⁷⁶

The inability of Pearson and Dunn to capitalize upon their Sault investment was largely the result of their faltering fortunes elsewhere. The last years before the First War saw the Pearson industries bedeviled by revolution in Mexico, Pearson's financial recklessness in Spain and the debilitating effects of the 1913 economic slump. The three crowning gems in Pearson's Mexican tiara were the Mexican Tramway Company, the Mexican Light and Power Company, both serving Mexico City, and the Mexico North Western Railway, a hinterland road tapping northern Chihuahua state. Based on concessions won from the indolent regime of Mexican president Porfirio Diaz, the success and profitability of these ventures hinged on political stability, regardless of ideological hue or brutality of method. When the Mexican republic began to crumble into anarchy in 1910-11 so too did the profits of Pearson's Mexican operations.⁷⁷ A nightmarish succession of unstable regional regimes held sway over Mexican affairs from 1910 through the early 1920's. In the midst of this maelstrom, Pearson found that his once successful formula for foreign investment had gone sadly awry as waves of "ruffianly generals" swept over his installations. This banditry reached a climax when one particularly sadistic insurgent, Castillo, backed a trainload of American nationals into a burning tunnel. Amid such turmoil, the 530 mile Mexico North Western railway simply ground to a halt, severing Pearson's rich stands of soft pine from American markets. "The man who can operate the Mexico North Western Company successfully," Dunn dolefully told an English banker in

1913, "must be something of a politician, railwayman, lumberman, and generally a good businessman."⁷⁸

Desperate to restore stability, Pearson instructed his Mexican managers to lobby the Mexican government for protection of foreign investments. Despite lavish contributions to "friends at court,"⁷⁹ these endeavours proved as futile as trying to run the trains on schedule. "At the present time," one Pearson confidant reported,

it is absolutely impossible to have anything done in any of the Government departments ... The President [Huerta] is drunk and incapable of conducting business for two or three days in a week as is also the Minister of Communications, who aside from being a drunkard, is a drug fiend ... The only people today making money in Mexico are the officials and army officers who pocket the pay that should go to the soldiers, steal and sell government supplies etc...⁸⁰

"I think the time has come," Pearson told Dunn in 1912, "When we must get the English government to intervene." As he stressed to Dunn, "... unless our property is protected it means bankruptcy and a loss of £ 5,000,000 or £ 6,000,000 to English investors."⁸¹ Working through his friend Hamar Greenwood, an influential Liberal M.P., Dunn applied pressure on the British government, seeking additional support from Canadian Prime Minister Borden by stressing that "the firmness with which [the] Foreign Office supports the company in Mexico and at Washington is of great importance."⁸² Caught in the rather anomalous position of being a Canadian company seeking protection from foreign governments for its far-flung operations, Dunn's pleas fell on deaf ears. "The prospect is a terrible one indeed," one Foreign Office official placidly noted, "but I fear there is no action we can take, and the U.S. gov^t evidently prefer that Mexico City should be sacked

rather than attempt to avert such a calamity."⁸³ Learning that the Vera Cruz intervention would not proceed further inland, Dunn and Pearson railed against Wilson's "mollycoddlers" and "Washington's pusillanimous policy".⁸⁴

By 1914 events in Mexico were rapidly moving beyond the pale of solubility. The tramway system had been expropriated by the Carranza government and the railway and power companies had slipped into receivership. Dunn did not allow his Mexican aspirations to evaporate without a struggle. In 1919, he urged Borden to seek justice for Mexican investors at the Versailles talks.⁸⁵ As late as 1926, Dunn could still confidently predict that the Mexico North Western would "come back in a very big way."⁸⁶ By the 1930's his predictions had turned completely sour.

I have however so lost confidence in that country that I do not feel that any effort on my part by employing Mexican lawyers or fighting the Mexican processes would get me anything but further expense and troubles so I must take the consequences of what happens in that God-forsaken land.⁸⁷

The abiding lesson of the Mexican fiasco was that loss of stability brought not only the end of profits but loss of control, the essential element in all the Pearson undertakings. This message was reinforced by the state of Pearson's Iberian ventures. Incorporated in 1912 under Canadian Law, the Barcelona Traction, Light and Power Company quickly outdistanced the ability of its investors to finance it. Faced with escalation of construction costs, Pearson's solution was simply to increase the capitalization of the already bloated enterprise. Astonished by this folly, E.R. Wood protested that his Canadian syndicate

was "groaning under the load" and would not "sail under false colours."⁸⁸

When construction costs reached £ 615,000 for August and September, 1913 alone, European backer Alfred Loewenstein expressed his "profound feeling of dissatisfaction" with Pearson's practices.⁸⁹ Although the Seros power plant was completed in 1913, Pearson's position was so attenuated that he defaulted on bonus share commitments to his backers, with the result that by February, 1915, he was squeezed from the direction of Barcelona's affairs and control was lodged in a London committee headed by E.R. Peacock.⁹⁰ Once again, the crucial element of control had slipped from Pearson's hands. Of all Pearson's far-flung endeavours, only the Brazilian Traction ultimately escaped the ravages of revolution, nationalization and financial collapse.

In the unstable years of 1913-15, "Jimmy" Dunn learned that membership in the "financial aristocracy" could at times be a precarious and impoverishing experience. Financial losses inflicted by Pearson's stunning reverses in Mexico and Spain were exacerbated by the commercial slump of 1913. "I need not point out to you," he wrote to United Fruit mogul, Minor C. Keith, in April, 1914, "how seriously the credit of all Latin American countries has been shaken by conditions in Mexico and Brazil and how necessary it is at this time to do nothing that can shake public confidence any further in Latin-American countries."⁹¹ The slithering fortunes of the Pearson empire were brought to an abrupt halt by the prospect of war. As early as spring, 1914, Dunn was bemoaning "the utter inactivity of markets in Europe and the utter inability to sell or interest one's usual friends in anything."⁹² The paralysis of international finance

induced by the German onslaught gave Dunn and Pearson a reprieve from clamouring investors,⁹³ whose claims on the Pearson's enterprises went into suspended animation until War's end. In desperate straits up to that point, Dunn had sought a £ 150,000 loan from Henry C. Frick in July, 1914, using his Lake Superior holdings and £ 110,000 of his art collection as collateral.⁹⁴ Any hope of resurrecting the Dunn-Pearson syndicates after the war came to a watery end off Ireland in May, 1915, when Pearson went down on the Lusitania. Even though he was left to unravel his mentor's tangled and debt-ridden affairs, Dunn later reflected that "it may be some years before we have similar world conditions again but I doubt whether the like of ... Dr. Pearson will [again] rise in our circle of friendship."⁹⁵

With his carefully cultivated network of financial connections shattered and the arteries of international capital completely coagulated, Dunn adroitly adapted his methods to the demands of the war economy. If capital could not be traded, then commodities could. In 1915, he told Sir Frederick Williams-Taylor that it was his "great regret" that "the absolute necessity and duty of devoting myself to my business interests had prevented me from going to France."⁹⁶ Aside from a hurried trip to inspect battle front hospitals with Violet Asquith and the loan of his Daimler to Prime Minister Asquith, Dunn's patriotism was limited to financial horizons. Commodity trading for Dunn began quite literally in "horse trading". Assiduously ferreting out government contacts and promising "satisfactory fees" to his political friends for their assistance, Dunn secured a substantial contract to supply horses to the French Army.⁹⁷ By mid-1915, he was delivering

between three and four thousand horses, a month, purchased in the American mid-west, to French docks.⁹⁸ As the war progressed, Dunn continued to offer the British, French and Russian governments large quantities of blankets, ammunition, steel rails, Argentine beef and military clothing.⁹⁹ Other schemes hatched by the millionaire Canadian attempted to convert "frozen" German investments into securities of neutral countries, to reorganize the Aetna Explosives Company and Algoma Central Railway in Canada and to forge financial and trading links between England and Scandinavia.¹⁰⁰ War, for Dunn, was simply a case of "business as usual".

The war afforded Dunn one significant opportunity to marry his talents as an investment broker with the demands of industrial management. The British American Nickel Company (BANCO), established by Ontario charter in 1913, was the product of an Anglo-American syndicate, composed of F.S. Pearson, E.R. Wood, Sir William Mackenzie, James Dunn and others who were intent upon wrenching open the tight monopoly, held on nickel production by International Nickel (INCO) and Le Mond.¹⁰¹ BANCO was predicated on the hope that a new electrolytic method of nickel smelting invented by a Norwegian, Victor Noach Hybinette (1867-1937),¹⁰² could be used to produce large amounts of nickel at prices lower than the patented Orford process and thus loosen INCO's grasp on the nickel trade. Cheapness was not BANCO's only appeal for, unlike INCO, it promised to erect its smelter within Canada, thus flattering the strong nationalistic impulse for self-sufficiency that had surfaced around the turn of the century.¹⁰³ From the outset however the BANCO syndicate argued that they could only

overcome the initial advantage of its entrenched competition through some measure of governmental largesse. The short and calamitous existence of BANCO was characterized on the one hand by the ongoing struggle to extract assistance from the Canadian and Imperial governments and on the other to ward off bankruptcy and the predatory advances of its jealous rivals.

While Dunn initially confined his activities to managing the European end of the syndicate's finances, Wood and Pearson secured the North American rights to the Hybinette process and assembled various nickel-laden properties near Sudbury.¹⁰⁴ Despite a capitalization of \$25 million in stock and \$5 million in bonds, with the usual generous stock bonuses for the promoters, the syndicate tried valiantly to extract bounty assistance from the Borden government to match the existing provincial bounty on nickel. This hope was abruptly quashed in 1913 when Finance Minister White rejected E.R. Wood's blandishments on the subject.¹⁰⁵ Without federal succour, BANCO had soon worked its way into a precarious financial position with over \$5.7 million expended and considerable loans from the Bank of Commerce and not an ounce of nickel yet refined. Under this strain the syndicate began to lose cohesion and by early 1914, E.R. Wood told Dunn that he could juggle BANCO's finances no longer and that it was "absolutely impossible to proceed further on present lines with this nickel business."¹⁰⁶

The outbreak of war dramatically changed the complexion of the nickel question by bringing about a sensational acceleration of demand for the metal and at the same time intensifying demands for Canadiani-

zation of nickel refining. Masterfully exploiting these tendencies, Dunn lobbied the Restriction of Enemy Supplies Committee in London, urging its chairman, Sir Francis Hopwood, to declare the BANCO scheme of "great Imperial importance".¹⁰⁷ Dunn and Pearson resolved to use this declaration as leverage to persuade the Dominion government to guarantee a bond issue backing construction of the BANCO refinery, thereby allowing the syndicate to extend the promise of "reasonable prices" for nickel to the British government.¹⁰⁸

In Ottawa, Pearson exposed Borden to the most persuasive of his promotional charms, stressing that BANCO would be "the first to undertake the refining of these metals in Canada" and that the Canadian government would have "first call on a large part of its production at less than market price" and "a very large interest in the equity" in return for a bond guarantee.¹⁰⁹ When assured by George Perley, High Commissioner in London, that Imperial authorities now viewed the nickel question as "really a domestic question for Canada to decide for herself," Borden bluntly told London that Ottawa saw "no necessity for regarding [the BANCO] proposals as a war measure."¹¹⁰ "It is an industrial corporation whose success will depend in large degree upon its management," not on a philanthropic government, Finance Minister White emphasized.¹¹¹ In the midst of this transatlantic lobbying, the syndicate's linchpin, F.S. Pearson, drowned on the Lusitania.

With Pearson gone and Ottawa uncooperative, Dunn proceeded to write his own prescription for BANCO's future. Preying upon British hopes of severing Germany from foreign supplies of nickel, Dunn

boldly proposed to travel to neutral Norway and attempt to redirect its nickel from Germany to the allies. In Norway, he sought to buy control of the Kristiansands Nikkelraffineringsverk (KNR) from a syndicate centred around Victor Hybinette, hoping to redirect KNR refined nickel to England and ultimately forge some corporate link with BANCo. "I act," Dunn told the British government

without remuneration in the acquisition of these [KNR] shares and solely with the object of carrying out the purpose of the Government but that if the Government desire to part with this property after the War they will sell it to me, at cost to be arrived at equitably.¹¹²

It was a brilliant strategem, especially because it afforded BANCo a monopolistic hold on both an ore supply and a smelting process, just what "the Nickel Combine has endeavoured in every way to prevent being developed and brought into competition with them."¹¹³ In return for Dunn's services, the British government provided a \$6 million guarantee of BANCo's securities. From this apogee, the fortunes of BANCo slipped steadily downward, turning Dunn's dream of a profit-making monopoly into a complex nightmare from which there was no waking.

Dunn's inability to capitalize on his BANCo strategy stemmed primarily from his failure to impose unified control. He had, in the first place, to contend with the basically irreconcilable interests of the Norwegians, the British government and his Canadian backers. Anxious only to keep nickel out of German hands, the British pursued a cautious, almost disinterested role once that end was achieved, while the Norwegian and Canadian financiers were perpetually at loggerheads over company profits. Victor Hybinette proved especially

irascible and petulant and, because he was "the controlling factor in the situation," prevented Dunn from exercising vigorous control.¹¹⁴

"It is all very well," J. Frater Taylor told Dunn

to have expert metallurgists or smelting men but it has seemed to me ... that you very sadly lack well balanced commercial direction of the whole business ... Believe me it is just the same in a commercial undertaking as it is in the European war, organization and aggressiveness are the things that must count.¹¹⁵

BANCo's fate was sealed by the continued reluctance of the Ontario and federal governments to extend any assistance to the fledgling company. In a desperate bid to induce federal assistance, Dunn attracted Edgar Rhodes, a prominent federal Tory, to the syndicate as a director. This did nothing to shake federal intransigence.

Against the impregnable monopoly of INCO, British American Nickel made but small inroads. A Hybinette smelter was finally opened at Deschenes, Quebec in 1920. This spark of life was extinguished by the post-war economic slump, forcing a halt to operations until 1923.¹¹⁶ By 1925, BANCo was defunct and its assets were triumphantly bought up by INCO lawyers for \$5 million. Dunn himself had bailed out of BANCo in early 1921, surrendering the presidency, most of his holdings and the whole tangled skein of the corporation's affairs to Rhodes and the Norwegians. Dunn attributed his failure to rising costs and the perfidiousness of his partners and Canadian politicians, but in reality it was also the result of a lack of unified control. In an environment in which he controlled neither his own syndicate nor the INCO-dominated nickel trade, Dunn had never stood to profit from BANCo. "It was always a will-of-the-wisp anyway," he explained to E.R. Wood, "but

perhaps it made me exert my best efforts on occasions on which I was running the show."¹¹⁷ Wood, who like Dunn had lost heavily on the venture, scornfully replied:

Let me see James! How many guarantees does this make I have helped to free you from? For the love of Mike be careful after this where you write your name.¹¹⁸

Although elated with the bestowal of a baronetcy in 1921, Dunn greeted the return of peace with apprehension. He heartily endorsed Joseph Flavelle's view that "the problems of peace seem more difficult and more ominous than those of war," especially when they gave rise to "a reawakened class spirit and class consciousness."¹¹⁹ Despite this unease, Dunn resolved to return to the proven and lucrative paths of syndicate financing. "I have gone back to my old business of public issues," he told Otto Kahn in early 1920. "There will need to be a lot of business among energetic people to rehabilitate this broken-down world."¹²⁰ Within a year this optimism had turned to despondency. "You say that your markets are weak," he confided to a Montreal friend.

Ours are practically non-existent and I do not see the turn because real prosperity depends on the resumption of international trade which the present depressed and fluctuating exchanges make extremely difficult.¹²¹

Despite a close reading of J.M. Keynes The Economic Consequences of the Peace, Dunn dejectedly admitted that "no-one seems to have solved the riddle of how to build a new international bridge over which the exchange of commodities can take place at all freely."¹²²

In trying to solve the post-war riddle Dunn indulged in a staggering

variety of business schemes designed to rekindle the fires of prosperity. A favourite ploy was to offer the services of Dunn, Fisher & Co.* as a financial agent for the new states of Europe, notably Eire, Finland and the Soviet Union. "I have a full and complete abhorrence of Bolshevism and the whole idea of Bolshevism," admitted Dunn later, "but I still think we have got to try to do business with them."¹²³

In one improbable scheme, he sought to inveigle Soviet trade commissar Leonid Krassin into a film deal with Hollywood czar, Sam Goldwyn.¹²⁴

In 1924, Dunn hired Loring Christie, a quick-witted young Canadian lawyer and confidant of Robert Borden, in a bid to facilitate the repatriation of German assets seized during the war by the Canadian government.¹²⁵ Despite much lobbying in Berlin and Ottawa, the proposed deal collapsed in 1925 under the weight of innumerable complications.

Dunn's inability to recreate fully the extensive and profitable network of financial ties that had characterized his early years in the City was not only the product of a slumbering international economy in the early 1920's but also the result of the altered position of London in the financial world. While Dunn, Fisher & Co. nonetheless continued to reap lavish rewards from arbitrage and flotations in the City, London's pre-war prowess as financial capital of the world was under challenge from New York. As Dunn informed fellow financier I.W. Killam in Montreal in 1920:

*Responding to wartime xenophobia, Dunn had dropped the "c" from Fisher's name.

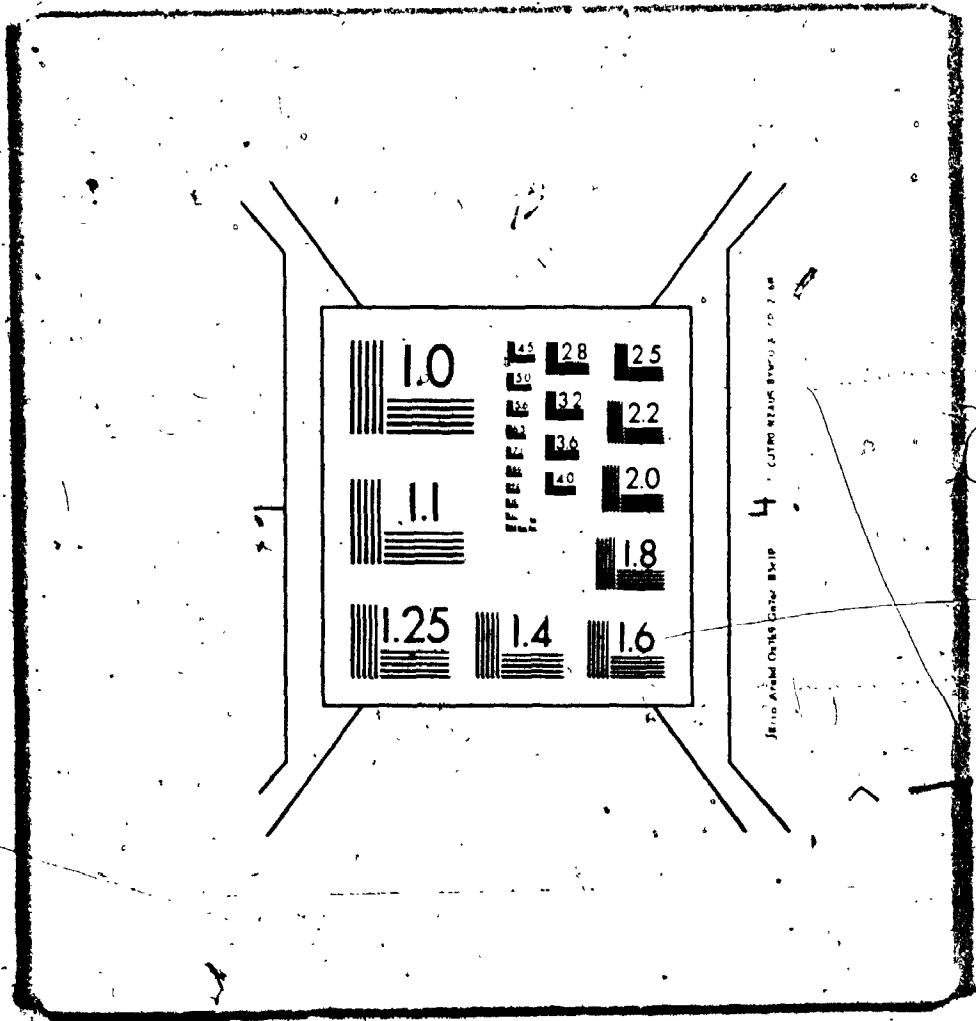
Fisher's name

I am hopeful that it may not be many months or, at least, more than a year or so before it is again possible to place Canadian securities to advantage in the London market, but I cannot yet see any practical opening there which can compare with the available markets on this [North American] side of the water.¹²⁶

"The City is perhaps not going full blast as in pre-war days," Loring Christie wrote to Borden from Dunn's offices in 1924, "but it is gradually picking up threads with the Continent and elsewhere."¹²⁷ Despite this "long period of difficulties,"¹²⁸ new avenues to profit did however open up for Dunn in the 1920's, offering the chance to recreate the elysian days of the Pearson ventures.

If foreign investment lacked resilience, the post-war period produced new areas of domestic investment. Industrial flotations, based on the new technology-based progress of the automotive, chemicals, electrical and artificial fabrics industries gave a new opportunity to English investment bankers. "Industrials" as investments spurted immediately after the war, with £ 400 million in new securities issued in the first 18 months of peace in companies like Dunlop, Lever Brothers and Armstrong-Whitworth.¹²⁹ This initial cyclone of investment dropped off sharply in 1921-2 and only recovered gradually until a late decade boom in 1927-9. The size and importance of the new industrial issues brought new opportunities to the investment banker, who was now able to take a more active part in the management of an industry's affairs and at times don the cloak of an industrial promoter by engineering mergers. Dunn was quick to capitalize on this development. Besides participating in lucrative underwriting of new industries, he readily spotted the promotional potential of "artificial

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4 JETRO ARAMON OHTS DATA 83-1P CUTRO RESUM BIVU 2 10 7 44

silk", or rayon. Although initially discovered in the late nineteenth century, it was the discovery of the acetate method of making cellulose fibre on the eve of the First War by the Swiss chemists, Camille and Henry Dreyfus, that permitted the technical breakthrough to high quality, low denier rayon with a concomitant reduction in production costs.¹³⁰

With an insatiable consumer demand to be harnessed at the expense of England's ailing cotton industry, artificial silk offered a sterling opportunity for industrial growth. In sensing this potential, Dunn showed great perspicacity, but his subsequent experience in the rayon industry degenerated into a mire of mismanagement and distrust.

Having underwritten and issued the initial capitalization of the British Cellulose and Chemical Manufacturing Co. Ltd. "in a couple of hours," Dunn was widely hailed "on the brilliant success of [his] first issue after so many years".¹³¹ Heartened by this success, Dunn predicted "the quickest and most profitable returns", only to see his aspirations crushed by the onset of economic recession in early 1921. Despite the lethargic growth, Dunn moved to assert his control over the enterprise by setting up the Cellulose Holdings and Investment Co. Ltd., a holding company with friends Loewenstein and Bonham Carter as directors. "[T]he whole business has been taken in a very few hands and has not been given to brokers to underwrite in the usual way," Dunn noted.¹³² Even with this control, Dunn was unable to bring British Celanese, as it was now known, under close rein. Managing Director Henry Dreyfus refused to bend to Dunn's insistence that the largest profits would come from supplying raw rayon to the producers of finished goods and instead launched Celanese into the knitting of

rayon clothing itself. "In my opinion the way to develop the yarn trade is to concentrate all our efforts on increased production, lower costs and better deliveries, on pleasing our customers rather than becoming their competitors,"¹³³ Dunn told Board chairman Sir Harry McGowan. Since Dreyfus held the crucial patents on the acetate process, it became impossible to displace him.

By 1924 the situation at British Celanese had become polarized between the financial and operational factions. In the intensely competitive textile industry, Dunn believed that Dreyfus' policy of producing fabric instead of yarn was suicidal. "This company," he alleged, "instead of having established itself as an integral part of the British textile industry has never got its feet, but has remained outside alone, rightly or wrongly regarded as the rival and enemy alike of the spinners, weavers, knitters, wholesalers, and retailers and now I am told it is competing with the dressmakers."¹³⁴ After an extremely acrimonious struggle for absolute control, the Dreyfus brothers emerged victorious in mid-1927. Dunn and Loewenstein relinquished their Celanese holdings but recouped some of their investment through the sale of their royalties contract for what The Times estimated as "upwards of £ 1,000,000."¹³⁵ Dunn emerged from the British Celanese fracas much chastened. Like BANCO, he had once again lacked sufficient control to integrate financial and managerial direction of the scheme.

The revival of the Pearson-style syndicates under the aegis of Alfred Loewenstein, the Belgian "mystery man" whose meteoric post-war rise to financial prowess was shrouded in deliberate anonymity

and a curtain of conspicuous consumption, offered Dunn a second new line of business in the 1920's. These post-bellum syndicates largely represented a reshuffling of the old Pearson and Farquhar railways and utilities under new and more encompassing financial umbrellas. Outlining the stratagem behind his enormous Société Internationale d'Énergie Hydro-Électrique (SIDRO), Loewenstein instructed Dunn in 1926

... to get all your hydro-electric enterprises under one incorporation: Spanish, if possible, if not Spanish, Canadian but in either case control the administration directly by your own immediate friends whose interests in the business are the same as your own.¹³⁶

While Loewenstein recreated the Pearson formula for syndicate success, he failed to reap its fruits. Like Pearson in his later years, Loewenstein rapidly succumbed to the folly of financial recklessness and overextension, vices that Dunn tried valiantly to curb. As early as 1922 Dunn complained to E.R. Peacock of "the danger of Alfred going too rapidly and committing his friends who wish to help him beyond the distance they wish to go."¹³⁷ By late 1926 Loewenstein had embarked upon International Holdings and Investments Ltd, his most ambitious scheme, under which he hoped to subsume all his varied interests. To achieve this, Loewenstein had secured colossal holdings on margin, especially in Brazilian Traction, with which he hoped to assert his control. At the crucial moment the shareholders of SIDRO balked and at a meeting in Belgium vetoed his plan, forcing him to abandon his "big project" and to liquidate much of his SIDRO holdings.¹³⁸ "I quite agree," Dunn

that Captain Loewenstein has made enemies, frequently without necessity and that doing business with

him is not always perfectly smooth sailing but he is a big constructive man and my private opinion is that although he has been checked in some of his ambitious projects and I hope somewhat sobered, he has not been stopped in his career.¹³⁹

There was indeed no stopping Loewenstein. Rallying his forces, Loewenstein launched another assault for control of Brazilian Traction. Loring Christie described for Dunn "the Napoleonic trail blazed by our friend Alfred" through Toronto in 1927 in pursuit of this object, while Mackenzie King described the wealthy Belgian as "a very generous and noble soul" after a dinner visit to Laurier House.¹⁴⁰ Loewenstein's blazing financial trail came to an abrupt and tragic end when the "Belgian Croesus" fell to a mysterious death from his private aircraft while over the English Channel in July, 1928. Amid a sea of sensational speculation, The New York Times linked Loewenstein's "growing habit of absent mindedness" to "the fatal step into empty space which sent his body spinning down through the sunset 4,000 feet to be lost in the blue waters of the Channel."¹⁴¹

Loewenstein's departure removed the vital centre from the syndicates. SIDRO stock plummeted from 51½ to 25 overnight and International Holdings dropped from \$215 a share to \$100. Although Loewenstein's estate was valued at \$55 million, Dunn was left with a tangled mass of debts and litigation and a syndicate that had lost its pulse. Despite heavy personal losses, he remained an immensely wealthy member of the "financial aristocracy". Yet the rewards of social and economic preeminence could not mask Dunn's growing uneasiness about his life in England. On the heels of Loewenstein's demise, the sudden death of his favourite daughter, Mona, in late 1928 had further devastated him emotionally,

sapping his usually insatiable vitality for life and work. On a less personal scale, the 1920's also witnessed Dunn's growing pessimism about the future of England. Viewing the 1926 General Strike from his French villa, he ruefully concluded "that there won't be much use going back to England unless the forces of law and order win."¹⁴²

Gloomy prognostications of a "classless" English society, coupled with his own personal and financial troubles, gave rise to a yearning in Dunn to return to New Brunswick. In 1926, he had actively campaigned in the province for Arthur Meighen, a man whose high protectionism and "charming" personality he greatly admired.¹⁴³ The prospect of a "socialist" government in England forced Dunn's thoughts further homeward. "I am beginning to think it is time I returned to my own country."¹⁴⁴ Advising his son Philip on a prospective business career in 1927, Dunn admitted that he "personally didn't see any great future for any young man over here as compared with the opportunities in New York and Montreal."¹⁴⁵ Algoma Steel and the Depression would give Dunn himself the opportunity for a new start.

In 1929 Dalhousie University offered Dunn an honorary degree in "recognition and appreciation of your conspicuous success in the business world of the Motherland and your rising eminence in the domain of international finance."¹⁴⁶ While many knew of Dunn's success beyond the seas; few had the slightest idea of how his millions had been won. Dunn always revelled in painting his career as the struggle of a humble, underprivileged country boy from the colonial outback, who through innate ability and hard work had triumphed over great odds. It was, as Beaverbrook described it, "a tribute to a

man's courage".¹⁴⁷ While this was all undoubtedly true, the corollary was not. Dunn never assumed that the interests of the economically and socially unprivileged could ever be reconciled with those of the privileged. Throughout his financial career, he always strove to operate from a position of power built on the weakness of the small and, in a sense, unprivileged investor. Through arbitrage, syndicate deals and holding companies Dunn made millions subverting the free play of market forces, manipulating the pooled savings of small investors for ends that would seldom have met with their approval. Ironically, the speculative abuses of the 1920's, best symbolized by the Hatry and Insull "crashes", would eventually bring in their wake measures of reform intended to curb the excesses on which Dunn's fortune was founded.

What then was the achievement of financiers like Dunn and Loewenstein? In the words of Fritz Redlich, their contribution was of a "demonic" nature, the results of an ongoing process of "creative destruction" by which every economic advance or creation is not possible without concomitant destruction.¹⁴⁸ The Bearson, Farquhar and Loewenstein syndicates, from which Dunn so handsomely profited, contributed railways, utilities and the other trappings of industrialization and urbanization to what is today called the "underdeveloped" world. The syndicates also facilitated the building up of the economic infrastructure of modern European and North American life. That these advances were necessary or useful there can be no dispute. The question lies instead in the methods used to achieve these ends. "If as these men believed," Redlich suggests

the natural law ruling social life demanded the fight for survival of the fittest, there was no room for what today would be called high business ethics. Thus these men were both magnificent builders and ruthless destroyers and their creative concentrations on the organization and financial side of transportation and industry, while overlooking the human and strictly industrial aspects, gives their destructiveness 'demonic' character.¹⁴⁹

By making control the object of their manipulations, the syndicates not only sought to minimize the vicissitudes of market freeplay but to sterilize the market's virility and render it no more than a screen for the machinations of high finance. For the mass of public investors upon which Dunn built his financial empire he felt only a thinly disguised contempt. If control was lost, "the widows, orphans and bankrupts from the shareholders list," as one of his Canadian confrères described them, would be allowed to reassert their timorous policies.¹⁵⁰

Dunn did not invent the art of control and manipulation, he merely learned its tenets and adroitly applied them to the financial needs of the early twentieth century. Dunn and Loewenstein unscrupulously preyed upon the small investor's trust and gullibility to build their far-flung financial fiefdoms:

You fellows, [wrote one small English investor] who are dealing constantly in large figures, and who lose today ten or twenty thousand quid, do not worry so much about it, because you know that, tomorrow, you may make thirty or forty thousand. My little monies, however, come in over the desk, and represent more or less constant wear on my nose, due to its being constantly on the grindstone.¹⁵¹

Notes

¹J.H. Dunn (hereafter JHD) to E.R. Wood, 9 Nov. 1925, Dunn Papers (hereafter DP), vol. 295.

²see L.R. MacDonald, "Merchants against Industry: An Idea and Its Origins," Canadian Historical Review, vol. LVI, No. 3, Sept. 1975.

³see Lord Beaverbrook, Courage: The Story of Sir James Dunn, Fredericton, 1961; Peter C. Newman, The Flame of Power: The Story of Canada's Greatest Businessmen, Toronto, 1959. Dunn family biographical information: JHD to Royal College of Arms, 4 and 15 Feb., 1921, DP 282 and JHD to Who's Who, 4 July, 1921, ibid.

⁴Beaverbrook, op. cit., p. 21.

⁵"Address by Sir James Dunn to Graduates of Mount Allison on May 11, 1954," DP 339.

⁶JHD to Beaverbrook, cable, 6 March, 1923, DP 105; see also M. Barkley, "The Loyalist Tradition in New Brunswick: the Growth and Evolution of an Historical Myth, 1825-1914," Acadiensis, Vol. IV, Spring, 1975.

⁷JHD to Bennett, 29 July, 1930, DP 308.

⁸JHD to Beaverbrook, 20 Nov. 1929, DP 147.

⁹28 August, 1928.

¹⁰Halifax Chronicle, 19 Jan. 1921.

¹¹T.W. Acheson, "The National Policy and the Industrialization of the Maritimes, 1880-1910," Acadiensis, Vol. I, Spring, 1972.

¹²Canadian Northern Railway Company Records, RG 30, vol. 1211. B.F. Pearson, Donald Mann and William Mackenzie were all directors.

¹³quoted in A.J.P. Taylor, Beaverbrook, London, 1972, p. 12.

¹⁴"Political Jottings," July-Aug. 1951, C.G. Power Papers, box 1, Queen's Archives.

¹⁵D.G. Paterson, British Direct Investment in Canada 1890-1914: Estimates and Determinants, Toronto, 1976.

¹⁶"arbitrage": traffic in bills of exchange or stocks to take advantage of different prices in other markets.

¹⁷JHD to Dunn, Fischer & Co., London, 22 Aug. 1906, DP 1. All arbitrage communications were despatched in code.

- ¹⁸ JHD to Dunn, Fischer & Co., 29 March, 1907, DP 2.
- ¹⁹ ibid., 29 March, 1907, DP 2.
- ²⁰ Horne-Payne to JHD, 7 April, 1907, DP 7; see D.B. Hanna, Trains of Recollection, Toronto, 1924.
- ²¹ W. Vaughan, Sir William Van Horne, Toronto, 1926, chp. 24.
- ²² JHD to F.C. Annesley, 24 Jan. 1923, DP 290; see T.D. Regehr, The Canadian Northern Railway: Pioneer Road of the Northern Prairies 1895-1918, Toronto, 1976.
- ²³ JHD to Laurier, 7 June, 1904, Laurier Papers, #86507-8.
- ²⁴ New York Times, 9 May, 1915; entry for F.S. Pearson in The Dictionary of American Biography, vol. 14, pp. 358-9.
- ²⁵ see H.V. Nelles, The Politics of Development, op. cit., pp. 222-3. The people's power movement did not however triumph invariably in Canada. See: N.V. Nelles, "Public Ownership of Electrical Utilities in Manitoba and Ontario, 1906-30," C.H.R., December, 1976.
- ²⁶ see C.A. Gauld, The Last Titan: Percival Farquhar, Stanford, 1964.
- ²⁷ see copies of concessions, especially the lavish terms extracted by M.C. Keith for his International Railways of Central America, in DP 390. See also; Gauld, Last Titan, op. cit.; S.G. Hanson, "The Farquhar Syndicate in South America," Hispanic American Review, vol. 17, 1937; P. Farquhar, "South America and Investments," North American Review, March 1916, pp. 397-402, R. Graham, Britain and the Onset of Modernization in Brazil, 1850-1914, Cambridge, 1968 and M. Wilkins, The Emergence of Multinational Enterprise: American Business Abroad from the Colonial Era to 1914, Cambridge, 1970.
- ²⁸ In 1909, Toronto lawyer N.W. Rowell advised Dunn that New Jersey incorporation offered "... unlimited powers as to the creation of indebtedness and the issue of bonds ... imposes no limitations as to the creation of such obligation ... [and] ... the right to issue bonds to any extent it may deem advisable ...," Rowell to Dunn, 27 Sept. 1909, DP 16.
- ²⁹ see, for example, An Act respecting the Mexican Light and Power Co. Ltd., 3 Edward VII, c. 153 and incorporation correspondence for Mexico North Western Railway Company, Incorporations Branch, Secretary of State Department, RG 95, file #146908.
- ³⁰ Joseph Pope, Sec. of State, to Blake, Lash & Cassel, 16 Nov. 1908, RG 95, file #1-1149.
- ³¹ see J.H. Dunn & Co. to JHD, 15 Sept., 1906, DP 16.

32. T. Mulvey, "Minority Shareholders," Monetary Times Annual, 1919, p. 109; see also "Changes in Company Act," ibid., 1918, pp. 54-8.

7 33. Fischer to JHD, 8 June, 1908, DP 10.

34. JHD to R. Fleming, 8 July, 1910, DP 258.

35. see for instance: JHD to Hans Schuster, Berlin, 2 July, 1906, DP 249.

36. C.A.R., 1907, p. 34. Other loans unrelated to Dunn also precipitated Stewart's fall.

37. Stewart to JHD, 14 June, 1911, DP 32.

38. JHD to Jarvis, 10 Feb. 1908, DP 252. The Sovereign did have to write off \$700,655 in bad debts.

39. JHD to V.J. Hughes, 28 May, 1912, DP 262.

40. Violet Stuart-Wortley, Grow Old Along With Me, London, 1952, p. 113

41. Augustus John, "Fragment of an Autobiography XIV," Horizon, Vol. 12, Dec. 1945, p. 428.

42. Noel Coward, Present Indicative, London, 1937, p. 214.

43. Time, 16 Jan. 1956.

44. A.W. Routledge to JHD, 20 March, 1912, DP 37.

45. P.H. Emden, Money Powers of Europe in the Nineteenth and Twentieth Centuries, New York-London, 1938, pp. 290-6; F. Redlich, The Molding of American Banking: Men and Ideas Part II 1840-1910, New York, 1951, chp. 21, N.S.B. Gras, Business and Capitalism: An Introduction to Business History, New York, 1939, chp. 6.

46. R. Kellet, The Merchant Banking Arena, London, 1967, p. 4; for the North American context, see F. Redlich, op. cit., and Hugh Bullock, The Story of Investment Banking, New York, 1959.

47. English Construction Co. files, 1908-1939, DP 350-1.

48. Agreement between H.M. Hoskins and Dunn, Fischer & Co., 6 Feb. 1910 (for Bolivian railway concession), DP 389.

49. see W.E. Smith to JHD, 5 March, 1909, DP 13, offering St. Petersburg tram concession.

⁵⁰ see: Agreement between Dunn, Fischer & Co. and E. Stallaerts and Loewenstein, 17 July, 1912, DP 390, (for exchange of Brazilian Traction shares); for Loewenstein's career see, London Times, 6 July, 1928.

⁵¹ J.M. Bello, A History of Modern Brazil, Stanford, 1966, p. 178.

⁵² Pearson to JHD, 9 March, 14 April and 15 May, 1906, DP 6.

⁵³ JHD to A. Loewenstein, 18 March, 1912; JHD to Pearson, same date; JHD to J.H. Horace, 8 May, 1912, DP 262 and Pearson to JHD, 14 Feb. 1913, DP 42.

⁵⁴ Fischer to JHD, 19 Aug. 1910, DP 27. Havana Docks was promoted by Sir William van Horne and Sir Robert Perks.

⁵⁵ JHD to Farquhar, 3 Aug. 1909, DP 256.

⁵⁶ JHD to F. H. Deacon, 20 July, 1909, DP 256.

⁵⁷ JHD to H. Price, 22 Sept. 1910, DP 259.

⁵⁸ JHD to Hayden, Stone & Co., New York, 23 May, 1911, DP 261.

⁵⁹ JHD to Pearson, 20 May, 1913, DP 265.

⁶⁰ JHD to F.D. Bryne, 13 Aug. 1909, DP 256.

⁶¹ JHD to Sir William van Horne, 27 July, 1909, DP 256.

⁶² JHD to M. Goran, 11 Nov. 1913 and JHD to Fischer, 19 Nov. 1913, DP 266.

⁶³ JHD to M. Bonham Carter, 11 Feb. 1913, DP 264; Lady Cynthia Asquith, Diaries 1915-1918, London, 1968, p. 26 and pp. 46-7.

⁶⁴ Borden to Sir Thomas White, 22 Nov. 1918, White Papers, #11570-1.

⁶⁵ M. Asquith to JHD, 14 July, 1923, DP 108.

⁶⁶ Courage, op. cit., p. 18.

⁶⁷ JHD to D. Hazen, 23 Sept. 1911; JHD to T. White, 5 Oct. 1911, DP 261.

⁶⁸ JHD to B.F. Pearson, 16 Oct. 1911, DP 261; JHD to Fielding, 11 March, 1912, DP 262 and Fielding to Dunn, 29 June, 1912, DP 38.

⁶⁹ JHD to C.L. Fischer, 7 Sept. 1909, DP 16.

⁷⁰ JHD to R.C. Brown, 29 Jan. 1913, DP 254.

⁷¹JHD to Hans Schuster, 19 July, 1906, DP 249. Dunn's "friends" were probably D.M. Stewart of the Sovereign Bank and E.R. Wood of National Trust.

⁷²Kellet, *op. cit.*, W. Turrentine Jackson, The Enterprising Scot: Investors in the American West After 1873, Edinburgh, 1968, pp. 21-2, p. 71 and p. 313.

⁷³JHD to W.K. Whigham, 2 Sept. 1908 and JHD to F.S. Pearson, 4 Sept. 1908, DP 254.

⁷⁴JHD to Pearson, 4 Sept. 1908; see also cables in DP 11.

⁷⁵JHD to R. Lindsey, 19 Oct. 1909, DP 256 and JHD to R. Fleming, 19 Nov. 1908, DP 254.

⁷⁶JHD to B. Mackelvie, 29 Aug. 1910, DP 259.

⁷⁷see: R. Atkin, Revolution! Mexico 1910-1920, London, 1969; R.E. Quirke, The Mexican Revolution 1914-15, Bloomington, 1960; C.C. Cumberland, The Struggle for Modernity, New York, 1963 and J.C.M. Ogelsby, Gringos from the Far North: Essays in the History of Canadian-Latin American Relations 1866-1968, Toronto, 1976, esp. chp. 6.

⁷⁸JHD to T. Aitken, 23 Mar. 1913, DP 264.

⁷⁹H. Harrsen, cable from Mexico City, 22 March, 1912. DP 42. L. Riba to "Mario", 9 Oct. 1913, DP 48.

⁸⁰anon. to Pearson, 18 Feb. 1914, DP 53.

⁸¹Pearson to JHD, 29 Sept. 1912, DP 39.

⁸²JHD to Sir Arthur Nicholson, 1 Oct. 1912, DP 263, JHD to Pearson, 4 March, 1913, DP 264; JHD to Greenwood, 4 March, 1913, *ibid.*; JHD to Borden, (?) Jan. 1913, DP 42 and "Mexico" files, F.O. 371, vols. 2029, 2030 and 2397, Public Record Office (PRO).

⁸³marginalia on telegram Sir L. Carden to Sir Edward Grey, 26 June, 1914, F.O. 371, vol. 2029, #28758, P.R.O.

⁸⁴JHD to A. Ellert, 22 April, 1914, DP 268; R. Quirk, An Affair of Honour: Woodrow Wilson and the Occupation of Vera Cruz, Lexington, 1962.

⁸⁵JHD to L. Christie, 4 March, 1919, DP 277.

⁸⁶JHD to H. Wauters, 9 July, 1927, DP 297; see Dunn's efforts to form a private air force to police his Mexican holdings, JHD to Sir William Wiseman, 11 Aug. 1919, DP 277.

- 87 JHD to W. Gow, 15 April, 1937, DP 179.
- 88 E.R. Wood to JHD, 23 July, 1913, DP 46.
- 89 Loewenstein to JHD, 5 Dec. 1913, DP 50.
- 90 Ashurst, Morris, Crisp & Co. to JHD, 27 Feb. 1915, DP 61.
- 91 JHD to M.C. Keith, 3 April, 1914, DP 268.
- 92 JHD to H. H. Harrsen, 24 April, 1914, ibid.
- 93 see E.V. Morgan and W.A. Thomas, The Stock Exchange: Its History and Functions, London, 1962, chp. 14.
- 94 JHD to Frick, 24 July, 1914, DP 269.
- 95 JHD to F.C. Annesley, 28 Jan. 1924, DP 290.
- 96 JHD to Williams-Taylor, 7 April, 1915, DP 271.
- 97 JHD to H. Greenwood, 20 Aug. 1914, DP 269.
- 98 JHD to R. de la Chaume, 9 July, 1915, DP 272.
- 99 Dunn hoped to sell Algoma rails to Russia. JHD to R. Fleming, 12 Feb. 1915, DP 271.
- 100 see, for instance, JHD to M. Bonham Carter, 24 Feb. 1915, DP 271; memo. of conversation with J.H. Dunn, 9 Mar. 1916, Flavelle Papers, P.A.C., vol. 6, file 58.
- 101 see: H.V. Nelles, The Politics of Development, Toronto, 1974, pp. 352-6; O.W. Main, The Canadian Nickel Industry: A Study in Market Control and Public Policy, Toronto, 1955; Royal Ontario Nickel Commission: Report and Appendix, 1917 and D.M. Le Bourdais, Sudbury Basin: The Story of Nickel, Toronto, 1953.
- 102 Royal Ontario, op. cit., pp. 83-90 and "The Hybinette Process," appendix.
- 103 ibid., p. 87.
- 104 The Booth mines, the principle BANCO property, were bought from J.R. Booth and M.J. O'Brien. Other claims bought by Pearson included the Gertrude mine, originally owned by F.H. Clergue. See; J.H. Dunn, "Memorandum concerning B.A.N.C. and K.N.R. and my efforts to prevent K.N.R. Nickel going to Germany," 10 July, 1917, F.O. 382, vol. 1472, #140644, PRO.

105 Wood to JHD, 14 April, 1913, DP 44. Ontario's Metal Refining Bounty Act of 1907 extended bounties to copper, silver, nickel and cobalt.

106 Wood to JHD, 16 Jan. 1914, DP 52.

107 JHD to Pearson, 16 Oct. 1914, DP 59; see A.C. Bell, The Blockade of Germany and the Countries Associated with Her in the Great War 1914-18, London, 1937.

108 Pearson to JHD, 18 Oct. 1914, DP 59; see Dunn's efforts to lobby Sam Hughes in London, JHD to Pearson, 29 Oct. 1914, DP 270.

109 Pearson to Borden, 20 Nov. 1914, Borden Papers, #58531-39, c-282.

110 Berley to Borden, 15 Dec. 1914, ibid., Gov. Gen. to Sec. of State in Colonies, 3 Mar. 1915, F.O. 382, v. 300, P.R.O.

111 White to Borden, 3 Feb. and 27 Feb. 1915, Borden Papers, #58689-92 and #58788.

112 JHD to A. Anderson, 31 March, 1915, DP 271; see: Foreign Office Norwegian nickel files, F.O. 382, vols. 300, 884, 906, 1472 and 2235.

113 JHD to Anderson, op. cit.

114 ibid., 29 June, 1915, DP 272.

115 1 Dec. 1917, DP 77.

116 Ontario Bureau of Mines, Annual Report, vol. 30, 1921, p. 66; Le Bourdais, op. cit., p. 127.

117 JHD to Wood, 5 Feb. 1921, DP 91.

118 Wood to Dunn, 20 Jan. 1921, DP 91.

119 J. Flavelle to JHD, 1 Jan. 1921, DP 91.

120 JHD to Kahn, 19 and 23 Bef., 1920, DP 278.

121 JHD to H. Macdougall, 2 Feb. 1921, DP 281.

122 JHD to D. Stewart, 13 Jan. 1921, ibid.

123 JHD to Mrs. Narbord, 17 May, 1929, DP 305.

124 JHD to Krassin, 9 March, 1921, DP 281.

125 L. Christie to JHD, 17 May, 1923, DP 107; L. Christie to R. Borden, 15 Mar. 1926, Borden Papers, #148306.

- 126 JHD to Killam, 14 June, 1920, DP 88.
- 127 Christie to Borden, 27 Nov. 1924, Borden Papers, -148107-112.
- 128 JHD to E.R. Wood, 12 Sept. 1920, DP 88.
- 129 W.A. Thomas and E. Morgan, The Stock Exchange, op. cit., chp. 13.
- 130 see: D. Landes, The Unbound Prometheus, Cambridge, 1970, p. 276, pp. 454-6 and P.C. Hague, "The Man-made Fibres Industry," in D.L. Burn, ed., The Structure of British Industry, Cambridge, 1958 and R.S. Sawyer, "Springs of Technical Progress in Britain 1919-39," Economic Journal, LX, 1950, pp. 275-91.
- 131 JHD to Otto Kahn, 19 Feb. 1920, DP 278; A. Spitzer to JHD, 16 March, 1920, DP 86.
- 132 JHD to ?, 16 June, 1922, DP 285.
- 133 JHD to McGowan, 3 June, 1924, DP 291.
- 134 JHD to G. Hayet, 28 July, 1924, DP 292.
- 135 6 July, 1928. Loewenstein pursued the lucrative possibilities of artificial silk with his International Holding and Investment Holdings Ltd.
- 136 Loewenstein to JHD, 23 June, 1926, DP 297.
- 137 JHD to Peacock, 8 Dec. 1922, DP 286.
- 138 JHD to Sir F. Williams-Taylor, 1 Feb. 1927, DP 298 and E.R. Wood to JHD, 12 Jan. 1927, DP 157.
- 139 JHD to Williams-Taylor, 7 Jan. 1927, DP 298.
- 140 Christie to JHD, 10 March, 1927, DP 138 and King to Sir Henry Thornton, 6 July, 1938, King Papers, J1 series, #134970-1.
- 141 6 July, 1928; see Dunn's explanation, JHD to H. Stinnes, 26 July, 1928, DP 145.
- 142 JHD to W.F. Benson, 10 May, 1926, DP 134.
- 143 JHD to Meighen, 15 Sept. 1926 and Meighen to JHD, 18 Sept. 1926, Meighen Papers, #87765-7.
- 144 JHD to W.C. Franz, 2 July, 1929, DP 305.
- 145 JHD to Philip Dunn, 28 Nov. 1927, DP 300.

146 A. Stanley Mackenzie to JHD, 2 July, 1929, DP 151. Dunn declined the honour.

147 Courage, op. cit., inscription.

148 F. Redlich, "The Business Leader as a 'Diamonic Figure'," in Steeped in Two Cultures: A Selection of Essays by Fritz Redlich, New York, 1971, pp. 33-64. See also, P.M. Sweezy, "The Heyday of the Investment Banker," and "The Decline of the Investment Banker," in The Present as History, New York, 1953.

149 Redlich, The Molding of American Banking: Men and Ideas, Part II 1840-1910, New York, 1951, p. 382.

150 R. Home Smith to JHD, 13 Sept. 1920, DP 90. Smith was describing the shareholders of the Algoma Central Railway.

151 S.G. Archibald to JHD, 8 May, 1924, DP 119.

CHAPTER SIX

Cutting the Gordian Knot: Sir James Dunn and the Take-Over of Algoma Steel 1925-35.

Until the time he assumed the Presidency of Algoma Steel in May, 1935, Sir James Dunn had never considered himself a captain of industry. His interest in Algoma up to the 1930's had been a largely speculative one, not entailing a commitment to long term industrial management. "I am not an investor," he categorically stated as early as 1910, "but buy issues for the purpose of reselling them."¹ After his initial lunge for control of the Lake Superior Corporation in 1908, Dunn's ardour for the speculative prospects of the Sault industries had cooled. Unable to loosen Philadelphia's iron grip on the corporation, Dunn and Robert Fleming had consolidated their Sault holdings in the Lake Superior Investment Company, allowing their attention to drift to more profitable and more controllable financial manipulations. Without control, the Sault investment had become a risky proposition and one worthy of only casual stewardship. The futility of acting from a position of partial control was amply underscored for Dunn in his British American Nickel and British Celanese ventures. Dutifully despatching his proxies for Lake Superior annual meetings, Dunn otherwise displayed distinct apathy towards the corporation's affairs. Twice, in 1914 and 1919, he had offered his Lake Superior holdings for sale or use as collateral, in frantic bids to buttress the sagging fortunes of other, more promising ventures.²

As the 1920's unfolded, events on both sides of the Atlantic conspired to rekindle Dunn's enthusiasm for the steel works at the

Sault. Revealing a creeping despondency about his English financial career, Dunn noted in 1927 his growing conviction that England "must play a secondary part in international commerce for a long time to come. The North American continent has a big start and is creating wealth at a rate unheard of in the past."³ In this atmosphere of ennui, Dunn's attention gravitated toward North America where his eye soon alighted upon new opportunities that invited his financial skills. Long-standing ties with firms like Dillon, Read and Empire Trust in New York, and the National Trust and Dominion Securities in Canada provided Dunn with a ready-made entrée into the charmed circle of North American finance. Early in the 1920's, for instance, Dunn had joined Leroy Baldwin, president of Empire Trust, in seizing control of the Equitable Office Building, a towering 40 storey office building at 120 Broadway, lucratively situated in the heart of New York's throbbing financial district. By the fiscal year 1928/9, Equitable's net earnings were a handsome \$1,980,000.⁵ Assisted by Baldwin and Clarence Dillon of Dillon, Read & Co., Dunn plunged heavily into trading on the American and Canadian markets, speculating in railway, automotive, distillery and innumerable other investments, all largely bought "on margin". By February, 1930, his loan account at Empire Trust alone totalled \$627,147.⁶

It was at first sight strange that Dunn could have been lured away from the rewards of Wall Street speculation in the mid-1920's to the dismal and unpromising prospect of Algoma Steel.* Labouring under a depressed national economy, the Lake Superior Corporation had gloomily reported a net annual loss of \$1,325,136.08 in its 1925

*see Appendix B.

annual report. A year earlier, former Algoma president J. Frater Taylor had confided to Dunn that the "Canadian industrial outlook is not good," primarily because the proper bounties and tariffs were not forthcoming from Ottawa's Liberal government.⁷ Lake Superior Corporation annual reports left the indelible impression that Algoma was starved for capital and that this deficiency directly impeded the corporation's efforts to diversify its production away from a precarious reliance upon rails. Dunn reasoned that by seizing financial control of the corporation as its fortunes ebbed ever lower, he would be in a position not only to regulate the procuring of new capital, but could dictate the use to which it was put and ultimately reap the rewards of judicious investment.

Dunn's appreciation of the virtue of integrating the financial and managerial control of an industrial enterprise had matured considerably since the days of his nickel and rayon ventures. The dazzling industrial achievements of two of his European friends, Sir Harry McGowan and Hugo Stinnes, had tutored him on the potential of forceful industrial management. Stinnes was Germany's most gifted practitioner of the vertical trust or combine. Along the Ruhr, he had masterfully organized industries as disparate as river barging and iron mining into one cohesive combine. Rebounding from the reverses of the First War, he organized the Rhine-Elbe Union in 1920, culminating in the gigantic Vereingte Stahlwerke, which Dunn had visited and admired in 1924.⁸ With similar dexterity, Sir Harry McGowan and Sir Alfred Mond had created Imperial Chemical Industries in 1926 out of scattered British chemical firms with a total capitalization of £ 56 million.⁹

These sterling examples, together with the memory of his friend Beaverbrook's wizardry in the Stelco merger of 1910, instilled in Dunn a belief that similar magic could be worked on Algoma.

Besides vigorous management and access to capital, there was one other revitalizing element Dunn felt he could contribute to the Sault industries. In 1925-6, he had openly vowed his support for Arthur Meighen's Conservatives and their pledge for higher tariffs in aid of Canada's primary industries. "I am all out to help [elect Meighen];" Dunn assured Loring Christie, "being a thorough believer in the policy of high protection."¹⁰ Mackenzie King's triumph over Meighen at the polls in September, 1926, not only foiled Algoma's hopes for a dose of high protection but gave Dunn an early indication that his aspirations for a smooth assumption of power at Algoma could be easily frustrated.

Towering above all other obstacles to the successful assertion of power in the Sault boardroom was the complete paralysis of the corporation's financial and managerial structure. Overcapitalized since the days of F.H. Clergue, the corporation was afflicted with too many tiers of investors, each with a lien on some section of the Sault properties or assets and each reluctant to see another gain an upper hand in any corporate reorganization or collapse.¹²

By the mid-1920's control of the corporation had solidified around several main blocks of securities, which more often than not, were implacably opposed to each other. The bulk of the Lake Superior Corporation's stock was in American hands, largely under the sway of Philadelphian financiers centred around W.H. Cunningham, president of

the corporation since 1917. English investors held much of the corporation's funded debt, particularly the 5% First and Refunding Bonds and the Algoma Steel Purchase Money Bonds. The largest cohesive block of London control lay in the hands of the Fleming syndicate, represented by the New Jersey-based holding company. In controlling this block, Fleming and Dunn were joined in a minor way by Kuhn, Loeb in New York, Lord Glendyne in London and E.R. Wood in Toronto. Another influential factor of control in London, whose interests could not be circumvented, were the bondholders of the Algoma Central and Algoma Eastern railways. Long in arrears of interest, the railway bondholders had entrenched rights that put them in a position to veto any proposed corporate reorganization.¹³ Ever suspicious of each other's motives, the contending financial interests behind the corporation jealously vied for power to direct the corporate policies of their ailing investment. "The financial structure of the Lake Superior Corporation," the Financial Post observed in 1928,

has not been simplified by the various reorganizations for the reason that claims of various classes of bondholders have been conflicting to a great or less extent and this has necessitated the adoption of expedients and compromises until such time as properties began to earn sufficient money to pay bond interest, or until a comprehensive reorganization would be acceptable to all parties.¹⁴

Anxious not to jeopardize their already attenuated position, investors in the Sault complex were predisposed to reject any reorganization scheme that might admit new capital to the financial structure with rights that ranked ahead of their own. Such reorganization schemes did not fail however for lack of trying.

In December, 1923, J. Frater Taylor, acting on behalf of the London interests, forwarded a scheme whereby old bonds would be supplanted by 225,000 preferred stocks in a new corporation and followed by a flotation of \$9.5 million of new prior lien bonds. This plan foundered when Philadelphian interests objected to the underwriting arrangements for the new issue and argued that too little had been done in "affording the [present] Lake Superior stockholders an opportunity and an incentive to subscribe to the new bonds."¹⁵ Prompted by dire predictions about the corporation's prospects by engineering consultants,¹⁶ Frater Taylor then proposed a combined new issue of prior lien bonds, second mortgage bonds, preferred and common stock with a value in excess of \$25 million. This proposal was flatly rejected by Cunningham who saw it as prejudicial to the interests of the American stockholders in the existing structure. Countering with their own proposal in April, 1925, the Philadelphians suggested a \$20 million issue of first mortgage bonds and nearly \$30 million in preferred stock. Although London complained that the preferred stock issue seemed "excessive", this plan proceeded to the stage of a reorganization committee only to be sabotaged by the Lake Superior Investment Company's insistence that the corporation default on its present bond payments.¹⁷

Dunn had not been an active participant in any of these frustrated negotiations, although he received reports on their progress from E.R. Wood, N.W. Rowell and J. Frater Taylor. "I regret to say," Frater Taylor informed Dunn in January, 1925

that up to the present, we have not succeeded in getting financial help here [Montreal] for Algoma, and I have warned Whigham, that all of the money may

have to be found in London. They may get away with perhaps \$8,000,000 of bonds but to be safe they should figure upon \$10,000,000 ... one thing is very certain, and it is that every day's delay means an increasingly difficult situation and of course more money ... As I have repeatedly said, it is idle to think of any practical help from Philadelphia.¹⁸

If help was not forthcoming from the two traditional bastions of Sault control, other interests were eager to impose a reorganization. In Toronto, E.R. Wood of National Trust was lobbying Premier Ferguson for a provincial guarantee for half of a mooted Lake Superior bond issue.¹⁹ Further north in the province, John A. McPhail, a Sault lawyer, was assiduously trying to entice the American public utility magnates, Martin and Samuel Insull, to introduce outside capital to the Algoma situation. With considerable holdings in the Great Lakes Power Company, the chief supplier of power to the steel works, the Insulls had a vested interest in the survival of Algoma. Backed by the Chicago financial house of Halsey Stuart & Co. and assured by McPhail that the "present Philadelphia crowd are pretty well at the end of their rope,"²⁰ the Insulls represented a potential flank attack on the Algoma situation throughout the late 1920's until the ignominious collapse of their Middle West Utilities empire permanently removed them from the scene.²¹

By the mid-1920's the affairs of the Lake Superior Corporation were mixed in such a financial quagmire that it was unable to satisfy its imperative need for capital and incapable of reorganization because the groups constituting its control remained locked in jealous equipoise. This state of affairs not only tarnished the corporation in the eyes of potential investors but also cooled the enthusiasm of

both levels of Canadian government for aiding the Sault's recovery. Adverse publicity arising from the mauling administered to Algoma's tariff demands by secondary manufacturers before the Advisory Board on Tariffs and Taxation added to the impression of the corporation as a "lame duck", ridden with inefficiency and profligacy.²² "Your directors again emphasize that the success of the corporation," the 1926 annual report persisted in the face of this criticism, "can only be assured with more diversification of product and increased tariff protection."

In late 1926, Dunn determined to intervene actively in the control of Algoma, opting to increase his 20% share of the Lake Superior Investment Company to a majority position by buying out his partners, Robert Fleming, E.R. Wood and Kuhn, Loeb. "I am prepared to give my time and energy to this business," he assured Fleming's partner, Walter Whigham,

during the continuance of the option and to spend all the time necessary in the United States and Canada to carry out this reorganization on behalf of the Lake Superior Investment Company and to make no profit out of the transaction except as a shareholder of that Company ... I believe the conditions exist in Canada, if taken advantage of to make it a prosperous concern.²³

While there was no profit to be made directly in this transaction, an immense strategic advantage was to be gained over the affairs of the Sault corporation through control of the holding company. In late June, 1927, Dunn purchased Kuhn, Loeb's shares, followed rapidly by the acquisition of most of E.R. Wood's block for \$200,000.²⁴ The decisive coup came a few days later when he bought out Fleming's interest in the syndicate.²⁵ "It is very hard to put a value on the Investment Company's

shares," he told Wood,

They are really worth what one makes the Algoma Steel Company worth when the time comes to reorganize it ... [I] paid Kuhn Loeb at \$250 a share ... [but] I paid Mr. Fleming more than this price for his shares but, they had a special value as they constitute control.²⁶

This spate of purchases gave Dunn, by his own estimation in 1928, control of 72% of the investment company's shares and in turn power over \$7.8 million in Algoma bonds.²⁷ To reinforce his new-found position of strength, Dunn began to forge closer links with the managerial, legal and financial allies of Algoma who would be of crucial importance in buttressing his position of control. Algoma president W.C. Franz acquainted Dunn with the day-to-day routine and deficiencies of the plant.²⁸ Equally important were the batteries of lawyers retained in New York, London, Philadelphia and Toronto to represent his holdings in the corporation. Typifying these "hammer and tongs lawyers," as one of Dunn's friends jestingly dubbed them,²⁹ was the Toronto legal firm N.W. Rowell, which had kept a "watching-brief" on the investment company's affairs for twenty years.³⁰ Rowell's facility with federal-provincial intricacies of law and his familiarity with the nuances and personalities of federal and provincial politics gave Dunn a window from which to view the parameters of possible action for reorganizing Algoma. Dunn also cultivated financial allies to sustain him in his Algoma position. In particular, Leroy Baldwin of Empire Trust in New York extended generous loans on lenient terms, enabling Dunn to solidify and enlarge his Lake Superior holdings.³¹

When he had assured himself of complete control over the affairs of the investment company, Dunn was still not in a position to work his

will on the corporation at large. The still-strong Philadelphia interests, the railway bondholders and numerous unaffiliated investors could thwart any reorganization. Furthermore, Dunn was still uncertain of his own plan of action. His first instinct was to persuade President Cunningham to let the corporation slip into default,³² thereby delivering control of the corporation into the bondholders' hands. Not surprisingly, Philadelphia refused. "Our Philadelphia friends," Dunn noted

seem to be able to keep themselves cheered up by a good month now and then but the position has not really improved and sooner or later Algoma will go to pieces unless before it is too late the Company extends its operations ... This means new money which can only be had after reorganization on lines which the Philadelphia people so far have refused to face.³³

When the corporation punctually paid its coupon in 1927, Dunn fell back upon a contingency plan designed to achieve the same end by different means. "Failing this," he told W.K. Whigham,

my plan is the formation of a new Canadian company and an offer of an interest in that new company to the bondholders of the Lake Superior Corporation, the Algoma Steel First and Refunding bonds, the Lake Superior Income Bonds and the Lake Superior shares with the object of getting control of the Lake Superior Corporation and making the default myself.³⁴

Dunn's plan for reorganization through default set him squarely apart from the other controlling financial interests who persisted in their attempts to patch up the corporation's rickety structure in hopes of inducing new capital. After securing a redoubtable controlling position, Dunn's goal was to knock several links from the financial chain and to shorten it in his favour. "It is not my idea to sell these

bonds at all," he bluntly told Algoma president Franz, "but to sit with them until the reorganization occurs and control that reorganization."³⁵

Reorganization on Dunn's terms proved an elusive goal. By late 1927, he peevishly complained that he had "... thought out at least a dozen plans" for reorganization "but they all show some defect or difficulty."³⁶ Finally he opted for a plan by which the corporation would be refinanced under the auspices of the Investment Company. Bondholders in the existing corporation would be invited to exchange their bonds for Investment Company preferred stock with certain guarantees of profits.³⁷ The offer was vehemently opposed by the Philadelphia bondholders, who argued that corporate management had modernization plans well in hand and that an infusion of new capital was unneeded.³⁸ By early May, 1928, Dunn reluctantly confided to E.R. Wood that the proposal of exchange had "not been a great success" but, if reorganization had again been thwarted, the gambit had at least helped to fatten his holdings.

I think I can safely say the results of my efforts in the past few weeks have given us an unassailable position in Algoma Bonds. \$8,000,000 was not enough Bonds to protect us with \$3,200,000 in the hands of the Lake Superior Company as collateral. I think we would be safe with \$9,000,000 in any emergency and we are fast approaching that figure.³⁹

Events on the Lake Superior front had begun to turn against Sir James. In the first place, the reviving Canadian economy in the late 1920's had resuscitated the demand for iron and steel, thereby easing much of the financial pressure on the Sault corporation. Under the stimulus of national prosperity, Algoma recorded healthy advances in the later part of the decade. Total iron and steel shipments from the

Sault mills, for instance, recovered from a mid-decade low of 289,944 tons to a 1929 peak of 630,804 tons, far surpassing the 1921 mark of 343,812 tons.⁴⁰ The quickened pulse was readily reflected in net earnings that totalled \$3,494,366 by 1929.⁴¹ The corporation's improved financial buoyancy was reflected in the completion of some sorely needed additions to the steel works, most notably a ferro-alloys plant and the modernization of the rail mill.⁴² These improvements, coupled with the belated tariff hikes of the 1930 federal budget, held out some hope that Algoma could provide itself with a broader and more secure industrial base.

Algoma's improved profitability in the late 1920's helped to keep the financial wolves at bay. In 1928 serious negotiations were undertaken with the Algoma Central bondholders, resulting in some loosening of the financial guarantees that had bound the corporation to the unprofitable Algoma railways since the Great War.⁴³ The Algoma Eastern Railway was sold to the Canadian Pacific, netting \$2.2 million for corporate coffers.⁴⁴ While Algoma could not match the steady performance of Stelco in the late 1920's, it at least avoided the ignominy of BESCO as it slipped beyond financial redemption, to be taken over and reborn in 1928 as the Dominion Steel and Coal Company under the tutelage of Herbert Holt and J.H. Gundy.⁴⁵ Striking a note of optimism, the Financial Post described the Sault corporation, in 1928, as "full of promise for those who have faith and will yet be patient."⁴⁶

The misadventure of his first reorganization initiative coupled with the partial revival of corporate prosperity forced Dunn to retire to a more shadowy yet still powerful position for the next few years.

During his period of watchful waiting, Dunn quietly persisted in buying up whatever Algoma First and Refunding bonds, Lake Superior Income bonds and Investment Company shares drifted onto the market. As invulnerable as his bond position was, Dunn's position was still open to the unlikely challenge of any agglomeration of previously unattached shareholders. When, in early 1928, he first heard rumours of concerted buying of Lake Superior stock on the Montreal and Philadelphia markets, Dunn dismissed it as "of no special significance" and simply "a gamble in Algoma".⁴⁷ This buying, which drove the depressed price of Lake Superior stock rapidly upward, proved far from chimerical when Montreal interests, headed by Robert F. Dodd,⁴⁸ seized control of the company via the stockholders' route later in 1928. Toppling long-encumbent President Cunningham, Dodd brought the corporation under Canadian direction for the first time. Installing a Board of seven Canadian and three Americans, Dodd's purpose and backing remained shrouded in "a deep veil of mystery,"⁴⁹ out of which emerged grandiose promises to furnish Algoma with \$50 million in additional capital. Dodd's tenure as president was a brief one. Contemptuously viewed by Dunn as "an amateur president", Dodd's commitment to Algoma was speculative, built upon intricate "stock jobbing" calculated to create a "bull" market for stock bought up at bargain prices.⁵⁰ Dodd was forced to resign in April, 1929 due to some "serious irregularity" on his part, which in all probability stemmed from his failure either to provide new capital or facilitate reorganization.⁵¹

Dodd's place as president was filled by Frank B. Common, a Montreal

lawyer and investor, who completed the rout of Philadelphia interests on the Board, leaving a sole American to face ten Canadians. Built on a base of solid financial and engineering experience,⁵² it was a Board that in no way invited the charges of lethargy and negligence that three decades of absentee Philadelphia management had often brought. Dunn welcomed it as "an experienced Canadian board of high standing who will thoroughly examine [the] position and face the facts ..., freeing [the] company of the stock jobbing reputation it has had lately."⁵³ The folly of his initial blasé dismissal of Dodd's chances instilled in Dunn an abiding respect for the potential power of common and preferred stockholders, a possibility he never again discounted. Despite this, his Algoma strategy remained unchanged. "Everyone must see, who gives the subject close study," he told one of the new Montreal directors in April, 1929,

that no real progress can be made at the Soo until \$10,000,000 or \$15,000,000 of new money is found for the Algoma Steel Company ... the Company should without hesitation or delay face its position and make such a reorganization of its capital structure as is necessary to get the new money ... I am prepared to supply this new money and to stand aside as far as need be with my present bonds in order to get a marketable security.⁵⁴

The hammer-blow of the great "crash" of October, 1929 necessitated some alteration of both Dunn's and Algoma's plans. Quick to predict "a great bull market this fall" in August, 1929, Dunn was gloomily reporting "dull skies, dull markets and tales of ruin and dismay" from his London office by December of the same year.⁵⁵ The "great crash" did not mark the financial ruin of Sir James Dunn but the lingering depression in its wake was to drastically affect his activities as an

investment banker and stockbroker. While he sustained heavy losses in some investments such as the Equitable Office Building, it was the atrophication of international finance that most sharply cramped his style as a transatlantic financier. A severe blow was dealt in 1931 when England suspended the gold standard and moved to restrict various stock trading practices. In June, 1933, the Chancellor of the Exchequer requested brokers to discourage English investment abroad because "this country is not at present in a position to invest large sums on long-term abroad."⁵⁶

In the United States, Dunn's other financial arena, the Glass-Steagall Act of 1933 segregated investment and commercial banking into two legally separate entities, thus depriving the investment bankers of their traditional reliance upon deposits as backing for flotations.⁵⁷ In the wake of the spectacular Hatry crash of 1929, Ivan Kreuger's suicide and the Insull debâcle, the once gleaming reputé of the investment banker became tarnished and pockmarked.⁵⁸ The American Securities Exchange Act of 1933 and the British Prevention of Fraud (Investment) Act of 1939 clipped the wings of many of the more high-flying members of Dunn's financial fraternity. Later in the 1930's, Dunn himself became embroiled in an acrimonious tax evasion case with the British government. Nonetheless, in the midst of depression and the growing thicket of regulation, James Dunn still found scope for his investment skills. In 1933, he dazzled the English financial fraternity by repatriating Boots the Chemists from the American control of Rexall Drugs.⁵⁹ Similarly, he aided and abetted his friends Lord Beaverbrook and Lord Rothermere in their efforts to seize control of Price

Brothers paper company,⁶⁰ while at the same time plotting his own take-over of enterprises as disparate as the Marley Tile Company in England and H.F. Ritchie & Co., the makers of Eno's Fruit Salts, in Canada. Dismayed by the lethargy of the English economy and the failure of Beaverbrook's Empire Free Trade crusade, Dunn looked with increasing hope to Canada as a sphere for his activities. Like his friend Edward Beatty of the C.P.R., he did not know "of any country which can experience such a quick and permanent restoration of prosperity."⁶¹

Dunn's reawakened interest in Canadian business was reinforced by the advent to power of R.B. Bennett's Conservative government in Ottawa. With long-standing legal, social and business ties with many of the leading lights of Bennett's cabinet, Dunn found himself persona grata in Ottawa's corridors of power.⁶² By 1933, Dunn was handling personal investment of E.N. Rhodes, federal minister of finance, engineering on at least one occasion a \$ 2,550 profit for Rhodes in distillery securities.⁶³ G.H. Ferguson, ex-premier of Ontario and London High Commissioner, was also by 1934 entrusting Dunn with some of his private investments.⁶⁴ Despite some friction occasioned by Bennett's coolness to Beaverbrook's Empire Free Trade scheme, Dunn frequently interrupted his North American trips for confidential chats with his friend Dick. Some indication of this prestige in Ottawa was revealed in 1934 when Prime Minister Bennett deputized Dunn to refinance six million dollars in City of Montreal Treasury Bills on the London market.⁶⁵ Aware that Canadian borrowing on English markets was strictly forbidden, Dunn and Bennett surreptitiously worked through Ferguson in London and Victor Drury, Bennett's brother-in-law, in Montreal.⁶⁶

Hopes of clinching the deal were dashed by the vigorous intervention of the Governor of the Bank of England, Montagu Norman, who Ferguson reported was "very much annoyed" by Dunn's covert efforts to circumvent British financial regulations.⁶⁷ Bennett, claiming a "misunderstanding of the situation," hurriedly retracted his offer to Dunn and despatched Ferguson to appease Norman.⁶⁸ His talents unrequited, Dunn moved on to pursue other schemes of profit. In the depression-ridden years of the early 1930's Dunn had suffered, but in the contest for survival he remained in the ranks of the "fittest". For Algoma it was otherwise.

"The large bonded indebtedness of the Algoma Steel Corporation," the 1932 Lake Superior annual report bluntly announced "and heavy sinking fund requirements, together with lack of normal orders for that Company's principal products, have combined to render the profitable operation of the Company impossible during the past year, and have imposed a heavy drain of the Company's resources."⁶⁹ By 1932, Algoma was rolling only 15.2% of the rails it had in 1929, a catastrophic decline from 215,011 tons to 32,751 tons. The nadir came in 1933 when only 5052 tons of rails were produced at the Sault. Pig iron output tumbled from 95,930 tons in 1929 to a meagre 8343 tons in 1932. Coke output slipped to 31,013 tons or 16.3% of its 1929 level by 1932. Total shipments of all iron and steel products plummeted from 630,804 tons in 1929 to 147,169 tons in 1932, a 76.7% decline.⁷⁰ Once again Algoma was trapped by the continuing implications of Clergue's original industrial strategy; an overreliance upon rail production. "I agree," Dunn frankly told Algoma president Franz in mid-1931,

your Steel Company cannot stand many more years like the last and neither can any other industry in Canada ... I agree that tariffs do not matter much to you at present and that you are better without any merchant mill business until you can get a lot. Rails and more rails is what you must strive for to carry you through the bad period.⁷¹

Algoma's struggle for survival in the early 1930's can best be seen as a frantic search for rail orders. DOSCO found itself in much the same position, while Stelco, with its broad range of finished steel goods, had the relative luxury of selectively channeling its primary output to a host of steel consumers.⁷²

Faced with their steadily worsening industrial fortunes, Canada's primary steel producers engaged in feverish activity to convince Ottawa's politicians of their need for special tariff and subsidy assistance.⁷³ The Bennett budgets of September, 1930 and June, 1931 quashed any hope of a wholesale restructuring of the iron and steel tariff. The Emergency Session budget of 1930 boosted duties on agricultural machinery and scattered iron and steel items; also cancelling the countervailing duties of the Dunning budget. The budget of 1932 juggled some steel duties upwards, like those on steel plate, and others, like those on hot rolled strip, downwards. Bennett's much expected coup de théâtre never materialized: the steel industry was left much like other primary industries, with traditional tariff walls heightened but not expanded. In their brief to Ottawa on the eve of the 1932 Imperial Economic Conference, primary steel producers emphasized the necessity of securing "the existing primary steel industry of Canada a sufficient volume of business to reduce its operating costs and thus to enable it to earn a moderate return." From

Algoma's perspective this "strong urge and necessity for new lines of output" centred upon a protection for structural steel and sheet piling. Despite such lobbying, the Imperial Conference broke no new ground for the steel industry, leaving it with a "disproportionate import trade", "too many drawbacks" and a "decidedly low" tariff.⁷⁴

As the Depression darkened and Algoma's fortunes sank ever lower, it was the option of cutting the Gordian knot of the corporation's tangled finances that most occupied Dunn's attention. Placing himself at the centre of a nexus of informants who kept him intimately informed on the legal, operational and financial position of Algoma, Dunn embarked on a campaign in which he would outwit and outmanoeuvre his rivals for control and the thousands of faceless investors upon which the corporation's financial structure rested. Aware of the company's wobbly finances, Dunn again in 1930 offered Lake Superior president Common his services to underwrite a \$5 million loan to facilitate plant extensions.⁷⁵ More candidly, he told his last major partner in the Lake Superior Investment Company, Lord Glendyne, that he was "very unhappy about the outlook as it would seem that Algoma is fated to fall into the control of one board of directors after another, none of which has grasped and dealt with its vital necessities."⁷⁶ In this respect, Dunn's opinion was confirmed by his friend R.B. Bennett, the Prime Minister, who believed that Algoma's managers were "dead on their feet".⁷⁷ In another moment of exasperation, Dunn described the Sault rail mill as a "fit piece of machinery for the British Museum" and bemoaned the failure of the Board to construct a new combined mill.⁷⁸

Dunn's new impatience with the Algoma situation was also moulded by what he saw as the "extreme danger" of the giants of American steel crossing the border and overpowering the vulnerable Canadian industry.⁷⁹ "Bennett believes the U.S. Steel Company are going into Canada," he told Algoma president Franz in 1931, "but just when and to what extent and in what lines of steel I did not learn.... Bennett said that nobody could stop them from coming in or shape their policy for them."⁸⁰ Dunn's growing boldness was further fed by the example of decisive steel management set by close friends and acquaintances in the British steel industry, notably Hamar Greenwood, Sir William Firth and Sir Andrew Duncan.⁸¹ Additional encouragement was supplied by High Commissioner Howard Ferguson, whom Dunn reported as "a particularly good friend of the north country" and "right behind Algoma".⁸²

Driven by these forces, Dunn redoubled his efforts to fortify himself in a position of iron-clad control. Using the Lake Superior Investment Company, with its trove of Algoma and Lake Superior bonds, as his base, he steadily purchased additional securities as they appeared on the market. Although such bonds could be secured at low prices, the strain of continued buying forced Dunn to tax his financial resources to the limit. Throughout 1929-34 he drew sizable loans upon the Empire Trust Company and Central Hanover Bank and Trust Company, loans secured against collateral with very little market value. "Although I realize," he informed Leroy Baldwin at Empire Trust, "that my collateral with you is intrinsically worth seven or eight million dollars, the bulk of it is not a stock exchange security and I appreciate therefore that you make the loan as much on myself

as on the stocks."⁸³ Dunn's plans were somewhat upset in 1930 by the creation of the Algoma Consolidated Corporation as part of the new understanding with the Algoma Central bondholders. This new addition to an already over-extended capital structure acted as a repository for 94% of the old Lake Superior Corporation stock as well as a controlling interest in the Algoma Central common stock.⁸⁴ "I may be uncharitable," Dunn told a Bank of Montreal official, "but I believe the Algoma Consolidated is completely a Home Smith-Common creation for which I can see no purpose but to entangle and befog the situation as much as possible."⁸⁵ Unperturbed, Dunn continued to build his position, operating behind a screen of brokers and lawyers. Explaining his desire to shroud his activities in anonymity, he noted to E.R. Wood that:

The two reasons against publication of a statement by the Lake Superior Investment Company which would get into and be commented upon by the press are 1 increasing demands for dividends from shareholders and 2 exposure of our position to the Lake Superior directorate with whom we may before very long be sitting down on different sides of the table, when it would be better to have our position as much a mystery as possible.⁸⁶

The crisis that brought Dunn and the directorate to the conference table came in mid-1932. With only a "few small orders" on hand and enormous "idle expenses", W.C. Franz reluctantly reported that he might have to "bank in" the remaining operational furnaces.⁸⁷ Compounding Franz's anxieties was the refusal of the Bank of Montreal to advance the corporation, which already owed its banker \$894,000, any further funds.⁸⁸ Facing a June payment of \$145,000 in interest on its bonds, the parent corporation accepted the unavoidable and in mid-

June, 1932 surrendered Algoma Steel into receivership. When a net operating loss of \$817,139 for the fiscal year 1931/2 was announced on 30 June, it was apparent to all parties concerned that Algoma had reached the nadir of its fortunes.

Receivership elevated the holders of Algoma Steel Purchase Money bonds and First and Refunding bonds to a near unassailable position of control. With his majority control of both these securities, Dunn seemed poised on the verge of financial victory. "I very strongly urge you in the interests of Algoma and consequently in your own interests," Frater Taylor urged him,

to make as quick a job of it as possible, and without too many cooks ... your aim, I suggest, should be a strong, impregnable steel corporation ... with an uncomplicated capital.⁸⁹

For Dunn in 1932, there were still "too many cooks" hovering around Algoma to give him any assurance of ultimate victory. In the first place, the common and cumulative preference shareholders had to be borne in mind in any reorganization scheme. With the preference shares 16½ years in arrears on dividends, Dunn was wary of any scheme of corporate refinancing that might draw opposition from aggrieved shareholders. His New York and Toronto lawyers also warned him that the Bank of Montreal's status as a "substantial creditor" would give it some sway over any Algoma reorganization.⁹⁰

Besides the possibility of internecine friction, Dunn saw little gain in seizing an industry incapable of paying its own way in the midst of a severe depression. "My view is and I believe the Bank of Montreal holds the same opinion," he told Leroy Baldwin, "that the

Company is better in the hands of a Receiver until there is sufficient lifting of the depression to justify restarting operations."⁹¹ In the interim, he contented himself with using his influence, notably through Beatty of the C.P.R. and the Bank of Montreal,⁹² to secure a cooperative board of receivers for Algoma. The appointment of Sir William Stavert, W.C. Franz and Alex Taylor as receivers, all one-time business acquaintances, met with Dunn's unreserved acceptance. Having ensured friendly ties with Algoma's operational managers, he used his financial influence to insure the pliability of the bondholders committees being formed in London and Philadelphia to oversee any reorganization. The Philadelphia committee was chaired by William Lilley, a broker who had already told Dunn that he had the "highest impression" of his "ability and integrity".⁹³ In London, the bondholders were represented by G.C. Cassels, R. Ashton Hamlyn and Guy Ridpath, all intimate financial acquaintances of Dunn.⁹⁴ The indispensable hub of Dunn's wheel of control was provided by Toronto lawyers N.W. Rowell and his nephew, Ward Wright, who from their King street offices counselled their client on his legal position in a situation so tangled that even Dunn could not always grasp its intricacies.

By working surreptitiously behind the scenes, Dunn had used his position as majority bondholder to install a group of competent and cooperative overseers at Algoma. His stealth at times verged on the paranoic. Few had the least inkling of his intentions or even his interest in the Algoma situation. "The popular idea," a Sault lawyer confided to him

is that some reorganization should take place providing for a benevolent Santa Claus dropping millions of fresh money into prematurely considered schemes of enlargement at a time when the business of the country is not crystallized into a definite trend.⁹⁵ We are all in the dark as to the immediate future.

There was nothing precipitous or benevolent about Dunn's plans for the Sault. His first objective was to nurse the corporation back to reasonable financial health and only then to attempt a reorganization that would simplify and streamline the existing corporate structure to his advantage. The key would be to find some means of disinheriting a large number of the junior securities holders, thereby condensing financial control in Dunn's hands. Rowell in Toronto advised his client in 1932 that no "reasonable" solution to Algoma's woes could be effected without the shareholders' cooperation. Without "some common plea", the only option was foreclosure, "because it would shut them out completely."⁹⁶ Lacking an alternative strategy, Dunn continued his watchful waiting.

The financial recuperation of Algoma Steel was to a large degree at the mercy of the vicissitudes of the depressed Canadian economy. The steel industry reached its lowest ebb in the first half of 1933, when for one disastrous stretch from March to May Canada produced no pig iron whatsoever and only 34,970 tons of steel between February and April of the same year.⁹⁷ Per capita consumption of steel in Canada had declined from 569 lbs. in 1929 to 121 lbs by 1932.⁹⁸ In 1933 steel emerged from the doldrums, registering what the Monetary Times called an "upward trend", not dramatic but at least steady.⁹⁹ Pig iron production, only 67,899 tons in the first half of 1933, grew to 159,418 tons in the second half and then advanced throughout 1934 to

159,418 tons in the second half and then advanced throughout 1934 to a total of 404,995 tons.¹⁰⁰ Algoma's fortunes largely conformed to this pattern. The winter of 1932-3 proved the company's darkest hour. With only one blast furnace and one battery of coke ovens in operation, Franz dolefully reported to Sault M.P., T.E. Simpson, that Algoma's labour force had dwindled to 332 men by October, 1932.¹⁰¹ In May, 1933, the company arbitrarily reduced its employees' wages by 10%, thereby giving it the lowest base labour rate, 27¢ an hour, in the steel industry.¹⁰²

The economic tide turned in Algoma's favour during the second half of 1933 as orders for rails, merchant bars, and coke mounted with the result that total shipments from the plant increased from 195,497 tons in 1933 to 342,956 tons in 1934. In the fiscal year 1933-4, the company once again crossed the great divide into the profit column, registering profits of \$862,036.¹⁰³ These gains gave the corporation sufficient financial leeway to embark upon a partial diversification program, commencing in late 1934 with the ordering of rolls for structural beams and channels up to 15", followed by a decision to produce sheet piling for construction.¹⁰⁴ "We are very pleased to have demonstrated," noted one of the receivers, "that business can be carried on with some profit without rails. This never occurred before in the history of Algoma."¹⁰⁵

The return of financial solvency and industrial activity to Algoma was not only the product of sane management and national economic trends, but was also attributable to the generous spirit of Canadian politicians. Algoma's financial and operational crises had always provided

opportunities for federal and provincial politicians to test the mettle of their commitment to the Sault industries and the Depression proved no exception. Throughout the 1920's Algoma's provincial and federal political sympathies had been firmly planted in the Conservative camp. With Premier Henry in Toronto and Prime Minister Bennett in Ottawa, the corporation could at least face the depths of the depression with partial equanimity. Unable to secure better tariff protection, Algoma clamoured for some more practical measure of relief designed to tide the company over its bad times. In late 1932, T.E. Simpson, Tory Whip and Sault M.P., approached Bennett and Railways minister R.J. Manion with a request for a government guaranteed rail order for the C.N.R. "to relieve the serious unemployment situation at Sault Ste. Marie."¹⁰⁶ Despite Sir George Perley's warning to Bennett that Algoma was "not in good shape financially,"¹⁰⁷ Simpson's persistent hounding eventually resulted in a government guarantee to pay Algoma's wages and cover certain interest charges on a 30,000 ton rail order for the C.N.R. Issued by order-in-council in June, 1933, the guarantee was made under the terms of the 1933 Relief Act. Despite the fact that S.J. Hungerford of the C.N.R. immediately protested that the railway did not need the rails, the government agreed to pay carrying charges until such time as the rails were required.¹⁰⁸

A government guarantee of a private corporation's contract was vehemently attacked by Liberal leader Mackenzie King who alleged that "the government has been using this legislation [1933 Relief Act] to further the interests of certain financial corporations rather than in the interests of the unemployed."¹⁰⁹ Enacted without debate, "this

blank cheque authority," King asserted, gave government all the risk and a private corporation all the profit in a deal that no Canadian bank would have touched. Simpson, Bennett and Manion brazenly faced this criticism, unflinchingly asserting that it was a measure of unemployment relief and that the rails had been procured at the going rate. "I know of nothing that any businessman would not have done," Bennet asserted.¹¹⁰ Less than a month later, Bennett was informed by G.P. Fullerton, head of the Board of Railway Commissioners, that the 80,000 tons of DOSCO and Algoma rails guaranteed by the government were costing "approximately \$200,000 more than they would have had they ordered them when they were required."¹¹¹ Bennett's incessant claim that unemployment relief had been his only aim was somewhat belied by Dunn's boastful private claim that:

The powers that be in this country are now satisfied and Mr. Bennett the Prime Minister has now given me a definite date for delivery on the 30,000 ton rail order which makes it ordinary banking business.¹¹²

Unquestionably the rail deal created jobs at the Sault (about 1,600 of them through the winter of 1933/4), but the biggest winners were the bondholders of the corporation who saw their investment continue to regain financial stability under auspices that would never have been sanctioned by private bankers. As J.A. McPhail gratefully told T.E. Simpson:

... An investment of \$45,000,000 is not lightly abandoned ... I must say in all fairness that the momentum was supplied by this deal to carry the Corporation over a difficult bump and into a more or less steady production.¹¹³

Significantly, Bennett's staff filed the rail deal correspondence under "patronage", not "relief".

The import of these proceedings was not lost on James Dunn. It was clear that he, acting in the name of the majority bondholders, increasingly counted on one or even both levels of Canadian government to provide the decisive ingredient in any eventual resolution of the Algoma situation. "The friendly cooperation of the Canadian or Ontario Governments," Dunn admitted to a Philadelphia broker in mid-1934, "will be necessary to us and I am trying to accomplish something along these lines."¹¹⁴ In the early 1930's Queen's Park was not the avid supporter of the Sault industries it had once been. The Tory government of George Henry had not inherited the over-weening faith of Howard Ferguson in "New Ontario". "I feel," J.W. Curran of the Sault Star reproached Henry in 1931, "that it would be unfortunate if the north got the idea that its efforts to help the solution of its difficulties were to be treated lightly."¹¹⁵ In the spring of 1934, W.C. Franz unsuccessfully approached Henry in search of a government sponsored rail order of about 6,000 tons for the Temiscaming and Northern Ontario Railway.¹¹⁶ Franz was quick to point out to James Lyons, Tory incumbent in the Sault riding, that "if the rail mill is down at election time it will be very difficult to elect a Conservative member in this riding."¹¹⁷ J.A. McPhail, now an Algoma receiver, prevailed upon T.E. Simpson in Ottawa for another federally sponsored rail order. In a bid to curry the favour of both federal and provincial Tories, it was decided "to encourage the key men at the plant to support Lyons, having in mind particularly the keeping up of the proper relations at Ottawa."¹¹⁸ Not surprisingly, Lyons of the Sault openly attacked Premier Henry for his neglect of the north during the 1934 election.¹¹⁹

If politicians were to accede to Algoma's wishes, Dunn realized, a sympathetic mood of public opinion would have to be cultivated. Discussing the prospect of federal aid to the dormant iron ore industry, Dunn noted that "it is not fair to ask Bennett to give aid till we ourselves convince the public. He will give what the public demands."¹²⁰ The same undoubtedly applied to the recalcitrant provincial Tories. In this respect, Dunn made the windfall discovery of J.W. Curran, the ebullient editor of the Sault Daily Star, who greeted Dunn with the same unbounded enthusiasm as the previous generation of Sault residents had embraced F.H. Clergue. "I feel in my bones that with your leadership we can put the steel plant over big," Curran assured Dunn.

... we will have to build up a "rep" for the new regime as hustlers and men who know what they are doing ... I just love pushing the public around--for its own good. I know you'll succeed.¹²¹

More and more Dunn emerged from the shadows. Frequent trips to the Sault and speeches in which he proclaimed himself a "Soo Booster" won him broad publicity. He was increasingly cast in the role of heir apparent at the Sault.¹²² "I feel that we can put the plant over," Curran told Dunn, "if we can only use the right tools."¹²³

While the public sympathy was important, Dunn's plan for his ultimate assumption of power at Algoma depended upon the use of "right tools" well hidden from the public's purview. A sense of urgency was imparted to this process of selection during 1933 and early 1934 by the mounting pressure of financial affairs. Dunn's relentless acquisition of Lake Superior securities had been made possible by loans, usually extended on generous and easy terms by Leroy Baldwin of Empire

Trust in New York. This loan, at times exceeding \$1 million, placed Dunn in a precarious financial position, a position that could not be prolonged indefinitely. "As I informed you," Baldwin nervously warned Dunn,

our last examination by the Banking Department was October 28, 1933 and the next one is slightly past due ... When they come in, which I expect daily, I will probably cable you for latest quotations on Algoma bonds. While I hate to call on you, it may be quite important for you to make a payment of ten or fifteen thousand dollars on account of your loan.¹²⁴

Adding to Baldwin's pressure on Dunn, there was the growing reluctance of the Bank of Montreal to extend its already large advances to the company. These advances had hovered around the \$1 million mark throughout 1933 and with the moderate upswing in corporate fortunes the bank became anxious to see Algoma removed from receivership and placed in a position to make good its indebtedness.¹²⁵

Any qualms Dunn may have entertained as to the potential profitability of Algoma were eased by the tabling in the fall of 1934 of a comprehensive and searching consultant's study of the steel corporation. Personally commissioned by Dunn, Charles G. Atha, an English engineer, unequivocally reported that:

... I am convinced there is an excellent prospect of satisfactory financial results being obtained from the operation of the Algoma works if proper steps are taken to reduce costs and improve the efficiency of the existing plant and to add to the present range of products new products for which there is an adequate market in Canada.¹²⁶

Atha held out the tantalizing prospect that if \$4,995,000 were expended upon plant improvements, Algoma could confidently expect annual profits of \$3,475,000 by 1938.¹²⁷ While he filled his report with detailed

proposals for change, Atha crowned his optimistic survey by noting his "high opinion" of the "capable body of men" who directed the steel-work's operations.¹²⁸

Reassured about Algoma's industrial future, Dunn turned in late 1934 to his legal and financial consultants to devise an airtight scheme for converting his bondholding position into an unassailable bastion of control. Uppermost in Dunn's mind was the fear of the disruptive effect that minority bondholders or maverick shareholders might have upon any proposed settlement. Throughout the early 1930's, he had keenly observed the prolonged efforts of his friends, Lords Beaverbrook and Rothermere, to wrest control of Price Brothers Paper Company out of the hands of obstreperous shareholders, only to see them finally thwarted for lack of decisive control.¹²⁹ The tangled financial affairs of Abitibi Paper, another Sault industry in receivership, simply reinforced Dunn's impression of the folly of proceeding without absolute control.¹³⁰ Ward Wright of Rowell, Reid, Wood, Wright and McMillan in Toronto was well aware of the dangers in the Algoma situation.

Usually, as you know, we have a bondholders' committee which we can consult, but as the Lake Superior Investment Company held more than a majority of the bonds, the Toronto General Trust Company was legally within its rights in acting on their request and direction, but the legality of the situation is not what concerns me so much at the present time as the criticism which the Trust Company might leave itself open to by dealing only with Sir James Dunn's Company and not consulting the other interests who hold approximately one-third of the First and Refunding Bonds.¹³¹

Informed by N.W. Rowell that the bondholders' trustees were "receiving a great many inquiries" from investors inquiring about their rights,

Dunn downplayed the extent of his controlling interest, "fearful opponents now sleeping might be roused."¹³² Only a dramatic change in Ontario politics and the legal perspicacity of Ward Wright would solve Dunn's conundrum.

The election of "Mitch" Hepburn as Ontario premier in June, 1934 at first threatened to upset greatly all the schemes of Dunn and the Algoma receivers for the corporation's resuscitation. Having backed the renegade Tory Lyons at the Sault in the election, Algoma had bet on the wrong horse. "I presume you were somewhat surprised at the Ontario election results," Franz wrote

... we have had no one in the province to successfully take the leadership of the Conservative party since we lost Mr. Ferguson. However so far as Algoma is concerned we are not looking for anything from the Provincial Government [now] but [I] am afraid we will not stand so well with the present [Tory] Government at Ottawa during the remainder of their term in power.¹³³

In the wake of this gloomy prediction, it was a matter of considerable surprise for Algoma's executive to discover that a government dedicated to the "little guy" could in fact be just as sympathetic to the interests of the Sault corporation as G.H. Ferguson had ever been. Within five months, Franz reported that Dr. A.D. Roberts, Liberal victor over Lyons at the Sault, had "a good standing with the Government, particularly with the Premier, and is quite anxious to do anything he can for Algoma."¹³⁴ The Premier for his part was by November, 1934 quick to assure Ward Wright that his government was "prepared to support and facilitate"¹³⁵ any legislation that would expedite Algoma's reorganization. Hepburn's eagerness to assume the mantle of Ferguson

as the patron of Northern Ontario industry was no doubt founded to a degree in a genuine desire to foster employment in the province's primary industrial base.¹³⁶ More compelling however were the pressures exerted on the new Premier by Dunn's Toronto lawyers, N.W. Rowell and Ward Wright, both staunch Ontario Liberals with none of the taint of Toryism that might have stigmatized other Algoma representatives in the new government's eyes.¹³⁷

In the unexpectedly salubrious climate of a Liberal government, plans for Dunn's final putsch began to take shape. In October, 1934, after Wright had visited him in London, Dunn began to ponder a scheme whereby the dangers of reorganization could be circumvented by means of a sale of the corporation's assets by the majority bondholders to a totally new steel company, especially established to receive the old company's assets and refinance them with none of the financial obligations of the old corporation.

... Ward Wright has some idea of legislation in his mind that would put the matter beyond peradventure for the Trust Company ... I think my Canadian lawyers will be able if necessary to get private legislation in Ontario confirming the ownership of the Purchase Money Bonds by the new Steel Company and providing a period when the remaining fifth of the L.S. bonds can come in and exchange for the convertible preferred stock of the new steel company on the same terms as the four-fifths will have done.¹³⁸

Convinced that private legislation confirming such a sale was "the one shortcut to get on with the job,"¹³⁹ Dunn gave Wright the utmost freedom to implement the new strategy. Wright's approaches to the government depended upon the good will of Dr. Roberts and upon making the proposed legislation sanctioning the sale of Algoma's assets seem as

equitable and fair as possible and yet financially and legally airtight. Both Dunn and Wright realized that this meant that Dunn's controlling position must be veiled in secrecy. As Wright reported to his anxious client in London:

The whole matter of negotiations with the Government has, I think, been kept secret. I was afraid that there might be some mention in the Press at some time, and I want nothing said until I have the Government definitely committed. For this reason I have not even told Mr. McPhail of what I have been attempting to do with the Government.¹⁴⁰

Besides Roberts, Wright's only other confidant was Stanley Norsworthy, Assistant General Manager of the Bank of Montreal. Eager to see Al-goma put in a position to clear its sizable indebtedness with the bank, Norsworthy assured Wright of the "full-cooperation" of the bank in any reorganization.

Wright, accompanied by W.C. Franz, then engaged in a series of interviews, arranged by Roberts, with Hepburn, Provincial Secretary Harry Nixon and the Assistant Provincial Secretary. With almost un-seemly alacrity, the government committed itself to Wright's scheme:

... needless to say [Nixon wrote Roberts], the Government is delighted to learn that the proposed re-organization will bring this plant into immediate operation, and I can give you my assurance that we shall give this legislation our support, and facilitate it in every way possible in its passage through the House.¹⁴¹

The government's only proviso was that it be given some tangible evidence that new capital for the corporation was in the offing.¹⁴²

Within twenty-four hours, Dunn cabled Wright to inform him that as long as "Rowell and you are satisfied that perfectly sound legal situation results from proposed legislation," he would provide, through

bond subscription, five million dollars for Algoma extensions. When Wright replied that this would clinch the deal, Dunn elatedly cabled:

I hope that Mr. Rowell agrees to your plan and it can be carried through not only because of the time it will save, but also because of the fact that it closes the doors to nuisance by minority bondholders.¹⁴³

On 15 November, Wright wrote to Hepburn outlining the scheme in full detail. Assuring the Premier that "the holders of the outstanding First and Refunding Bonds of the Algoma Steel Corporation Ltd. and the holders of the outstanding Collateral Trust Bonds of the Lake Superior Corporation" were the "real owners" of the steelworks, Wright stressed that it had been "conceded", although he did not specify on what grounds, "that the bonded indebtedness of the Corporation (over \$20,000,000) is so great that it wipes out any value in the common stock." Exerting pressure for quick action, Wright mentioned that "responsible parties" in England were prepared to advance \$5 million for plant extensions. No mention of Dunn's name was made anywhere in the letter.¹⁴⁴ After considering the Wright's request, F.V. Johns of the Provincial Secretary's office, voiced some reservation about the proposed legislation.

... To grant such undertaking, the Government without more information, must rely on the bona fides of Mr. Wright and those he represents. With this in mind, the draft letter submitted by Mr. Wright would seem to be adequate or it might be better, from a Government standpoint, to add the words "and equitable" after the word "necessary" in the sixth line thereof.¹⁴⁵

Johns' opinion was substantiated by Deputy Attorney General, J.A. Humphries, who also urged the inclusion of the word "equitable". Humphries expressed some hesitation in that "usually it is not advisable for the

Government to give any assurance that any particular piece of legislation will be passed" to the parties concerned, but in view of the "extreme urgency" of securing capital from England, this consideration could be waived.¹⁴⁶ Less certain was Attorney-General Arthur Roebuck who bared his conscience to the Premier in an undated, scribbled note:

I do not like this because it is loose and indefinite and we are depending too much on one lawyer [Ward Wright], but the guard of the word "equitable" and the importance of the reorganization makes me recommend it.¹⁴⁷

At no point did Hepburn seem to press Wright for the identity of the "responsible parties" in England. Queen's Park was also seemingly blind to the fact that all talk of an "equitable" settlement was in fact nonsense in the light of Dunn's overwhelming control of the bonds which would dictate any corporate restructuring. Hepburn seemed woefully ignorant that Dunn's controlling position had been bandied about in the provincial press.¹⁴⁸ While the concurrence of two-thirds of the bondholders seemed "equitable" in theory, Hepburn was in reality opening the way for a financial rout of the stockholding and minority bondholding interests of the old corporation. Implicitly trusting in the word of Wright, whom he had even allowed to draft the proposed legislation, Hepburn had given public assurance of the government's intentions before submitting the plan to parliament. It was little wonder that Dunn cabled Wright in early December to express that he was "highly appreciative [of] your plan and remarkable progress."¹⁴⁹

Armed with the government's assurances, Wright applied in late November, 1934 for a provincial charter for the Algoma Steel Corporation Ltd.¹⁵⁰ Tailor-fitted to Dunn's ambitions, the new corporation had

a \$5 million bonded indebtedness, exactly what he had promised to provide, \$2.7 million in preference shares and the bulk in no par value common shares with a total capital of \$20,743,454. The bondholders of the old corporation were to be compensated with shares of the new. The fate of the old corporation was settled on 14 December at a Montreal meeting at which Dunn, Wright and Lilley, of the Philadelphia bondholders' committee, agreed that sanction would be sought from the Supreme Court of Ontario for sale or exchange of the old bonds for the new shares, after approval had been won from three-quarters of the bondholders.¹⁵¹ No provision was made to accommodate the interests of the old corporation's common and preferred shareholders. After consulting with Mr. Justice Davis of Ontario, Wright arranged for the special bondholders' meeting to be advertised in Canadian, American and English newspapers in early January, 1935. At a meeting slated for 6 February, the bondholders were to be asked "to take action by extraordinary resolution sanctioning, authorizing and approving a scheme for the selling of the undertakings of the said Algoma Steel Corporation Ltd. (1907) to Algoma Steel Corporation (1934)."¹⁵² For each \$200 in bond principle one common share of no par value was to be issued, up to a limit of 74,718 shares. Belying Dunn's fears of a last-minute miscarriage, Wright noted that "the Government's majority is so overwhelming that the question of any effective opposition can be dismissed from our minds."¹⁵³ It was however, Wright stressed, "most important that the public should understand that the Government are behind this reorganization."¹⁵⁴

The early February bondholders' meeting predictably set its per-

functory stamp of approval on the transaction. Fearing potential opposition from junior or minority bondholders that could result in "another futile re-hashing of the whole problem," Wright hastily brought the Algoma sale before Chief Justice Davis of the Ontario Supreme Court on 12 February. Presented with no opposition, the Court issued an order sanctioning and directing the sale of the old corporation's assets to the new steel company. With legal sanction secured and the bond exchange scheme ratified,¹⁵⁵ the last act of Wright's tour de force was to secure the provincial seal of approval on the whole reorganization. When the Ontario Legislature convened on 20 February the Algoma reorganization bill was ready for tabling. Now in the home stretch, Dunn and his legal advisors encountered an unexpected piece of good fortune. Hepburn's arbitrary cancellation of Ontario Hydro's Quebec contracts completely overshadowed all other events of the session, relegating the Algoma reorganization to the back pages of the provincial press.¹⁵⁶ Anticipating any possible development, Wright had told Dunn that he would "bring Dr. Roberts down from the Sault, and keep him here for a while, so that he can be interviewing Members, but this will depend entirely upon the calibre of the opposition which may develop."¹⁵⁷ When, on 4 March, Premier Hepburn publicly avowed his backing for the bill, the chance of substantial opposition in a House packed with Liberals almost completely evaporated. "Hepburn is a man," McPhail confided to Dunn, "who is not very tolerant of those who oppose him."¹⁵⁸ The only visible ripple of dissent came in early April when Arthur Slaght, a Toronto lawyer and Liberal backer, spoke out against the bill on behalf of various American

minority bondholders. Slaght demanded that the new corporation make a \$1 million deposit with the Ontario Treasurer to indicate that their purchase of the old corporation's assets was not "just a shoestring trick."¹⁵⁹ Slaght's opposition faded when his backers "pulled him off as no further opposition developed."¹⁶⁰ Despite this isolated protest, an act respecting the Algoma Steel Corporation Ltd. was legislated with despatch and proclaimed on 18 April, 1935,¹⁶¹ "Algoma reorganization effected," Dunn laconically cabled his son, "am chairman and president. Company's outlook good."¹⁶²

Dunn's sudden arrival on the Canadian industrial scene was perhaps best symbolized by a quiet dinner at the Toronto Club arranged for the new Algoma president by Ward Wright, now an Algoma director. Around that table on 10 May, 1935 gathered the wealthy and influential of Ontario industry, finance and government. James Y. Murdoch of Noranda Mines, Minister of Mines Paul Leduc, Provincial Secretary Harry Nixon and Mr. Justice Jeffrey of the Ontario Supreme Court joining in honouring Dunn with Thomas Bradshaw of Toronto General Trusts, John R. Lamb of the Bank of Toronto and Harold Franks, president of the Toronto Stock Exchange.¹⁶³ Many of these men had played a part in Dunn's ascendancy and many would be needed in the near future to support Dunn and legitimize the new Algoma corporation in the public's eyes. This convivial assemblage, intent upon celebrating Dunn's Sault triumph, was strikingly reminiscent of the old bond of common interest that had united Bay Street and Queen's Park with the flamboyant promoters of 'New Ontario' at the turn of the century. Dunn, like Clergue, had not only used Toronto's financial and political power

to achieve his ends but at the same time epitomized a development strategy for Northern Ontario that subsumed the public interest to the needs of private enterprise in the hopes that both would eventually be synonymous.

Less appreciative of Dunn's rise to power were many of the investors in the old Lake Superior Corporation, whose investments had either been reduced to the proverbial "worthless scraps of paper" or drastically devalued from bond securities to common, no par value stocks. Stunned by the speed with which the final sale had taken place, investors were now faced with a fait-accompli sanctioned by the Ontario Supreme Court and ratified by the province's legislators. For the holders of millions of dollars in the common and preferred shares of the old corporation there was virtually no hope for accommodation. These were the myriad small investors who had pinned their hopes on an overfinanced and ill-managed corporation and who had lost out completely in a game where they had no control of the rules. Dunn summed up his attitude to these dispossessed investors when he requested Ward Wright to answer a letter protesting the reorganization in May, 1935

... I wish you would answer the enclosed letter for me. Apparently this poor misguided man invested his money in Lake Superior shares and afterwards changed them into Algoma Consolidated and on these subjects of course he had no advice from me. 164

Others sought redress in higher quarters. While the reorganization was still in motion, A.G. Costello of Philadelphia, a "big stockholder" of Algoma Consolidated, wrote Prime Minister Bennett to protest the "arbitrary foreclosure proceeding of Algoma Steel Corp. Ltd. led by

Sir James Dunn depriving American investors of holdings in said Company."¹⁶⁵ Bennett, a lifelong friend of Dunn, forwarded the letter to Secretary of State C.H. Cahan, another old acquaintance of Dunn, for reply. Pointing out that the corporation had a provincial charter, Cahan suggested that Costello address his grievance to Queen's Park.¹⁶⁶ There can be little doubt as to the tenor of the reply Costello would have received from Mitch Hepburn's government. The professed champion of the "little guy" had little time to ponder the lot of the small investor. "You will doubtless be aware," an irate investor told the Toronto General Trust in 1936, "that many English investors have brought away the most painful memories of the occasions when they entrusted savings to Canadian industry."¹⁶⁷

Sir James Dunn as the new president of Algoma Steel received the generous accolades of the press. "Algoma Steel has at last got clear of the mill-stone hung round its neck by the group who founded it a generation ago," noted Iron and Steel of Canada

... Sir James Dunn ... has done the steel industry of this country a notable service. His insistence on a revised capitalization strictly in accord with the earning power of the plants put the company for the first time, on a sound financial footing.¹⁶⁸

While the future lay uncharted, Dunn had carried off a considerable financial and industrial coup. The Depression had pushed many Canadian corporations to the limits of their financial endurance, creating an unprecedented spate of receiverships and liquidations. Out of these circumstances, most companies slowly reemerged on a new basis, re-financed and restructured along lines acceptable and equitable to all parties concerned. Few, however, were refinanced by means of legisla-

tive fiat on a basis far from "equitable", as its political patrons had hoped. The Algoma refinancing was, as Arthur Slaght alleged, more a "confiscation" than an equitable readjustment of corporate finances.¹⁶⁹ "Am I right in assuming," one of Dunn's London friends wrote

that the concern you have [Algoma] which, from 1930 to '35 was represented by a loan and preference share capital of some \$35,000,000 is now represented by no Bonds and a mere \$2,000,000 odd of preference capital (the ordinary capital does not matter?)¹⁷⁰

Dunn's ability to "freeze out" large sections of the old corporation's investors and to create for himself an unshakable grasp on the reduced-capital of the new corporation was in large measure attributable to the support given him by two prime allies. Ward Wright and the various other lawyers retained by Dunn performed brilliantly in plotting the correct legal strategy to achieve the financier's fundamental goals. Realizing that only legislation by the provincial government offered a "failsafe" solution, the Toronto lawyers adeptly manipulated the new incumbents of Queen's Park, Dunn's other and albeit unwitting allies, into acceding to the financier's wishes. Hepburn's actions in one sense merely perpetuated a long tradition of provincial assistance to the Sault industries. What distinguished the assistance rendered in 1935 was the willingness of the government to provide support on a distinctly inequitable basis which, with a minimum of thought and perception, could clearly have been seen to directly benefit the financial fortunes of one financier and only indirectly bring about the revival of a major provincial industry. In later years the provincial government would not have the luxury of a choice, for in the future Sir James Dunn was the Algoma Steel Corporation. It was small

wonder that Dunn would later assure Hepburn that "Algoma Steel is
always ready to belch a smoky welcome from many chimneys" whenever he
passed the Sault's way.¹⁷¹

Notes

- ¹ JHD to R. McColl, 17 Dec. 1910, DP 260.
- ² see: JHD to H.C. Frick, 24 July, 1914, DP 269 and JHD to E.R. Wood, 12 Sept. 1923, DP 289.
- ³ JHD to P.G. Dunn, 15 June, 1927, DP 299.
- ⁴ Equitable Office Building file, DP 365.
- ⁵ ibid.
- ⁶ Empire Trust files, DP 349.
- ⁷ J. Frater Taylor to JHD, 24 June, 1924, DP 120.
- ⁸ L. Christie to R.L. Borden, 22 Sept. 1924, Borden Papers, c-347, #148098-100; Beaverbrook, Courage, op. cit., p. 66 and Franz Newman, Behemoth: The Structure and Practice of National Socialism 1933-34, New York, 1966, p. 15.
- ⁹ see: Stephen Miall, History of the British Chemical Industry, London, 1931 and Hector Belitho, Alfred Mond: First Lord Melchett, New York, 1933. Other of Dunn's friends, notably Reginald McKenna, were leading exponents of "rationalization" in the British steel industry in the 1920's; see: Lord Vaisey, The History of British Steel, London, 1974.
- ¹⁰ JHD to L. Christie, 2 Aug. 1926, DP 133.
- ¹¹ JHD to E.R. Wood, 9 Nov. 1926, DP 295 and JHD to Meighen, 15 Sept. 1926; Meighen Papers, #87766-7.
- ¹² "... an orgy of misguided expenditure that marked its inception, and similar recurrent mistakes," noted Iron and Steel of Canada, Aug., 1923, p. 156.
- ¹³ O.S. Nock, Algoma Central Railway, London, 1975, chps. 7 and 8.
- ¹⁴ 24 Aug., 1928.
- ¹⁵ W.H. Cunningham to W.K. Whigham, 18 May, 1927, box 7, J.A. McPhail Papers, box 7, P.A.O.
- ¹⁶ see: Coverdale and Colpitts report, submitted 15 Aug. 1923; McPhail Papers, box 7 and Freyn, Brassert and Co. report, submitted 10 May, 1924, general correspondence 1924, Ferguson Papers, P.A.O.
- ¹⁷ Cunningham to Whigham, op. cit.
- ¹⁸ Frater Taylor to JHD, 23 Jan. 1925, DP 128.

¹⁹Wood to Ferguson, 22 Oct. 1924, Frater Taylor to Wood, 21 Oct. 1924, Ferguson Papers, 1924 general correspondence.

²⁰McPhail to M. Insull, 13 May, 1925 and 1 Sept. 1927, McPhail Papers, box 4.

²¹S. Insull to McPhail, 29 June 1935, ibid., box 5.

²²see, for instance, Toronto Mail and Empire, 29 Nov. 1928 and Winnipeg Free Press, 30 Nov. 1929.

²³JHD to Whigham, 10 Nov. 1926, DP 297.

²⁴JHD to E.R. Wood, 23 June, 1927 and cable, JHD to Leroy Baldwin, 23 June, 1927, DP 299.

²⁵JHD to R. Fleming & Co., 29 June, 1927, ibid.

²⁶JHD to E.R. Wood, 7 July, 1927, ibid.

²⁷JHD to Leroy Baldwin, 31 May, 1928, DP 302.

²⁸see, for instance, JHD to W.C. Franz, 15 Aug. 1927, DP 300.

²⁹H.H. Prince to JHD, 5 Jan. 1923, DP 103.

³⁰JHD to F. Common, 26 March, 1931, DP 387.

³¹JHD to Leroy Baldwin, 31 May, 1928, DP 302.

³²JHD to W.K. Whigham, 25 Jan. 1927, DP 298.

³³JHD to Frater Taylor, 21 July, 1927, DP 299.

³⁴JHD to W.K. Whigham, 25 Jan. 1927, DP 298.

³⁵JHD to W.C. Franz, 13 Dec. 1927, DP 300.

³⁶JHD to W.K. Whigham, 14 Dec. 1927, ibid.

³⁷Philip Dunn to F. Wickes, 26 March, 1928, DP 301.

³⁸JHD to J.S. Dale, 26 April, 1928, DP 301 and London Times, 23 April, 1928.

³⁹JHD to E.R. Wood, 3 May, 1928, DP 302.

⁴⁰see Lake Superior Corporation, Annual Reports, 1921-30; statistics submitted to Dunn by general manager T.F. Rahilly in 1936, DP 316, file 7 and report on Algoma's profitability 1926-34, DP 311, file 11.

⁴¹ L.S.C. Annual Report, 1929.

⁴² "Electro Metallurgy at Sault Ste. Marie," Iron and Steel of Canada, March, 1930; "The New Merchant Mills of Algoma Steel," ibid., March, 1930 and "Canadian Plants Combat Steel Mill Problems," ibid., Aug. 1931.

⁴³ see O.S. Nock, Algoma Central Railway, op. cit., chp. 8.

⁴⁴ Lake Superior Corporation retained the 138,666 acres of land ceded to the railway by the government, holding them under a new subsidiary, Northern Ontario Lands Corp. Ltd.

⁴⁵ see; W. Kilbourn, The Elements Combined, op. cit., p. 129. For BESCO reorganization, see C.A.R., 1927/8, pp. 446-7- and pp. 354-5 and David Frank, "The Cape Breton Coal Industry and the Rise and Fall of the British Empire Steel Corporation," Acadiensis, Vol. 7, No. 1, Autumn, 1977. Dunn in mid-1929 feared that Holt et al. had designs on Algoma. JHD to Sir Frederick Williams-Taylor, 17 Aug. 1929, DP 151.

⁴⁶ JHD to J.S. Dale, 24 Jan. 1929, DP 304.

⁴⁷ JHD to W.K. Whigham, 17 Jan. 1928, DP 301.

⁴⁸ Robert F. Dodd, born at Cherry Valley, P.E.I. in 1883; began his financial career in 1908 in a New-York trust company, subsequently moving to Montreal where he had great success in floating the Alabama Traction, Light and Power Co.

⁴⁹ The Financial Post, 24 Aug. 1928; Monetary Times Annual Review, 1929, pp. 208-10, and C.A.R., 1927/8, pp. 356-7.

⁵⁰ see N.J. Greene to D.A. Machum, 28 July, 1964, Algoma Steel Historical Files. Greene, a Philadelphia broker, helped Dodd buy on American markets.

⁵¹ JHD to Sir F. Williams-Taylor, cable, 10 April, 1929, DP 304.

⁵² The Board contained, for instance, F.E. Meredith and Sir Frederick Williams-Taylor, both with close ties to the Bank of Montreal, and G.F. Perry, chairman of the English Electric Co. of Canada.

⁵³ JHD to F. Meredith, cable, 28 May, 1929, DP 305.

⁵⁴ JHD to Thomas Arnold, 29 April, 1929, DP 305.

⁵⁵ JHD to H. Coppell, 15 Aug. 1929, DP 306 and JHD to W.C. Franz, 23 Dec. 1929, DP 307.

⁵⁶ Morgan and Thomas, The Stock Exchange, op. cit., chp. 14; R. Kellet, The Merchant Banking Arena, op. cit. and A. Boyle, Montagu Norman: A Biography, London, 1968

57 see Vincent Carosso, "Washington and Wall Street: The New Deal and Investment Bankers 1933-40," Business History Review, Vol. 44, Winter 1970.

58 "... Rarely had a group lost so much status and respect so quickly. The folk hero of the boom years had become the scapegoat of the depression," Carosso, op. cit., p. 426.

59 see Samuel Merwin, Rise and Fight Again: The Story of a Life-long Friend, New York, 1935 and JHD to H. Greenwood, 20 June, 1944, DP 210.

60 see JHD to H. Stuart, 12 Oct. 1932, DP 165, E.W. Beatty to JHD, DP 171 and C.A.R., 1934, p. 389.

61 E.W. Beatty to JHD, 2 May, 1932, DP 171.

62 For Bennett-Dunn relationship, see: notes of private meeting between Dunn and Bennett, Ritz-Carleton Hotel, Montreal, May, 1932, DP 172 and JHD to Bennett, 16 March, 1932, ibid.

63 Rhodes to JHD, 24 Aug. 1933, DP 173.

64 Ferguson to JHD, 29 Dec. 1934, DP 191.

65 "Sir James Dunn Correspondence, 1933," Bennett Papers, vol. 947, #598337-56.

66 Ferguson to Bennett, ibid., #201512.

67 ibid., 21 June, 1934, #201541.

68 Bennett to Ferguson, 21 June, 1934, ibid., #201538.

69 see also: W.C. Franz, "Primary Iron and Steel Had Difficult Year," Monetary Times Annual, 1932, p. 14.

70 Lake Superior Corporation, Annual Reports, 1929-33, and Algoma production statistics, DP 316. Only coke for domestic use increased in output during these years.

71 JHD to Franz, 30 July, 1931, DP 309.

72 Kilbourn, Elements Combined, op. cit., chp. 9.

73 see, for instance, editorial in Iron and Steel of Canada, Aug. 1930.

74 see R.H. McMaster to Bennett, 14 July, 1932, Bennett Papers, #458326, "Memorandum for R.W. Breadner, Commissioner of Customs, Ottawa, referring to Report of Conference between British and Canadian Iron and Steel Manufacturers," 15 July, 1932, ibid., #458327-33. "Brief Prepared by the Primary Steel Producers of Canada," 28 June, 1932, ibid., #458356-475.

- 75 JHD to Frank Common, 17 May, 1930, DP 308.
- 76 JHD to Glendyne, 13 Aug. 1930, ibid., Glendyne, formerly Robert Nivison, had been a member of the original Fleming-Dunn syndicate of 1908.
- 77 JHD to A.M. Erlinger, 19 Dec. 1933, DP 385.
- 78 JHD to Frater Taylor, 19 June, 1930, DP 156.
- 79 JHD to Common, 21 May, 1930, DP 308.
- 80 JHD to W.C. Franz, 11 March, 1931, DP 309.
- 81 see John Vaisey, The History of British Steel, London, 1974.
- 82 JHD to Franz, 22 Nov. and 15 Dec. 1930, DP 315.
- 83 JHD to Baldwin, 28 Nov. 1939, DP 343.
- 84 Algoma Consolidated Corporation, Annual Report, 1932; see also Algoma Consolidated Corp. Ltd. file, RG 95, file 146144.
- 85 JHD to S.C. Norsworthy, 29 June, 1932, DP 314. R. Home Smith, a Toronto broker, was president of the Algoma Central.
- 86 JHD to E.R. Wood, c. Dec. 1930, DP 387.
- 87 Franz to JHD, 27 April, 1932, DP 315.
- 88 ibid.
- 89 J. Frater Taylor to JHD, 30 May, 1932, DP 317.
- 90 Wickes & Neilson to N.W. Rowell, 10 May, 1932, DP 319.
- 91 JHD to Baldwin, 30 June, 1932, DP 344.
- 92 J.A. McPhail to J.E. Barber, 8 April, 1933, McPhail Papers, box 5.
- 93 see file 7, DP 311.
- 94 The Financial Times, 14 Oct. 1932.
- 95 J.A. McPhail to JHD, 12 Oct. 1933, McPhail Papers, box 5.
- 96 N.W. Rowell to JHD, 3 Oct. 1932, DP 319.
- 97 Iron and Steel and Their Products, D.B.S., Ottawa, 1935, table 19.

⁹⁸H.M. Jaquays, "Canadian Steel Industry Now Shows Upward Trend," Monetary Times Annual, 1934.

⁹⁹ibid.

¹⁰⁰H.M. Jaquays, "Canadian Steel Industry Continues Upward Trend," Monetary Times Annual, 1935.

¹⁰¹W.C. Franz to T.E. Simpson, 27 October, 1932, Bennett Papers, vol. 789, #485662.

¹⁰²W.C. Franz to JHD, 9 April, 1934, DP 315. By late 1932, 1052 Sault families were on direct relief, out of a population of 23,000. Bennett Papers, vol. 789, #485663.

¹⁰³financial report to receivers, 1933/4, DP 311.

¹⁰⁴T.F. Rahilly to J.A. McPhail, 15 Oct. 1934, DP 310.

¹⁰⁵McPhail to JHD, 12 July, 1934, DP 318.

¹⁰⁶memo. by T.E. Simpson, 27 Oct. 1932, Bennett Papers, vol. 789, #485663.

¹⁰⁷Perley to Bennett, 19 June, 1933, ibid., #316111.

¹⁰⁸P.C. 1283, 28 June, 1933; Simpson to Perley, 24 June, 1933, Bennett Papers, vol. 508, #316118 and Perley to Hungerford, 30 June, 1933, ibid., #316125.

¹⁰⁹DHC, 26 March, 1934, p. 1826. DOSCO received a similar rail deal.

¹¹⁰ibid., 11 April, 1934, pp. 2052-3.

¹¹¹Manion to Bennett, 4 May, 1934, Bennett Papers, vol. 508, #316159.

¹¹²JHD to A.M. Erlinger, 9 Oct. 1933, DP 385.

¹¹³McPhail to Simpson, 27 April, 1934, DP 318.

¹¹⁴JHD to W. Lilley, 14 June, 1934, DP 311. "Dealing with the political developments I know of nothing more interesting than political intrigue when there is a purpose in it," he told J.A. McPhail on 12 Jan. 1934, DP 318.

¹¹⁵Curran to Henry, 4 Aug. 1931, Henry Papers, "Department of Northern Development" file.

¹¹⁶Franz to JHD, 12 May, 1934, DP 315.

- 117 ibid.
- 118 ibid.
- 119 R.M. Alway, "Mitchell F. Hepburn and the Liberal Party in the Province of Ontario 1937-43," unpublished M.A. thesis, University of Toronto, 1965, p. 62.
- 120 memo. by Dunn, n.d., (c. 1934), DP 315.
- 121 Curran to JHD, 7 Oct. 1933, DP 310.
- 122 see: Sault Daily Star, 2 and 3 Oct. 1933.
- 123 Curran to JHD, 4 Nov. 1933, DP 310.
- 124 Baldwin to JHD, 30 April, 1934 and JHD to Baldwin, 16 March, 1934, and Empire Trust account, 11 Dec. 1934; DP 344.
- 125 As of 30 April, 1933, one Bank of Montreal advance to Algoma totalled \$972,000. Jackson Dodds to N.W. Rowell, 2 June, 1933, DP 319 and Rowell to JHD, 29 June, 1933, DP 318.
- 126 Report to Sir James Dunn on the Works of the Algoma Steel Corp.; Oct. 1934, DP 310. American-born, Atha had a considerable repute in the British Steel industry and came to Dunn with recommendations from J. Frater Taylor, Winston Churchill and J.P. Morgan & Co. see Vaisey, British Steel ..., op. cit., p. 73.
- 127 Atha Report, op. cit.
- 128 Atha to JHD, 14 Nov. 1934, DP 310.
- 129 E.W. Beatty to JHD, 5 May, 1932, DP 172; Hugo Cunliffe-Owen to Beaverbrook, 11 May, 1934, Beaverbrook Papers, House of Lords Record Office (HRLO), series C, file 108; A.J.P Taylor, Beaverbrook, op. cit., p. 317 and Financial Post, 29 Sept. 1934.
- 130 see: Report of the Royal Commission Inquiring into the Affairs of Abitibi Power and Paper Co. Ltd., Toronto, 1941.
- 131 W. Wright to F. Wickes, 21 Nov. 1933, DP 319.
- 132 Rowell to JHD, 9 June, 1933 and JHD to McPhail, 22 Dec. 1934, DP 319.
- 133 Franz to JHD, 26 June, 1934, DP 315.
- 134 ibid., 9 Nov. 1934, DP 315.
- 135 M.F. Hepburn to Wright, 22 Nov. 1934, DP 319.

136 This is the interpretation in N. McKenty, Mitch Hepburn, Toronto, 1967, p. 101.

137 see: M. Prang, N.W. Rowell: Ontario Nationalist, Toronto, 1975, Prang has little on Rowell's career as a corporate lawyer.

138 JHD to F. Wickes, 16 Oct. 1934, DP 189.

139 JHD to Wright, cable, 16 Oct. 1934, DP 319.

140 Wright to JHD, 17 Nov. 1934, ibid.

141 Nixon to Roberts, 7 Nov. 1934, ibid.

142 Wright to JHD, cable, 7 Nov. 1934, ibid.

143 JHD to Wright, 12 Nov. 1934, DP 320.

144 Wright to Hepburn, 15 Nov. 1934, DP 319.

145 "Memorandum for the Hon. Mr. Nixon from F.V. Johns," 22 Nov. 1934, Hepburn Papers, 1934 private correspondence.

146 confidential memo, Humphries to H.C. Nixon, 24 Nov. 1934, ibid.

147 Roebuck to Hepburn, n.d., ibid.

148 The Sault Daily Star of 2 October, 1933 had, for instance, proclaimed that Dunn "now controls the destiny of Steel Works".

149 JHD to Wright, 7 Dec. 1934, DP 320.

150 application made 29 Nov. 1934, letters patent issued 12 Dec. 1934. DP 320.

151 Agreement of 14 Dec. 1934, DP 310.

152 see London Times, 2 Jan. 1935.

153 Wright to JHD, 29 Nov. 1934, DP 319.

154 ibid., 8 Jan. 1935, ibid.

155 "Notice of Submission of Plan of Exchange," circulated by Philadelphia Committee, 26 Jan. 1935, DP 311.

156 What publicity there was was generally sympathetic. see: "A Prospect for the Sault," editorial, Toronto, Globe, 20 March, 1935.

157 Wright to JHD, 8 Jan. 1935, DP 319.

- 158 McPhail to JHD, 6 April, 1935, DP 318.
- 159 Toronto Globe, 3 April, 1935.
- 160 McPhail to JHD, 6 April, 1935, DP 318. Slight's Canadian backers were probably the Nesbitt, Thomson investment firm.
- 161 Ontario Statutes, George V, XV, chp. 76.
- 162 JHD to Philip Dunn, 7 May, 1935, DP 193.
- 163 dinner guest list, 10 May, 1935, DP 319.
- 164 JHD to Wright, 18 May, 1935, ibid.
- 165 Costello to Bennett, 5 Dec. 1934, Bennett Papers, vol. 146, #96810.
- 166 C.H. Cahan to Costello, 10 Dec. 1934, ibid.
- 167 C.D. de Bosdari to Toronto General Trusts, 16 Nov. 1936, DP 318.
- 168 editorial, May-June, 1935.
- 169 Toronto Globe, 3 April, 1935.
- 170 E. Blundell to JHD, 15 June, 1937, DP 201. Dunn pencilled "yes" in the margin.
- 171 JHD to Hepburn, 13 Aug. 1941, Hepburn Papers, "Sir James Dunn file--private, 1941".

CHAPTER SEVEN

The Road to Recovery: Sir James Dunn as the Captain of Solvency 1935-39

It was a measure of Dunn's confidence in his Toronto lawyers that he remained unobtrusive during the final months of the Algoma reorganization. While in daily communication with Ward Wright throughout the intricate negotiations, James Dunn did not actually arrive in Toronto from London until the first days of May, 1935, after the legislature had set its seal of approval on the new Algoma corporation. Presiding over the formative Board meetings of the new steel company in the King Street offices of his lawyers, Dunn once again extended his all important offer to facilitate the flotation of \$5 million in bond capital for the fledgling company. It had been this personal guarantee of an injection of sorely needed capital that had clinched the reorganization deal at Queen's Park and, accompanied as it was with an underwriting commission of 25,000 Algoma common shares, placed Dunn at the undisputed centre of the new corporation's affairs. This ascendancy was swiftly affirmed on 4 May when E.G. McMillan, one of Wright's partners and Algoma's interim president, stepped aside to allow Dunn's elevation to the Presidency and Chairmanship.¹

The aspirations of Toronto's political and business elite for the rapid resuscitation of the Sault under the aegis of the rechristened steel works were eagerly echoed when Dunn continued his hasty tour de triomphe to the Sault.² Crowding into the dining room of the Windsor Hotel on 12 May, an audience including local civic, provincial and federal politicians as well as eminent lights of the Toronto business world, notably J.H. Gundy, mingled with Algoma's managerial staff

to hear the "man who made our dreams come true," as John A. McPahil proclaimed him, roundly assured them that:

A period of expansion lies ahead of you. We have to diversify our products. We plan to manufacture things never made in Canada before and for which there is a very growing market and especially to take more advantage of the mining industry to the north of us.³

In this atmosphere of praise and promise, Dunn made it abundantly evident that his "silent partnership" of the last twenty-seven years had been superseded by an "active partnership". On the morrow Dunn departed the Sault, again bound for London to minister to his still myriad obligations in the City. His visits to the Sault were to be few and far between, seldom averaging more than two per year. In one sense, his infrequent presence at the Sault was a scant departure from the callous practices of the old Philadelphia ownership. Yet that Dunn's commitment to the industrial as well as financial success of the Sault corporation was distinctly different was evidenced by the barrage of daily inquiries that the peripatetic president incessantly directed at his managers. Thus an executive regime of management by telegraph and telephone was initiated, a regime that was to last until the new President's death in 1956.⁴

The ebullience surrounding the actual transfer of power at Algoma did little to assuage the anxieties of those intimately associated with the problems of the steel corporation. While Dunn had arbitrarily reduced the debilitating burden of the old corporation's financial obligations, serious and deeply engrained problems still confronted Algoma. The introduction of new, heavier forms of structural steel,

namely 15" channels and I-beams, in early 1935 had only partially satisfied the imperative need to market innovative and lucrative new lines of finished and semi-finished steel and thereby diminish the company's vulnerability to the fluctuations of the national rail market.⁵ Less pressing, but nevertheless important, was the necessity of securing an assured supply of raw materials, especially iron ore, thereby reducing dependence upon what were commonly believed to be the ever-shrinking reserves of American Superior ore. The dormant Helen mine loomed large in the schemes of Algoma officials in the early 1930's and now promised to serve as the capstone of the new corporation's resources policy. Solution of Algoma's diversification and vertical integration problems above all else hinged directly upon the availability of "new money" to finance plant and mine expansion and upon the infusion of new managerial talent. The complex mesh created by all these variables would not be amenable to simple formula solutions.

The pace at which the national steel industry was to be revitalized by a reawakening economy would also have a very direct bearing upon Algoma's ability to put its house in order. Compared with the depths of the depression in 1933, the situation in 1935 for the steel industry flickered with hope. The national aggregate of factory sales of iron and steel had expanded to \$38,700,961 by 1935, an increase of 33% from 1934.⁶ The fact that in 1935 only five of Canada's ten blast furnaces were "in blast", representing only 42% of available capacity, gave some indication that the road to recovery was still long. Of Algoma's four furnaces, only one 450 ton furnace remained

in operation in the 1933-35 period, but its annual operation had been pushed from a meagre 84 days in 1933 to a more encouraging 325 days in 1935.⁷ Dunn had consciously timed his take-over at the Sault to coincide with what he perceived as the turning point in the Depression; to have seized control in the dark days of 1933 would have deprived him of even the slight leverage that the moderate demand of 1935 afforded. Hopeful that the slow and as yet uncertain revival of the national economy would work its gradual regenerative effects on Algoma, Dunn was also fully cognizant that the company must promote its own rebirth through internal reorganization as well as by seeking the assistance of its two long-standing foster parents, the provincial government at Queen's Park and the federal powers in Ottawa. While the sympathetic Hepburn government had filled the role of deus ex machina during the crucial reorganization, much remained to be gained by the new Algoma in the arena of federal politics, especially in the realm of tariffs.

Dunn's ultimate success at the Sault would hang very largely upon his ability to exploit the inclination of both levels of government to foster the establishment of a prosperous steel industry in northern Ontario. Like Clergue, Dunn would have to exploit judiciously the areas of consensus that existed between Ottawa and Toronto as to Algoma's future, and, when no consensus existed, use the mutual suspicions and anxieties of the two political centres to the corporation's best advantage. It was to be Dunn's uncanny knack that he was able with great consistency to convince both Ottawa and Toronto politicians that the ends of Algoma Steel and those of their governments

were largely synonymous. "Although as you know well I take no part in politics," he confided to Mitch Hepburn in 1945,

I cannot let this occasion pass without recalling that but for your private act of the Ontario Legislature compelling two classes of bonds to exchange for shares it would have been impossible for me to overcome the financial conditions then prevailing and without these conditions being overcome important creditors were threatening to board up the steel plant. I will never cease to be grateful for your action in enabling Algoma to take ... an active part in making the Soo hinterland one of the great iron countries of the world.⁸

The long-range solution of Algoma Steel's problems were in May, 1935 overshadowed by the pressing problem of simple survival. Only after sufficient production had been stimulated, the crippling drain of "idle expenses" reduced and a modicum of capital flow restored, could Algoma hope to gain enough momentum, financially and operationally, to forge its new policies of diversification and vertical integration. As Dunn explained to Charles Atha, his English confidant in technical steel matters:

The trouble in Canada is the slowness of orders. I think it is just one of those dull periods that come along. Bennett's illness and the approaching election has sic something to do with it. I am delaying going out as long as I can because there is no use in kicking against the pricks or undertaking new financing before we have some important business in sight--in other words some important rail orders.

Ironically therefore, Dunn's initial strategy at Algoma was to exploit the company's long-standing reliance upon rail production. Like the receivers of the bankrupt company before him, he instinctively turned to Ottawa for assistance. While already resigned to the prospect that his close friend R.B. Bennett "will go out of power at

the next election,"¹⁰ he was nonetheless heartened that the federal Public Works department had placed substantial orders for Algoma's new steel piling for wharf construction.¹¹ "The next thing for us to do," Dunn instructed his new general manager, T.F. Rahilly, "is to get the best part we can of the orders resulting from the Government relief finance and in this matter I hope to be of some use."¹³

Dunn's usefulness in Ottawa lay in his close social and sometimes business ties with the Prime Minister, Finance Minister Rhodes and Sir Edward Beatty of the C.P.R., all of whom had a long-standing respect for the new steel president. Despatching Algoma's new general manager T.F. Rahilly, and Sault M.P., T.E. Simpson, to Ottawa, Dunn insisted that they should impress upon Ontario Cabinet ministers like R.J. Manion that their province "get at least as much from relief orders as Nova Scotia" and that any orders would be "doubly important ... in financing new five million dollar extension."¹³ After "very satisfactory" interviews with Manion and Rhodes, Rahilly was able to report to his President in London that an order-in-council on 7 June had provided government guarantees on the interest charges of a 40,000 ton rail order for the Canadian National, with a similar order being placed with Dosco.¹⁴ Insisting on one concession from Dunn for his government's generosity, Bennett stipulated that former Algoma president W.C. Franz, whom he held culpable for the old corporation's misfortunes, be removed from any effective influence over the company's affairs.¹⁵ Dunn, who harboured a genuine affection for Franz and had a realistic appreciation of the problems he had confronted, acquiesced to Bennett's demand, although Franz was retained

as an Algoma director until his death in 1946.

Like Hepburn, Bennett was inclined to participate in giving Algoma a new lease on life. Unfortunately for Dunn, little of a concrete nature resulted from the Prime Minister's sympathetic predisposition. In the first year of Dunn's presidency, the steel company rolled \$3,835,530 worth of steel rails, constituting 42.5% of the corporation's total net sales of \$9,013,213.¹⁶ The government relief rail orders had given Algoma a tremendous fillip in the doldrums of the Depression, yet by August, 1935 it was apparent to Dunn that, while Bennett claimed to be "heartily in accord with what we were attempting to do here, and that he would give every assistance possible,"¹⁷ the Tory political fortunes would soon be in eclipse. "However I suppose," Dunn noted of Bennett's various promises, "a lot of things are said at election time."¹⁸

The struggle for survival also extended to the financial sphere where a two front campaign was being waged. On the one hand, a rear-guard action was carried on to wind up the involved finances of the old corporation and, on the other hand, a vital drive to consolidate and extend the finances of new corporation was conducted so as to facilitate expansion and diversification at Algoma. Capably orchestrated by Ward Wright, the winding-up of the old Lake Superior and Algoma Consolidated Corporations lingered on until as late as April, 1939. With outstanding bonds still to be redeemed for common stock in the new corporation and the claims of a legion of junior security holders to be adjudicated, Dunn felt compelled to tie up all loose ends in order to protect fully his grasp on the new corporation. In March, 1936, Wright bought up \$5,800,000 of outstanding Lake Superior Purchase Money bonds at a trustee's auction for \$1,055,000, thus

enabling him to convert these into Algoma common, in the case of deposited bonds, and into cash for non-deposited bonds. Payments in both cases were small, with non-depositing bondholders receiving only \$195.84 for each \$1000 bond. Holders of Algoma Consolidated securities were less fortunate. With the appointment of the Montreal Trust as liquidator in October, 1938, the assets of the Algoma Consolidated trust were deemed "insufficient" to cover any claims by the common shareholders, while those of the more senior preference and bond holders were paid in a paltry fashion out of the proceeds of the sale of such assets as the Ontario Northern Lands Ltd. "I might say," Algoma Central Railway president E.B. Barber noted years later, "that so far as my knowledge goes, this equity is all the original Lake Superior shareholders received out of the Clergue enterprises."¹⁹

These financial mopping up operations were one facet of Dunn's unbending desire to place complete control of the new Algoma Steel Corporation in the hands of its common shareholders. The pivotal feature of the 1935 reorganization had been the deliberate downgrading of the senior bondholders of the old corporation into common shareholders of the new, so as to protect Dunn from the folly of his predecessors who had become so hopelessly mired by the obligations of servicing an overlarge, bonded indebtedness. "Certainly," Dunn lectured Ward Wright, "until we see our way clear to, we should not move from a position with no bonds where the worst we can suffer is periods of making no money into a position where we burden ourselves with a heavy bond charge and earn nothing on the new investment."²⁰ Dunn's preoccupation with retaining his control of Algoma and with

fending off any challenge he perceived, to his paramountcy, often quite mistakenly, rapidly assumed a paranoid dimension. While he had utilized his position as a bond holder to seize control in the first place, he now donned the cloak of an outspoken advocate of the rights of the lowly common shareholder.

Dunn's predisposition for a highly simplified capital structure was intensified as he followed with more than vicarious interest the tangled affairs of Price Brothers and Abitibi, two pulp and paper corporations that had slipped into bankruptcy at the same time as Algoma. Neither of these bankrupt corporations had been able, by 1936, to extricate itself from receivership due to the interminable internecine wrangling amongst the protective committees of their varied investors.²¹ In both cases, no one party of investors arose with a sufficiently large interest in the corporate equity to force the situation as Dunn had so adroitly managed at Algoma.

The new-found sanctity with which Dunn endowed the common shareholder was vividly illustrated in 1940 when, at Hepburn's request, he participated in a Royal Commission inquiry into the repeatedly blocked reorganization of Abitibi Power and Paper. Whereas he had tirelessly insisted up to 1935 on the rights of the bondholders being respected to the letter of the law, he now sided wholeheartedly with the 1941 conclusion of the Abitibi commissioners that:

.... where there may be an issue involved in bondholders' action against companies as to whether there is an equity, the Court should be given the power to determine the issue and not let the bondholder be the sole judge. As the law is now, if bondholders for themselves concede there is no equity, they simply proceed to foreclosure through the unwholesome fiction of a sale. It is a pure fiction....²²

The inviolability of Algoma common was amply revealed by the speedy zealotness with which Dunn marshalled and protected his own holdings. By special by-law of the company in July, 1936, Algoma common was split 4:1 creating a total share capital of 480,000, of which 407,540 was issued. By 1 July, 1937, Dunn had adroitly manipulated his original block of 50,456 common shares into 202,532 20/60 shares, together with sizable holdings in Algoma preference shares.²³ Using the Lake Superior Investment Company, over which he had 69.3% stock control, to maximize his sway over Algoma, he had in turn effective control over 66.6% of Algoma common.²⁴ Dunn's only rival for control of the holding company was Lord Glendyne in London, whose 18.8% interest completely overshadowed the small holdings of E.R. Wood and the general public.²⁵ Assured by Glendyne that he had no intention of actively intervening in Algoma's management or of disposing of his block, the new president of the steel company found himself in a position of unassailable, if not absolute, control of his new enterprise.²⁶

Assured of undisputed control in the boardroom, Dunn was now able to turn his attention to the exercise of his power for the betterment of Algoma. Dunn's paramountcy as a shareholder facilitated his adoption of practices that would never have met with the approval of a more diffused body of shareholders. Of cardinal importance was the decision, as inquiring shareholders were bluntly told by form letter, that there was "no likelihood of this company paying a dividend in the near future."²⁷ Even the preference shares of the new corporation had a five year, non-cumulative, no dividend clause attached to them, ostensibly so as not to prejudice the interests of the common shareholders, the previous bondholders, but in reality to enable

management to plough back profits at the maximum rate and to reduce the need of resorting to long term financing through bonds. While this policy brought allegations that Dunn and Algoma were bucking general corporate practice and shirking their ethical duty to the preferred shareholders,²⁸ it did allow the corporation to build up its earned surplus from \$541,814.63 in 1935/6 to \$1,580,423.65 by 30 April, 1939, a luxury that the previous corporation had never enjoyed.²⁹

Dunn also adopted the rather unusual tactic, for a City financier, of largely disregarding the market value of Algoma common. Uninterested in selling his holdings or in inducing others to buy, he could afford to let the market find its own level; it was only for the sake of his extensive bank borrowings that he paid any attention to maintaining some semblance of the shares' intrinsic value. Dunn flatly announced to an old City friend in 1937 that he had "no shares for sale and no interest in their being purchased in the market." And by 1938 was telling prospective sellers of Algoma common that he had "such a large interest in the stock that a few shares more or less do not matter."³⁰ Up to 1939, Algoma common was never a particularly valuable stock. Dunn himself privately described it as a "very second grade security" to J.A. McPhail in 1935 and it was not until late 1938 that application was made to the Toronto and Montreal stock exchanges for listing.³¹ Even then, Dunn's old Montreal financial friend, W.P. O'Brien, reported that the market in Toronto for Algoma common was "practically nil."³² After years of pumping securities up to inflated values on the London exchange, Dunn

now settled upon a policy of letting his securities find their intrinsic value. "I am a complete believer," he wrote in 1935,

but it is going to take time. I have no doubt the price of the shares will be forced up way before its present value because other steel shares are going up and the speculating crowd always looks round for something cheaper than the average run of steel stocks. They can never get away from the fact that this business in 1929 ... had a market value of forty odd million dollars and a lot of money and intelligence has since been applied to the property.³³

Blunt refusals to issue dividends and an unresponsive market did little to soothe the anxieties of Algoma common holders outside the pale of Dunn's controlling block, many of whom were investors in the former corporation still awaiting the first whiff of a return on their long standing investment. "Finally, I should be glad to know," demanded one disgruntled shareholder in 1936,

whether you have any idea of when an end will be put to the present grotesque position by which a Bondholder, having lost 4/5ths of the money entrusted to this company on security and been given an equity interest only in exchange, can finally be told there is no market in the Common stock of the new Company and apparently that the "Powers that Be" see no particular reason why there ever should be one.³⁴

Dunn compounded such suspicions by veiling the company's activities in an impenetrable haze of mystery, issuing tersely worded annual reports, sometimes lacking even a president's statement. Ever distrustful of the press, he tried to dampen the press's curiosity, limiting press coverage of company affairs to newspapers whose biases were well known and undoubtedly sympathetic, like Curran's Sault Daily Star.³⁵ Dunn's only exposure to the public came at sparsely attended annual meetings or in carefully edited, almost hagiographical,

journalistic sketches in which he was depicted as the "man of steel."³⁶

Dunn's iron grip on the company's affairs and the sometimes questionable practices he employed to maintain it both found their origin in the president's deeply felt fear of betrayal, and at times unbounded suspicion of all those about him. Every proposal before him was viewed in the light of both constructive policy creation and a potential bid to oust him from his hard-won position of power. This constant paranoia, it can be speculated, had been bred into him by years of wheeling and dealing in the City, a financial world notorious for its deviousness and perfidy. While his sense of persecution and insecurity was at times so counterproductive as to obstruct constructive proposals made by his managers, it also enabled Dunn to rationalize almost any procedure if it could be seen to increase the company's chances of survival and hold at bay those forces that threatened to pull it back into the financial quagmire from which he had dragged it.³⁷ One example of this attitude was the President's extreme reluctance to resort to any form of bonded indebtedness which would interpose the rights of more senior investors over his own. "I think you will agree with me," he rationalized to his Philadelphia legal advisor, "that we were wise in not hurrying into a bond issue especially short term securities that call for big amortizations in the first years."³⁸ Fear of a financial coup d'état also tainted Dunn's receptivity to outside advice on the business of running a steel plant. When urged by George Humphrey, an eminent American steelman, to conclude a cost sharing agreement for the construction of a continuous strip mill with National Steel and the Mesta

Machine Company, Dunn balked, fearful of some hidden motive on Humphrey's part.³⁹ Considering that National Steel was one of the few U.S. steel corporations to stay consistently in the black during the Depression, Dunn would have been well advised to have taken this suggestion as an astute step towards diversifying Algoma's product mix. In fact, it was Stelco that moved in the late 1930's to construct Canada's first continuous strip mill.⁴⁰

The first two years of the new presidency at Algoma can therefore be seen as a period that enabled Dunn to consolidate his financial paramouncy and further allow the gradual rejuvenation of the Canadian steel economy to coax continued recuperation of production at Algoma. The first fiscal year with Dunn at the helm saw a net operating profit of \$1,264,142 while the result of the second year's operations, \$756,871, reflected a national downswing that was to spill over into 1938.⁴¹ Relying heavily upon sales of traditional mainstays of rails and industrial coke, Algoma was able to lessen costly "start-up" and "idle expenses" that were the product of short and intermittent production runs. The resultant improving profits and growing earned surplus afforded Dunn and his officers an opportunity to assess Algoma's problems from a broader perspective. This was a relative luxury quite unthinkable before 1935, when the crippling losses of 1932 and 1933, coupled with the innately conservative management of the steel works under the receivers, had precluded any chance of wholesale change.

Dunn's arrival at Algoma had not only changed the atmosphere in which constructive policy could be contemplated, but the means of change had altered and also been altered significantly.

as Dunn effected a decisive shift in Algoma's senior management. Reluctantly agreeing with Prime Minister Bennett that W.C. Franz, Algoma's president since the 1920's, had reached "a certain age,"⁴² Dunn shifted him to the Board of Directors. Accompanying Franz to the Board was veteran Soq booster John A. McPhail who had not only won the new president's respect during the receivership but came with the recommendation of Sir Edward Beatty of the C.P.R.⁴³ Replacing Franz as the corporation's chief operational executive was Thomas F. Rahilly,⁴⁴ a talented American-born engineer, who had impressed Dunn as a "rare young man" in his capacity as assistant to the receivers. Ambitious and perceptive about the nature of the company's shortcomings, Rahilly, like Franz and McPhail, had subtly aided and abetted Dunn throughout his pre-reorganization manoeuvres and was now summoned to the corporate boardroom. It was upon this triumvirate of Rahilly, Franz and McPhail, who, together with the President himself, constituted the Board's executive committee, that Dunn pinned his hopes for Algoma's future.⁴⁵ Assessing these key appointments in May, 1935, Dunn concluded that "our team is a good one," a judgement that was borne out in 1938 by the first independent post-reorganization review of Algoma's affairs. Crediting Rahilly with creating "an entirely new atmosphere," the consultants' report of McClelland and Ker, London accountants, remarked on the "most efficient group of officials, full of interest in and enthusiasm for the company's welfare."⁴⁶

The process of divining what policies could best promote the "company's welfare" focused upon the long-standing need to reopen operations at the extractive level of the industry by reviving

Clergue's vision of exploiting iron ore in the Sault's hinterland and, secondly, of diversifying the corporation's range of semi-finished steel products. Control over iron ore supply would partially liberate Algoma from its uncertain reliance upon foreign raw materials, while diversified production would insulate the company from the financial and operational vicissitudes brought on by a dangerous over-reliance upon railway steel.

Long before his ascendancy to the presidency Dunn was intimately familiar with the problems of providing Algoma with an assured supply of ore. As early as 1916, he had travelled down the Algoma Central with Algoma president Frater Taylor in Sir William Mackenzie's private car to inspect the Helen mine. He was therefore well aware that the initial success of the Helen was the product of combined private initiative and government incentive, a formula Algoma had vainly tried to reconstitute in the 1920's. "I have had a lot of talk lately with Howard Ferguson," Dunn reported to McPhail in 1934, "on the subject of these ores and I am sure that if Howard Ferguson were back in Canada we would get strong Government assistance apart from the bounty now in the Statute Book."⁴⁷ Reopening the Ontario iron ore industry for the mutual advantage of province and company alike could not be accomplished in the realm of laissez-faire economics; for in order to compensate for the massive advantage of American Superior ores, some "small help", as Dunn put it, from the public coffers of Ottawa and Toronto was necessary. Convinced that a robust Ontario iron ore industry would induce employment, industrial expansion and railway traffic in Northern Ontario, Dunn conceded that at first "a favourable

public attitude to the proposal" was necessary.⁴⁸

The cultivation of a favourable public response to the notion of a reborn Canadian iron ore industry was assisted by several compelling arguments. The danger of Canada's total reliance upon foreign ores, amounting to 2,124,972 tons by 1937,⁴⁹ became increasingly evident as the resuscitating American steel industry placed ever greater demands upon what were believed to be the rapidly dwindling domestic resources of high grade hematite ore. Increasingly penurious about existing resources of ore, American producers turned on the one hand to beneficiation of low grade taconites and siderites and, on the other hand, looked beyond their borders for new sources of exploitable high grade ore.⁵⁰ This development was to unfold gradually over the next twenty years as the giants of American steel scoured Latin America and the northern half of their own continent in search of new ores to supplement the once unchallenged Mesabi ranges. This predatory interest in foreign ores, albeit still embryonic, aroused a sense of vulnerability in Canadian iron and steel circles. "If there is iron in Ontario," J.R. MacNicol, a Toronto Tory M.P. lectured Mines minister T.A. Crerar in 1936, "even in those places where it is now supposed to be extinct, and if iron can be produced in this province, the government should do whatever it can to assist in the development of the industry."⁵¹

A year later, MacNicol reiterated his stand:

If the department of Mines could plan some economical and reasonable way in which this iron ore could be developed in Algoma there would be tremendous possibilities for that fine city of Sault Ste. Marie and the other cities in the south which would be able to obtain iron and steel needs from the plant at Sault Ste. Marie.⁵²

The notion of reviving Canada's iron ore industry found a broad response in the depths of the Depression. Many looked to a mining boom as an elixir for the dreary national economy. "If you can get the idea across," one mining lobbyist advised T.A. Crerar, "that in the developing of the mining industry, there lies the same opportunity to Canada as faced Clifford Sifton and the Liberal Party in 1897 in the matter of opening up the Northwest."⁵³ As Crerar himself told a nation-wide radio audience in early 1936, Canada was becoming "mine-minded", conscious of the potential of a thriving mining industry for the national balance of payments and northern development.⁵⁴ Responding to this mood, the federal government moved with caution. Mindful of his goal of a balanced budget, Finance Minister C.A. Dunning conceded certain tax breaks to operators of new mines in his 1936 budget. Otherwise the federal government extended no major incentives to Canadian mining.⁵⁵ The government of Ontario, on the other hand, sensed in the potential of a prosperous mining industry an opportunity of adopting a regional approach to economic recovery, won at the expense of centralized, federal direction of the national economy. In this sense Hepburn was merely perpetuating the struggle of the Ferguson Tories in the 1920's to wrest the province's economic destiny out from under the influence of what now seemed the largely defunct policies of national economic expansion.

Despite the long-standing commitment of previous Tory provincial administrations, Premier Henry of Ontario did little to encourage Northern Ontario mining up to 1934. Unlike Henry, new Liberal premier Hepburn showed an eager inclination to involve his government in the

regeneration of the province's northern hinterland.⁵⁶ Egged on by political friends like Curran and Roberts and a covey of convivial mining magnates like J.P. Bickell and Bill Wright, Hepburn took an active interest in the province's north land. It was this propensity on the part of the provincial government of Ontario that Dunn sensed in the early years of his presidency and resolved to exploit.

Hepburn was not alone in his interest in Ontario's northland. Mindful that post-First War geological surveys had indicated large amounts of low sulphur, high manganese siderite ore at the old Helen mine site,⁵⁷ American ore companies began to look longingly northward to the Michipicoten region. As early as October, 1930, Clarence Randall, vice president of Inland Steel, had visited the dormant Helen site and taken samples, which he reported indicated a "very large tonnage of ore", possibly as much as 53½ million of ore, that could be sintered to 53% iron content.⁵⁸ By 1935, Dunn could list with some smugness the "people who have been trying to buy into our Algoma ores" as being the M.A. Hanna Company, representing the National, Weirton and Great Lakes steel corporations, the Pickland Mather Company, representing Bethlehem Steel, and the Cleveland Cliffs Iron Co., representing the Otis and Republic steel corporations.⁵⁹ Herein lay the solution to Algoma's long-term ore procurement problems, as noted by one Algoma manager in 1934.

With the use of this estimated tonnage of Helen siderite ore assured, the fact that an equal amount of tonnage would be traded or sold to the source of the high phosphorous ores, and the possibility of sales elsewhere, a minimum production of 500,000 tons of Helen siderite ore per year seems certain. On the basis of this tonnage, and the Ontario bounty of 1¢

per unit of iron Helen siderite ore can compete with Mesabi and Michigan ores.⁶⁰

Here, in embryo, was an early recognition of what later developed into Dunn's wholehearted advocacy of a continental or "North American" economic policy based upon the exchange of raw materials and regional industrial specialization on a continental basis. Dunn perceptively reasoned that Canada could never be wholly autonomous in iron ore, given that the wide variety of ores needed to feed any one "blast" could not all be found in Ontario. With an increasingly sophisticated steel industry demanding ever more complex "mixing" of ores, Algoma prepared "to take the plunge", as Dunn often said, into the continental ore market.

The years 1935-6 were devoted to ongoing geological and cost analysis of Helen siderite and to continued dickering with American interests. In February, 1936 an Ontario charter was obtained for Algoma Ore Properties Ltd., a wholly owned subsidiary of the steel company, intended to act as the hub of Algoma's bid to resuscitate the Helen. Most consultants' estimates⁶¹ of the cost and profitability of bringing the Helen back into production pointed to the fact that even with the 1¢ bounty offered by the 1930 Ontario bounty act, additional assistance would be needed to boost production to a self-sustaining level. As T.F. Rahilly explained to Sault M.P., H.S. Hamilton in early 1937:

The loss in volume, owing to having to mine three tons of ore to get two tons fit for the blast furnace use, the cost of fuel and the labour and maintenance costs involved in the roasting or sintering plant, are the factors that make it necessary to seek aid in order to produce ore in competition with

the iron ores found in the Lake Superior district of the United States where, in their natural state the iron content averages in excess of 50%.⁶²

Furthermore the bounty would have to be applicable not only to ore destined for domestic smelting but also for beneficiated ore slated for export.

The initial moves in sounding out the reaction of the Hepburn government to the idea of a more generous bounty were made by Dunn, who by early 1937 had drawn the Premier into his high-living social circle, a circle stocked with men like J.P. Bickell and Ben Smith, the hard-driving elite of the booming Ontario mining industry. Profuse in his appreciation of the 1935 reorganization legislation, Dunn had wined and dined Hepburn, praised his role in the Liberal federal election victory of 1935 and brought him triumphantly to the Sault.⁶³

It was however in the salubrious winter climate of Arizona, where Hepburn had joined Dunn and Beaverbrook to have "... a grand time riding horses, flying dangerous planes ... and shooting craps with Sam Goldwyn and other magnates of Hollywood", that the steel president first made the concrete suggestion that the corporation and the province renew their partnership in Northern Ontario.⁶⁴ Hepburn responded eagerly. Back in Toronto in early February, the Premier wrote to J.W. Curran of the Sault Daily Star

I would appreciate your opinion as to how far you believe we should go I am going to call in an expert consultant to give us proper advice. I am frank to confess that I am quite ignorant about the iron industry and will have to be guided by the views of those who have given this matter a great deal of thought and study.⁶⁵

Curran acted with alacrity and replied within three days that he "thought

it well to talk the matter over with Algoma general manager Rahilly" with whom he had agreed that the government could offer "a bounty of 2c per metallic unit, or about \$1.00 per ton." Reminding Hepburn of the work of previous Ontario governments, Curran emphasized that "the mining of iron ore has been a dream held ever since the old Helen Mine was started in 1899."⁶⁶ It was significant that without waiting for "expert" opinion and acting on the basis of rather incestuously obtained advice, Hepburn felt safe in assuring Dunn that a bounty would be extended, on the condition that the company provide \$1,500,000 to finance sintering operations.

Elated by the premier's decision, Dunn made public the news at a Sault dinner honouring F.H. Clergue on 15 February. As in the 1935 reorganization, Hepburn had single-handedly committed his government to legislative action, basing his decision on rather dubious advice and ignoring the right of the House to debate the measure before any assurance was extended to concerned parties. He had unquestioningly accepted Dunn's promise to provide \$1.5 million, although not one cent of the \$5 million in "new money" pledged by Dunn in the 1935 reorganization had yet materialized. These glaring facts were not lost on Sault M.P.P., A.D. Roberts, who bluntly informed his leader that he

.... was astounded to hear a private financier announce government policy of the future while the people's elected representative who for two years loyally supported a supposedly democratic government sat idly but not supinely by.⁶⁷

Roberts had already made himself a thorn in Dunn's flesh by loudly complaining that due credit had not been accorded him in Curran's

Star for his backroom efforts in the 1935 reorganization.⁶⁸ While placating Roberts with praise for his actions, Dunn evidently agreed with Ward Wright's judgement that Roberts had gone "a bit haywire" and in future cast his lot with Curran, "such a consistent optimist and boomer of everything concerning the Sault."⁶⁹ Although Dunn did apologize to the Premier in the wake of Roberts' latest outburst for the "annoyance" he had caused, it was Roberts who suffered in the long run, losing the backing of his riding association for "seeking his own ends to the exclusion of the interests of his constituency."⁷⁰

It was not until 3 March, the same day the new bounty act won approval in the Ontario house, that D.H. McDougall, a Toronto consultant, reported to the government on the geological prospects of Algoma sinter. Pointing out that there were "ample ore reserves to permit mining operations at the rate of 450,000 tons per year for a much larger period than for which government assistance is asked," McDougall concluded that, despite the heavy capital outlays required, sintering would ultimately prove "economical". As to the "national aspects of the proposal," McDougall judged that an Ontario iron ore industry established by a "fair bonus" would provide insurance against an arbitrary cessation of imported ore.⁷¹ Heartened by these conclusions, Hepburn plunged ahead on his predetermined course. The Act to Encourage the Mining of Iron Ore⁷² granted a 2¢ bounty on each unit of metallic iron in each ton of either beneficiated or natural ore mined in Ontario, effective January, 1939. Although the act was general in its application, the company for which it had so obviously been created had made application for its benefits on the day before

its official promulgation of 3 March.⁷³

Work on the New Helen was initiated without delay in the summer of 1937. In a feat of considerable engineering daring, a shaft was driven diagonally up through the siderite ore body to a point which subsequently served as a funnel at the base of what was, over the years, to become a cavernous open pit operation. Phoenix-like, the town of Wawa sprung up three miles distant from the mine site.⁷⁴

Removing the calcinated ore to Michipicoten harbour from the Wawa sinter plant presented serious problems. Ore from Clergue's old hematite mine at Boyer Lake had been brought to Michipicoten along a spur of the Algoma Central, then a subsidiary of the parent Lake Superior Corporation. By 1937, the Algoma Central, no longer under the steel company's financial hegemony, was much less willing to cooperate in carrying Algoma ore. Railway president, E.B. Barber, complained that the prospective contract for carrying coke breeze to Wawa and sinter to Michipicoten offered only "a very small margin of profit" and therefore felt entitled to a guaranteed annual payment.⁷⁵ Infuriated by this inability to have his own way, Dunn retaliated by having Hepburn apply pressure on the financially troubled railway, a line that Dunn would have liked to reincorporate into the Sault complex. Vertical integration into ancillary railway and steamship services would, Dunn envisaged, diminish the steel works' dependency upon external services and, as with the Algoma Ore Properties subsidiary, give it greater autonomy in dictating its own industrial future. Unfortunately, Barber of the Algoma Central was to prove a sturdy impediment over the years to Dunn's

dream of a well planned and executed reconstruction of the Clergue complex. Not only did Queen's Park press the railway for payment of over \$1.3 in back taxes, forcing it to surrender some of its granted lands, but Algoma was able to partially circumvent Barber's intransigence by chartering an aerial tramway to carry ore from the mine to the sinter plant. After these opening affronts, the Dunn-Barber relationship was to become a simmering feud that would last almost a decade.⁷⁶

The commencement of operations at the Helen in July, 1939⁷⁷ coincided with the conclusion of an ore exchange contract with the M.A. Hanna Co. of Cleveland. Coaxed and ably advised by George MacLeod, head of Algoma's mines section, Dunn negotiated a ten year agreement with George Humphrey of Hanna, calling for Hanna to supply Algoma with at least 150,000 tons of non-bessemer ore in exchange for an equal amount of Helen sinter which it would in turn market to American steel firms.⁷⁸ Once signed, Dunn confidently calculated that the contract would bring an \$801,000 annual profit to Algoma on the basis of an annual output of 300,000 tons of sinter.⁷⁹

In later years Dunn looked upon the revival of the Helen mine as the crowning achievement of his Algoma presidency. Departing from his usually terse and unadorned public vocabulary, he frequently talked of having reopened Clergue's "Treasure House" in Michipicoten and in late 1938 abandoned his habitual avoidance of press coverage by contributing an article, "The Romance of the Helen Mine," to the Financial Counsel.⁸⁰ After the Second War, Algoma built a commodious guest house, dubbed the "Eagle's Nest", from which the President

could proudly oversee the whole Helen site. The Helen appealed to Dunn because he could so readily grasp its significance. Unlike the intricate complexities of steel making, iron ore extraction was a relatively simple operation with obvious tangible results, well within Dunn's limited technical ken. Dunn fell into the habit of flagrantly over-estimating the Helen's potential, often pushing its supposed reserves beyond a billion tons. It became a well known fact among Algoma executives that the president's violent temper was most easily soothed and that policy was most fruitfully discussed at Wawa, or "Jamestown" as its creator called it, while Dunn perched at the "Eagle's Nest".

Algoma's contribution to Northern Ontario development at the Helen went much further than its president's vanity. The first shipments of Algoma sinter marked a small but decisive break in the old pattern of dependency upon external ore sources that had characterized almost two decades of Canadian steelmaking. The 414,603 tons of ore mined in Ontario during 1940 was meagre in comparison with the still enormous output of the Mesabi ranges; but it did represent the vital first step in the direction of restoring a healthy and competitive iron ore industry in Canada, a "new industrial epoch in Canada" as Dunn boastfully put it in the Financial Counsel.⁸¹ Followed by Steep Rock in the 1940's and Labrador in the 1950's, the New Helen helped to elevate the Canadian iron ore industry from the status of dependency to that of interdependency. The New Helen was eloquent testimony (to the long standing partnership between business and government in the development of Northern Ontario's resources.⁸² Although there

is every indication that Hepburn had been unwittingly seduced by the blandishments of Algoma's president into perpetuating the work of this alliance, his bonus legislation had alleviated in one bold stroke the problems of company and province alike. No matter how dependent the company later became on federal succour, Dunn never stinted in his praise of the "vision and courage"⁸³ displayed by Ontario's premier in revitalizing iron mining. It was therefore with considerable dismay that Dunn followed Hepburn's bacchanalian slide from power in the years after the Helen mine began operation. "If Mitch will keep emotionally stable and not allow himself to be rushed into decisions," Dunn noted with unconscious irony in 1944,

I think he can come back in the estimation of his friends and of the country ... he cannot maintain the dignity of a great political position by harbouring drunks who drop in at all hours of the day and night to hinder his repose and interfere with his serious engagements. A man with two kidneys and two hearts could not again go through what Mitch went through for many years before his collapse--so Mitch with only one kidney and one heart although very big and generous cannot successfully come back to be a great leader in the dragging attachments of a few years ago....⁸⁴

For the solution of its diversification problems, it was to Ottawa, not Queen's Park, that Dunn and Algoma first looked. All the consultants' studies prepared on the eve of the reorganization had vigorously advocated a broadening of Algoma's product mix as the sine qua non of corporate recuperation. After warning that Canadian steel-makers could not expect the railways to generate demand for more than 200,000 tons of rails a year, Charles Atha urged that Algoma ought to move with haste

.... to install a plate mill capable of rolling universal and sheared plates for the construction and engineering trades and strip for subsequent reduction by cold rolling to sheet and tinplate for the automobile, engineering, furniture and canning industries.⁹⁵

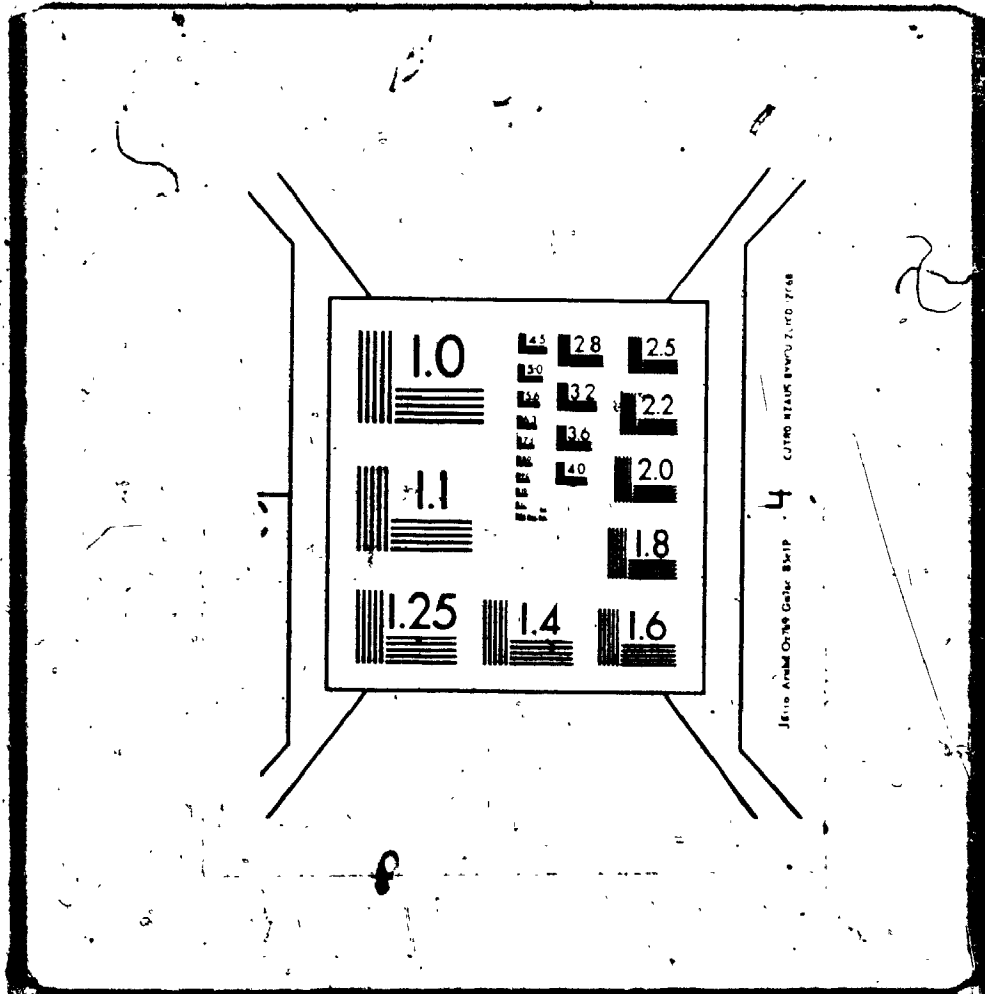
Newly appointed general manager Rahilly concurred with this bold prescription, believing that heavy structural sizes and tinplate were "absolutely necessary to place Algoma in sound financial position and assure employment to Canadian workers and the Canadian government must support our action."⁸⁶

Algoma had historically believed that the surest route to a better "product mix" lay through the tariff clauses of the federal budget. Indigenous growth took place by a process of import displacement by which tariffs were judiciously used to remove steel goods from the importers' list and bring them within the realm of domestic production. This process had worked smoothly in the early years of the enterprise, with ~~tariffs~~ as the primary example, but as Canadian industry matured into a complex structure with built-in prejudices against tariff alteration, the process became increasingly inoperative. Nonetheless, one of Dunn's first sorties as Algoma president was to the Ottawa office of C.D. Howe, the new Minister of Railways, Canals and Marine, where he explained that he proposed "to take the plunge, and only ask from the Canadian Government such reasonable protection on sheets and tinplate as Liberal Governments have given to the steel trade generally since W.S. Fielding's time."⁸⁷ Howe responded that the matter "very much interested" him, especially with its implications for Northern Ontario, and that the King government

was disposed to give "every possible encouragement in bringing the flat steel industry to Canada."⁸⁸

Howe's inclination to assist Algoma was evidently not shared by the rest of the King cabinet and of this there were ominous signs even before Dunn's trip to Ottawa. The thrust of the new Liberal government's fiscal policy was toward reciprocal tariff reductions, culminating in the 1935 American trade pact and the renegotiation of the 1932 U.K. trade agreement in 1937. Learning that Finance Minister Dunning was amenable to low dutied imports of British flat steel, Dunn burst out that it was impossible for him "to conceive that Canada will hang such a millstone round the neck of its struggling steel industry as every man must realize that no country aspiring to be a nation can afford to sacrifice its steel industry."⁸⁹ Dunn's anxieties were heightened when Sir William Firth, the English steel magnate, told him in London that the revolutionary Ebbw Vale complex would compete tooth and nail against Algoma for the Canadian flat steel market.⁹⁰ Despite representations made to the Tariff Board,⁹¹ it became painfully apparent that Charles Dunning was little inclined to alter significantly the Canadian tariff to accommodate Algoma's diversification plans. Quick to point out that the steel industry was recovering sufficiently well along traditional lines, Dunning stressed in his 1936 budget that tariff reform would only be based on the principle of "orderly progress". "Extremes," Dunning declared, "defeat their own purpose; violent fluctuations one way or the other are mere leaps in the dark." Tariff changes would be secured through "deliberate, considered and related stages," but Dunning left little

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doubt that these would be in the direction of a "thorough-going downward revision."⁹² While reassuring the industry that countervailing tariff changes would not be allowed to erode established patterns of steel production, Dunning made it clear that he considered that in many shapes and sizes Canadian steel could simply not compete with the huge American and British industries.⁹³ After Algoma finally took its plunge into tinsplate production in 1938, Dunn noted bitterly that "Mr. Dunning is not out to help the people who had the courage to do something last year."⁹⁴

Elsewhere in Ottawa the news was not good. In October, 1936, Rahilly and H.S. Hamilton, the Sault's new Liberal M.P., lobbied C.D. Howe for further government backed rail orders, only to be told by the chairman of the Board of Railway Commissioners, S.J. Hungerford, that with nearly 70,000 tons of rails on hand at Sydney and the Sault there would be no rail orders until late 1937.⁹⁵ Reacting to this rebuff, Rahilly and Wright suggested to Dunn that "it might be a good thing to have Billy Franz down in Ottawa and just sitting around the Rideau Club, so that we would get the atmosphere, and if anything important turns up I will get you on the telephone at once."⁹⁶ Although Sir Edward Beatty assured Dunn in 1937 that "pretty big rail business is not far off" from the C.P.R.,⁹⁷ by 1938 Hamilton was still pressuring Howe for assistance with little apparent result.⁹⁸ These setbacks on the Ottawa front exasperated Dunn to the point that by 1939 he was castigating the federal government as "a damn rotten lot," a government capable only of temporizing and devoid of the decisiveness of a Hepburn or a Bennett.⁹⁹

The realization that diversification was not to be won with special federal assistance bred more than a passing animus in Dunn, who alleged that Ottawa was actively discriminating against Algoma. As early as 1936, he was marshalling statistics to reveal how Dosco basked luxuriantly in the warmth of federal coal and freight subventions which allowed it to compete both on external markets and in central Canadian markets, while unsubsidized and landlocked Algoma struggled to survive. A ton of rails, Algoma pointed out, could be delivered in Montreal from Sydney for \$4.50 while Sault rails reached Montreal, a journey 300 miles shorter, for \$5.40.¹⁰⁰ Dunn used such evidence not only to browbeat federal politicians, especially Ontario cabinet ministers, for federal negligence toward the Sault but also to exploit and fuel Hepburn's incipient rivalry with Ottawa. "I see that Ontario and Quebec money," Dunn reminded Hepburn in 1938, "is being used by Ottawa to pay a bigger subsidy to our rivals the Dominion Steel and Coal Co."¹⁰¹ This "favouritism" meant that Algoma had to meet competition "both fair and unfair" and was being denied at least an "even break". It was because Algoma was "not feeding from the public trough" that Dunn trumpeted Algoma's success in marketing rails to South Africa in 1939 with no federal aid. "It must be more important," he told Hepburn, "for Canada that Ontario industry reaches world markets than Nova Scotia industry reaches Ontario markets."¹⁰² Hepburn frequently echoed Dunn's resentful opinions, speaking out publicly and using Algoma's maltreatment as solid evidence of Ontario's too onerous burden in Confederation.¹⁰³ By 1939, Dunn was not only intimating that he favoured Bob Manion,

always a stalwart northern Ontarian, in the next federal election but was also fanning the flames of discontent in the premiers' offices of Toronto and Quebec City. After one of his frequent breakfasts with the Quebec premier, "Jimmy" confided to Duplessis that his views and those of Hepburn "harmonized and that together you could do as fine a service to Canada as Macdonald and Cartier did seventy odd years ago" by bringing about a National Government in Canada.¹⁰⁴

Ottawa's lack of ardour for any wholesale remodelling of the tariff brought with it the growing conviction that Algoma would have to "take the plunge" into diversification by itself if it was to capitalize upon the appetite of the reviving automotive, mining, construction and canning industries for steel.¹⁰⁵ As the corporation's interim policies of survival took root, culminating in 1937/8 with what the annual report called "the most successful year your Corporation has had since it began," it became obvious that the traditional mainstay of production, rails, had shrunk in importance from 42.5% of sales in 1935/6 to 17.4% in 1937/8.¹⁰⁶ Sensing this trend away from rails, Algoma had more or less resolved by late 1936 that diversification could be most profitably pursued through tinplate production. While the range of structural steel shapes introduced in 1935 had helped Algoma exploit construction demand for steel, a consultant's report in early 1936 tantalizingly revealed that in 1934-5 Canada consumed 82,000 tons of imported sheet and tinplate.¹⁰⁷ Despite warnings that without "sympathetic treatment" from Ottawa in establishing a tinplate mill Algoma was tempting "serious losses",¹⁰⁸ Dunn seized on the idea of tinplate production and by late 1937 had

negotiated a five year contract with the Continental Can Corporation (Canada). Under the contract Algoma was to receive the benefit of Continental Can's tinsplate technology in return for a guarantee to ship 80% of its output back to Continental Can. While at first sight a decisive breakthrough, the contract was in many ways inequitable. By stipulating that Algoma pay a royalty of 25¢ per base box of tinsplate produced, an amount not to fall below \$50,000 annually, Continental Can had ensured itself a guaranteed supply of tinsplate at 25¢ below market price.¹⁰⁹ While Dunn was not oblivious to these shortcomings, his eagerness to boost Algoma's finished steel output led him to urge, rather uncritically, the contract's ratification in late 1937 and the subsequent expenditure of \$1.7 million for a tinsplate mill.¹¹⁰

Like the Hanna ore contract, the tinsplate agreement represented another move on Dunn's part to expand and diversify Algoma's production through bilateral arrangements with other producers and consumers in the ladder of iron and steel production. Despite his fruitless clamouring for adequate tariff protection from the King government, Dunn increasingly displayed a continentalist perspective on the problems of the Canadian steel industry, arguing that by entering technology and materials sharing agreements the American and Canadian industries could mutually solve their difficulties without compromising their autonomy.¹¹¹

The tinsplate mill and contract proved to be an unmitigated disaster. The second-hand mill erected at the Sault was of such elderly vintage that a further \$700,000 was needed in 1939 to overcome

innumerable breaking-in problems.¹¹² At a time when tinplate production was rapidly being automated, Algoma had rather haplessly "plunged into the market with an antiquated mill, the profitability of which was completely undermined when wartime tin shortages placed a premium upon efficient tinplate production. By December, 1942, Dunn reluctantly admitted that the tinplate mill was draining corporate profits and ordered the mill closed.¹¹³ The failure of the tinplate venture instilled in Dunn a deep and often counterproductive fear of bold policy departures at Algoma, especially if he in any way construed them as jeopardizing his control. In future, Dunn's policy advisers at Algoma would be confronted by a near paranoic cautiousness in response to any suggested departure from established production. A grinding ball mill, to serve the mining industry, a wider selection of structurals, to serve the construction industry, and new coke ovens, to cater to INCO's needs, all marked less dramatic but productive operational initiatives in the late 1930's. Progress towards diversification had therefore not been great by 1939, but on the other hand there had been no backsliding to an overdependence upon rails. Gross sales for 1939 revealed that 24.5% of Algoma output went to railways, 20.1% to mining and smelting, 16.0% to construction, 10% to automobiles and 7.6% to sheet metal consumers.¹¹⁴

Where production could not be diversified, Algoma valiantly sought to diversify its customers, hoping to break down the company's traditional reliance upon Ontario markets. Here Algoma fell back upon its tried mainstay of production, rails, to win its new markets. As early as 1934, Dunn had used the good offices of Howard Ferguson, Canada's

High Commissioner in London, to ferret out possible rail orders in South Africa.¹¹⁵ After several rebuffs in the highly cartelized world rail market, Algoma eventually secured a sizable South African rail contract in 1938 and in 1939 won itself membership in the international rail cartel.¹¹⁶ "This is international recognition," Dunn exalted to a friend, "of Algoma's place in world markets."¹¹⁷ Although the export sales were not particularly lucrative, Dunn revelled in their "psychological effect in the province of Ontario."¹¹⁸ This was clearly evident when he boasted to Premier Hepburn that "it is pretty good for our organization at Algoma right in the heart of the continent that they can pay their way to the seaboard and fight for and get as good a place in world markets as Dominion Steel."¹¹⁹ Export sales, totalling 8.5% of total sales in 1939, only slightly loosened the grip of the central Canadian market on Algoma. With 73.5% of sales in Ontario and 14% in Quebec,¹²⁰ Algoma's president and management displayed an unshakably central Canadian perspective on all matters economic and political and an accompanying intolerance of federal policies that seemingly pandered to regional economic inequalities. Only with the federally initiated economic imperatives of the war did the tenor of Algoma's relations with Ottawa change, breaking down the defensive attitudes built up during the Depression by means of unprecedented economic expansion that relied heavily upon central Canada's existing industrial base. Only after the War would the search for external markets again emerge to challenge and offset the predominance of Ontario markets.

Algoma's slow recovery from the grim days of the early Depression

was governed not only by policy innovations fostering diversification but also Dunn's adept stewardship of corporate finances. Finance being Dunn's metier, the struggling steel corporation found itself with a President who equated corporate finances with his own. Having used the promise of supplying new money for diversification to great effect in extracting the 1935 reorganization legislation from Hepburn,¹²¹ Dunn soon found himself under great pressure to honour his pledge to underwrite \$5 million in bonds. Although quick to pocket the guaranteed commission of 25,000 common shares, he had begun to procrastinate on the bond issue, adopting the stance that his bond promise was not so much a pledge as an "option".

As I understand it, Sir James Dunn [wrote a former L.S.C. director] is only to arrange for \$5,000,000 additional capital if and when, in his opinion, it is needed Dunn certainly told me himself that he expected to obtain his working capital out of earnings and that he never had any intention of paying anything, whether earned or not, on the preferred stock until it became accumulative.¹²²

Amid these rising suspicions, Dunn frantically combed through his financial acquaintances in search of the necessary backing for a bond issue. Requests to Lord Greenwood, Lord Glendyne and Seligman Brothers all brought cool responses, tempered by the tight London money market. In Toronto, J.H. Gundy apparently shunned Dunn's request for a three to five year loan for \$2 million.¹²³

The "wait and see" attitude of high finance was largely molded by knowledge that both Dunn and Algoma were in a highly attenuated credit position. While Dunn was personally heavily indebted to Empire Trust in New York, the corporation itself was beholden to the Bank of

Montreal for \$2,399,000 in the fiscal year 1935/6.¹²⁴ Balanced on a financial precipice, Algoma was not viewed as a gilt-edged investment opportunity, a fact Dunn discovered in June, 1936 when after signing an initial agreement for a \$6 million bond issue, Boenning & Co. of Philadelphia reneged on their agreement, citing passive money markets as the cause.¹²⁵ With this news, the Bank of Montreal apparently revolted, demanding repayment of Algoma's swollen debt. With astounding good fortune, Dunn was able to convince Morris Wilson of the Royal Bank to take on the steel company's account in July, 1937, a reprieve that brought with it an advance of \$5,000,000, backed by Dunn's personal surety and the renewed promise of a bond issue.¹²⁶

Riding on the cushion of credit afforded by the Royal Bank, Dunn was able by the fall of 1938 to conclude an underwriting agreement for a \$3 million First Mortgage bond issue with a Toronto syndicate headed by his old friend J.H. Gundy.¹²⁷ These were to be the only bonds Dunn ever created for Algoma. With the issue speedily oversubscribed, a sympathetic Globe and Mail attributed Algoma's "extraordinary credit revival" to diversification, steadily expanding output and chiefly to the fact that, unlike the previous corporation's \$20 million funded debt, this first relatively small accretion to the new corporation's debt showed every sign of being dutifully serviced out of a sinking fund.¹²⁸ No other aspect of the first years of Dunn's presidency was so striking as the dramatic turnabout of not only Algoma's ledger book but the financial attitudes that governed the Sault investment. Unlike his absentee Philadelphia predecessors, Dunn was committed to the hilt in Algoma, meticulously

pouring over every detail of the steel works' operation, even though thousands of miles away in London. Algoma was never for Dunn an adventure in watered stock and absentee ownership, it was a make or break commitment to the resuscitation of a once recklessly and irresponsibly founded enterprise that would, if successful, handsomely reward its owner and president and, indirectly, contribute to the industrial maturation of the Canadian steel industry by repatriating one of its chief links from foreign control and bolstering its chances of survival through diversification and vertical integration.

Saluted in 1939 by the longtime friend Lord Greenwood as "the King of Algoma Steel", Dunn's grasp on Algoma after four years was still tenuous in many respects. Heavily reliant upon the Royal Bank's line of credit and the continued recuperation of the national steel economy, Dunn's immense wealth was tied up almost exclusively in the common stock of Algoma, a stock yet to show much buoyancy on the stock market. So tight were Dunn's personal finances that in 1938 he sought and won a \$50,000 annual salary as president from his Board.¹²⁹ Inured by a lifetime's experience in speculative high finance, Dunn was ideally suited for this aspect of his Algoma gamble. He found himself less advantaged, indeed temperamentally ill-suited, in handling the delicate problems of Algoma labour; the group of men whose personal livelihoods were just as inextricably bound to Algoma's success as was his own.

Reasonable pay, the guarantee of steady employment and decent working conditions had been policies that the impoverished management of the old corporation had never been able to pursue. "I think it

has now ended," A.A. Heaps charged in the Commons in 1936,

but I know that at this Algoma factory the conditions are not too good. It is impossible for the men to organize. They are paid low wages, and ... I venture to say without fear of successful contradiction that the wages paid at this particular mill are lower than those paid for the same class of labour in the United States.¹³⁰

Algoma management could not have contested Heap's claim. The 2238 men working at the Sault mills in October, 1935 received the lowest base labour rate in the industry, 30¢ per hour,¹³¹ besides having to work shifts as long as 13 hours. Algoma's labour was also entirely without union representation since the last concerted effort to organize the Sault steelworkers, a lodge of the Amalgamated Association of Iron, Steel and Tin Workers of North America, had ignominiously collapsed in the depressed 1920's. With the news that petitions for higher wages were circulating through the mills, Rahilly reported to Dunn in mid-1935.

Frankly, our wages are low, as you already know, but my position in answering these petitions is that we cannot afford to increase wages at this time. I have explained that we are seeking to round out our plant by adding to its range of products and thereby assure continuity of employment at higher wages ... our men must exercise patience with us. I further explained that we are just as anxious as they are to have their incomes increased. I judge from what I hear that the men will be satisfied with this explanation.¹³²

Rahilly's attitude was symptomatic of a consensus that existed between Algoma labour and management, a consensus built on the belief that wages would not improve until new business materialized and that labour strife could irreparably jeopardize such a recovery. "I appreciate the difficulties of the wage question," Dunn told Rahilly in 1938,

"but one thing is evident--operating at 25% of capacity in iron and 40% in steel we cannot afford either Dominion or Steel of Canada wages, companies generally working at double our operating percentage."¹³³

Labour participated in this understanding by negotiating wage increases contingent upon continued rail contracts and actively backing management's search for orders. "Don't fight this Company but with it," a 1937 company handbill urged Algoma workers, "come to Ottawa with us and get a 100,000 ton rail order."¹³⁴

Under the terms of this tacit understanding the lot of the Algoma worker improved steadily in the years up to 1939. Management did not actively oppose the growth of the independent Algoma Steel Workers Union as an affiliate of the All-Canadian Workers Union. As the steel labour force grew to 2,989 in 1939, base labour rates inched upwards from 33¢ an hour in July, 1935 to 45¢ in 1939.¹³⁵ By late 1936, all Algoma departments had instituted an eight hour day. Although a federal Conciliation Board hearing at the Sault in August, 1936 denied labour a wage hike on grounds of the company's slim resources, it did remark that "they very rarely found such good feeling existing between a Company and its employees."¹³⁶

Credit for Algoma's relatively smooth labour relations lay with T.F. Rahilly and the union officials with whom he dealt. Constantly reiterating that the men were "extremely loyal" to the company in its adversity, Rahilly placated Dunn's trenchant views on the subservient role of labour in business enterprise. Bluntly rejecting Rahilly's proposal for a \$10 Christmas bonus in 1936, the President forcefully put his case:

Unless steel mills are run exclusively for the workmen there seems very little purpose in running this steel mill at all if we must raise the wages of the men while the Company is losing money ... I too feel sympathy for our men living in a district where conditions of making steel are unprofitable but I feel very much more sorry for the shareholders who have received nothing on their investment since sometime in 1931. So much for sentiment.¹³⁷

Dunn's determination not to "lay down before labour" and sacrifice "the rights of capital in this enterprise" was intensified by the incursion of the American C.I.O. into Canadian labour in the late 1930's. Picturing the John L. Lewis style of labour organization as an invitation to "class warfare", Algoma's president was heartened by Hepburn's "courageous battle" at Oshawa in 1937 and even more invigorated by the news from Rahilly in late 1938 that there was little sympathy in the Algoma Steelworkers Union for the C.I.O.¹³⁸

Sault labour, much like the interests of capital at the Sault, seemed to have developed along unique lines, often quite autonomous from similar developments in "Old Ontario" to the south. Cut off from other concentrations of industrial labour and working in an enterprise whose precariousness threatened not only capital investment but also their very jobs, Algoma labour shied away from hard-line militancy and organized along lines that emphasized the common plight of both labour and management. Only with the full order books induced by war production did the consensus between employer and employee begin to show strain. "The relationships prevailing between employees and direction," Dunn remarked to Rahilly in 1938, "which permit of these amicable conversations must be a matter of deep satisfaction to all the varied interests of our company."¹³⁹

Dunn's use of the phrase "all the varied interests of our company" was significant. By the late 1930's he was increasingly inclined to picture his contribution at Algoma as his "life's work", an attempt to tie together the loose ends left by his predecessors into a magnificent industrial tapestry.¹⁴⁰ As president of Algoma, Dunn conceived of himself as the dynamic captain of industry, who, like F.H. Clergue, marshalled the forces of capital, labour, community and management in pursuit of a single goal, the resuscitation of steel at the Sault. By 1939, he had moved steadily towards this goal, although the ultimate victory was yet to be clinched. Dunn's greatest triumph in this respect was his ability to convince "all the varied interests of our company" that they did in fact share a common goal. "The North Country," he told C.D. Howe in 1936, "had got into my blood a bit."¹⁴¹ It was the long-cherished and now much tarnished dream of industry in Ontario's northland that imbued forces as disparate as the Liberal government of Mitchell Hepburn, the leaders of Sault labour and the financial powers of Toronto with a sense of common purpose. This commonality was, of course, in many ways illusory, for each party involved was subject to different risks and prospective rewards. For Queen's Park, for instance, the risk was borne by the public purse and the reward was to be garnered in terms of job creation, regional development and, ultimately, votes. For Dunn with his overwhelming stake in Algoma's equity, the risk was of course large--a millionaire's fortune wagered on a single industrial bet--but the degree of risk was in many ways diminished by the willingness of government and labour to assist. The prospective financial gain, on

the other hand, would however accrue directly to Dunn alone who as majority shareholder could dominate corporate fiscal policies to his own, as well as the company's, best ends. The ultimate success of Dunn's bold gamble at the Sault would after 1939 depend upon whether he could induce the federal government, in the frenzied atmosphere of the wartime and post-war economies, to share in this ostensible parallelism of goals and thereby accept the same nexus of risks and rewards.

Notes

¹Minutes of Directors' Meetings, Algoma Steel Corporation, Book I, 3 May, 4 May, 6 May and 10 May, 1935;

²see "A prospect for the Sault," Toronto Globe, 20 March, 1935.

³Sault Daily Star, 13 May, 1935. Also present were: T.E. Simpson, M.P., A.D. Roberts, M.P.P., Ward Wright and J.W. Curran of the Star.

⁴D.S. Holbrook, Algoma's top executive at the Sault from 1944 to 1956, stated that his monthly telephone bill frequently totalled as much as \$1,500. Interview, 4 August, 1977.

⁵"Algoma's New Steel Sheet Piling and Structural Shapes," Iron and Steel of Canada, July-August, 1935, pp. 54-7.

⁶Iron and Steel and Their Products, 1934-5, D.B.S., Ottawa, 1935; H.M. Jaquays, "Canadian Steel Industry Continues Upward Trend," Monetary Times Annual, 1935, pp. 62-4, and ibid., 1936, pp. 15-18.

⁷Iron and Steel and Their Products, op. cit., Algoma's total capacity from four furnaces was 1,600 tons daily, as compared to 1200 tons daily at Dosco, 825 tons daily at Stelco and 300 tons daily at Canadian Furnace.

⁸JHD to Hepburn, 23 May, 1945, DP 213. See: R.M. Alway, "Mitchell F. Hepburn and the Liberal Party in the Province of Ontario 1937-43," unpublished M.A. thesis, University of Toronto, 1965, pp. 102-7.

⁹JHD to Atha, 9 April, 1935, DP 310.

¹⁰JHD to J.A. McPhail, 25 March, 1935, DP 318.

¹¹McPhail to JHD, 12 Nov. 1934, ibid. and Iron and Steel of Canada, July-Aug., 1935, p. 56.

¹²JHD to Rahilly, cable, 14 May, 1935, DP 316.

¹³ibid., 3 June, 1935.

¹⁴P.C. 1462 and 1533, 7 June, 1935. The government, acting under the 1933 Relief Act, was to pay interest at 4½% on the rails until they were actually used by the C.N.R. This was estimated to cost the federal government \$30,000 for the rest of the 1935/6 fiscal year. D.H.C., 28 June, 1935, pp. 4106-7 and C.A.R., 1935/6, p. 23.

¹⁵JHD to H.S. Hamilton, 8 July, 1948, DP 329.

- ¹⁶First Annual Report, Algoma Steel Corporation, 1935/6.
- ¹⁷Rahilly to JHD, 2 Aug. 1935, DP 316.
- ¹⁸JHD to Rahilly, 16 Aug. 1935, ibid.
- ¹⁹Barber to JHD, 7 Aug. 1953, DP 224.
- ²⁰JHD to Wright, 7 April, 1936, DP 319.
- ²¹See, for instance, Financial Post, 29 Sept., 1934.
- ²²Report of the Ontario Royal Commission Inquiring into the Affairs of Abitibi Power and Paper Co. Ltd., Queen's Park, 1941, p. 5.
- ²³Minutes of Directors Meetings, op. cit., 4 June, 1936, By-Law No. 8, passed 4 July, 1936; Sault Daily Star, 6 July, 1936 and "Memo: Algoma Steel New Common shares: property of Sir James," 1 July, 1937, DP 310.
- ²⁴"Prospectus of Algoma Steel Corp., 30 November, 1935," DP 314.
- ²⁵"Memo: Lake Superior Investment Co. holders," 30 Nov. 1936, DP 310.
- ²⁶JHD to Glendyne, 25 Oct. 1935, DP 311; ibid. and 19 Oct. 1949, DP 217.
- ²⁷Standard letter form, prepared by Dunn, May, 1937, DP 201.
- ²⁸See, for instance, W.L. Morton, Wellington Corp., to JHD, 6 July, 1938, DP 314.
- ²⁹Algoma Steel Corporation, Annual Reports, 1935-39.
- ³⁰JHD to E. Blundell, 30 June, 1937, DP 201 and JHD to A.A. Ritchie, 25 March, 1938, DP 310.
- ³¹JHD to McPhail, 25 March, 1935, DP 318 and Minutes of Directors Meetings, op. cit., 6 Nov. 1938.
- ³²O'Brien to JHD, 24 Nov. 1938, DP 376.
- ³³JHD to W. Lilley, 14 Dec. 1936, DP 311.
- ³⁴C.D. de Bosdari to Toronto General Trusts, 16 Nov. 1936, DP 318.
- ³⁵see J.A. McPhail to JHD, 18 Jan. 1935, DP 318.

³⁶See: "A Man of Steel: Forty Years Ago a Struggling Lawyer, Sir James Dunn Today Nears Realization of His Dream to Create a Steel Empire," Financial Post, 13 March, 1937.

³⁷This persecution complex is one consistent theme that emerges from Lord Beaverbrook's Courage: The Story of Sir James Dunn, Fredericton, N.B. 1960. Dunn's whole career is depicted as one long struggle against the perfidiousness of his friends, from C.L. Fischer, his London partner, to C.D. Howe, who is said to have tried to topple Dunn in the early years of the Second War.

³⁸JHD to W. Lilley, 7 Sept. 1936, DP 311.

³⁹Interview with D.S. Holbrook, 4 Aug. 1977.

⁴⁰Kilbourn, Elements, op. cit., pp. 155-6.

⁴¹The Algoma fiscal year ended on 30 April each year. See: Algoma Steel Corporation, Annual Reports, 1935-7 and "Investigation of Algoma Steel Co.," conducted by J. Adamson, McClelland and Ker Co., London, April-June, 1938, DP 320.

⁴²JHD to C. Atha, 19 May, 1935, DP 310.

⁴³Minutes of Directors' Meetings, op. cit., 6 May, 1935. For McPhail's Algoma activities see McPhail Papers; P.A.O., box 8.

⁴⁴Born in Michigan in 1892, Rahilly worked with the Algoma Central and Algoma Eastern railways from 1913 to 1920, then joined the steel company as accountant to the General Manager J.D. Jones.

⁴⁵Minutes of Directors' Meetings, op. cit., 6 May, 1935. In his capacity as a director, Ward Wright was indispensable in providing Dunn with a legal perspective on Algoma's affairs.

⁴⁶"Investigation of ...," op. cit., p. 30.

⁴⁷JHD to McPhail, 11 Jan. 1934, DP 318.

⁴⁸"Memo: suggestion for consideration, re: iron ore," by JHD, n. d., DP 315.

⁴⁹Report of Mineral Production of Canada, Dominion Bureau of Statistics, Ottawa, 1935-39 editions.

⁵⁰See: W.T. Hogan, Economic History of the Iron and Steel Industry in the United States, op. cit., Vol. 4, chp. 40.

⁵¹DHC, 29 May, 1936, pp. 3239-40.

⁵²ibid., 8 Feb. 1937, p. 675.

⁵³ A.K. Cameron to Crerar, 18 Jan. 1936, Cameron Papers, P.A.C., vol. 35.

⁵⁴ T.A. Crerar, The Future of Canadian Mining: A Series of Twelve Radio Addresses delivered over the National Network of the Canadian Radio Commission, Ottawa, 1936.

⁵⁵ Crerar's failure to back up his rhetoric with positive incentives for mining may in part be due to his suspicions of the motives of some of the more prominent mining promoters, notably J.P. Bickell and Ben Smith, of whose rascality he was frequently reminded. See, Crerar to A.K. Cameron, 20 April, 1936, Cameron Papers, vol. 35.

⁵⁶ A.D. Roberts warned Hepburn that some northern residents were discussing secession from the province. See: Hepburn Papers, file "Dr. A.D. Roberts: private, 1936."

⁵⁷ see: C.K. Leith, "Report on Helen Siderite Property," Aug. 1917, DP 320; S.J. Kidder and G.C. McCartney, "Mining and Geology at the Helen Mine," American Institute of Mining and Metallurgical Engineers, Technical Publication, No. 1971, March, 1946.

⁵⁸ C.B. Randall to W.C. Franz, 13 Oct. 1930, DP 342:

⁵⁹ memo. by JHD, n.d. (c. 1935), DP 375.

⁶⁰ J.D. Jones, "Report on "diversification" policies to receivers and managers of Algoma Steel", 1 March, 1934, DP 312.

⁶¹ C.D. Kaeding and A. Hasselbring, Toronto geologists were retained to survey the Helen. DP 317. T.F. Rahilly inspected English sintering works in March, 1937.

⁶² Rahilly to Hamilton, 23 Feb. 1937, DP 313.

⁶³ see: JHD to Hepburn, cables 30 Aug. and 15 Oct., 1935, DP 313, Hepburn to JHD, 21 Sept. 1935, DP 177. Dunn also cultivated various of Hepburn's associates, notably Harry Nixon and T.B. McQuesten, JHD to H.J. Allen, 8 Sept. 1935, DP 338. The political implications of Hepburn's relations with Ontario's mining magnates are perceptively discussed in R. Whitaker, The Government Party: Organizing and Financing the Liberal Party 1930-58, Toronto, 1977, chp. 8, esp. p. 318. With exceptional perspicacity, Harold Innis traced the underlying federal-provincial tensions of the 1930's to the conflicting imperatives of national and provincial industrial strategies based upon new and old staples. "The political and economic structure of the federation with its emphasis on coal and iron, rigid debts, and protectionism has tended to conflict with the political and economic structure of the provinces with their emphasis on the new industrialism of hydro-electric power, oil, and minerals.... The dead hand of an old industrial system is particularly menacing to new industrialism." H.A. Innis, "The Canadian Mining Industry," in M.Q. Innis, ed., Essays in Canadian Economic History, Toronto, 1956, pp. 317-8.

⁶⁴JHD to T.R. McLagan, 12 March, 1955, DP 338. Dunn had told Wright in the previous November that Algoma "can get a good bonus deal with the Government which I am under the impression Mr. Hepburn has already promised me." JHD to Wright, 3 Nov. 1936, DP 319.

⁶⁵Hepburn to Curran, 10 Feb. 1937, Hepburn Papers, box 274, file: "Iron Ore Industry. 1937."

⁶⁶Curran to Hepburn, 13 Feb. 1937, ibid.

⁶⁷Roberts to Hepburn, cable, 16 Feb. 1937, ibid. and file "Dr. A.D. Roberts, M.L.A. Sault Ste. Marie--1937."

⁶⁸Roberts to Curran, 30 Dec. 1935, DP 310.

⁶⁹JHD to Wright, 13 Jan. 1936 and JHD to Roberts, 14 Jan. 1936, DP 310. See the account of the Roberts' affair in Neil McKenty, Mitch Hepburn, op. cit., pp. 95-7.

⁷⁰JHD to Hepburn, cable, 5 March, 1937 and J.C. Shipley to Hepburn, 31 May, 1937, Hepburn Papers, op. cit.

⁷¹"Report on the Proposal of the Algoma Steel Corporation Ltd. to Mine and Beneficiate Iron ore from the New Helen-Michipicoten District," D.H. McDougall, 3 March, 1937, ibid., file "Iron Ore--1937."

⁷²Ontario Statutes, I George VI, c. 34; see also R.M. Alway, "Mitchell F. Hepburn and the Liberal Party in the Province of Ontario 1937-43," op. cit., pp. 105-6.

⁷³JHD to Hon. Paul Leduc, Minister of Mines, 2 March, 1937, DP 313.

⁷⁴See monthly engineering reports on progress at the Helen, submitted to JHD, DP 313.

⁷⁵E.B. Barber to Rahilly, 29 July, 1937, DP 313.

⁷⁶Algoma Tramways Ltd., incorporated provincially on 29 June, 1937. Despite Dunn's efforts to "starve" the railway, Barber did not buckle, although by 1939 \$2.27 million in back taxes were owed to the government. O.S. Nock, Algoma Central, op. cit., pp. 100-1.

⁷⁷Total cost of the Helen project was \$1,262,852. See Rahilly to JHD, 22 Jan. 1939, DP 313.

⁷⁸"Agreement of Algoma Ore Properties and M.A. Hanna Co.," 1 April, 1939, Algoma Steel Historical Files. Interview with George MacLeod, 17 February, 1977.

79 Memo. clipped to above ibid.

80 4 Nov. 1938.

81 see: Report of Mineral Production of Canada, D.B.S., Ottawa, 1940; "What's Ahead for Canada's Iron Ore?," Financial Post, 12 Aug. 1939 and "Algoma has Mineral Riches Awaiting Exploitation," Saturday Night, 7 Jan. 1939.

82 See H.V. Nelles, The Politics of Development, op. cit.

83 Financial Counsel, 4 Nov. 1938.

84 JHD to T.B. McQuesten, 18 Oct. 1944, DP 215.

85 Atha to JHD, 23 July, 1935, DP 310.

86 Rahilly to JHD, cable, 21 July, 1935, DP 316.

87 JHD to C.D. Howe, 17 March, 1936, DP 311.

88 Howe to JHD, 19 March and 12 May, 1936, ibid.

89 JHD to W. Wright, 30 July, 1936, DP 319.

90 ibid., 7 April, 1936.

91 Rahilly to G.H. Sedgewick, Chairman, Tariff Board, 27 Feb. 1936, DP 316. Rahilly was protesting further "exemptions" on steel bars.

92 DHC, 1 May, 1936, pp. 2390-1. The 1936 budget did extend increased protection to the Canadian automotive industry, but only in the form of increased tariffs on vehicles and parts not on raw materials imported prior to production.

93 ibid., 16 March, 1936, p. 1111.

94 JHD to Rahilly, 4 July, 1939, DP 317.

95 Rahilly to JHD, 4 July, 1939, ibid.

96 Wright to JHD, 22 Sept. 1936, DP 319.

97 JHD to Rahilly, 21 June, 1937, DP 317.

98 Rahilly to JHD, 17 March, 1938, ibid.

99 JHD to Rahilly, 14 July 1939, ibid. Mackenzie King was certainly aware of Dunn's animus towards him, and the latter's role in as an avid promoter of the Duplessis-Hepburn "conspiracy". In November

1938, Senator Dandurand met Dunn en route to England and later described for the Prime Minister how Dunn had met with Duplessis before the voyage in a meeting "... arranged a day in advance so that he might carry messages from Hepburn to Duplessis concerning the two combining together for the next general elections." "Sir James said I was slow in dealing with matters and difficult to get to make decisions," King noted in his diary, "and that Hepburn was right, etc. etc." One of the planks of the Hepburn-Duplessis alliance was to be joint action "in the matter of imperial defence." King also noted that "Dandurand reminded me that Hepburn had given Dunn two million dollars subsidy on his Algoma Steel works. We had declined to do anything for him." MG 26 J13, 5 Jan. 1939.

100 JHD to Hepburn, 9 June, 1938, Hepburn Papers, file: "Sir James Dunn--private--1938."

101 ibid., 12 Nov. 1938. Dunn enclosed a newspaper clipping announcing a \$2 a ton federal subsidy on coal, see The Times, 12 Nov. 1938.

102 Rahilly to JHD, 21 May, 1935, DP 316 and JHD to Hepburn, 26 May, 1939, Hepburn Papers, file: "Sir James Dunn--1939--private."

103 See: "Hepburn's Right on Sydney's Subsidy," Sault Daily Star, 17 Dec. 1938.

104 JHD to Duplessis, 19 July and 5 Nov. 1939, DP 347. See also R. Whitaker, The Government Party, op. cit., p. 317.

105 A.E. Safarian, The Canadian Economy in the Great Depression, Toronto, 1959, chp. 7.

106 Algoma Steel, Annual Reports, 1935-8. Profits in 1937/8 were \$641,254.87.

107 C.H. Charls to Rahilly, 19 Feb. 1936, DP 316; see article by Dunn, "In Heavy Shapes by Algoma Steel: Produces 15 Sections New to Canada in 1935," Globe and Mail, 3 Jan. 1938.

108 C.G. Atha to JHD, 12 May, 1936, DP 310.

109 "Conway Contract, 1937," DP 320A. A "base box" was 112 sheets of tinfoil, 14" by 20". The tinfoil was to be shipped to Continental Can's Canadian branch plant.

110 "Notes on Continental Can contract and its advantages," 18 Nov. 1937 and "Memo for conversation with W. Wright," 22 Nov. 1937, DP 320A. Minutes of Directors' Meetings, Algoma Steel Corp., 17 Dec. 1937 and 4 May, 1938.

111 In both contracts, personal friendship played a large facilitating role. George Humphrey, of Hanna, and Carl Conway, Chairman of Continental Can, were both friends of Dunn.

- 112 Minutes ..., op. cit., 22 Nov. 1939.
- 113 Memo by JHD, 10 Dec. 1942, DP 327 and Minutes of Executive Committee of Board of Directors, 16 Dec. 1942.
- 114 "Report on the Algoma Steel Corporation Ltd.," Coverdale and Colpitts, New York, 10 Dec. 1943, Algoma Steel Historical Files. Algoma's largest customer was INCO with 13.6%, followed by the C.P.R. with 10.7%.
- 115 JHD to Ferguson, 1 Feb. 1934, and "South African rail business, 1934," DP 383.
- 116 JHD to Sir Andrew Duncan, 26 June, 1939, DP 310.
- 117 JHD to W. Lilley, cable, 26 May, 1939, DP 311.
- 118 JHD to Rahilly, 15 May, 1939, DP 384.
- 119 JHD to Hepburn, 26 May, 1939, Hepburn Papers, file "Sir James Dunn, private--1939."
- 120 Coverdale and Colpitts report, op. cit., p. 159.
- 121 see Minutes of ..., op. cit., 3 May, 1935.
- 122 L.E. Schlemm to W. Lilley, 5 Sept. 1938, DP 311. On 16 August, Schlemm told Lilley that "people simply feel that it is not acting in good faith." ibid.
- 123 See Glendyne, Fleischmann, Gundy and Greenwood files in DP 311.
- 124 Algoma Steel, Annual Reports, 1935-7; for Dunn's personal finances see Lake Superior Investment Co. files, DP 385.
- 125 Minutes of ..., op. cit., 28 Feb. and 10 June, 1936.
- 126 ibid., 23 and 24 July, 1937; JHD to E.H. Rawls, Guaranty Trust, 25 April, 1938, DP 319. It was alleged that Beaverbrook exerted pressure on Wilson to come to Dunn's assistance.
- 127 Minutes, op. cit., 28 Oct. 1938. Syndicate members were: Wood, Gundy & Co., McLeod, Young, Weir & Co. and Cochran, Murray & Co.
- 128 3 Nov. 1938. By this time, Dunn was a close friend of Globe publisher, George McCullagh.
- 129 Minutes ..., op. cit., 2 Nov. 1938.

130 DHC, 16 March, 1936, p. 1107.

131 Rahilly to W. Wright, 30 Oct. 1935, DP 316 and Rahilly to JHD, 31 May and 7 June, 1935, DP 312.

132 ibid., 31 May, 1935.

133 JHD to Rahilly, 29 March, 1938, DP 317.

134 "To the Men," 8 Jan. 1937, DP 317 and Minutes of Executive Committee, op. cit., 12 May, 1939. Rahilly's tactful and liberal handling of Algoma's labour relations was later acknowledged by an historian of the labour movement in the Canadian steel industry. "Much of the flexibility and better feeling between the Union Algoma Steelworkers Union and management at this Company has been a function of the personalities involved, but there seems to have been, in general, a greater appreciation on the part of both parties that mutual problems could be overcome more readily through cooperation." R.M. Adams, "The Development of the United Steelworkers of America in Canada, 1936-1951," unpublished M.A. thesis, Queen's University, 1952, p. 69.

135 Coverdale and Colpitts report, op. cit., pp. 174-5.

136 Rahilly to JHD, 9 Dec. 1936, DP 316. There are no entries for Algoma between 1919 and 1943 in the Department of Labour's "strikes and lockouts" file, RG 27.

137 JHD to Rahilly, 9 Dec. 1936, DP 316.

138 JHD to Lilley, 30 April, 1937, DP 311; Rahilly to JHD, 27 Dec. 1938, DP 317 and I.M. Abella, Nationalism, Communism, and Canadian Labour, Toronto, 1973, chps. 1-3.

139 JHD to Rahilly, 12 Sept. 1938, DP 316.

140 see for instance, JHD to Glendyne, 6 May, 1948, DP 217 and JHD to Beaverbrook, 29 Dec. 1949, DP 216.


141 JHD to Howe, 17 March, 1936, DP 311.

CHAPTER 8

Algoma Steel and the Second World War: Steel in a Regulated Economy

The onslaught of the second global war of the century decisively changed the whole nature of iron and steel production in Canada. The development of the pre-Second War Canadian steel industry had been predominantly governed not only by the general economic climate of the nation but also by a limited consensus between government and the industry, built upon commonly agreed areas of interaction. Tariff tinkering, bonusing, freight subventions, tax exemptions and relief work had provided the grist for the milling of policies between industrialists and politicians in both the provincial and federal spheres. Beyond these areas, the steel industry's operations were sacrosanct. Except where subject to anti-combines regulations and certain aspects of labour legislation, Canada's primary steel producers functioned in a laissez-faire environment, setting prices and establishing product lines as they saw fit, appealing to government for assistance only in those fields in which joint endeavour between business and government had evolved along mutually acceptable lines. Algoma's chequered industrial career reflected this hybrid consensus. Brought to life under the auspices of tariffs, bonuses and incentives of mixed federal and provincial parentage, the corporation had then been largely left to fend for itself in terms of diversification and vertical integration, falling back upon government succour only in periods of extreme hardship, such as during the early Depression, or when, as Dunn had adeptly managed in 1935, the state power could be coopted to sanction an essentially private reorganization.

It was in many ways a "school of hard knocks" for Algoma's management, but they, like the politicians with whom they dealt, shared the view that the consensus that had so pragmatically evolved since the days of the National Policy stopped well short of any direct or pervasive intervention in the internal affairs of the steel industry.¹

Straining under the pressure of unprecedented wartime demands for steel, the old consensus between steel producers and politicians crumbled, to be replaced by a new government-imposed basis of business-government understanding. On all sides the steel industry was challenged by the intrusions of the federal government into matters of labour, production, distribution, prices and even profits. This forceful imposition of a new and more pervasive consensus governing the affairs of the steel industry was met with considerable apprehension and at times hostility on the part of steel industry management. Sir James Dunn, who had long depicted himself as a laissez-faire disciple of Cobden and Gladstone, although ever ready to enlist government's authority to serve his own ends, initially shared in this sense of mixed anxiety and resentment. With the dawning realization that there was to be no post war "return to normalcy" and that instead Canadian steel production had entered, albeit reluctantly, a new era, Dunn learned to cooperate with government within the terms of this emerging new consensus and with time, as was his penchant, to exploit its terms to his fullest advantage. Especially after the pressures of  on the industrial front began to ease in 1943-4, industrialist and politician alike groped for a new and continuing basis of understanding for the post-war steel industry. While this

process had begun in the early war years as one of government dictation, it evolved into one of mutual consultation and accommodation. The relationship of Sir James Dunn and C.D. Howe, Canada's economic czar through both hostilities and reconstruction, was not only instrumental in shaping this new relationship, but in many ways also symbolic of it. In Howe, the steel industry found not only a forceful arbitrator of business-government relations but the creator of a revitalized federal response to the problems of the national economy. For Algoma in particular, Howe signified the reemergence of the decisive national economic leadership that it had vainly sought from Ottawa throughout the 1920's and 1930's.

The outbreak of war in 1939 came as no shock to Sir James Dunn. Even as president of Algoma after 1935, he had maintained his permanent residence in London from where he could oversee his still myriad financial affairs in the City and indulge in the glittering social life of England's political and financial élite. Close confidant of Beaverbrook, friend to Brendan Bracken, Lord Greenwood and Churchill, Dunn's correspondence of the late 1930's echoed the Churchillian refrain of "no appeasement". "My contacts in the political world," he told former Algoma president W.C. Franz as early as 1935,

lead me to believe that Europe is now in the period 1911-14, in other words preparing the war again. This would gradually mean increased employment in industry and a rise in raw materials. Don't get caught short of the raw materials you bring in from the U.S.²

While Dunn rightly imagined in 1935 that war was "three or four years away," he was already fully cognizant of its implications. "I don't

like the outlook," he confided to a Philadelphia friend, "but if it must come to war it will sell a lot of steel."³ Algoma's new president subtly employed the spectre of impending war when bargaining with Ontario's Liberal government in the late 1930's. A bounty on Helen sinter, Dunn assured Premier Hepburn in 1937, would protect Ontario steelmakers from any sudden wartime disruption in the flow of Mesabi ore. As the prospects of appeasement dimmed in 1938, the steel president suggested to the Premier that

... our defence preparations should include a Canadian "Woolwich" where the nucleus of our armament can be created and maintained, situated well away from the seaboard and close to the American border ... My mind naturally turns to the Soo with deep water frontage both above and below the canals and within reasonable distance of the nickel mines at Sudbury.⁴

This pandering to provincial sensibilities reached its height on the eve of the war as Dunn urged Hepburn to employ his rhetorical skills to rouse the patriotic fervour of Ontarians, at the same time egging on Maurice Duplessis of Quebec to take a common stand with Hepburn against the unresponsive federal Liberals.⁵

Dunn's coaching of the Ontario premier stemmed partially from a hope that a provincial industrial strategy might stimulate preparedness in the steel industry, as it had done for the iron ore industry, but also from a sense of pique at the federal government's failure since 1935 to come to the assistance of his reorganized steel company. "Are we going to take part in helping the Empire get ready in time," he lectured the Ontario premier, "and give our people employment instead of relief and idleness or are we going to lag and do nothing as has been the policy at Ottawa for so long on so many things?"⁶

Despite his hopes for provincial initiatives, Dunn was under no illusions that when Canada was eventually sucked into the European vortex, the fortunes of his steel company would be drawn magnetically into the orbit of the federal power. This was pointedly brought home in late 1939 when he tried unsuccessfully to fend off the imposition of the federal Industrial Disputes Investigation Act on all labour disputes in the munitions industry. When Dunn told federal labour minister McLarty that Algoma preferred to keep its existing provincially-oriented machinery as a proven basis of "friendly arbitration of differences," he undoubtedly believed that Hepburn's government would be more inclined to take a more resolute stand against the incursion of the American C.I.O. into the ranks of Algoma labour.⁷ Despite Dunn's vigorous lobbying, Hepburn reluctantly informed Algoma that it would be ultra vires under the War Measures Act for Queen's Park to attempt to undermine federal authority in labour matters.⁸ As much as Dunn may have railed against the Ottawa Liberals, it was clear by 1939 that the war he had so long anticipated would force Algoma to come to terms with the federal government, which by virtue of its wartime emergency powers could decisively outmanoeuvre or overrule any provincially initiated programme of industrial advancement. While Hepburn continued to be the butt of Dunn's patriotic prodding through the early years of the war, it was to the less hospitable corridors of power in Ottawa that Dunn and Algoma were now forced to turn their attention.⁹

Dunn's initial attitude to the prospect of wartime steel production was indelibly coloured by the legacy of Algoma's role in the

munitions industry of the Great War. In that conflict the corporation's headlong commitment to shell steel had produced handsome short term rewards but had done little to diversify its product mix away from railway-oriented steel production or prepare it for the post-war economy. The folly of adopting a similar strategy in the new conflict could not be overemphasized by Dunn. His own memories as an investor in the defunct corporation and the advice of past presidents Franz and Frater Taylor underlined the wisdom of specializing in steel types that fostered further diversification and had a definite post-war utility. Ideally, Algoma's wartime effort should be directed towards building up capacity in a wide range of semi-finished steels which would find broad and stable appeal among post-war steel consumers.

Ironically, the first inclination of Algoma on the eve of the new war was to exploit its old reputation as shellmaker to the Imperial Munitions Board in a bid to utilize some of its woefully underused capacity in primary steel. In October, 1938, Dunn had lobbied Sir Thomas Inskip, Britain's Minister of Defence Coordination, for munitions orders, underlining the company's "repute" as a munitions maker by producing copies of old letters of commendation from Borden and Flavelle.¹⁰ General Manager Rahilly hastened to assure that shell steel production could be undertaken "within 24 hours" but that the government should be expected to bear the cost of machinery that could finish shells "to the point where they only require loading with explosives."¹¹ Assuring Hepburn that he was making a "big fight" for English munitions orders, Dunn even inveigled his old friend,

Lord Greenwood, to impress upon British officialdom the wisdom of patronizing the Canadian arms industry.¹² Dunn's efforts to foster a Canadian "Woolwich" bore little fruit, primarily because they flew in the face of the Ottawa Liberals' predilection for avoiding binding defence production pacts with London. Algoma's one wartime plum in this respect was a small British munitions contract in 1940 for 9.2" howitzer shells, the cost of which, \$527,333, was jointly borne by the Canadian and British governments.¹³

Blocked on the one side by his inability to secure a substantial slice of the Imperial munitions trade and stymied on the other by the Ottawa government in his hopes of continued provincial sponsorship, Dunn had little option but to submit to whatever course of munitions production was set at the federal capital. Determined not to commit Algoma to product lines with little post-war utility or potential for diversification, the Algoma president encountered in Ottawa a government initially willing to cooperate in matters of steelmaking but ever ready to dictate if circumstances required. It was because Dunn would only cooperate on his own terms and had never brooked dictation that the wartime relationship of Algoma Steel and the department of Munitions and Supply was one of incessant friction and at times explosiveness, but one that ultimately and somewhat miraculously proved productive to both parties:

On 4 July, 1940, Sir James Dunn joined with the heads of management of Stelco, Dosco and Dominion Foundries and Steel to meet in Ottawa with C.D. Howe, who since April had been minister in charge of the newly created Department of Munitions and Supply. Howe had

convened the meeting to introduce Canada's steel masters to H.D. Scully, recently appointed as Steel Controller, one of the 19 control offices established by Howe to regulate the wartime economy.¹⁴ Faced with a rapidly deteriorating steel supply situation in Canada as the war in Europe intensified, Ottawa had empowered Scully "to conserve, coordinate and regulate the steel resources and industry of Canada."¹⁵ Scully was equipped with a formidable array of bureaucratic powers, ranging from the right to investigate a steel producer's facilities or financial statements to the draconian right of seizure of any steel works or equipment.¹⁶ From the industry's perspective, Steel Control presented a frightening spectre. The pervasiveness of its powers over production, price and distribution of steel could be felt at all levels of the industry and where Steel Control lacked jurisdiction, other regulatory agencies under Howe's purview, notably Coal Control, infringed upon the industry's once inviolate right of self-regulation. Specific controls on steel were reinforced by the economic leverage given the government under the Excess Profits Tax (limiting corporate profits to 116 2/3% of 1936-9 averaged profits), the War Exchange Conservation Act and the price and wage stabilization powers of the Wartime Prices and Trade Board.¹⁷ On all sides, the steel industry was the apparent captive of the federal government. Coordinating all aspects of this federal economic suzerainty, the Wartime Industries Control Board brought together all Howe's controllers with the overseers of price and wage control to form an economic control mechanism unprecedented in Canada's history, in comparison to which the crude mechanisms of the First War paled in

their imperfection. Caught in this web of control, Algoma Steel was but "one of the small cogs in your wheel," as Dunn once coyly flattered Howe.¹⁸

To assuage the industry's apprehensions Howe and Scully were quick to point out that a spirit of cooperation lay behind the foreboding wall of regulation. Even though the under-utilized national steel industry had yet by 1939 to surpass production levels set at the peak of the last war in 1918, Howe was forced as early as mid-1940 to create Steel Control in response to a steel industry already straining at capacity and incapable of catering to wartime priorities on any coherent basis. "With the mills producing at capacity," Steel Control reflected in 1943, "time and steel were synonymous; and there was uncertainty as to the exact time when construction projects would actually commence, or when those for the manufacture of equipment requiring steel would be in production."¹⁹ In this "world of uncertainties", Howe assured the primary steel producers that if their cooperation was forthcoming in expanding capacity and channeling output on a priority basis to critical areas of the economy, they would never experience the full brunt of formal, rigid regulation. "... [M]y policy," Howe later told Coordinator of Controls J.G. Gedsoe, "is that controls are associated with scarcity and should be removed when the reason for the control disappears."²⁰ Scarcity was best alleviated, Howe reasoned, by informal cooperation with the various controllers, the "connecting link between government and industry."²¹ Informal liaison between industry and government in the case of steel was institutionalized in the Steel Advisory Committee, a body created

in July, 1940 to ensure regular liason between the senior officials of Steel Control and the large primary producers. Supplemented by the Scrap Iron and Steel Advisory and Technical Advisory Committees, this caucus of business and bureaucratic officialdom met infrequently to tackle the primary task set for it by its Minister, namely "a radical readjustment of our steel supply situation from Canadian sources."²²

Throughout its history, Steel Control's operations were more characterized by compromise and cooperation than by the arbitrary thrust of legislated authority. During the entire course of its operations, the Steel Controller was forced to resort to only 40 formal orders, many of which dealt with relatively trivial matters.²³ It was this atmosphere of cooperative consultation, while never wholly free of friction and apprehension, that not only lay at the foundation of the phenomenal expansion and diversification of Canadian steel during the war but also contributed to the building of a new and lasting consensus between "big steel" and government. Significantly Dunn and Algoma initially stood somewhat aloof from this development, distrustful of Ottawa's intentions and jealous of its own financial and operational autonomy. While the other primary producers delegated their senior vice-presidents or presidents to attend the Steel Advisory Committee, Dunn deputized T.F. Rahilly, his capable Managing Director, to represent Algoma's interests, while he himself plotted to circumvent rule by committee and build a private and direct line of communication to the minister's office.²⁴ Dunn rationalized this quest for special status in the department's

eyes by employing that now well used argument that Algoma's northerly location, imbalanced product line and recuperating finances marked it apart from Canada's more profitable or, in the case of Dosco, more subsidized, primary steel producers. It was the chaffing of these sensibilities against the policies of Steel Control that dominated and irritated the early years of the Dunn-Howe relationship.

Fearful that a tightly governed control of steel consumption would engender "a strong tendency to bogging down in a bewildering maze" of bureaucracy, Steel Control opted for control at the place of production rather than consumption. It thereby ensured "the utmost flexibility" in regulation and allowed "a fine adjustment of civilian supply according to the position of the mills in respect to war orders, which necessarily received preference, with a minimum of arbitrary prohibitions."²⁵ To effect firm control at source, Steel Control employed various mechanisms to govern production and distribution of wartime steel. At the July, 1940 meeting in Ottawa, the primary producers voluntarily submitted to the freezing of all iron and steel prices, including those of raw materials.²⁶ Coupled with the Excess Profits Tax, the price freeze placed a tight prohibitive ceiling on corporate profits and also allayed widespread anxiety about a recurrence of industrial profiteering on the scale of the First War.²⁷

Steel distribution was regulated by a system of priorities and licenses issued to consumers, reflecting the relative importance of their needs. No steel purchase was accepted by a primary producer without the requisite authorization forms.²⁸ Items in perilously

short supply, such as structural steel, were placed under separate and especially rigorous control, while consumption of steel for luxury goods was often wholly proscribed.²⁹ In order to streamline Canadian steel production and eradicate costly delays and redundancies, Steel Control rationalized some aspects of national iron and steel production, insisting, for instance, that Steel of Canada not sell pig iron to outside consumers and that Algoma and Canadian Furnace, at Port Colbourne, take up the slack left by the Hamilton mill's withdrawal from the market.³⁰ To facilitate inter-company transfers of raw steel, the department of Finance and Steel Control underwrote shipping costs between regions, thereby allowing Dosco and Algoma, both deficient in rolling capacity, to "compete" in the central Canadian market and supply large volumes of steel billets to Stelco for its rolling programme.³¹ To minimize gluts and hoarding, stiff regulations governed steel inventories and warehousing were instituted.³¹ The administration of these and a myriad of other regulatory guidelines for steel production was handled by Steel Control's relatively small staff of 66 persons (as of December, 1943). The fact that such a small group could cope with a task of such complexity bore witness to the degree of cooperation and friendly consultation that developed between the war bureaucracy and the steel industry. Steel Control orders seldom represented arbitrary fiats by the government, but more accurately were simply the formal acknowledgement of arrangements already decided informally at the Steel Advisory Committee. Symbolic of this willingness to cooperate was the presence of nineteen "dollar-a-year" men, many of them drawn directly from the ranks of the steel

industry, in Steel Control's Ottawa offices.³³ W.E. Morley of Algoma, for instance, was seconded to oversee the government's pig iron control programme. F.B. Kilbourn, who replaced H.D. Scully as Steel Controller in August, 1941, and his assistant M.A. Hoey had both pursued successful careers at Canada Cement before coming to Ottawa. Far from being the steel industry's Trojan Horse in Ottawa, ready to manipulate the levers of wartime government for the advantage of the private sector, the "dollar-a-year" men were more a group of economic engineers, pragmatically building up a new and more broadly applicable set of ground rules for the mutually advantageous interaction of business and government. In the crisis-filled days of 1940-1, few could have viewed Steel Control's work as anything more than temporary expedient but as the urgency of the steel crisis began to ease by late 1943, the irrevocable nature of their actions began to emerge.

The changes wrought by Steel Control would have been unconscionable in the pre-war Canadian economy. Decisive planning of the steel industry on a national level as opposed to the pell-mell company-by-company planning prior to hostilities became an area of considerable statistical and economic expertise. Admitting that it had been "working somewhat in the dark as to the overall total steel requirements," Steel Control instituted a "steel budget" in the fall of 1941 to project Canadian production and consumption of steel for 1942 and thereby calculate prospective imports and domestic production requirements.³⁴ With the steel budget Ottawa was able to isolate areas of extreme scarcity, to allocate existing steel output as equitably as

possible and to stimulate through capital assistance and special tax concessions enhanced capacity in the shortfall areas of domestic production. The federal government's efforts to rationalize and stimulate the national steel economy constituted a clear infringement on the precinct of pre-war economic thinking and, as such, both aroused the industry's suspicions as to the sanctity of their operations and at the same time drew their applause as the solution of long-standing impediment to the progress of the Canadian steel industry. While Sir James Dunn eventually came to share both these attitudes, his initial response to the initiatives of Howe's department was one of hostility.

Dunn's obstinancy in the face of the directives of Steel Control was first occasioned by Ottawa's refusal in 1940 to permit Algoma to export rails to the foreign markets that the company had so painstakingly built up in the late 1930's.³⁵ Further curtailment of domestic rail purchases ordered by Steel Control posed a dire threat, in Dunn's eyes, to Algoma's traditional mainstay of production, although the productive capacity freed by this restriction was soon completely taken up by war purchases.³⁶ The ultimate encroachment of Algoma's freedom to determine the allocation of its productive capacity came with the imposed diversion of Algoma ingots and pig iron to Stelco for rolling and further finishing. Dunn reasoned that Ottawa was taking unfair advantage of Algoma's sizable primary capacity and, by shipping its raw steel elsewhere for processing, was denying it an opportunity to build up its own finished steel output. The situation was further exacerbated by Steel Control's

adamant refusal in May, 1941 to allow Algoma a price increase on the steel it supplied to Stelco.³⁷ Unappeased by Scully's appreciation of Algoma's "spirit of cooperation" in the matter, Dunn went directly to Munitions and Supply Minister Howe, and vehemently protested that Algoma resented "the role of 'hewers of wood and drawers of water' for any other steel company while a full market exists for our output." At Howe's request, the steel president tempered the final wording of his written presentation to read that the company was "sensitive to taking a subsidiary role in the war economy of the country."³⁸

Dunn's exasperation with Steel Control's supposed insensitivity to Algoma's needs led him, from an early date in the war, to seek to bypass their offices and strike out directly for the Minister. Sir James contacted Howe in person, by incessant telephone calls or by what he labelled "entirely unofficial notes",³⁹ sent directly to the minister's Ottawa home. "I do not find," he complained to Howe in one of these notes,

that I get anywhere by exchanging letters with the Steel Controller who quite naturally is not intimate enough with industrial affairs to realize the millions of dollars that Algoma has invested in coke ovens, blast furnaces and open hearths in order to be able to supply Mr. McMaster [Stelco] with pig iron at about \$12 a ton and ingots at about \$6 a ton cheaper than he could get them but for Algoma's investment. These pig and ingot deliveries to Mr. McMaster provide him with raw materials to carry on his ordinary business and to make the products that enter into competition with ourselves and the other steel producers and not to make any special war product This is off the record but I feel better at having said it.⁴⁰

As the tempo and volume of war orders picked up, other issues began to inflame relations between Algoma and the government. Since the

profit ceiling imposed upon business by the Excess Profits Tax was calculated upon 116 2/3% of normal pre-war profits averaged over 1935-39, Dunn alleged that in view of the company's lacklustre financial performance in the late Depression some special allowance should be made to compensate for its abnormally low averaged profits. After much pressure from Dunn and adjudication by a board of referees, Algoma's "standard profits" were set at \$1,311,098.63 in June, 1942.⁴¹ This concession was due, as Howe's financial adviser, F.H. Brown, told Deputy Finance Minister W.C. Clark, to the minister's personal guarantee to Dunn that "the company's earnings would be lifted to a reasonable standard provided he continued to be satisfied with the output and cooperation received."⁴²

Another burden under which Algoma laboured, Dunn complained, was the inequitable incidence of controls on the economy. As early as 1941, Algoma and Dosco vehemently protested that while their profits were rigidly held down, the ever increasing cost of raw materials, labour and transport was eroding corporate profits to the point of insolvency. Claiming that the cost of ingot production had risen by 30% since 1939, Dosco and Algoma sought a \$6 a ton price hike for ingots in late 1941.⁴³ Such representations eventually brought a 25¢ per 100 lbs. price rise on most steel forms in January, 1943, an increase that was not adopted by Stelco. Rail prices were permitted to rise by \$5 a ton in May, 1943.⁴⁴ While these concessions temporarily alleviated the situation, the creeping and uneven advance of costs in the steel industry was to remain a festering problem, frequently introducing friction into business-government relations.⁴⁶

Not surprisingly, the Howe-Dunn relationship throughout these early war years had a chameleon-like quality about it. Neither could do without the other. Howe desperately needed steel and Dunn could not operate without the sanction of Howe's officials. Given the implacably iron-willed character of both men and the unique pressures of war, it was unavoidable that skirmishes should have arisen over steel policy. "The Department of Munitions still has at least one crisis every day," Howe flippantly remarked to one of his officials at the height of the production crisis.⁴⁶ The basic bone of contention between Howe and Dunn was that the Minister viewed the steel economy in essentially national terms while Dunn examined every proposal solely from Algoma's perspective. Tension developed whenever common ground between the two positions did not materialize. In the final reckoning, Howe held the preponderance of winning cards. Dunn's freedom of action was not only restricted by the blanket of wartime government control but also by Algoma's continued corporate indebtedness and the collapse of his health in 1941-2.

Algoma had entered the war with a debilitating indebtedness to the Royal Bank of \$2,372,000 (as of 30 April, 1940) while the financial underpinning of Dunn's own position of control in Algoma stock was balanced on a knife-edge.⁴⁷ Fortunately, most of Dunn's personal creditors were within his circle of business friends and did not press for prompt repayment, but, as he told his son in late 1940: "For myself I have no income and require to cash in capital from time to time as I cannot afford to pay dividends which the various taxes exhaust."⁴⁸ Adding to his troubles, Dunn faced an extremely

embarrassing tax evasion charge in the British courts with alleged back taxes of £ 41,000 owing.⁴⁹ Under such intense pressure, Dunn's health gave out to a bout of cystitis in the late spring of 1940 and a near fatal thrombosis in the summer of 1941.⁵⁰ So as not to attract undue attention from government and financial circles, Dunn's illness was kept secret, with a furtive Algoma directors' meeting even being held in a Montreal hospital room.⁵¹

In the midst of this personal and financial turmoil, Dunn obstinately opposed many of Steel Control's directives. His pugnaciousness was at times so fierce that it was widely rumoured that Sir James Dunn was a defeatist, unwilling to back the Allied cause. Such rumours filtered through to the highest levels of allied leadership. When informed in late 1940 by his Washington representative that Canadian officials were "inclined to take action to intern Sir James Dunn, as a result of his continual defeatism," Lord Beaverbrook felt compelled to inform Prime Minister Churchill that Algoma's president was his "oldest friend" and that to his best knowledge had displayed "no spirit of defeatism".⁵² On other occasions Beaverbrook came to his old compatriot's assistance. In the spring of 1943, in the midst of thorny negotiations with the Canadian authorities over the terms of Algoma's government financed expansion program, Howe and Beaverbrook met in New York to discuss Dunn. Later Howe confidentially replied to Beaverbrook that Dunn had subsequently "expressed complete satisfaction with the arrangements that have now been completed. Your word in his behalf helped him considerably."⁵³ Significantly, all of Beaverbrook's senior representatives in Washington

throughout the war, Arthur Purvis, Morris Wilson and E.P. Taylor, were acquaintances of both Dunn and Howe. This was especially true of Morris Wilson, who had been seconded from the Royal Bank and, in all probability, kept Howe and Beaverbrook intimately informed of the precarious state of Dunn's finances. Another of Dunn's cronies, J.P. Bickell, had performed valuably in ATFERO, the Atlantic aircraft ferry set up by Howe and Beaverbrook.⁵⁴

Howe's reaction to Dunn's unrelenting campaign to let Algoma fight the steel war on its own terms was to stand resolute and not succumb to the Algoma president's mixture of bullying and seduction. Cases of Krug 1926 champagne delivered to Howe's London hotel brought the minister's thanks but did little to loosen his resolve.⁵⁵

F.H. Brown, Howe's Financial Advisor from April, 1941, recalled that the relationship was "cool" and then "warm", despite the fact that Jimmy Dunn was "a great old charmer".⁵⁶ In later years, Howe himself was guardedly ambivalent about the nature of the association, telling Beaverbrook on one occasion that he "hardly knew" Dunn by 1942 and on another that he had "worked closely with Sir James from 1940".⁵⁷ The real point de crise between the two undoubtedly came in late 1942 when Dunn decided to exploit the wartime situation to settle his simmering feud with E.B. Barber of the Algoma Central. Determined to break the railway's monopoly on Algoma's transportation needs, Dunn had his Toronto lawyers obtain a charter for the Algoma Southern Railway, a new corporate subsidiary designed to link Algoma's yards with the C.P.R.'s Sudbury mainline and circumvent Barber's railway. If successful in this ploy, Dunn hoped that the financially plagued railway

would fall into his lap. Sir James delighted in portraying the Algoma Central as "an uneconomic railway system" dating from Clergue's days of reckless financing, "a general tax against Algoma Steel" resulting in severe "bottlenecks" in its wartime production.⁵⁸

Rather than approach Howe directly, Dunn deputized Tom Rahilly, Algoma's general manager, to deal with Ottawa. It was an unfortunate choice. Not only was Rahilly a personal friend of E.B. Barber, but he was unalterably opposed to Dunn's schemes of broadening Algoma's activities beyond steelmaking. Tension between President and General Manager had existed for years, engendered by Dunn's innumerable and often intemperate intrusions into Algoma's daily operations. Rahilly's initial approach to Howe and the Board of Transport Commissioners in November, 1942 was sharply rebuffed. "It is difficult to see," Howe wrote to Rahilly, "that any considerable savings in freight charges will result to the Algoma Steel Corporation from the proposed new connection."⁵⁹ At this point Dunn entered the fray and despatched a blistering letter to "Mr. Howe" reiterating what Dunn claimed was Algoma's unassailable right to a rail link with the C.P.R.⁶⁰ At this point, Rahilly apparently had an irreparable falling-out with Dunn culminating in a nervous breakdown that forced him to take an extended leave of absence on the West Coast.⁶¹ Deprived of his chief witness, Dunn had to let the Algoma Southern case fall into abeyance. Despite the president's assurances to Rahilly that he could "take hold again with me," by August, 1943 Rahilly was said to have rejected a new position in the corporation and was unceremoniously let go.⁶²

Rahilly's dismissal alarmed Howe.⁶³ Fearful that the capable general manager could not be replaced and that operational control might fall completely into the hands of Algoma's 68 year old president, Howe contacted Morris Wilson, now returned to the Royal Bank of Canada, and asked him to investigate the situation quietly. It was perfectly understandable that Howe should take such an initiative, especially since labour troubles at Algoma in January, 1943 had already unexpectedly curtailed steel output at the Sault. In later years Dunn concocted a story that Howe had in fact delegated Wilson to lay the foundations for a government take-over of Algoma.⁶⁴ The whole notion was antithetical to Howe's understanding of the relationship of business and government: private business could be influenced but never directly controlled by government. Crown corporations were established only where private enterprise feared to tread. When Beaverbrook later gave credence to the notion of an anti-Dunn putsch, Howe protested vigorously.

At no time did I threaten that the Government would take over the operation, nor did I have any thought it would do so. Algoma was a vital part of Canada's war machine, and I simply wished to make sure that there would be continuity of operational management of the enterprise. What Morris Wilson told Sir James I do not know, but if he stated the Government intended to take over the enterprise, he had no suggestion from me that could be so interpreted ...⁶⁵

Howe's apprehensions were eased in February, 1944 when Dunn, on the advice of Algoma's American consulting engineers, Coverdale and Colpitts, hired David S. Holbrook, a promising young American steelman trained at United States Steel, to replace Rahilly. So anxious was Howe to see Holbrook at Algoma that he personally tried to expedite

his release by the U.S. Selective Service Board.⁶⁶ Talented and able to stand up to Dunn's constant harassment, Holbrook's appearance greatly restored Howe's confidence in the Dunn enterprise. It was a mark of Howe's intuition as an engineer that he sensed that Algoma's prosperity depended not only upon Dunn's financial acumen but also on the solid technical advice provided by Rahilly and later Holbrook. As Dunn himself admitted, Holbrook was "the most promising young man I have come in contact with in many years."⁶⁷

After the Rahilly crisis, there was ample evidence of warmer relations between Howe and Dunn. By August, 1943, the minister confided in Beaverbrook that Dunn was "doing a first-class job and deserves to be well treated."⁶⁸ Not only was the intense pressure of the "steel crisis" of 1941-2 beginning to ease, thereby removing an important source of friction with Steel Control, but a tacit understanding between Minister and Algoma president was evolving on the much broader question of the role and function of the Canadian steel industry. Howe's task at Munitions and Supply had entailed not only marshalling existing industrial resources but also promoting a rapid increase in its capacity. Industrial expansion proved a portentous task, for not only would it directly affect Canada's war effort but there was a distinct realization that it would formatively influence the post-war Canadian economy.

Howe and Dunn were in perfect harmony in their belief that the problems of Canadian steel must be viewed in a continental context and that it was illusory to talk of Canadian industrial self-sufficiency. As his early experience in marketing Algoma iron sinter to American

buyers had underscored, Dunn firmly believed that Canada must capitalize on its industrial strengths and seek equitable trade-offs in those areas where it was deficient. "The Minister has been here since Friday," E.P. Taylor reported to Dunn from Washington in late 1942,

and we have had some good talks. I find that his ideas, regarding the way in which the post-war economy should be arranged, entirely line up with mine, and yours. He agrees that the key to the whole situation rests with Canada and the U.S.A. and that the time to make the deal is now because it will be next to impossible after the peace, or when peace is in the air. He has undertaken to have a chat with the Prime Minister.⁶⁹

Mirroring the diversification policy Algoma had set as its goal in the late 1930's, Howe believed that Canadian steel should build up a well-rounded basic capacity and specialize only in those areas for which there was sufficient Canadian demand to warrant efficient and profitable production. What Canada could not undertake should be left to foreign producers, whose imports could be balanced by exports of Canadian surplus production. For both men this entailed a thorough-going orientation of the Canadian steel economy towards mutual dependency on American iron and steel. As a late-war Victory Bond poster, sponsored by Algoma and depicting an early French map of the continent, proclaimed: "The men who made this map many years ago conceived the North American continent as one economic whole." As Howe told the Commons in 1941:

It is a matter of judgement whether at a time like this we should go all-out to make ourselves self-contained in steel for war requirements. It is my judgement that that is not justified particularly as we have obtained every assurance that the usual source of supply will be available to us at least up to the amount we nominally [sic] take, and it

is the opinion of the Steel Controller ... that we are amply protected for our war-time steel requirements.⁷⁰

Underlying this acknowledgement of continued continental dependency was the extreme reluctance of Canadian steelmakers to overexpand to the point where they would be saddled with unusable post-war capacity. Largely through the Steel Advisory Committee, a consensus was slowly built up between government and the industry, whereby expansion of Canadian capacity would continue to reasonable limits, usually to the level that was construed by the industry as normal peacetime consumption, leaving marginal and specialized steel production to foreign producers. There was a general recognition that any further expansion would invite serious imbalances not only in the internal operation of the steel industry but also in the national economy, notably in the supply of labour. This conservative reaction towards expansion of national steel capacity was exhibited most consistently by the industry itself rather than by government. Indelibly impressed by two decades' experience with underused capacity and the crippling burden of "idle expenses", the steel industry insisted upon distinct limits to its wartime growth. In mid-1944, for instance, R.H. McMaster of Stelco was quick to assure Steel Control that there was "little danger" that in the post-war economy "the usual commercial practices" would not "assure an equitable distribution of production" and that "full supplies of steel should be available earlier than many consumers will be ready to accept."⁷¹ While Dunn and McMaster were ready to respond to any of the incentives a regulated economy might offer, they staunchly defended what they conceived of as their in-

alienable right to set the limit of those changes.

Not only did Howe's drive for steel expansion at times encounter hesitancy within the industry, but the implications of too large and too hurried an expansion aroused the anxieties of fellow cabinet ministers. As early as 1942, Finance Minister J.L. Ilesley sternly warned his colleague that:

The result of these large additions to plant capacity is a competitive scramble for men which, I am sure, will before long become most injurious to our effort . . . My departmental interest in the matter is a Minister trying to prevent inflation. If we undertake too much, it will become impossible to keep wages and prices down and the whole situation will get away from us.⁷²

Amid these varied pressures, C.D. Howe and his officials were able to engineer a remarkable expansion and diversification of Canadian iron and steel capacity. From total production of 755,731 tons in 1939, Canadian pig iron output more than doubled to 1,975,014 tons by 1942. Steel ingot and casting production over the same period burgeoned from 1,384,870 tons to 3,110,264 tons. The value of rolled steel production virtually trebled to \$157,973,074 over 1939-42, while capital employed in the iron and steel industry swelled from \$697,893,720 to \$1,446,017 in 1942.⁷³ During the "phoney war", accelerated demand for steel had been accommodated by the existing slack in the depressed industry, but as demand began to press hard on supply throughout 1940 Steel Control's priorities system was initiated to channel and maximize steel production. At this point, Howe's officials frantically resorted to their second line of defence, a rapid expansion of Canadian supply achieved partially through

enlarged American imports, although success in this direction was somewhat curtailed after Pearl Harbour, and through increased Canadian productive capacity. The "steel crisis" that lay at the heart of Canada's wartime economy intensified precipitously until the winter of 1942-3 and then eased, once a satisfactory level of production acceptable to Howe's wartime industrial strategy had been attained. "From the beginning," Associate Steel Controller Hoey told his minister in 1943,

the constant problem has been to provide steadily increasing quantities of steel for direct munitions, while simultaneously large tonnages, notably structural steel and plates, have been devoted to the swift construction as Aluminum and Nickel expansion, new power developments, new iron and steel plants, and synthetic rubber factories. It has been an almost impossible task to make ends meet, but most of the new construction is finished. From now on, more of our steel supply can be used to make implements of war in those plants where the tonnage was previously used to build the plants themselves.⁷⁴

In meeting this double-barreled demand for steel, Ottawa moved first to ensure a large and stable level of American steel imports and then to structure domestic expansion to meet the shortfall between imports and existing domestic production. The "steel budget" projections for 1941 estimated a prospective consumption of 3,390,000 tons, of which 1,140,000 tons could be furnished through imports. By 1943, projected consumption had grown to 5,013,697 tons, with Canadian output at 3,437,525 tons.⁷⁵ Such statistics perforce molded the continentalist strategy for solving Canada's wartime steel problems that both Dunn and Howe eagerly embraced. Faced with the enormity of the domestic shortfall, Howe admitted to the Commons that since

it "has been our custom to import from the United States about a third of our steel requirements," his department had "determined to plan our programme on continued importations in the same proportions."⁷⁵ This resolve received great impetus from the Ogdensburg and Hyde Park agreements, whose integrationist tendencies were soon felt not only in defence planning but also in streamlining and coordinating the neighbouring economies.⁷⁷ The establishment in November, 1941 of the Joint War Production Committee, co-chaired by H.J. Carmichael of Canada and C.E. Wilson of the U.S., paved the way for the maximization of labour, raw materials and technical resources in all facets of industrial production. This harnessing of Canadian and American industry under the same yoke hastened the marriage of the American Production Requirements Plan priorities system with that of the Canadian Steel Control administration. By July, 1942, the P.R.P. priorities, soon to be superseded by the Controlled Materials Plan, was made obligatory for Canadian industry, excepting railways and public utilities.⁷⁸

As the Canadian-American grid of controls and product exchanges was refined, Canadian steel consumers were assured of a sizable and steady supply of American steel on a quarterly allotment basis, averaging approximately 375,000 tons per quarter through the first three years of the war.⁷⁹ Although constant vigilance was needed by Canadian officials in Washington to prevent any curtailment of this essential flow of American steel,⁸⁰ Howe was clearly confident that assured imports provided a large and ongoing dose of relief for Canada's critical steel situation. "We do not anticipate," Howe

assured Defence Minister Ralston as early as December, 1941, "that the time will ever come when, due to shortage of steel or other raw materials, we will find it necessary to slow down any part of our war production."⁸¹

Apart from the import situation, Howe's optimism was also anchored in the mammoth program of government-assisted expansion of Canadian steel capacity. The incentives for expansion extended to industry emphasized flexibility and adaptability to the requirements of each producer. When criticized in 1942 before the Commons for the seeming lack of an overall industrial blueprint in his department's policies, Howe was quick to defend the necessity of a pragmatic approach to problems of wartime industry.

But I think all we can do is try reasonably to anticipate the requirements of the war and plan our course from week to week and month to month accordingly ... We have found that certain lines of production are particularly adapted to this country, and we have gone full out on these lines. Certain exigencies of the war have made it necessary for us to go full out in directions which we did not intend to go in earlier stages ... We have watched our material situation very carefully. We have had a well-considered chart of that from the beginning, and had that not been so we would have had no munitions.⁸²

To implement this flexible response to the exigencies of war production, the federal government fashioned a wide range of fiscal and contractual tools with which to remedy the shortcomings of the national steel economy. Ranging from the relatively simple munitions contract to the complex "target cost" and "ceiling price" contracts, these instruments respected the fundamental integrity of free enterprise but at the same time gave the government sufficient leverage to influence

decisively primary steel production.⁸³ Common to all contract types were the profit ceiling and foreign exchange regulations imposed at the outset of war. Because of these constraints, it became apparent by 1940 that if the private sector was to be induced to expand under adverse conditions, especially into capital-intensive areas of primary production with questionable post-war utility, special incentives would have to be extended. One such instrument was the capital-assistance contract, under which Ottawa assumed the cost of plant additions, vested title in the contractor and bound him to a low cost per unit production contract for the duration of the war.

Much more pervasive and subtle in application were the numerous fiscal arrangements extended by the government to stimulate wartime investment. Fearful that any relaxation in prices and profits ceilings would court serious inflationary pressure, the Finance department devised special depreciation allowances under which companies could amortize new capital expenditures at accelerated rates, thereby advantageously redistributing their taxable income. Administered by the Wartime Contracts Depreciation Board, such depreciation allowances made allowance for the post-war utility of any project and its export dollar-earning capability.⁸⁴ Beyond these concessions, the government extended tax breaks to the extractive industries, notably tax moratoriums on new mining and oil projects. By allowing private initiative some freedom of response under the pervasive blanket of the Excess Profits Tax, these "relieving aspects of this Spartan tax measure," as one historian has dubbed them, provided ample room for the growth of cooperation between Algoma and

Ottawa.⁸⁵

It was in the frenzied atmosphere generated by the acute steel shortages of late 1940 and early 1941 that Algoma and the government first came to terms on the thorny matter of steel expansion. Any assessment of the benefit ultimately derived by both government and Algoma from the ensuing agreements must take cognizance of the extreme sense of urgency that lay behind the government's willingness to sponsor industrial expansion. Hounded in the Commons over steel shortages plaguing the shipbuilding and munitions programs,⁸⁶ Howe sought desperately for some expedient to alleviate the chronic shortage of rolled steel. At this crucial juncture in February, 1941, Sir James Dunn appeared in Ottawa with a proposition that Howe impetuously seized upon. Pointing out that Algoma's greatest pre-war weakness had been its lack of balance between its 700,000 ton capacity for producing unfinished steel ingots and its 450,000 ton rolling capacity, Dunn proposed the erection of a government-financed rolling mill that would at one stroke facilitate Algoma's diversification and ease the national steel shortage. Accepting the steel president's claim that the company's sizable indebtedness to the Royal Bank made it "incapable of furnishing on its own credit more than a portion of the amounts required for such purpose," Howe moved with alacrity to conclude an agreement that by any measure was highly beneficial to the corporation.⁸⁷ Algoma was authorized by the agreement of 18 February, 1941 to embark upon construction of a 44" blooming mill, a 25" continuous billet mill and all the necessary ancillary equipment at an estimated cost of \$5,250,000. The government's

quid pro quo for Algoma's undertaking to increase its rolled steel capacity by 250,000 tons was a guarantee of capital assistance up to \$4,000,000 and a special depreciation rate of 33 1/3%, beginning in April, 1942, on 50% of the cost of the plant. Title was to be vested in Algoma.⁸⁸ By company calculation, the government would pay 76.2% of the plant extension program with Algoma reimbursing Ottawa for the "residual value" of the plant at the cessation of hostilities. Not surprisingly, a hastily assembled quorum of Algoma directors met in the Chateau Laurier and set the corporate seal of approval on the pact.⁸⁹

Throughout 1941 the Munitions and Supply department concluded a series of assistance agreements with other primary steel firms. The government had thus taken an active role in making good such deficiencies in the chain of Canadian production as the lack of plate rolling capacity while at the same time sponsoring a wholesale expansion in overall national capacity.⁹⁰ It was this latter desire that brought Algoma its second substantial government contract of the war in the dying days of 1941. When Steel Control informed Howe's officials that it was "imperative" to increase national pig iron capacity, they suggested that this could be "most economically and expeditiously" achieved by erecting a huge, 1000 ton-a-day blast furnace at the Sault. Under the contract of 19 December, 1941, Ottawa agreed to bear the staggering cost of this project, \$17,299,000, on the condition that the entire pig iron output of the new furnace be distributed at the discretion of the government until five years after the cessation of hostilities.⁹¹ Title to the whole complex was

vested in the steel company, although the government had certain rights of intervention. Algoma was to receive 60¢ per ton of pig iron produced under the operating contract.

The two government contracts of 1941 made possible remarkable advances at Algoma with the minimum of risk for the company. Without resort to internal or market financing, the company had acquired title to over \$20,000,000 in new assets. Erection of the enormous No. 5 furnace, the largest in the Empire, solidly established Algoma as Canada's leading pig iron producer, with a daily capacity of 2912 tons by 1943.⁹² The new rolling mills handsomely increased Algoma's potential for product diversification. By 31 December, 1943 Algoma was the leading beneficiary of government-financed industrial expansion in Canada with a total commitment of \$20,999,000. By the end of 1944, this had been extended to \$23,105,840. Although Alcan's Shipshaw expansion project ultimately proved to be the largest recipient of government capital assistance, Algoma received considerably more wartime capital assistance than all other Canadian steel producers combined. Of the \$23,002,190 earmarked for expansion of privately owned and operated plants by the close of 1944, 82.5% went to Algoma.⁹³ The corporation received further "invisible" benefits from the special depreciation allowances permitted by Ottawa on its expansion program. Eventually totalling \$2,728,331 through 1942-4, this special depreciation was legitimately deducted after normal depreciation totalling \$3,450,126.⁹⁴ While relations between Algoma and Ottawa continued to bristle with tension over many operational aspects of wartime regulation, a new, still tentative consensus, hurriedly brought into being

by the "steel crisis" and adroitly exploited by businessmen like the persistent Dunn, had emerged and pointed the way to a new post-war relationship between government and primary industrial producers.

Howe's headlong drive to bolster Canada's industrial capacity did not however escape criticism. Alarmed by the magnitude of the Munitions and Supply department's commitment to capital expansion and its potential for destabilizing the finely tuned war economy, Finance Minister Ilesley again urged Howe in September, 1942 to apply the brakes to the galloping expenditures of his department. "My own view is that the time has gone past when we should expand our capacity," Ilesley exhorted Howe. "It seems to me that the only way to stop expanding is to stop instead of going on as we are at present."⁹⁵

While Howe acknowledged the "undesirability of further expansion," he vigorously defended past expenditures.

Expansion undertaken during the past several months has been wholly in the direction of increased primary products, notably steel. The expansion in steel production has been undertaken to meet reduced supplies from the United States where an acute shortage had developed. Lack of steel in Canada has a far reaching effect on our munitions programme. In addition, there has been some expansion of capacity to meet orders from the United States in an endeavour to reach the figure of munitions exports set by Dr. Clark as necessary to balance our exchange position.⁹⁶

More explosive and less easily defused were the criticisms aimed at the industrial expansion program from outside the cabinet. Reiterating C.C.F. scepticism of the ends of big business, M.J. Coldwell called for a Truman-style investigation of capital-assistance projects by assuring the Commons that "someday we may find that a few trusts

and corporations have so increased their power over the economic life of Canada that the individual, unorganized consumer is entirely at their mercy."⁹⁷ Coldwell repeatedly charged that accelerated rates of depreciation made some expansion projects virtual "gifts" to the private sector. While the Algoma program was never actually cited, Alcan's massive Shipshaw complex was held up before the Commons as the epitome of the government's spendthrift policies. Other critics homed in on steel shortages in critical areas of the economy, demanding to know why Canada remained so reliant upon U.S. steel imports. Angus MacInnis assailed domestic steel producers for their reluctance to expand capacity beyond "discernible future needs."⁹⁸

Howe staunchly defended his department's record on industrial expansion. In response to the C.C.F.'s gibes about profiteering and favouritism to certain companies, the minister emphasized the openness of the contract system.

We have not singled out a few industries and said 'We will expand you', but your competitor will have to stay as he is. Any industry that has had the desire and the ambition and courage to expand to meet war needs has been encouraged to do so by my department and perhaps financially assisted to do so.⁹⁹

That Howe rewarded the aggressive and efficient was vividly illustrated by the comparative wartime fortunes of Algoma and Dosco. Whereas Dunn and Algoma seized every opportunity thrown up by the "steel crisis", Dosco's lethargic response to wartime incentives irritated Howe to the point that in order to avoid further hefty subsidies to support the Sydney operations he unofficially directed Steel Control to "use that company to the minimum extent possible even if we have

to buy the steel in the United States."¹⁰⁰ A subsequent departmental inquiry concluded that the Dosco plant "as a whole reflects a degree of disorganization," suffered from "bad" costs and was in danger of collapse without government aid.¹⁰¹ In April, 1945, Howe reproached Dosco before the Commons for its "unsatisfactory" financial performance.¹⁰²

Allegations of overly generous treatment of big business by means of accelerated depreciation were countered by the government with a special Commons committee on war expenditure. Initiated by the Prime Minister in March, 1941, the committee's investigations were hampered by somewhat restricted terms of reference and the sheer magnitude of its task. Nonetheless, after a thorough examination of government contracts and the mechanism established to monitor them, the committee felt compelled to do little more than point out that "the checks and controls exercised over the cost of contracts do not operate as well in practice as they appear to in theory."¹⁰³ Careful examination of Coldwell's allegation that Alcan had reaped "exorbitant profits" through depreciation write-offs brought a judgement that the company had enjoyed "no special privilege of any nature." Not only was Coldwell's grasp of accounting principles shown to be flimsy, but the work of the Wartime Contracts Depreciation Board upheld and praised.¹⁰⁴

The litmus test of Howe's steel program came when its results were examined. In 1942, the most critical production year of the war, pig iron production of 1,773,337 tons actually surpassed the estimated production of 1,767,900 tons, while steel ingot output surpassed its estimated target of 2,943,082 tons by 15,824 tons.¹⁰⁵ Operational

blast furnaces doubled from six to twelve between 1939 and 1942, while 33 pre-war open hearths became 48 by 1942 with an estimated capacity of 2,550,000 tons.¹⁰⁶ By June, 1943 Howe could comfortably boast to the Commons that:

Canada's steel production had been doubled since the war began, and this country is now the fourth greatest steel producer among the united nations exceeded only by the United States, Russia and Great Britain ... we have succeeded in meeting our heavy obligations. At no time has there been a single serious interruption in the operation of a munitions plant or a vital industry owing to lack of steel.¹⁰⁷

By the time the new Algoma No. 5 blast furnace began its first campaign in November, 1943, the "steel crisis" was generally believed to have passed. Production in 1943 fell back from the record high levels of 1942 to 1,758,260 tons of pig iron and 2,846,736 tons of steel ingots, levels that were to prevail generally through the closing stages of the war.¹⁰⁸ Regulating steel production from Ottawa was now reduced to the tricky art of periodically relaxing and tightening controls so as to direct existing steel capacity to areas of scarcity and to the gradual alleviation of the immense backlog of civilian demand.¹⁰⁹ "The steel situation," Steel Controller Hoey informed the Wartime Industries Control Board in July, 1943,

while not in a critical condition, is far from being satisfactory ... but most demands for steel are being met and most inventories are ample. The railroads are receiving 80% of their estimated requirements of rails and fasteners, most car building programs are however delayed ...¹¹⁰

Although Hoey continued to emphasize the "gravity of the steel situation", by October 1943 Howe felt sure enough of the steel situation

that he suggested to W.I.C.B. Chairman Henry Borden "that as we are closing down steel productive capacity, controls might be lifted in certain directions."¹¹¹ By late 1943, Steel Control therefore began to ease some of its regulations on steel consumption and production. In February, 1944, for instance, the compulsory order system for structural steel was abolished.¹¹² Howe and Steel Control resolutely resisted pressure exerted by the industry to dismantle some of the other major regulatory controls on steel. When Algoma moved to discontinue structural steel production in the spring of 1944, the government, acting through the Steel Advisory Committee, blocked the company, ordering it to devote at least 4,000 tons of ingots per month to structurals.¹¹³ Steel Control's panoply of authority remained intact until November, 1945.¹¹⁴

Algoma's wartime performance can only be judged against this general pattern of wartime steel production. In the years of peak production between 1941 and 1945, munitions oriented production overshadowed all other production at Algoma, ranging from a peak of 80% of total output in 1942 to a low of 63% in 1944.¹¹⁵ There is no evidence to indicate that the steel from the Sault was ever of substandard quality or that contracts were ever seriously breached. By 1943 Howe and his officials generally acknowledged that Sir James and Algoma were "doing a first-class war job and deserved to be well treated." By 1943 however, the two enormous capital assistance contracts awarded to Algoma at the height of "steel crisis" could be scrutinized under a somewhat more critical light. While content with the results from the contracts, Howe began to feel some uneasiness

about the generous terms extracted by Dunn in the hectic days of 1941. As Frank Brown, the minister's financial adviser since April, 1941, later explained:

Jimmy was a great old charmer, but CD gave me the job of trying to undo some of the deals that had been made in Jimmy's favour He'd had great additions to the Algoma plant. For free. And Mr. Howe suddenly realized that if this were looked into, this would look pretty damn bad. So I had to get some of these things back.... It was a ticklish job.¹¹⁶

While the claim that Algoma's expansion had been won "for free" was an exaggeration, Brown did succeed in renegotiating the two contracts forcing the corporation to start amortizing their government debt before the war's end. When however the company complained that it could not meet the inflated costs of the rolling mill project "without serious prejudice to Algoma's financial position," the government agreed to a new contract under which the company was to pay off its debt at the rate of \$100,000 per year, subject to certain minimums and maximums of annual profit.¹¹⁷ In December, 1943 the blast furnace contract was modified so that Algoma would become the lessor of the new complex, paying 6% of depreciated "fair value" annually.¹¹⁸ The revamped contracts put the government in only a marginally better position, but as Brown later pointed out:

... it was a mixed business--we also gave them some subsidies. We gave them with one hand and took away with the other.¹¹⁹

Algoma's wartime burden was further lightened in July, 1943 when an order-in-council authorized the reimbursement of Algoma for cost increases in its raw materials and for increases in the average cost

of freight transportation.¹²⁰ Howe's willingness to come to the financial assistance of Algoma was again displayed in February, 1945 when Ottawa undertook to finance a \$3.7 million rehabilitation of a Bessemer converter deemed "superfluous to the present and normal business of Algoma" but necessary for national production.¹²¹ Once again, title was vested in the corporation.

Howe's beneficence to Algoma and its hard-bargaining president was rooted in several factors. In the first place, Algoma's industrial performance had consistently fulfilled the minister's expectations. This impression was solidly reinforced by the late 1943 report of Coverdale and Colpitts, an American engineering consultancy, on the state of Algoma Steel. Commissioned by the corporation but clearly intended for the minister's eyes, the report left an impressive picture of Algoma's new found vitality. Noting that the management at the Sault "on the whole is composed of experienced and capable men," Coverdale and Colpitts concluded that:

... it may be said that in the course of the last ten years Algoma's relative position with respect to the Canadian steel industry has gained substantially in pig iron production, moderately in the production of ingots and semi-finished rolled forms and slightly in the output of slice bars, tie plates etc.; that its position has been maintained in the production of rails; and that after an increase until 1937, there was a recession in its position with respect to the production of structural steel.¹²²

The report pointed to "an unanimous feeling of optimism regarding the future" at Algoma and estimated a steady post-war production of 323,000 tons annually based on "an unusually high rate of business activity."¹²³ Refraining from any comment on Dunn's stingy husbandry

of corporate profits, the report did draw attention to the "steady improvement since 1935" in Algoma's balance sheet and earned surplus.¹²⁴

Howe's positive opinion of Algoma was further reinforced by the knowledge that the corporation was not financially profiteering from the war. Throughout the war the company never exceeded the ceiling imposed by the Excess Profits Tax and was on occasion well below the mandatory limit (see Table G). These profit levels were confirmed when Algoma's wartime contracts were submitted to "renegotiation" by Ottawa's accountants after the war. After auditing all direct war sales and special depreciation allowances, E. Winslow Spragge, Associate Financial Adviser, certified that "on an overall basis, your [Algoma's] prices on War Business have been fair and reasonable and we are, accordingly, recommending that no overall refund is required in the case of your company."¹²⁵ Howe was also aware that throughout the war the corporation had borne the brunt of steadily escalating costs for materials, freight and labour.¹²⁶ By 1942 Algoma's position was so acute that, as Dunn told Howe, without some increase in prices, frozen since 1940, the company would suffer a net loss of \$207,579 in 1942/3.¹²⁷ Such tangible evidence that the Sault works had suffered under the government's stringent wage and price controls, while it did bring amelioration in the form of subsidies and a 1942 price hike, again impressed Howe with the degree of Algoma's wartime contribution.¹²⁸

It is evident therefore that Algoma's progress during the Second War cannot be measured in terms of narrow financial gain. Although

the corporate earned surplus was lifted from \$2,380,663 in 1939 to \$6,118,371 by April, 1945, the real advance of the war years lay instead in the tremendous growth in company assets accomplished without any recourse to outside financing. While C.D. Howe was undoubtedly aware that Dunn had in some ways bettered his bureaucrats at the bargaining table, he was prepared to tolerate the contracts of 1941, especially after renegotiation in 1943, as long as Algoma fulfilled its part of the bargain. He was also able to tolerate Dunn's often tempestuous behavior because Algoma's expansion loomed large in his blueprint for Canada's post-war economy. Convinced that Canada's ultimate prosperity lay in jointly exploiting the benefits of a continental economy with the United States, Howe believed that it was imperative for Canada to possess a solid and competitive base in those primary industries in which she could efficiently participate. While Stelco already assured Canada a relatively broad and well established capacity in finished steel goods and firms like Atlas Steels offered specialized output in alloy steel, only Dosco, Dominion Foundries and Algoma offered the potential for a solid base at the primary level. Dosco, with its long history of government subsidization, never impressed Howe as a worthy candidate.¹²⁹ On the other hand, Algoma and to a lesser degree Dofasco had advanced unremittingly throughout the war. By 1945, despite all the friction en route, Howe readily acknowledged that the healthiest candidate to shoulder the burden of post-war primary steel production was Algoma Steel.

The crucial ingredient in the changing fortunes of Algoma was

the incredible persistence with which Dunn pursued, protected and extended Algoma's interests in Ottawa. Through most of the war, Dunn kept residence at the Seignory Club, from where he was ever ready to mount daily sorties from Montebello into Ottawa to badger government officials or press for an interview with the minister. Some officials were inundated with correspondence from the audacious Dunn, while other more senior officials or politicians were hounded by telephone. The steel president was, as F.H. Brown rather politely put it, "a great adventurer and a ... and so on."¹³⁰ While doing business with the irascible Dunn always proved a volatile affair, there is little to suggest that Howe ever succumbed to Dunn's intemperate blandishments. He measured his concessions to Dunn by national necessity not personal favouritism. As the war progressed, a strong working relationship grew between the two men, tempered on Howe's part by a degree of circumspection. By the end of the war, minister and steel president were exchanging confidential correspondence concerning Algoma's stalwart wartime performance and its post-war role. Howe later admitted to Beaverbrook that he had destroyed his files of this correspondence, because they might "be regarded by many as improper for me to have written such a letter." At the same time, he vehemently objected to the suggestion that "while a minister, I extended any special favour to Sir James Dunn, or anyone else, because of personal friendship."¹³¹ This is not to say that Dunn did not make the effort. As Norman Lambert, Liberal party vizier, recorded in his diary just after the crucial conscription plebiscite of 1942:

Howe told me that [Colin] Gibson had arranged exemp-

tion from income tax for every person who contributed to plebiscite. He also said Sir James Dunn had approached him with \$5000 but he wouldn't touch it ...¹³²

Howe always insisted that his ties with Dunn were "a private matter" that involved the exchange of views between two like-minded men with much the same end in sight. A glimpse into his bond of common-mindedness was caught and set down in the diary of Adolf A. Berle, the eminent advisor of the American Secretary of State. Berle was brought by plane from Washington in July, 1944 for "a rather fantastic weekend" with Howe, Dunn, Beaverbrook and British Secretary of the Treasury Assheton at "Dunn's Camp" in the New Brunswick forest. Amply fortified by Dunn's renowned whiskey and champagne and sumptuously dined on an "Alice-in-Wonderland" schedule, these men of state and business "proceeded to take up the broad subject of economic reconstruction and how much the Government would have to support the situation."¹³³ Others were more sceptical of Dunn's offers of friendship. Another diarist, Prime Minister King, who, while happy to exchange greetings with "my dear Sir James", privately noted in 1945 that:

I believed we were now in an era where great world enterprises were taking shape, where a few wealthy interests were combining together to seek to control those organizations. That I thought Beaverbrook was one who would not hesitate to put money into Canada to get control for his friend. I might have added: Sir James Dunn.¹³⁴

Despite Sir James' rather ambivalent position in the eyes of Ottawa's politicians, there was no question whatsoever that the war had brought Algoma Steel and its fortunes almost completely under the federal sway. Howe with his extensive array of wartime emergency

economic powers made Ottawa the sine qua non of Algoma's future, while Toronto, constitutionally outgunned in the war crisis, assumed a second rate importance in Dunn's eyes. The irresponsible departure, as Dunn saw it, of Premier Hepburn in 1942 had deprived the steel president of a close personal friend at Queen's Park and at the same time left the provincial government a "rudderless hulk of former greatness."¹³⁵ Never establishing close ties with Premiers Conant and Nixon, Dunn gravitated into a circle of Ontario friends who offered the kind of decisiveness he found so lacking in other Canadian politicians. George McCullagh "with his Globe and Mail battleaxe" and George Drew, "a fine fellow and a good Britisher,"¹³⁶ were men in Dunn's eyes of sufficient mettle not only to prosecute the war vigorously but also to hold at bay the "socialist" C.C.F. threat in Ontario.

In the face of the unfolding federal supremacy, one act of the Hepburn government had stood Algoma in excellent stead for the war. The Helen mine, brought to life by the 1937 iron bounty act, partially cushioned the corporation from the impact of scarcities and price increases transmitted by the American iron ore industry to Canadian consumers. In the years of peak demand between 1940 and 1942, Algoma Ore Properties' Helen Mine supplied an average 21% of the iron ore requirements of the Sault blast furnaces, while surplus Helen sinter was traded through the Hanna company to U.S. consumers in return for Mesabi ores to "mix" with lower grade Ontario ore.¹³⁷ "I am not immodest," Dunn boldly stated in 1944, "in claiming to have established iron ore mining in Ontario which I could not have undertaken without this iron ore bounty of Hepburn's."¹³⁸

The impression that the 1937 bounty act was a private deal between Hepburn and Dunn was evidently held by Premier Conant, who abruptly cancelled the bounty in 1943, arguing that the Helen operation had achieved the stage of self-sufficiency. "The government," Dunn bitterly complained, "contracted with me--I have fulfilled my contract--I expect the Government to do likewise and to continue to pay me my Bounty for the ten year period."¹³⁹ When Queen's Park refused to budge on its decision, Dunn acquainted provincial Tory leader George Drew with the problem and obtained a vague promise that, if elected, he would restore the bounty.¹⁴⁰ John Bracken, federal Tory leader, visited the Soo and was reportedly "very interested in the iron ore situation,"¹⁴¹ but soon after the Tories' reclaimed office in Toronto in 1943, Dunn disconsolately recorded that the new premier kept "putting me off for one reason or another."¹⁴²

The province's abrogation of an active role in the development of Algoma's iron ore supply left the corporation to fall back upon its own resources and ultimately to look to Ottawa for relief and incentives, even though Dunn angrily pursued Algoma's moral and legal claim for continued bounties from the province well into the post-war period. It was obvious by 1944-5 that readily accessible bodies of Helen siderite were near exhaustion,¹⁴³ and American high-grade ores were once again believed to be approaching exhaustion. Algoma's first reaction to this precarious situation was to maximize its existing supply. Foiled by Steel Control in a bid to boost the price of Algoma sinter,¹⁴⁴ Dunn turned ~~wunatnlyen~~ to the 1939 ore exchange agreement with the M.A. Hanna Company. Incensed that the Hanna

Company was extracting maximum American value for ore obtained at a minimum Canadian price; Dunn abruptly terminated the contract, arguing that government price controls had invalidated the agreement.¹⁴⁵ Despite the questionable legality of this ploy, it succeeded in forcing Hanna to submit to a new contract in July, 1944. By pegging Algoma sintèr prices to prevailing American, non-Bessemer ore prices, the new contract in effect gave Algoma a de facto price increase.¹⁴⁶ Such was typical of Dunn's unscrupulous legerdemain.

Anxiety over the security of future ore sources impelled Algoma as early as 1943 to intensify its search for new ore bodies in the Sault hinterland.¹⁴⁷ One study of the feasibility of exploiting previously untouched, low grade ores concluded that the extension of operations at the Helen open-pit to below ground mining would, while costly, "take care of production needs for probably fifteen years in the future."¹⁴⁸ By May, 1945, Dunn opted to exploit the Victoria ore body, a low grade siderite ore body adjacent to the Helen, as an interim measure, pending the ultimate decision to go underground at the Helen.¹⁴⁹ Made possible by the application of the simple yet brilliant "sink-float" ore separation method developed by George MacLeod, the Victoria project ensured Algoma a continuing stake in the extractive stage of the industry. Dunn's late war pre-occupation with securing a protected source of iron ore for Algoma had much broader connotations than the narrow interests of the Sault steel works alone. Once again he envisaged Algoma's resources policy as part of a national strategy designed to integrate Canadian and American mineral production on as equitable and advantageous a basis

as possible. Aware of Canada's industrial shortcomings, notably the complete dearth of coal in central Canada,¹⁵⁰ Dunn believed that national deficiencies should be counteracted by exploiting areas of strength. Sir James kept a keen eye on progress at the Steep Rock iron ore project, another of Howe's rapid development, wartime projects, and heartily endorsed the view of Mines minister T.A. Crerar that the "mineral possibilities of Canada, not only with regard to iron but with regard to other metals, is [sic] perhaps little more than scratched He would be a bold man who would attempt to place any limit upon the possibilities of mineral development in this country."¹⁵¹

What Dunn, Howe and Crerar all agreed upon was the general promise that the federal government must stimulate and direct mineral production. On the eve of the war Tory leader R.J. Manion had praised the "gambling spirit necessary to build up the mining industry of Canada,"¹⁵² holding up Algoma's Helen mine and the Steep Rock project as beacons of hope. By war's end, there was a growing recognition that solid progress in mining could only be won if the federal government removed the gambling element from the industry. While rejecting opposition demands for a federal bounty on iron ore,¹⁵³ Ottawa did extend certain tax concessions to new mines in the first three years of their operation.¹⁵⁴ Algoma was quick to apply for such concessions in 1945 for the Victoria project.¹⁵⁵ This emergent consensus between the mining industry and the federal government was to set the framework for much of the ~~algoma~~ growth in the primary sector of Canada's post-war economy. Just as Steel Control had

signified an irrevocable change in the relation of business and government at the processing stages of the steel industry, so too was this developing consensus at the extractive level of the industry a portentous departure. This commitment to national growth in the continental context lay at the very root of Canada's post-war industrial expansion. Symbolic of this alliance for national progress was the appointment of T.A. Crerar to the Algoma Board in August, 1945, thereby tangibly linking mining and government, just as the induction of Frank Brown, Howe's wartime financial adviser, and Gordon Fogo, former Associate Coordinator of Controls, to the Board in early 1946 secured lines of communication between government and steel making.¹⁵⁶ Amid this ebb and flow of businessmen, "dollar-a-year" men and politicians, the ground rules for Canada's post-war economy were to be agreed upon and pursued.

The evolution of a common perspective between "big steel" and the federal government during the war coincided with the progressive tightening of Dunn's control over Algoma and consequently his ability to set the corporation upon any course he deemed fit for it. "I am going to stay through," he told Lord Glendyne some years later, "as Algoma has become my life work and I could not 'touch' to any considerable extent without risking loss of control of the shares which condition would spoil my hopes of building a great Empire."¹⁵⁷ After his illnesses, his precarious financial fortunes, the departure of Rahilly and the simmering feud with Barber of the Algoma Central, Dunn's commitment to his "great Empire" had become obsessive. Only men like C.D. Howe, who dared to question Dunn's judgement, had any

chance of turning Algoma's president from his determined course. Many fell by the wayside. Allan Aitken, Beaverbrook's brother, stormed off the Algoma Board after criticizing some of Dunn's "unusual" methods of getting his own way at board meetings.¹⁵⁸ Thomas Hobbs, another director, admitted that he was "not comfortable as a director" especially because of the infrequency of Algoma board meetings.¹⁵⁹

Dunn construed all such criticism as a direct affront to his control.

Viewed from the outside, Algoma's affairs continued to be wrapped in an enigma. When in 1943 Arthur Meighen requested a consolidated balance sheet for Algoma and its subsidiaries, he was curtly informed that it had "never been our practice to publish balance sheets of these subsidiaries."¹⁶⁰ In fact Algoma made frequent and sizable transfers of capital to its subsidiaries, notably Algoma Ore Properties, thereby clouding any clear understanding of corporate finances by an outsider. Steady wartime earnings did little to shake Dunn's resolve to spurn dividends and plow back all profits. In late 1940, he won perfunctory permission from the Board to buy up the corporation's outstanding preference shares, on which dividends had to be paid.¹⁶¹

"I would like to draw your attention," one piqued common shareholder wrote,

that a shareholder who bought shares at, say \$14 five years ago, lost in the meantime 70¢ each year in interest, figured at 5% charged by the banks therefore it costs him \$17½ now ... the company should be able to pay 3-5\$ a share and distribute accordingly, like Steel of Canada.¹⁶²

Dunn was impervious to such criticism. His only concern for Algoma stock was control not dividends. "If you are buying or selling

shares," Dunn requested Glendyne in 1944, "I would appreciate business being done through me so that I can keep some control of the market."¹⁶² Dunn could rationalize all these practices with the knowledge that the ultimate success of his "great Empire" would be built out of accumulated earnings, applied where and when he alone deemed fit.¹⁶³ A position of such fortified control also left him free to commit Algoma almost unilaterally to whatever post-war economic strategy best suited the steel company's interests.

On 25 November, 1945 the members of the Steel Advisory Committee, including Dunn, hosted a dinner at Montreal's Mount Royal Club to honour the services of Steel Controllers Kilbourn and Hoey. Four days later all Steel Control powers and appointments were rescinded. Nobody that evening was celebrating the return of the steel industry to the norms under which it had existed in 1939. Instead attention revolved around the prosperity brought by the war, the prospect of continued high activity and the acknowledgement of a new relationship between the industry and government. As Dunn had told Hoey even before the war had ended:

I am strongly in favour of continuing Steel Control when the war is over as far into the future as I can see. I feel that the Steel Control has done a splendid piece of work for the country ... and I think that at least in the first few years following the end of the year its authority as a regulatory body within the trade itself in its relations with the Federal and Provincial Governments ... will be of very great service to the country and to the industry.¹⁶⁴

Algoma Steel was never "one of the small cogs" in C.D. Howe's wheel.

It was instead at the leading edge of a tremendous transition in

Canadian economic life, a change it both helped to make and used to its own advantage. Sir James Dunn, who had clambered and scratched his way to unassailable control of Algoma, was at one and the same time the last gasp of hardy and irresponsible old-style capitalism and the first breath of post-war regulated capitalism.

Notes

¹An interesting example of government's unwillingness to intervene directly in the affairs of the steel industry was provided in 1934 when Dunn, working through Sir Harry McGowan and Arthur Purvis, applied pressure upon Prime Minister Bennett to foster a massive amalgamation of Canadian steel. Writing at Dunn's behest, McGowan told Bennett that "the time is opportune for bringing the steel companies of Canada together to be financially identified and under one unified control." The end of this amalgamation would be to effect a better balanced and more self sufficient national production of steel. Bennett's help was being solicited because the "interested parties cannot bring about such a fusion of interests because of the personal equation." Bennett hurriedly disassociated himself from the scheme, wary that Dunn's private interests so obviously lurked in such a national proposal. See: McGowan to Bennett, 9 Feb. 1934, Bennett Papers, #316153-6 and JHD to McGowan, 26 Dec. 1933, DP 186.

²JHD to Franz, 26 March, 1935, DP 315. Certain of Dunn's English friends, notably Lord Rothermere, had distinct pro-fascist sympathies. He was also close to the Stinnes family, German industrialists and early backers of Hitler.

³JHD to W. Lilley, 18 Oct. 1935, DP 311 and mem. by JHD, 24 Oct. 1935, DP 195.

⁴JHD to Hepburn, 5 Nov. 1938, Hepburn Papers, "Sir James Dunn-private, 1938" file.

⁵JHD to Duplessis, 19 July, 1939, DP 347. Dunn seemed oblivious to French-Canadian anxieties about the impending conflict. On 5 April, 1939, Dunn congratulated Ernest Lapointe on "his clear exposition of Canada's place as a nation in the British Commonwealth" in the Commons, DP 312.

⁶"Memo, for M.F.H. from J.H.D.," 24 April, 1939, Hepburn Papers, "Sir James Dunn, private--1939," file.

⁷N. McLarty to JHD, 20 Dec. 1939 and JHD to McLarty, 18 Jan. 1940, Hepburn Papers, "Sir James Dunn, private--1940". Dunn was protesting P.C. Order 3495, of 7 Nov. 1939.

⁸C.L. Synder, Deputy Attorney-General, to Hepburn, 10 Jan., 1940, ibid.

⁹"... Dunn has convinced Premier Hepburn that England is in danger of imminent collapse. Dunn cites personal messages from Churchill and Beaverbrook in support of this view." Message from "my representative in U.S.A.", Beaverbrook in an undated (c. late 1940) letter to "Hay" (?), Beaverbrook Papers, House of Lords Record Office, file D132.

¹⁰JHD to Inskip, 27 Oct. 1938, DP 311. In late 1937, a committee of the Canadian Defence Department had visited the Sault to investigate Algoma's war steel capacity.

¹¹Rahilly to JHD, 17 Oct. 1938, DP 311. Hearing that Sorel Industries in Quebec was negotiating a deal with the French arms maker Schneider-Creusot, Dunn unsuccessfully sought A.J. Simard's membership on the Algoma Board, although Simard did join a year later. A.J. Simard correspondence, DP 383.

¹²JHD to Hepburn, 26 May, 1939, Hepburn Papers, "Sir James Dunn, private--1939" file and JHD to Greenwood, 18 May, 1939, DP 311.

¹³Contract dated 4 Dec. 1940, Department of Munitions and Supply Papers, RG 28A, vol. 172.

¹⁴J. de N. Kennedy, History of the Department of Munitions and Supply, 2 vols., Ottawa, 1950; "Report on the Activities of the Steel Control from its Establishment by Order-in-Council of June 24, 1940 to 1 October, 1943", dated 1 Nov., 1943, RG 28A, vol. 261, and W. Kilbourn, The Elements Combined, op. cit., chp. 10.

¹⁵P.C. 2742, 24 June, 1940.

¹⁶P.C. 8053, 9 Sept. 1942.

¹⁷J.L. Granatstein, Canada's War: The Politics of the Mackenzie King Government 1939-45, Toronto, 1975; C.D. Howe, The Industrial Front, Ottawa, 1944; R. Warren James, Wartime Economic Co-operation: A Study of Relations between Canada and the United States, Toronto, 1949; K.W. Taylor, "Canadian War-time Price Controls, 1941-6," Canadian Journal of Economics and Political Science, Vol. 13, Feb. 1947 and Kennedy, op. cit.

¹⁸JHD to Howe, 25 Nov. 1942, DP 324.

¹⁹"Report on the Activities ...," op. cit.

²⁰Howe to Gedsoe, 14 Jan. 1944, RG 28A, vol. 261.

²¹DHC, 30 July, 1940, p. 2119. On 17 June, 1940, p. 839 Howe had informed the House that "the powers are taken to mobilize industry fully for the prosecution of the war. The extent to which they are used is a progressive matter...".

²²Department of Munitions and Supply news release, 13 Aug. 1941, RG 28A, vol. 261.

²³"Chief Privy Council Orders pertaining to Steel Control," in "Report on the Activities ...," op. cit., pp. 175-6, RG 28A, vol. 22.

²⁴Other members of the Steel Advisory Committee were: H.G. Hilton (Stelco), F.A. Sherman (Dominion Foundries), C.B. Lang (Dusco) and representing steel distributing, T.M. Hutchison (Drummond-McCall).

²⁵"Principles of Control," in "Report on the Activities...", op. cit., p. 29.

²⁶Steel Control order No. 1, copy dated 12 Feb. 1941, RG 28A, vol. 258 and P.C. 1170, 17 Feb. 1941.

²⁷M.J. Coldwell of the C.C.F. frequently raised the spectre of profiteering, citing contracts given to INCO, C.I.L. and Alcan, although he had little evidence to substantiate his claims. See: DHC, 27 May and 18 June, 1940, p. 227 and p. 873. Howe vigorously defended his department's anti-profiteering measures. See: DHC, 30 July, 1940, p. 2119.

²⁸Steel Control Order No. 2, 6 June, 1941 and Steel Control Order No. 17, 19 Sept. 1942, RG 28A, vol. 258.

²⁹Steel Control Orders 18 and 20, 7 Aug. 1942 and 31 August, 1942, ibid.

³⁰Steel Control Order No. 2, op. cit.

³¹P.C. 11/10066, 24 Dec. 1941.

³²Steel Control Order No. 2, 6 June, 1941 and Steel Control Order No. 17, 19 Sept. 1942; see RG 28A, vol. 258 for complete list of Steel Control orders.

³³F.B. Kilbourn to C.D. Howe, 8 Dec. 1943, RG 28A, vol. 260. Unfortunately the minutes of the Steel Advisory Committee meetings do not appear to have been preserved.

³⁴"Report on the Activities ...," op. cit. and "Steel Budget for calendar year 1942," dated 22 Oct. 1941, RG 28A, vol. 171.

³⁵H.D. Scully to JHD, 14 Nov. 1940, RG 28A, vol. 206.

³⁶H.D. Scully to W.A. Mackintosh and Louis Masminsky, 2 June, 1941, RG 19 E3(J), vol. 3560, "D-9".

³⁷Scully to JHD, 28 May, 1941, DP 395.

³⁸JHD to C.D. Howe, 2 June, 1941, ibid.

³⁹ibid., 8 July, 1941.

⁴⁰ibid., 7 July, 1941.

- ⁴¹Dept. of National Revenue to Algoma Steel, 24 June, 1942, Algoma Steel Historical Files.
- ⁴²Brown to Clark, n.d., probably mid-1942, DP 328; file 5.
- ⁴³"Submission to the Steel Controller by Algoma Steel Corp. and Dominion Steel and Coal Ltd. to F.B. Kilbourn," 3 Oct. 1941, RG 28A, vol. 307.
- ⁴⁴"Report on the Activities ...," op. cit. and JHD to R.H. McMaster, 20 May, 1941, DP 206.
- ⁴⁵For general policy outline and problems of wartime price controls see: K.W. Taylor, "Canadian War-Time Price Control, 1941-6," op. cit.
- ⁴⁶Howe to R.A.C. Henry, 22 Nov. 1941, Howe Papers, vol. 207.
- ⁴⁷As of August, 1940, Dunn owed at least \$593,002 to the Empire Trust in New York; see: agreement, file 10, DP 206.
- ⁴⁸JHD to Philip Dunn, 4 Oct. 1940, DP 207.
- ⁴⁹A.G. Bryant to JHD, 8 Sept. 1950, DP 348. "... I realize that I cannot visit England again unless this tax claim is settled and I also realize that it is of a political character and cannot be pursued against me in this country." JHD to Bryant, 12 April, 1945, DP 208.
- ⁵⁰JHD to Hugo Cunliffe-Owen, 28 Aug. 1940, DP 207 and Beaverbrook, Courage, op. cit.
- ⁵¹Minutes of Directors' Meetings, 30 May, 1940, held at Ross Memorial Hospital.
- ⁵²Beaverbrook to Hay (?), mid-Oct. 1940 and Beaverbrook to Churchill, mid-Oct. 1940, Beaverbrook Papers, file D 132. Beaverbrook's informant recalled an argument between Ben Smith, a close financial friend of Dunn's, and Brendan Bracken, another friend of Sir James, in which Smith had bet that England would be "completely finished within six weeks."
- ⁵³Howe to Beaverbrook, 10 Aug. 1943, Howe Papers, vol. 170.
- ⁵⁴A.J.P. Taylor, Beaverbrook, London, 1972, chp. 17. Taylor mistakenly associates Bickell with INCO.
- ⁵⁵JHD to F. Sims, 23 Dec. 1940, DP 206.
- ⁵⁶Interview between Brown and D.A. Forster, c. 1965. Transcript courtesy of Prof. R.D. Bothwell.

⁵⁷Howe to Beaverbrook, 18 Dec. 1959 and 17 Aug. 1960, Howe Papers, vol. 187. W:J. Bennett, Howe's Chief Executive Assistant, recalled considerable "friction" between Howe and Dunn. "... Sir James had his own ideas about what Algoma should produce and these did not always conform to the programme of the Steel Controller." Bennett to author, 26 July, 1977. F.M. Covert of the department's legal staff recollected that while there was never any overt sign that Dunn and Howe were "at loggerheads", Dunn "was always difficult to deal with ... simply because he was the kind of a man who wanted to get the best deal that he could." Covert to author, 26 July, 1977.

⁵⁸E.G. McMillan to Board of Transport Commissioners, 21 Nov. 1942; memo by JHD entitled "Clergue's railroad," 4 Dec. 1941, DP 327; see also O.S. Nock, Algoma Central Railway, op. cit., pp. 100-3.

⁵⁹Howe to Rahilly, 21 Nov. 1942, DP 327.

⁶⁰JHD to Howe, 25 Nov. 1942, ibid.

⁶¹Smith, Rae, Greer and Cartwright to Board of Railway Commissioners, 7 Dec. 1942, DP 327.

⁶²JHD to Rahilly, 11 June, 1943, DP 330 and Minutes of Directors' Meeting, 16 and 31 Aug. 1943. In 1944, Rahilly sued Algoma for wrongful dismissal and settled for \$30,000. Rahilly to E.G. McMillan, 25 March, 1944, DP 330.

⁶³"... Howe had great faith in him [Rahilly]," F.M. Covert to author, op. cit.; Howe later secured a consultant's job for Rahilly at Steel Control.

⁶⁴see: Beaverbrook, Courage, op. cit., chps. 9 and 10, especially the description of Dunn's "base and wicked foes" and the "deadly threat from Howe," p. 148.

⁶⁵Howe to Beaverbrook, 17 Aug. 1960, Howe Papers, vol. 187.

⁶⁶JHD to J.G. Gedsoe, 29 March, 1944, RG 28A, vol. 261.

⁶⁷JHD to W.H. Coverdale, 22 May, 1944, DP 328.

⁶⁸Howe to Beaverbrook, 10 Aug. 1943, Howe Papers, vol. 170.

⁶⁹Taylor to JHD, 16 Nov. 1942, DP 213.

⁷⁰DHC, 18 March, 1941, p. 1629. See: R.W. James, Wartime Economic Cooperation, op. cit., chp. 6, especially p. 135.

⁷¹Memo. from R.H. McMaster to Steel Control, 25 Aug. 1944, DP 330.

- ⁷²J.L. Ilsley to Howe, 7 Sept. 1942, RG 19 E-1(d), vol. 2720.
- ⁷³Iron and Steel and Their Products, Ottawa, 1938-9, 1940-2 and 1943-5 editions.
- ⁷⁴M. Hoey to Howe, 13 May, 1943, RG 28A, vol. 260.
- ⁷⁵"Estimate of Canadian Steel Requirements--1941," 28 Nov. 1940, revised 6 March, 1941; "Steel Budget for 1942," 22 Oct. 1941 and "Steel Budget for 1943," 15 Feb. 1943, RG 28A vol. 171.
- ⁷⁶DHC, 21 May, 1942, p. 2659.
- ⁷⁷See: R.W. James, Wartime Economic Co-operation, op. cit.; J.L. Granatstein and R.D. Cuff, Canadian-American Relations in Wartime: From the Great War to the Cold War, Toronto, 1974 and Granatstein, Canada's War, op. cit., chp. 4.
- ⁷⁸See: Joint War Production Committee files, RG 28A, vol. 67.
- ⁷⁹Joint War Production Committee, meeting of 26 April, 1943, ibid. Other American raw steel was brought to Canada for processing and re-export.
- ⁸⁰See: Minutes of Production Board meetings of 22 Sept., 6 Oct. and 22 Oct. 1942, RG 28A, vol. 207.
- ⁸¹Howe to J.L. Ralston, 20 Dec. 1941, RG 28A, vol. 67.
- ⁸²DHC, 21 May, 1942, pp. 2655-8.
- ⁸³See: Kennedy, History of the Department ..., op. cit., chp. 22.
- ⁸⁴ibid., pp. 488-95.
- ⁸⁵J.H. Perry, Taxes, Tariffs and Subsidies: A History of Canadian Fiscal Development, 2 vols. Toronto, 1955, p. 357.
- ⁸⁶See: C.D. Howe and J.R. MacNicol, DHC, 18 March, 1941, pp. 1627-8.
- ⁸⁷P.C. 1171, 18 Feb. 1941, confirming contract M.P. 432 between Algoma Steel and government.
- ⁸⁸ibid. and letters of T.N. Kirby, War Contracts Depreciation Board, to Algoma Steel and JHD to C.D. Howe, both 20 Feb. 1941, cited in Minutes of Directors' Meetings, op. cit., 20 Feb. 1941.
- ⁸⁹ibid.

⁹⁰"Tentative Summary of Progress in the Canadian Steel Industry from the Outbreak of the War 1939-41," submitted to Steel Control by E.A. Taylor, 18 Oct. 1941, RG 28A, vol. 306.

⁹¹P.C. 9924, 19 Dec. 1941, copy of contract in file 196-14-1, RG 28A, vol. 258.

⁹²Iron and Steel and Their Products, op. cit., by 1943, Dosco had four furnaces rated at 2000 tons a day, Stelco three furnaces for 2072 tons a day and Canadian Furnace two for 613 tons a day.

⁹³Report on the Government-financed Expansion of Industrial Capacity in Canada, as at 31 Dec. 1943, Economics and Statistics Branch, Dept. of Munitions and Supply, 29 Feb. 1944 and "Capital Assistance Projects--Steel Control," as of 31 Dec. 1944, RG 28A, vol. 205.

⁹⁴Government auditor's composite figures for Algoma Steel Corp., 1938-45, signed by R.E. Saunders, 13 March, 1946, RG 28 B-2, vol. 1.

⁹⁵Memo. by Ilsley, 7 Sept. 1942, RG 19 E-1(d), vol. 2720.

⁹⁶Howe to Ilsley, 10 Sept. 1942, ibid.

⁹⁷DHC, 26 Jan. 1942, p. 53.

⁹⁸ibid., 19 May, 1942, pp. 2548-9.

⁹⁹ibid., 14 June, 1943, p. 3619.

¹⁰⁰F.H. Brown to M.A. Hoey,--July, 1944, RG 28A, vol. 293.

¹⁰¹T.F. Rahilly to F.B. Kilbourn, 5 Sept. 1944, RG 28A, vol. 195. Rahilly believed Dosco was "entitled" to assistance because "acts of Government have placed it in its present position."

¹⁰²DHC, 13 April, 1945, p. 868.

¹⁰³Special Committee on War Expenditure, First Report, 5 May, 1942.

¹⁰⁴ibid., Joint Subcommittees No. 2 and 3, Report on the Aluminum Industry, 26 Jan. 1944.

¹⁰⁵"Production: Estimated and Actual, Oct. 1941-Dec. 1943," RG 28A vol. 307. Post-war statistics published in Iron and Steel and Their Products showed higher production results of 1,975,014 tons of pig iron and 3,110,254 tons of ingots.

¹⁰⁶"Tentative Summary . . .," op. cit.

- 107 DHC, 11 June, 1943, p. 3553.
- 108 Iron and Steel and Their Products, 1943-5, op. cit.
- 109 "Report on the Activities of the Steel Control from October 1, 1943 to its termination on Nov. 1, 1945," dated 1 Jan. 1946, RG 28A, vol. 22.
- 110 Report to W.I.C.B. by M.A. Hoey, 14 July, 1943, RG 28A, vol. 260. Labour strife at Algoma in the first half of 1943 added uncertainty to the steel situation.
- 111 Howe to Borden, 30 Oct. 1943, RG 28A, vol. 201.
- 112 Steel Control Order 18B, 4 Feb. 1944, RG 28A, vol. 258.
- 113 "Report on the Activities ... 1945," op. cit., p. 47.
- 114 Steel Control Order 37, 21 Nov. 1945 and P.C. 7135, 29 Nov. 1945.
- 115 Government auditor's figures ... 1938-45, op. cit.
- 116 Brown-Forster interview, op. cit.
- 117 Contract of 5 Feb. 1943 between Algoma and Dept. of Munitions and Supply, RG 28 A, vol. 488.
- 118 ibid., contract of 31 Dec. 1943.
- 119 Brown-Forster interview, op. cit.
- 120 P.C. 5752, 20 July, 1943 and "F.H. Brown correspondence-- 1943," DP 328.
- 121 Contract of 16 Feb. 1945, RG 28A, vol. 488.
- 122 "Report on the Algoma Steel Corp. Ltd.," Coverdale and Colpitts, New York, 10 Dec. 1943, p. 146, Algoma Steel Historical Files. Coverdale and Colpitts apparently tendered a "secret" report to C.D. Howe in which they expressed some anxiety over Dunn's age and capacity to carry on as president. It was this note of concern that coloured Howe's reaction to Rahilly's dismissal. David Holbrook interview, 4 August, 1977.
- 123 ibid., pp. 167-9.
- 124 ibid., p. 180.
- 125 Winslow-Spragge to Algoma Steel, 13 March, 1945, RG 28 B-2, vol. 1. J. de N. Kennedy estimated that renegotiation and voluntary

repayment to the government probably brought about \$500,000,000 into government coffers. History, op. cit., p. 326.

126 "Statement of Percentage of Increase in Costs of Principle Raw Materials 31 Aug. 1939 to 31 Aug., 1941," presented by Algoma Steel, n.d., RG 28A, vol. 307.

127 "Algoma Steel Corp.: Comparative Profit and Loss Account for the years ended 30 April, 1940, 1941 and estimated by 1942," n.d., RG 28A, vol. 307.

128 See, for instance, F.H. Brown to W.C. Clark, n.d., c. mid-1943, DP 328.

129 See, for instance, Howe's criticism of Dosco in DHC, 22 June, 1954, p. 6461.

130 Brown-Forster interview, op. cit.

131 Howe to Beaverbrook, 17 Aug. 1960, Howe Papers, vol. 187.

132 Lambert diary, 27 April, 1942, Lambert Papers, Queen's University Archives, box 10. It is difficult to establish whether the federal Liberal party "tollgated" Algoma for its munitions contracts, although this was certainly likely. Algoma contributed \$10,000 to Liberal coffers in the 1940 election. R. Whitaker, The Government Party, op. cit., p. 125.

133 B.B. Berle and T.B. Jacobs, Navigating the Rapids 1918-1971: From the Papers of A.A. Berle, New York, 1971, pp. 494-4.

134 J.W. Pickersgill and D.F. Forster eds., The Mackenzie King Record 1944-5, Vol. II, Toronto, 1968, entry for 9 June, 1945, p. 406.

135 JHD to Beaverbrook, cable, 5 Aug. 1943, DP 208.

136 JHD to Lord Greenwood, 14 Feb. 1944, DP 210.

137 Michipicoten-mined iron ore totalled 142,245 tons in 1940, 189,610 tons in 1941 and 199,280 tons in 1942; "Algoma Steel Corp.: ore consumption 1940-2, n.d., DP 327.

138 memo. by JHD, 26 April, 1944, DP 328.

139 memo. by JHD, 28 March, 1944, ibid.

140 JHD to E.G. McMillan, 9 Nov. 1943, DP 330.

141 G.W. MacLeod to JHD, 9 June, 1944, DP 328.

142 memo by JHD, 26 April, 1944, DP 328. Drew probably saw little political advantage in subsidizing a bustling war industry and also probably realized that federal excess profits taxes would severely curtail the effect of a bounty.

143 G.W. MacLeod to JHD, 3 Aug. 1945, DP 328.

144 M.A. Hoey to MacLeod, 14 Dec. 1943, ibid. Steel Control claimed that the proposed 50¢ a ton price hike would have an "adverse moral effect" on wage and price controls.

145 M.A. Hanna Co. to Algoma Steel, 14 Dec. 1943 and JHD to C.P. McTague, 27 April, 1944, DP 329. Dunn also realized that Hanna was gaining windfall profits from the high manganese content of Algoma sinter which was not acknowledged in the 1939 contract.

146 Contract of 20 July, 1944, ibid.

147 See, for instance, "Visit to the Mines Experimental Station, University of Minnesota," 9 July, 1941, DP 346.

148 "Summary of Estimated Capital Expenditures for Underground mining and Development: Helen Mine," 17 Feb. 1943, DP 327.

149 "Brief on Victoria Mine," G.W. MacLeod, 1 May, 1945, DP 328.

150 Frequent wartime interruptions in Algoma's supply of American coal had painfully illustrated this to Dunn. See, for instance, H.J. Sissons to T.M. Bryson, 25 July, 1945, RG 28A, vol. 293.

151 DHC, 14 June, 1941, p. 4023.

152 ibid., 3 May, 1939, p. 3539.

153 ibid., J.R. MacNicol, 2 Feb. 1942, p. 220.

154 Perry, Taxes, Tariffs and Subsidies, op. cit., p. 357; for Howe's interest in the Steep Rock project see Howe Papers, vol. 21 esp. C.D. Howe to Gen. D.M. Hogarth, 28 Nov. 1947.

155 G.W. MacLeod to JHD, 6 Nov. 1945, DP 328.

156 Minutes of Directors' Meetings, op. cit., 28 Aug., 1945 and 10 Jan. 1946. Brown subsequently quit the Board after an encounter with Dunn's violent temper. Fogo's role as president of the National Liberal Foundation provided Algoma with a link with the party that was to dominate federal politics well into the 1950's.

157 JHD to Glendyne, 23 Jan. 1948, DP 217.

158 A. Aitken to JHD, 12 Aug. 1943, DP 329.

- 159 JHD to Hobbs, 21 April, 1943, *ibid.*
- 160 JHD to Meighen, 25 Sept. 1943, DP 331.
- 161 Minutes of the Directors' Meetings, *op. cit.*, 20 Dec. 1940.
- 162 P. Frankenburg to JHD, 20 June, 1944, DP 328.
- 163 JHD to Glendyne, cable, 16 Dec. 1944, DP 210.
- 164 JHD to Hoey, 30 Aug. 1944, DP 330.

CHAPTER 9

Post-War Adjustments, Labour's Challenge and an Empire Regained:
Dunn and Algoma Steel 1945-56.

As the ultimate fate of the Axis became more apparent in the dying years of the Second War, Canadian government and industry determined to avoid a repetition of the unplanned and uncoordinated industrial transition which had followed the First War. "Reconstruction" became the key to a prosperous post-war economy which integrated the massive wartime gains in productive capacity with the needs of a balanced peacetime economy. "To a large extent," emphasized a late-war government report on Canada's industrial future,

success of the whole programme of reconstruction relates to and revolves about the attainment of a high and stable level of industrial employment and income. Accordingly it is necessary to effect a smooth, orderly transition in industry from the economic conditions of war to those of peace so that this sector of the economy will be in a position to provide an adequate number of the jobs needed to attain a high level of employment in Canada.¹

The attainment of such goals was predicated on the continued employment of many of the tools of social and economic engineering developed by the federal government during the war. While the broad social goals of the government and the narrower economic purposes of individual corporations were sometimes to be at variance, the cooperative ethos between the leaders of government and the steel industry fostered under the pressure of war initially augured well for a planned and relatively unimpeded economic transition from war to peace. Implicit in this consensus was the acknowledgement that the uncertainties of the post-war world could best be minimized by the prolongation

of the government's interventionist powers in the national economy.

"We are closely controlled," Dunn of Algoma confided to a friend in early 1945, "as seems to be the case in allied countries but although at times so much control is irksome we all realize here that it is essential."² Having already told Associate Steel Controller Hoey that his officials had done "a splendid piece of work" and, foreseeing ongoing state regulations, Dunn had inducted Frank Brown and Gordon Fogo, Munitions and Supply alumni, to the Algoma board to serve as pourparleurs between business and government. Steelmen and bureaucrats both pinned their hopes on the assumption that pent-up civilian demand for steel coupled with a relatively stable level of demand from other primary sectors of the economy would buoy up post war steel production, precluding any repetition of the catastrophic downswing following the Great War. "Following cessation of hostilities," F.H. Kilbourn of Steel Control assured the post-war planners in 1944, "I am of the opinion that the steel capacity of this country will be ample to take care of all domestic demands ... and also be in a position to supply a substantial tonnage of steel for the rehabilitation of the countries formerly occupied by the Germans."³ R.H. McMaster of Stelco reinforced this assessment by confidently assuring that full supplies of steel "should be available earlier than many consumers will be ready to accept."⁴ Algoma's hopeful outlook on the post-war economy was molded by the optimistic conclusions of the 1943 Coverdale and Colpitts investigation of the company, which had held out the prospect of steady post-war production of 323,000 tons annually.⁵

What followed in the wake of these predictions was a decade of fluctuating relations between Ottawa and the industry, a period of negotiated compromise and intense cooperation culminating in the tremendous expansion of steel capacity in the early 1950's. By the time of Dunn's death in early 1956 and Howe's departure from Ottawa in 1957, Canadian steel had come of age as a competitive, domestically controlled and relatively self-sufficient national industry. While partaking in the growing continental orientation of the national economy, Canadian steel managed to protect its autonomy and at the same time ensure itself a balanced and continentally competitive output. For Algoma, these years made possible the revivification of Clergue's original dream of steel at the Sault, a dream now realistically founded on a well-rounded and integrated industrial complex in Northern Ontario. En route to the mutual fulfillment of the ambitions of Howe and Dunn, the business-government axis that largely oversaw the steel industry's fortunes had to surmount a major challenge to its hegemony from labour as well as weather the internecine frictions that frequently marred its attempts to chart a mutually acceptable course for national steel.

Divergence of opinion between steel producer and state controller initially sprang from disagreements about the purpose and application of distributive controls on steel output, not from varying estimations of post-war demand. Ottawa's conception of its role as stimulator and regulator was necessarily cast in terms of broad national economic goals. "Government policies evolved with particular reference to such industries," a 1944 federal study of wartime

industrial expansion urged,

should serve as a framework within which these industries would successfully operate. Such policies could be designed to assist matters either by alleviating local distress through public projects by moving people elsewhere, or by creating conditions under which private enterprise might restore prosperity to the industry. These policies would therefore assist in avoiding the emergence of depressed areas and would lend stability to single industry towns.⁶

Furthermore, federal checks and balances on industrial production were envisaged as part of a more pervasive attempt to stabilize the national economy, primarily by dampening inflationary pressures through careful regulation of price and wage increases or judicious application of subsidies to producers. Operating on the belief that post-war capacity would match post-war demand, Steel Control had advocated the scrapping of all direct governmental control over steel after the war: "In my opinion," F.B. Kilbourn boldly urged his superiors in 1944, "post-war price control should be indirect rather than positive."⁷ In keeping with this advice, controls on steel production and consumption were gradually relaxed, culminating with the rescinding of the Steel Controller's mandate in November, 1945.⁸ These developments were accompanied by a measure of fiscal relief afforded by the relaxation of the Excess Profits Tax on 31 December, 1945.⁹

Continued but indirect government authority over Canadian steel production found ready acceptance among the captains of Canadian steel, who had envisaged the perpetuation of direct and pervasive supervisory control with some trepidation. "Reduction in the cost of Government and lower taxes will confer more practical advantages

than the expansion of Government interference with economic developments," noted Stelco's McMaster.¹⁰ Dunn too urged the government's retreat from the business of the boardroom. Believing that Algoma had at times been forced by Steel Control into unprofitable lines of production and transfers of unfinished steel, Dunn bluntly warned Associate Steel Controller Hoey that:

There is one freedom that I think we should all have in view--the freedom to refuse business that is not suitable to the economy of the company concerned. In this course I refer to the post-war period.¹¹

Government's ability to pursue a policy of indirect influence through fiscal measures or subsidization, thereby respecting what Dunn and McMaster construed as inalienable corporate rights, was directly dependent upon steel production and consumption staying in relatively close alignment, not only in the Canadian context but in the continental context. As in the war, post-war steel calculations were predicated on the continued availability of large inflows of American raw materials and finished steel to supplement Canadian output. In the heady months of victory in mid-1945, few doubted that Canada's vastly expanded and diversified steel industry could cope with post-war demand, or that the continental balance in steel production and consumption would be maintained. Many were in fact inclined to believe that after the backlog of civilian demand had been satisfied, some measure of overexpansion would be discovered with the consequence that Canadian iron and steel would have to survive on what one federal report predicted as a "somewhat lower employment" level.¹³ Even the usually bullish Dunn characterized the period as an "emergence

from big volume war business to low volume peace business,"¹⁴ although he conceded that freedom to set prices and exploit export opportunities held out tremendous possibilities for growth.

By mid-1946 the confident expectations of both government and industry had gone sadly awry as joint hopes for "a smooth, orderly transition" to peacetime production were thrown into disarray. Primarily responsible for destabilizing the rhythm of post-war readjustment in steel was the impact of severe disruptions in the continental steel economy, closely followed by the disastrous effects of a national strike of Canadian steel labour. The vulnerability of Canada's reliance upon American coal and steel exports was the first factor to belie optimistic post-war predictions. A four week national steel strike in January and February, 1946 curtailed American steel output by six million tons, while a coal strike later in the spring further cramped steel production by two million tons.¹⁵ The ensuing scarcity of American coal and finished steel wreaked havoc with the delicate balance between imports and domestic production that underlay the Canadian steel economy. At the same time, it laid bare the perilousness of the continental integration to which Howe and Dupn were so eager to commit the Canadian industry.

Even during the war Algoma's foremost coal-producing subsidiary in the U.S., the Cannelton Coal Company, had been plagued by Washington's arbitrary requisitions from its coal stockpiles, to the extent that by July, 1945 the parent company in Canada was "roughly 270,000 tons of coal short."¹⁶ The 1946 American coal strike seriously aggravated this precarious situation to the point that in

July, 1946 Howe's Coal Control officials reported an 850,000 ton coal shortage in Canada.¹⁷ This deficiency not only jeopardized Algoma's steel operations but also its sizable trade in domestic and industrial coke. This coal and coke scarcity coincided disastrously with the heightened demand for domestically produced steel in response to the dramatic restriction of steel imports occasioned by the U.S. national steel strike. After consulting with the industry's leaders, Martin Hoey reported to Howe in May, 1946 that an estimated 405,000 ton steel deficit existed in Canada and predicted that "the future domestic distribution of steel will grow steadily worse and must result in the most serious consequences for a large part of Canadian industry."¹⁸

Responding to this dire threat to its post-war reconstruction plans, the federal government reverted instinctively to direct controls. "I am completely frustrated by shortages," the new Minister of Reconstruction and Supply noted. "Every industry in Canada is trying to expand and everyone wants a house, but no one can get materials; for this, I seem to be the goat."¹⁹ Eager to shed this image, Howe reinstated both Steel and Coal Control in early 1946. Moving with alacrity to protect the "extremely grave" domestic coke situation, Coal Control ordered Algoma to "make available to the government" 36,000 tons of coke per month for domestic purposes and a further 18,000 tons per month for foundry purposes even if such shipments imperilled steel production.²⁰ Algoma was promised a "satisfactory formula for compensation". Steel Control exercised its right to distribute national steel production by requesting Algoma to

allocate 12,000 tons of slabs monthly to Stelco and to blow in its No. 4 blast furnace (to augment national pig iron output), as well as by vigorously curtailing Canadian steel exports.²¹ Within months of the disappearance of the last vestiges of wartime control, a new panoply of direct control had materialized in response to unforeseen difficulties that had thrown plans for a smooth transition to peacetime steel production abruptly out of alignment. Not unexpectedly, friction soon developed between business and government.

The fissures that opened between Algoma and Ottawa during 1946 stemmed largely from the incompatibility of federal controls designed to surmount a national steel and coal shortage in a period of insatiable national demand and the more narrowly defined interests of the corporation. While a bond of cordiality remained between Howe and Dunn, the year 1946 became one of adept manoeuvring and hard bargaining. Reacting to Steel Control's directives for the diversion of his steel to other rolling mills, Dunn railed against Ottawa's intrusions:

Putting Algoma on any of these extreme operations for what Martin Hoey might consider the general advantage of Canada would disrupt our routine business and throw much of our skilled labour out of employment and generally disorganize our future. The perilous raw material position of North America including coal, ore and scrap is in my opinion more important to keep in view in guiding the decisions of Steel Control than futile efforts to meet a variety of accumulated demands throughout the country beyond the capacity of Canada's steel mills to quickly overtake. We must each of us go on producing the things for which we have capacity and getting a good backlog of coal, iron ore and limestone.²²

Foremost in Algoma's post-war priorities was the desire to bring its

primary and finishing capacities into alignment and, using this productive base, to pursue its pre-war ambitions of diversifying its market. Wartime sales of Algoma rails as far afield as Russia had whetted Algoma's appetite for export sales to war-devastated Europe. Using his personal contacts with English steel magnate Sir Andrew Duncan, Dunn was able to secure export orders for 750,000 tons of Algoma billets to be supplied to the British Iron and Steel Corporation throughout 1947 and 1948.²³ These hopes were however rudely arrested when Steel Controller Hoey reminded Dunn that "Mr. Howe was adamant in stating that domestic requirements must be taken care of before consideration would be given to the export of steel in primary form."²⁴ "My chance to put Algoma on its feet financially will be lost," Dunn irately ranted, "if we lose this British order.... Algoma Steel has no modern finishing mills out of which we can make a profit when times get normal.... I want Algoma to get rich enough to be able four or five years from now to build out of its accumulated profits the kind of mills necessary to put in the front rank for competitive business."²⁵

In the face of Dunn's incessant protestations,²⁶ Howe stubbornly stood his ground, insisting that Algoma put its aspirations into abeyance and comply with Steel Control's directives. In return for his compliance, Dunn exacted a heavy toll from the minister. After repeated trips to Ottawa by Dunn and Holbrook, backed up by the lobbying of Algoma vice-president Fogo from his Wellington Street office, Howe settled on compensation to cover the cost of diverting Algoma products from their "natural markets". Payments ranged from

\$1.50 per ton on domestic coke redirected by government orders to \$3.50 a ton paid on diverted pig iron.²⁷ Subsidies were granted only to defray abnormal freight and production cost occasioned by such diversions, not as an absolute bonus to producers. Howe prided himself on this enforced rationalization of the Canadian steel market and boasted in the Commons that the subsidies had "increased the production of secondary steel by at least 20 to 25 per cent over what it would be without government intervention."²⁸ Although he had incurred the wrath of Sir Andrew Duncan, who alleged that "the North American continent had let him down,"²⁹ Dunn accepted Howe's thanks for "revising your operation along the lines requested by our Steel and Coal Controllers" and later confided to J.S. Duncan, President of Massey-Harris, that while he regretted the necessity of steel controls he was reconciled to them as "healthy and reasonable."³⁰ At Christmas, 1946, Howe informed the Algoma chief that he was "much in your debt" and that he wished "our friendship will continue as long as we both may live."³¹

If the post-war reintroduction of controls had strained relations between the industry and Ottawa, the national steel strike of 1946 tended to reunite them in common opposition to the concerted efforts of steel labour to exert a greater influence on their fortunes in the industry. The issue of what wages and prices should prevail in the economics of post-war Canadian steel unleashed volcanic tensions in the relations of industry, labour and government, tensions that were intensified by the determined efforts of the steelworkers' union to exact recognition of its status as a national bargaining

agent from steel management.

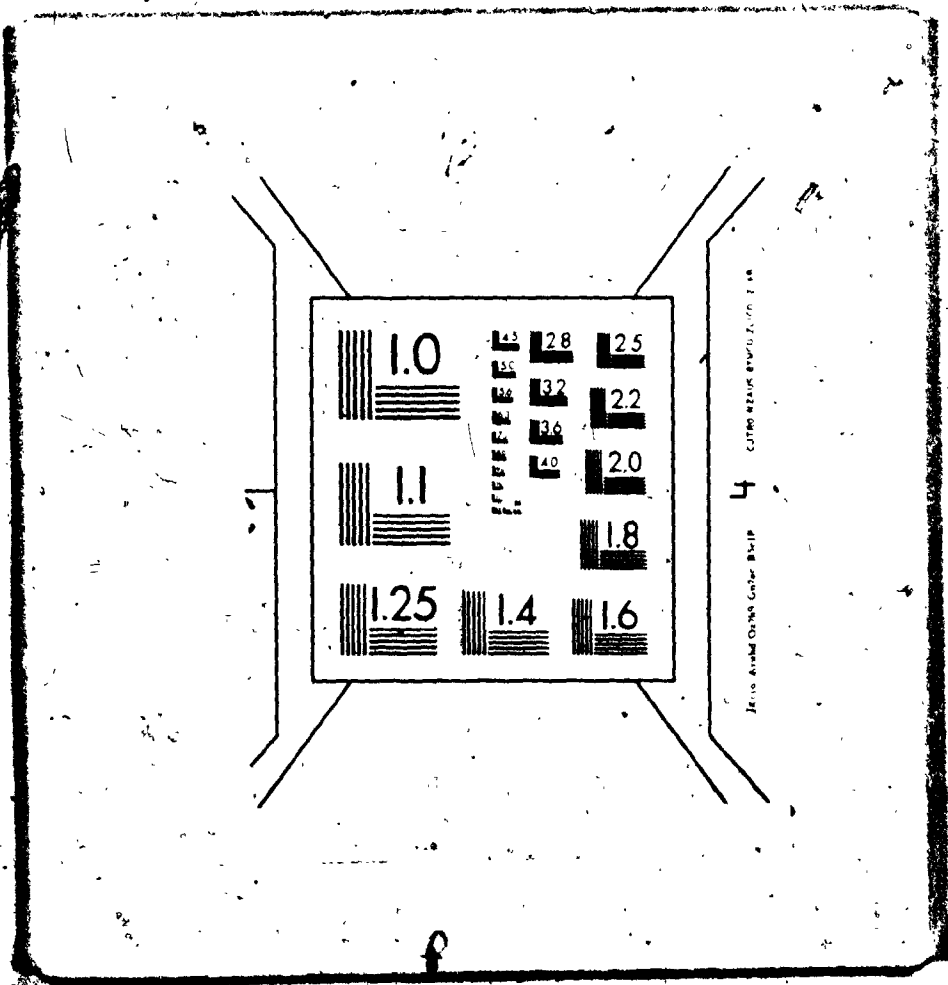
The labour issue had long and tangled roots. War and the ensuing steel crisis of 1940-42 had catapulted steel labour out of the languid position it had occupied through much of the last two decades and given it a crucial role in the battle for war production. Steel labour's indispensability placed it at the fulcrum of wartime economic planning and management, exposed to the full brunt of emergency wage and price controls and subjected to a gruelling burden of work dictated by chronic labour shortages and the imperative necessity of squeezing optimum output out of Canada's over-strained steelmaking capacity. Steel labour therefore provided an acutely sensitive barometer of the success of business and government's strategies for maintaining equilibrium in the Canadian war economy and in the post-war transition to peacetime production.

On May 22, 1940, Munitions and Supply minister C.D. Howe had directed all producers of war materiel to "speed up" production schedules to an around-the-clock basic.³² With the establishment of various agencies to oversee national labour requirements and the imposition of a wage freeze, steel labour found itself blanketed by regulation. Within the constraints of these new circumstances the relatively amicable relations between Algoma and its workers dating from pre-war days came under increasing strain. Much to the disgust of its president, Algoma did however recognize the Steel Workers Organizing Committee (S.W.O.C.), the C.I.O. affiliate that had just gobbled up the independent Algoma Steelworkers Union, as the official bargaining agent at the Sault for steel labour.³³ In December, 1940,

the corporation concluded its first wage agreement with local 2251 of S.W.O.C. While the C.I.O.'s presence in the Sault confirmed the worst suspicions of Dunn and his Liberal friends at Queen's Park, the steel president maintained a shadowy rôle in Sault labour matters, leaving negotiations to his able and liberally-minded general manager, T.F. Rahilly.

With the "steel crisis" of 1941-2 exerting immense pressure on the industry, amicable relations between Algoma, S.W.O.C. and the arbiters of federal price and wage policy disintegrated. Antagonism centred on several contentious issues. S.W.O.C., while assiduously pursuing its goal of a nationally organized steel labour force, also lambasted business and government strategies of wartime steel production. "... The experience of our Union," S.W.O.C. director C.H. Millard charged in 1942, "during the past two years and eight months of war has ... produced grave disappointment and a feeling of frustration."³⁴ Frustration, Millard alleged, stemmed from low morale, the business-oriented industrial policies of government, the slipshod execution of these policies by 'big steel' and management's overly cautious attitude to the expansion of steel capacity. Steel's salvation, in S.W.O.C.'s judgement, lay in national organization, not only of production, but also of labour. Through national planning the industry could be rationalized and the prevailing "chaotic" and "indefensibly low" wages could be supplanted by a uniform national wage rate that would eradicate the "harmful and unjust variations in wages and working conditions" that militated against steel labour's interests.³⁵ To substantiate S.W.O.C.'s case, Millard alleged that

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by the fall of 1942 40% of Sault steelworkers received less than 55¢ per hour.³⁶

Algonia reacted intransigently to labour's demands. Citing the frozen price of its steel products, management vehemently maintained that increased labour costs would place an undue burden on corporate solvency.³⁷ Dunn himself grew increasingly belligerent to labour's demands, confiding to Lord McGowan in England that North American labour lacked "patriotic and studious" leadership and was motivated by "an undercurrent of bitterness".³⁸ Ottawa's response to the growing discontent in steel labour was conditioned by the imperative need to ensure uninterrupted steel production and to avoid at all costs any major breach in the wage freeze that lay at the heart of the regulated wartime economy. When informed in August, 1942 by Millard that steelworkers' dissatisfaction threatened "an imminent stoppage in the steel industry," Prime Minister King pointed out that by adopting such a course steelworkers "would forfeit the sympathy of the people generally if they occasioned any avoidable interference with the production of the tools of war."³⁹ Although King privately noted his desire to "have the men get justice," Ottawa's anxiety to avert any steel stoppage predisposed it to the management's point of view, particularly in its insistence that labour's grievances be settled by the regional, as opposed to national, war labour boards.⁴⁰ Even though the thrust of government intervention in steel production had been predicated on the promotion of a well-balanced national industry, Ottawa was prepared to relegate steel labour to a regional status, thereby reinforcing the industry's refusal to concede

to S.W.O.C.'s demand for national recognition and undifferentiated wage rates. Responding to this challenge, Millard bluntly informed King that he was not "willing to place one corporation and thereby the employees of that corporation, in an unfair competitive position."⁴¹

Infuriated by the Ontario War Labour Board's refusal to sanction a base labour rate of 55¢ an hour, Millard defiantly took an illegal strike vote at Sydney and the Sault in August, 1942 and, using the resultant overwhelming pro-strike mandate, halted production at Algoma from 29 August to 3 September.⁴² "Banked" furnaces and immobilized rolling mills shook Ottawa to its senses. A full-scale strike was only averted by Labour Minister Mitchell's pledge of a three-man Royal Commission to investigate the plight of steel labour.⁴³ To this point, Millard's strategy had focused on Algoma and Dosco, where the lowest labour rates prevailed, in hopes that pay hikes won there would boost their labour to parity with Stelco, where the highest rates were paid and the union had made the least impact. This achieved, Millard would have won an implicit acknowledgement of steel as a "national employer."

S.W.O.C.'s ambitions were dealt a harsh blow by the majority findings of the three-man Royal Commission headed by Mr. Justice Barlow. Tabled in December, 1942, the majority report of Barlow and J.T. Stewart quenched union demands for a 55¢ an hour base rate at Algoma and Dosco by maintaining that Algoma's existing 50½¢ rate with a cost of living bonus was "not substandard but in fact above the average rates generally prevailing for that class of labour."⁴⁴

After concluding that Algoma's unskilled labour rates were the highest ever paid by the corporation and were in line with other labour in the Sault, Barlow and Stewart sternly warned that it would be "manifestly unfair" to boost steel wages out of alignment with other industrial workers elsewhere in the country. The firmness of the majority report contrasted starkly with the sympathy of the third commissioner, J. King Gordon, for the plight of the steelworkers. In his "minority report," Gordon argued that his fellow commissioners had adopted too "strictly legalistic" an approach to the problem. Gordon reminded the government that steel was not only the product of inanimate raw material but that "steel is made out of the lives of men and women." For the 40% of Algoma labour receiving less than 55¢ an hour, Gordon alleged, a stake in this vital industry meant little more than "a story of hardship and privation, of overcrowding, of financial worry, of acute distress occasioned by illness against which there was no financial protection."⁴⁵ In light of "inhumanly long hours" and the frequent absence of a "bare subsistence income", Gordon strongly advocated that a boost to 55¢ per hour was "not only justified but actually required". This would not only "remove injustices" and "eradicate anomalies" throughout the industry, "but would stabilize the operations of a vital wartime industry.

Gordon's impassioned and at times exaggerated plea on behalf of labour did little to assuage the wrath of Millard and S.W.O.C. at the majority recommendations that seemed to uphold the status quo in the steel industry. When Labour Minister Mitchell moved to implement the majority recommendations he triggered what S.W.O.C. described as "the

swift, irresistible climax of 22 months of delay and evasion."⁴⁶ Between January 12 and 14, 1943, S.W.O.C. pulled 11,613 steelworkers off the job at Sydney, Trenton and the Sault in an illegal strike that struck at the jugular of war production. While the crisis called for quick and decisive political action, the federal cabinet was deeply divided on the subject. Prime Minister King, impressed by Gordon's reformist inclinations, "felt a strong case had been made out for increasing the wages of the sub-standard employees, but not a case for those receiving higher rates." C.D. Howe, although less motivated by humanitarian concern than by industrial efficiency, plumped strongly for recognition of steel as a national employer and "a levelling up of the lowest wage groups in other industries as well as in the steel." Arrayed against this viewpoint was a strong body of cabinet opinion, led by Mitchell and Ilsley, firmly convinced that "any compromise would mean the destruction of the policy of Wage Stabilization and Price Ceiling". Ilsley candidly confessed "that even if there were injustice in the wage stabilization policy, we would have to continue injustice if the policy were to be maintained."⁴⁷ Desperate to restart production, Dosco president Arthur Cross and Dunn of Algoma assured the government that "they would be financially embarrassed having to meet extra demands" and that they expected government assistance if any concession was made to labour.⁴⁸

Intense negotiations in Ottawa led on 22 January to a compromise that brought the steelworkers back to the mills on 27 January. Under a "memorandum of agreement" Algoma and Dosco were tentatively designated national employers who were to recognize the 55¢ national

base rate. Provision was made for future disputes to be put under the authority of the National War Labour Board, whose new chairman, C.P. McTague, a Toronto justice, was to reconsider the workers' case. In the hearings before McTague during March, E.G. McMillan, Algoma's legal counsel, vigorously opposed the steelworkers' application for a rate of 55¢ plus a cost of living bonus by arguing that varying costs in other phases of steel production should hold true for labour. Millard later charged that the companies had mounted "an intensive lobbying campaign."⁴⁹

The 31 March decision from McTague and the N.W.L.B. stunningly reversed much of the tentative January agreement by rejecting the notion of steel as a national employer, chopping the base rate to 50¢ plus bonuses and excluding the Trenton workers from the agreement. "What can be expected on the industrial front in Canada," Millard protested, "if promises solemnly made are so lightly broken?"⁵⁰ By respecting wage differentials throughout the industry, this "perverse and fantastic decision" had severely checked S.W.O.C.'s ambitions of encompassing all steel labour under one union umbrella. The attempt to hoist Dosco and Algoma workers to parity with their better-paid but less organized brothers at Stelco had failed. The fledgling U.S.A.W. local 1005 in Hamilton had stayed on the job throughout the fracas, too anaemic to budge the mass of Stelco workers.⁵¹ The key to management's success in repulsing Millard's offensive lay in associating any major concession in steel wages with an irreparable breach in Ottawa's wage control program. Even King, who genuinely sympathized with labour's plight, breathed easier after

McTague's decision, noting that he had succeeded "in making minor wage adjustments without destroying the stabilization policy or the price ceiling,"⁵²

The strikes of January, 1943 left a lingering sense of bitterness and suspicion between labour and management in Canadian steel. Although small and brief strikes did erupt before the peace,⁵³ Ottawa succeeded in keeping the steel industry at work without major interruption. At Algoma the cost of this achievement had been the souring of previously harmonious labour relations. Having lost the conciliatory talents of T.F. Rahilly in mid-war, the company more and more dealt with labour through its lawyers. When asked in July, 1943 by works manager Louis Derrer if Sir James might address the mill crews, union official William Mahoney replied sharply: "No I don't think so. The men will not take very well to that."⁵⁴ In the same month, R.C.M.P. surveillance of Sault labour reported "very unsettled" conditions. In the wake of its mid-war setbacks, the U.S.W.A. began to reorient its strategy. Thwarted in their bid to win wage parity for Dosco and Algoma workers, union officials increasingly recognized the necessity of an organizational assault on Stelco. Inclusion of Hamilton steelworkers in S.W.O.C. would provide sufficient leverage to pry an acknowledgement of national bargaining status out of management and at the same time pierce the government's wage ceiling.

These tensions, latent through the last years of the war, surfaced with a vengeance in 1946, jeopardizing the whole economic transition of not only steel but the national economy to peacetime

norms. True to labour's strategy, it was Stelco around which the fractious events of 1946 unfolded, with Algoma being relegated to the role of "bystander."⁵⁵ By the end of the war, U.S.W.A. local 2251 at the Sault ensured itself an unassailable position in its relations with management. In July, 1946, it was estimated that 3492 of Algoma's approximately 3500 employees were union members.⁵⁶ The Union's right to bargain collectively for Sault labour was reaffirmed in an April, 1946 agreement with Algoma, in which voluntary check-off, a 48 hour week and paid vacations were conceded. Only the pay clause was left unsettled.⁵⁷ As the Labour department's Director of Industrial Relations acknowledged in June, 1946 the "matters of recognition, check-off, seniority and vacations have all been finally dealt with in the existing agreement" and Algoma did not "consider them to be matters of dispute or presently open for discussion."⁵⁸ Such was not the case at Stelco, where U.S.W.A. local 1005 still found itself in "a precarious position,"⁵⁹ having only just concluded its first labour agreement with the company in February, 1945 but having failed to secure ironclad union security or a wage hike. It was Stelco's stubborn determination to limit the union to these initial gains that precipitated the fatal clash of 1946. "I wish to draw your attention," Millard informed the federal deputy-minister of labour, "also to the apparent desire of the Steel Company of Canada to have a 'trial of strength' with our union. I do not think the other two companies have any such intention, but unfortunately they seem afraid to differ with Stelco."⁶⁰

Sir James Dunn was by 1946 temperamentally inclined to commit

Algoma to a head-on confrontation with labour. "As far as I have had an opportunity to judge the labour attitudes of today," he lectured The Financial Post editor, "it is a class attitude and not interested in the emergence of individual talent or capacity for leadership."⁶¹ Fortunately saner minds prevailed in the formation of Algoma's response to labour's new post-war challenge. Managerial and legal advisers not only ensured that their volatile president remained away from the bargaining table but also convinced him that it would be folly to lock horns deliberately with the U.S.W.A.⁶² In view of local 2251's almost complete hold on Algoma labour and the impracticability of mounting an anti-union offensive in an isolated industrial pocket of northern Ontario, Algoma, as Millard foresaw, acquiesced to the initiatives taken by Stelco and prepared to reap whatever gains that company might make at the union's expense. Since the union's ultimate goal in 1946 had remained a recognition of its status as the national bargainer, the three primary steel employers shunned any open semblance of a collective stance in the face of union demands, while at the same time they secretly coordinated their tactics to stymie Millard's ambitions.⁶³ While the strike was to take a markedly more peaceful course at the Sault than in Hamilton, Dunn felt a close sympathy for the stance of the Stelco president H.G. Hilton during the conflict, frequently praising his counterpart's "greatest courage and resource in dealing with his end of the strike."⁶⁴

Looming ominously in the background of the erupting labour dispute was the federal government's resolve to maintain price and

wage equilibrium in the post-war economy. Any upward pressure on steel production costs, Ottawa planners feared, would in turn trigger a host of inflationary increases in other sectors of the economy dependent upon steel as a primary component of production, thereby destabilizing the whole economy. While Finance Minister Ilesley preached tight control on the post-war price structure, the command post in the battle against inflation was the Wartime Prices and Trade Board, given a post-war reprieve under Donald Gordon. Gordon vehemently argued for unflinching restraint of wages and prices, prophesying that any strike-induced shortage of steel would create "an unbearable burden on our entire price structure."⁶⁵ This view was shared by Reconstruction minister C.D. Howe and his advisers whose whole economic strategy hinged on unimpeded production and rigidly controlled costs. Alarmed at the prospect of a debilitating national steel strike, Steel Controller Hoy informed the Labour department in July, 1946 that any cessation of coke production would create "a lot of hardship this coming winter."⁶⁶ Ottawa's politicians and planners were therefore predisposed to accept steel management's insistence that the demands forwarded in 1946 by steel labour threatened serious financial burdens not only on their own costs but also upon the whole post-war recovery process.

Ironically, it was a major concession in the price ceiling on steel products granted by Gordon and the W.P.T.B. in April, 1946 that precipitated the disintegration of cooperative relations between business and government, on the one hand, and steel labour, on the other. Through the last years of the war, the primary steel industry

had cited dwindling profit ratios as convincing proof of the need for price increases in iron, steel and coke. Dunn adopted the tack that if government was to dictate the nature of production and the price of output, the company had an absolute right to assured profits. The government countered with various subsidies to producers as an indirect means of avoiding direct price increases. Howe's department, for instance, doled out \$5 million in freight subsidies during 1946 "to maintain a stable price on steel."⁶⁷ In March, 1946 however, Algoma joined the other primary steel producers in requesting an upward revision of steel, iron and coke prices, contesting that such increases would merely restore them to realistic levels of profit. Although he had expected stiff opposition to the application, Dunn was elated to hear from Controller Hoey that the W.P.T.B. was "inclined to be generous," especially since his last visit to Ottawa had led him to believe that "it was Donald Gordon's intention to delay fixing the new prices until the new labour rates had been settled."⁶⁸ While the W.P.T.B. denied any adjustment in coke prices, War Order 617 of 1 April, 1946 permitted a \$5 a ton hike in iron and steel prices. Gordon justified the move by citing the "rapidly declining" profit margins of steel producers. "The point I am trying to establish," he told a Commons committee, "is that there is some place where we can afford to take a chance on costs and still have a reasonable hope of maintaining the present price level. Beyond that spot you get into inflation as distinct from inflationary rising."⁶⁹

The steel price increase sparked intense reaction both in and out of Ottawa. Despite the profuse assurances of Gordon and Isley

that the hike in no way courted inflation but was "a planned policy of adjustment to peacetime conditions," severe criticism was levelled at the decision from both sides of the House.⁷⁰ Concern that higher steel prices would burden other primary producers, notably agriculture, with additional costs was accompanied by fears that Ilsley had failed to analyse the decision "in the light of political significance." "I am not at all sure," Mackenzie King apprehensively noted,

that this particular happening is not the beginning of a little breach--of a crack in the Government's position which will widen steadily as we seek to deal with the matter of removing controls and the position that will arise therewith. The truth is these are inevitably consequences of what was done in the war.⁷¹

King's prophetic "little breach" widened into a chasm somewhat more quickly than anyone had anticipated. The national steel strike of July-October, 1946 not only marked the culmination of the "inevitable consequences" of repressed wartime inequalities within the steel industry but also epitomized a long series of industrial labour conflicts that had racked the national economy throughout 1945 and 1946.⁷² As early as July, 1945 national director Millard of the U.S.W.A. had urged Labour Minister Mitchell to institute "tripartite industry councils" so as to facilitate labour-management consultation in the transitional period and thereby prevent any "return to the planless and confused conditions which existed in steel and other industries prior to the effective controllership established to meet the needs of war production."⁷³ By mid-1946 the steelworkers were not only convinced that their interests had not been consulted but that "effective controllership" in fact militated against their interests. In February,

1946, U.S.W.A. national officials renewed their application for government certification of steel as a national employer,⁷⁴ citing the 1943 "memorandum of agreement" as a precedent. When this gambit proved fruitless, separate negotiations were initiated in early May with each of the "big three" producers. At Algoma, this entailed settling the wage and hours of work clauses left open in the April agreement concluded by local 2251. Millard demanded an across-the-board 19½c hourly pay boost for steelworkers throughout the industry and a reduction of the work week from 48 to 40 hours. Management balked at these proposals, refusing in the first place to submit to Millard's thinly disguised bid to induce it into de facto national bargaining and in the second place maintaining that regionally varying costs of production precluded any national wage standard. "I regret to report," an infuriated Millard told Ottawa by late May, "that unless there is a decided change in the attitude of the management of the 'big three' before June 8th, we will be compelled to conclude that no progress toward the realization of our wage-hour programme can be made in direct and separate negotiations with these employees."⁷⁵

Desperate to avert a repetition of the calamitous U.S. steel strike, Labour Minister Mitchell hastily intervened in the deteriorating situation by appointing W.D. Roach, a Toronto justice, to investigate the conflict as Industrial Disputes Inquiry Commissioner. "Very early in the course of the discharge of my duties," Roach later reported, "it appeared to me that it was very doubtful that I would be able to bring about an agreement between the parties by conciliatory action."⁷⁶ At 20 June meeting with Roach, Algoma executives J.G. Fogo

and E.G. McMillan "emphatically stated that Algoma was opposed to the idea of the steel industry being treated as a 'national industry' and claimed that company coffers could only sustain an 8¢ an hour hike over a 48 hour week. On 4 July, all pretence of reasoned negotiation came to an abrupt halt with the disclosure that local 2251 had delegated to the National Advisory Committee of the U.S.W.A. all rights to ratify any agreement tentatively concluded with their employers.⁷⁷ In Hamilton, Roach was greeted by Stelco's blunt refusal to partake in any inquiry that simultaneously or seriatim delved into the labour-management relations of all the 'big three', a course Roach deemed symptomatic of "a very unwise attitude".⁷⁸ As exasperated as Roach was with Stelco's intransigence, his interim report revealed a much deeper animus toward the U.S.W.A.

The 'union' has become the master of the employees rather than their servant and in the hands of a group of men known as the National Advisory Committee of the United Steel Workers Unions rests the economic destiny of 13,000 odd employees This is not collective bargaining as I understand it In my opinion it constitutes a dictatorship.⁷⁹

These chilling observations were followed by a recommendation of a 10¢ an hour increase over a 48 hour week coupled with a 90 day cooling off period.

By early July, neither labour or management was inclined to cool off. Neither party could now contemplate any retreat or any bending of principle without fear that such concessions would irreparably breach its whole strategy. Realizing this, the government braced for a strike by appointing F.B. Kilbourn as Controller of the steel industry with "custody and control of such property and assets of each of

the Companies as he in his uncontrolled discretion and judgement may deem necessary in order to manage, operate and carry on the business of each."⁸⁰ Kilbourn had little opportunity to wield his powers before the U.S.W.A. labour force at the Sault, Hamilton and Sydney brought primary steel production to a halt on 14-15 July, 1946. In Ottawa, Mackenzie King was immediately confronted by colleagues, notably Ilesley, who advocated a tough and legalistic response to the "illegal" strikes.⁸¹ The Prime Minister characteristically opted "at all costs to keep on with conciliation" and then with uncharacteristic suddenness of July 16 committed the whole issue to the Commons Standing Committee on Industrial Relations, which he believed would "bring out the facts, and the mere fact that they are being investigated publicly will make the party in the wrong come to time."⁸² King's naive faith in publicity overlooked the deep and irreconcilable differences that divided steel labour and management by July, 1946. "Much as I hate strikes," Dunn privately noted later in July, "since one has been forced on us I would rather that it lasted long enough to be a cure for a while even though we suffer by waiting."⁸³ Sault unionist William Mahoney was equally trenchant, warning the strikers two months after the strike had begun that "[i]f we give up now and agree to the latest proposals, it means the end of the union. It is imperative that we stick together until our original demands are met."⁸⁴

Unlike the turbulent confrontation brought on in Hamilton by Stelco's attempts to maintain production with non-union labour, the strike at the Sault was remarkable peaceful. R.C.M.P. reports monotonously reported "peaceful picketing" outside the Algoma gates by

small groups of men.⁸⁵ Although management tried to frighten labour into going back to work by brandishing the government's twenty dollar a day penalty on illegal strikers, they made it clear that non-union operation of the mills was "entirely in the hands of the Steel Controller," who as yet had done little to exercise his considerable authority.⁸⁶ Except for a trickle of domestic coke, "the chief industry of the Soo," as Dunn noted, "was like a cow gone dry."⁸⁷ Against this passive background, Algoma labour and management postured and negotiated, all the time keeping an eye on the decisive events unfolding at Stelco.

Algoma defended its tenacious refusal to bargain with the steelworkers' union at the July sessions of the Commons Industrial Relations Committee. Presented by E.G. McMillan, corporate counsel, the brief depicted Algoma struggling to readjust and survive in the uncertainties of the post-war economy and therefore unable to meet exorbitant union demands. While "substantial earnings" had been made during the war, Algoma now found itself hampered by government controls, inflation of costs and materials shortages. In short, "the company now finds itself in a straitjacket ... unable to supply the national demands of our customers for steel." McMillan continued to stress that "even with all these advantages throughout the war we did not make enough money to justify a dividend on the common shares which were exchanged for the \$14,000,000 odd of bonds formerly outstanding." This patently misleading description of Dunn's parsimonious "no dividends" policy was followed by the equally misleading assertion that Algoma was "at present" not in receipt of any government subsidies.⁸⁸ When asked to what extent government assistance bolstered

Algoma's wartime production, McMillan flatly claimed that "the government did not give us anything" except special depreciation. Asked if Algoma faced a possible default, McMillan insisted that an imposed 19½¢ an hour wage increase would unquestionably drive the company into "difficulties from the drop of a hat." The five dollar price increase on steel, McMillan maintained, was merely a remedial measure, easing accumulated cost pressures. Finally, Algoma quashed any possibility of national employer status for the steel industry by citing innumerable differences in production costs and working conditions among the "big three".⁸⁹ Throughout the brief, McMillan echoed Dunn's firm belief that northerly Algoma should not be forced to pay wages comparable to subsidized Dosco or centrally located Stelco.

Labour's response to Algoma's "straitjacket" arguments was, just as it had been prior to the strike, to insist that the company "had fared very well during the war," benefitting from generous capital assistance programs that had fattened corporate coffers. Millard alleged that while Algoma per capita productivity had increased 173% since 1939, payroll had lagged at 133%.⁹⁰ "This company can pay," the union brief bluntly concluded.⁹¹ As management and labour both recited their set pieces, it became starkly apparent that little room remained for conciliation amid the atmosphere of exaggeration and allegation. L.W. Brockington, appointed by the Commons committee in August to negotiate the dispute, emerged from negotiations with labour and management as frustrated as his predecessor, W.D. Roach. Brockington's proposed settlement, including a 10¢ hourly increase retroactive to April, 1946, an immediate return to work and subsequent

arbitration of union security and other crucial issues, were summarily rejected by labour.⁹² By mid-August, the union had tempered their demands to an hourly increase of 15 $\frac{1}{2}$ c, achieved in stages up to 1 December, 1946, and a 44 hour week. This proved unacceptable to management, especially Dosco where corporate insolvency was continually cited in response to wage demands.⁹³ As early as 2 August, the government's Director of Industrial Relations had informed Labour Minister Mitchell that he did not "expect this dispute will be settled through further negotiations between the parties jointly or otherwise ... Means will therefore have to be found to direct a settlement."⁹⁴ In the Commons, C.C.F. leader M.J. Coldwell voiced the growing mood of exasperation and suspicion surrounding the strike, alleging that "there are certain powerful interests in this country which dislike the progress that labour made during the war and were determined ... that these new unions and even the older ones had to be broken if possible."⁹⁵

The existence in Ottawa of a solid but not entirely visible phalanx of opposition to union demands tended to substantiate M.J. Coldwell's allegation and explain the lethargic pace of negotiation. While steadfastly refusing to bargain jointly with Millard, executives of the "big three" were clearly coordinating their strike strategies behind the scenes. Throughout the strike, Dunn kept up frequent and frank communications with Hilton of Stelco, praising Hilton's "fine job at Ottawa".⁹⁶ Furthermore, Dunn and Hilton found a sympathetic hearing in the office of Reconstruction Minister Howe, who, like the steel presidents, saw that the strike not only aggravated the criti-

cal steel supply situation of 1946 but also jeopardized his whole post-war steel strategy. In the Commons Howe gloomily reported that "there is very little primary steel going on the market today," while outside Algoma later announced through The Financial Post that the strike had cut into estimated annual production by 28%.⁹⁷ In early 1947, Hilton told the Toronto Telegram that the strike "had set back Canada's independence of imported steel at least one year."⁹⁸ In the face of persistent criticism from C.C.F. stalwarts like Clarence Gillis, Howe vigorously upheld the companies' claim that varying production costs and product lines precluded national bargaining with labour and that any overgenerous wage settlement would scuttle Ottawa's wage and price stabilization policy. "The Gordon line may bend here and there," argued one Liberal backbencher, "a salient may be driven into it here and there, but we cannot allow that Gordon line to break."⁹⁹ When the union rejected the government's first bid to conciliate a settlement, a 11¢-11½¢ wage increase proposed in mid-September, Howe urged Mitchell to be tough.

Frankly, it seems to be that the Government is in danger of being forced into full acceptance of Millard's first proposals, while Millard shows no indication of willingness to accept any less proposal ... Having taken the punishment for this long time, I would be inclined to wait a little longer before taking down the flag.¹⁰⁰

The close and sympathetic understanding between steel management and several of the most influential Liberal ministers was a prime determinant in prolonging the steel dispute into early October and eventually bringing labour to accept a 13¢ wage increase, although the alliance of business and government was ultimately not strong enough to stem

the tide of union security at Stelco.

The decisive breakthrough came in late September when Controller F.B. Kilbourn met with Millard in Montreal and mapped out a proposed settlement built around a 10¢ pay hike retroactive to 1 April, coupled with a 3¢ boost upon return to work. What made the agreement palatable to labour was the assurance that all the contentious issues as yet unsettled would be mediated by T.F. Rahilly, the former Algoma general manager and a man known for his fair-minded approach to labour problems. While the union had retreated considerably from its objective of a 40 hour week and a 19½¢ wage increase, the tacit acceptance of a uniform wage structure by the companies signified that "big steel" could no longer circumvent the authority of the U.S.W.A. as national bargaining agent. Secret ballots conducted on 2 and 3 October at the three strike-bound centres gave Millard an overwhelming mandate (7169:789) to bring the strike to a conclusion.¹⁰¹ By 8 October, the Steel Controller had ordered Algoma to reheat its furnaces. Although Kilbourn's pervasive powers were not officially rescinded until February, 1947, he had done little to intervene in the internal affairs of any of the three companies. Besides Kilbourn's initiative in the wage settlement, the federal government's major move to facilitate an end to the strike was a guarantee to subsidize losses incurred by Dosco in meeting its increased labour costs. Quick to sense an opening, Dunn too sought Ottawa's largesse to offset increased wages and the "straitjacket" placed on operations by Ottawa, but succeeded only in gaining subsidies to counter the effects of controls not wages.¹⁰²

The steel strike of 1946 left deep and festering wounds in the

steel industry. For the first time, labour had effectively challenged the hegemony of management and government in setting the framework within which the steel industry would develop. The centralizing economic pressures of the war had created a dynamic national framework for steel management decisions and now labour, not surprisingly, sought to emulate their employer's achievement.¹⁰³ Although Stelco and local 1005 finally concluded an agreement in March, 1947 ensuring some measure of union security, an atmosphere of distrust and recrimination was to permeate labour relations in Hamilton for many years.¹⁰⁴ At Algoma there was a partial return to the amicable relations between labour and management that had prevailed before the strike. While Dunn privately continued to associate the C.I.O. with social ills ranging from communism to working class sloth, by 1949 he had sufficiently mellowed to advise C.H. Millard to protect his health with vitamin E. Nonetheless Algoma did keep alive its hope of reestablishing the pattern of wage differentials and as late as 1949 still bucked against having to conform to "the Hamilton pattern."¹⁰⁵ The 1946 strike had instilled a sense of solidarity, not only in labour, but in "big steel" management. "I agree with you," Dunn told Hilton in 1948, "that in this and in fact all matters relating to the difficult labour problems of the day we should keep each other informed and act in unison for the advantage of our industry."¹⁰⁶

It was the thorny problem of determining exactly how the general advantage of the Canadian steel industry was best pursued that continued to bedevil not only labour matters but also the whole range of government-industry interaction in the post-war period. The

business of adjusting and reconciling the varying perspectives on the post-war role of Canadian steel created acute tension throughout the period down to the Korean War. The catalyst in this ongoing process of accommodation and redefinition of goals was C.D. Howe, who, as Reconstruction and subsequently Trade and Commerce minister, vigorously directed the planning of a national industrial strategy. Aided by a widely-felt mood of industrial unpreparedness induced by the early Cold War and the broadening implications of economic continentalism, Howe was gradually able to ease the friction between big government and big steel and replace it with a spirit of cooperation emphasizing mutually advantageous goals. Dunn of Algoma not only acted as midwife at the birth of this cooperative relationship but fully exploited its possibilities to build Algoma's financial and operational performance to unprecedented heights.

Throughout the late 1940's the federal government continued to exercise its pervasive controls over national steel production. "We are still half bound and half free in prices," Dunn lamented in late 1946.¹⁰⁷ Responding to Dunn's incessant pleas for the removal of irksome price controls, export embargoes and enforced distribution of Algoma raw steel output, Howe curtly explained their necessity by informing the steel president that Canada was "still in a period of acute shortage of primary steel."¹⁰⁸ Howe elaborated his reasoning before the Commons:

As I say, steel is today controlled, and it is being moved in an abnormal way to meet the abnormal demand which is partly the result of Canada's inability to buy steel outside its own boundaries. That is a unique situation; it does not ordinarily apply ...

It is necessary for Canada to get the last ounce of production from its own facilities and to control the price, which otherwise would be a runaway price.¹⁰⁹

Working under Howe's authority, Steel Controller F.K. Ashbaugh not only prodded and redirected primary production but subsidized the supply of essential scrap to steel mills.¹¹⁰ "In summary," Howe stated with some pride to the Canadian ambassador in Washington, "both domestic and export uses of iron and steel in Canada are under effective control which is directed to the elimination of less essential uses."¹¹¹

The transitional controls program had been conceived and implemented as a palliative for certain chronic post-war industrial shortcomings. Confronted with an unrelenting demand for steel, Howe concluded that certain structural changes were necessary in the Canadian primary iron and steel industry, if, as he believed, Canada was to be set on an economic even keel. Howe had predicated the imposition of post-war controls on the idea that the steel economy would ultimately establish a new equilibrium and the grip of controls could then be relaxed. Government planners were plagued with a nagging sense of Canada's vulnerability to fluctuations in world steel markets. If Canada was not to be caught off guard by overreliance on foreign steel, Ottawa reasoned, then her best defence lay in a high degree of steel self-sufficiency. "Industrial preparedness" became a watchword for national security in the late 1940's and, in the planners' eyes, was best affected through a judicious expansion of national steelmaking capacity accompanied by a careful balancing of primary and finishing capability. While there was general agreement between government and industry on the necessity of expansion, the rub again

lay in mutually determining the scope, size and speed of such restructuring and, most importantly, how the burden of risk was to be apportioned. Unlike the crisis-filled atmosphere that had produced the forced industrial growth of the war, discussion in the late 1940's was more bilateral in nature, with industry and government each adroitly jockeying to extract the maximum advantage at the minimum risk.

Throughout 1947, C.D. Howe had frequently pointed to the "lack of balance" in Canadian steel capacity.¹¹² Aware that subsidies and controls could only temporarily alleviate the situation, he announced in December of that year that "consideration" was being given "to inducing our manufacturers to provide more basic steel."¹¹³ Unfortunately Howe's eagerness to promote expansion coincided with the final phasing out of the industrial expansion programs developed during the war. The special depreciation program implemented in 1944 had, for instance, been wound up in November, 1947, depriving Howe of one of the tools that had provided him with so much leverage in shaping wartime industrial production. Having approved \$1.4 billion in depreciation concessions in three years, there was little willingness in Ottawa by 1947 to perpetuate industrial expansion at so great a cost to government.¹¹⁴

If the public sector was unwilling to assume the burden of the expansion, the steel industry was itself extremely hesitant to underwrite additional capacity unassisted. Despite near capacity operation at Canadian steel mills, a mood of uncertainty prevailed in the late 1940's. "It bears emphasis," a 1949 government report warned,

"that the post-war expectations of businessmen ... may not be realized in full. Changes in price-cost structure, a weakening of demand at home and abroad, increased domestic and foreign competition, increased foreign exchange difficulties, changes in the national and international political atmosphere ... are all factors that may well defeat or curtail plans of business to produce the capital and consumer goods needed if the economy is to continue to expand."¹¹⁵

Dunn reflected the same mood of unease about the future. After commenting upon the American government's disposal of its wartime steel plants at bargain basement prices to the private sector, Sir James reacted bitterly to Howe's call for expansion.

What a different situation is suggested to us by our Government--we are to spend all the money borrowing a portion of it from the Government without interest and taking the obligation of imposing a royalty on our products to get the money to pay the Government back. All we get is freedom from interest while the burden hangs over us during good or bad times and times ahead are unpredictable both as to costs during construction and a period of good or bad business to say nothing of the unpredictability of war or peace when plants for war production would be an error in peace time and vice versa.¹¹⁶

Howe's efforts to prod the major steel producers into voluntary expansion with minimal government assistance were dealt a severe check in late 1948 and early 1949 when "big steel" resolutely refused to respond to the minister's blandishments. "I think the 'big 3' are 'missing the boat' not going along with your offer," Frank Sherman of Dofasco empathized with the minister.¹¹⁷ Dunn was quick to assure Howe that his refusal was not rooted in lack of interest but in uneasiness over the conditions of expansion. "I hope something can be

done for Algoma," he told Howe in April, 1949, "rounding out our steel works and making us more effective and valuable in Canadian steel position for peace and war."¹¹⁸ Dunn's resistance stemmed from a fear of committing Algoma to heavy capital expenditures at a time of spiralling costs and uncertain future markets, a fear that was exacerbated by the belief that Algoma was already being "robbed of the fruits of her labours and her wise development" by current government control policies.¹¹⁹

Critics of "big steel's" cautiousness depicted the refusal as a brake on national economic expansion by a selfish industry.¹²⁰ "I believe that the crux of the matter," one C.C.F. critic perceptively noted, "is that the steel companies believe this is an abnormal market. They are afraid that when the defence program is over, and the needs of war are met, they will find themselves with plants on their hands and no market for the product; that is the problem."¹²¹ Further fuel was added to the controversy by parallel developments in the United States, where a cool response by the steel industry to President Truman's call for enlarged steel capacity in the 1949 State of the Union address had inflamed business-government relations.¹²² Like their American counterparts, Canadian steelmen defended their stance by marshalling evidence to illustrate their generally low profit margins, later averaged at 6.14% for Algoma, Stelco and Dosco over 1945-49, and the unrelenting pressure of rising costs.¹²³ While Dunn and steelmakers maintained generally affable relations with Howe in Ottawa, it was evident by 1949, as the Cold War precipitously intensified, that a critical credibility gap had opened

between the steel industry and government. "I judge that you are not interested in expanding your plant at this time," Howe laconically told Dunn in March, 1949. "Perhaps you are right."¹²⁴

Out of the atmosphere of distrust and hesitancy in the late 1940's, a workable relationship between government and "big steel" did reemerge in the early 1950's. This new understanding was of primordial importance in facilitating the phenomenal growth in Canadian steelmaking capacity from 1950 into the 1960's. Whereas capacity had expanded 17.6% in the five years immediately after the war, the 1950-5 period witnessed an increase of 34%, followed by 28.1% between 1955 and 1960 and a staggering jump of 72.6% between 1960 and 1965.¹²⁵ Much of this spectacular growth was attributable to C.D. Howe's stellar abilities in building lines of communication between business and government and engendering a consequent commonality of outlook and purpose. Drawing heavily upon his experience with Munitions and Supply in the war, Howe either directly fostered or inspired a series of advisory and lobbying bodies that vitally contributed to forging cooperative bonds between Ottawa and the key sectors of the economy, notably steel. These channels of communication proved strong enough to overcome the kind of hesitancy displayed by Dunn in 1949. In December, 1947, an advisory committee on steel, adjunct to the minister's office, had been established "to explore the possibility of our getting or saving a maximum amount of U.S. dollars in steel imports."¹²⁶ In January, 1949 the Steel Control Advisory Committee had a "reunion" and as Hilton of Stelco reported its members, including Dunn, "were unanimous in saying that their services would

be available again in that capacity if the need arises."¹²⁷

Further rapport between business and government was fostered by the Industrial Defence Board, a quasi-government advisory panel, and the Industrial Preparedness Association, a purely private lobby group. The I.D.B. was founded in 1948 "to advise the Government of Canada and the Minister of National Defence on all matters pertaining to the industrial war potential of Canada." Egged on by Defence Minister Claxton's clarion warning that the next war would be a "tough slugging match," the I.D.B. warned the cabinet in late 1948 that Canada lacked sufficient steel capacity to satisfy both civilian and military demand.¹²⁸ While not officially linked, the Industrial Preparedness Association tackled the same problems as the I.D.B. using sub-committees of industrialists to assess Canada's economic muscle. Dunn of Algoma and Hilton of Stelco were prominent members of the iron and steel committee. Although acknowledging that these bodies were "purely advisory", H.G. Hilton was left with the impression that these bodies were in fact intended to constitute "a shadow Department of Munitions and Supply."¹²⁹

Beyond the formalized channels of interaction, the real crucible of new industrial strategies was the system of personal friendships centring around Howe himself.¹³⁰ Harry J. Carmichael, who had served on the Production Board during the war, was, for instance, co-opted to head the I.D.B. Through Carmichael, Howe was placed in close contact with the industrial community, a linkage that reinforced his own broad range of personal contacts.¹³¹ Before the Commons Howe openly avowed his belief that "frank discussions" with the leaders of

industry was the shortest route to joint confidence and cooperation.¹³² The Dunn-Howe friendship again exemplified this pattern. While Howe frequently differed with Dunn on the degree of the government's obligation to business, he harboured a deep respect for the Algoma president, seeking not only his advice but at times even deputizing him to perform government functions.¹³³ When Howe purchased a home at St. Andrews, site of Dunn's New Brunswick home, business confidences came to be frequently mingled with social niceties. Howe's whole approach to the problem of industrial preparedness was to find the right men with the right ideas and trust that the desired results would inevitably follow.

An industry [he said in 1951] is built around a man with specialized skill and driving ability. Until that man comes forward to actively take charge there will never be a steel industry anywhere.¹³⁴

Throughout 1949 and 1950 a new modus operandi for business-government relations emerged. Although Howe frequently complained that it was "impossible to create a feeling of urgency about getting on with defence production," there were definite signs of hope.¹³⁵ By 1949 the "steel famine" had sufficiently eased for Ottawa to contemplate dismantling steel controls. "The reason we have been cutting down the subsidies," Howe announced in mid-1950, "and plan to do away with them entirely at the end of this fiscal year, is that conditions are coming back to normal.... We feel that we have bridged over the transitional period and allowed the steel plants to function as they did in pre-war days."¹³⁶ Algoma and Dosco were both permitted to reenter the export trade and subsidies were limited to payments on

semi-finished steel shipped from Dosco to central Canada.¹³⁷ Reviewing the record of control, Howe vigorously defended steel control as the "most necessary" of the transitional controls. At one point in 1949, Steel Control was subsidizing the monthly transfer of 18,000 tons of Algoma steel and 10,000 tons of Dosco steel to Hamilton.

"In other words," Howe boasted, "when conditions were abnormal we changed the geography of Canada."¹³⁸

While the immediate problem of steel supply had been alleviated, the pressing question of long-term expansion remained and was accentuated by the outbreak of the Korean flare-up. By late 1951 not only had a sense of common purpose been achieved between Ottawa and the steel industry but policies and mechanisms had been fashioned to achieve a vastly expanded steel capacity in Canada. Cognizant of the incredible strain that a forced growth of steel capacity would exert on civilian steel consumption, not to mention the tendency to inflate already rising costs, Ottawa opted for a more cautious, staggered approach to steel expansion, designed to stretch over the next half decade.¹³⁹ With this gradualist approach came agreement on the respective responsibilities of government and industry in the prospective expansion. After a meeting with Ottawa defence planners in January, 1949, H.G. Hilton of Stelco reported:

They also agreed that if, in the judgement of the industry, adequate capacity for peacetime needs exists and the government feels increased capacity necessary for national defence provision of such added capacity should not be the responsibility of private industry but that of the government.¹⁴⁰

Government's apparent willingness to underwrite the risk of expansion

met with Dunn's approval. Writing confidentially to Lord Glendyne, Sir James admitted that while expansion would be financed partially from internal savings there was "a chance we may be able to get more favourable terms from Ottawa."¹⁴¹ Throughout the next few years Howe was kept intimately informed of Algoma's plans and progress towards greater capacity. In July, 1950, for instance, the minister lunched in Dunn's private rail car in Ottawa and "went over most things relating to Algoma."¹⁴² At its very roots, this frank and harmonious relationship was founded on Howe's implicit trust in "the judgement of the industry." "Certainly we will have a steel industry that will be based on the requirements of this country," he told the Commons in 1950, "and our steel men will be delighted to put in the capacity to the full extent they are able to sell the product."¹⁴³

In the fall of 1950 Howe introduced the Essential Materials (Defence) Act "to make sure that Canada's military program and Canadian international commitments with regard to preparedness and defence can be implemented without undue delay or disruption."¹⁴⁴ After outlining measures for allocation of essential materials and regulation of prices, Howe confidently predicted that steel would not need strict control because the primary producers were already "working closely with the department." Forced to accelerate his gradualist approach by the intense pressure for steel generated by the Korean War, Howe christened the new Defence Production Department in April, 1951 in order to centralize control over the government assisted and controlled portions of the economy.¹⁴⁵ Once again, government had undertaken to rationalize the shortcomings of a crucial sector of the

private economy; undertaking to minimize its risks and implement a balanced industrial strategy unattainable by purely private initiative. "Free enterprise has fallen down on the job on the production of steel," barked C.C.F. critic Claire Gillis,¹⁴⁶ but for Dunn and Howe the new balance of responsibilities was simply a reflection of a mutually and advantageous compromise.

Algoma profited handsomely under these new arrangements. Not only were large volumes of structurals and shell steel produced at the Sault,¹⁴⁷ but the corporation fully utilized special depreciation privileges extended by the government to facilitate a wholesale expansion in the early 1950's. Relying upon a sizable capital loan from General Motors, Algoma embarked upon a mammoth expansion and modernization of its coking facilities, blast furnaces, open hearths, structural mills and, most important, the erection of a Morgan finishing mill. "Today," the shareholders were informed in 1953, "you have an expanded capacity in coke ovens, blast furnaces, open hearths and mills all the way down the line. Particularly outstanding is the increase in first class finishing capacity from 180,000 tons to 682,000 tons of which in each case 120,000 tons is rail capacity."¹⁴⁸ Total cost of these additions was estimated at \$39,489,000 in 1951, but by 1955 the price had escalated to \$83,000,000.¹⁴⁹ Although Dunn had been instrumental in nurturing the atmosphere in which this expansion had occurred, it was Dunn's heir apparent, David Holbrook, who brilliantly conceived and implemented the program in the face of his aging president's increasing conservatism and not infrequent paranoia.¹⁵⁰ What ultimately brought deep satisfaction

to all associated with the corporation was the fact that the program had finally corrected Algoma's long-standing lack of productive balance and that accelerated depreciation had immensely reduced the immediate financial burden of the additions. In late 1954, Sir James boasted to his old friend E.R. Peacock in London that of the \$60,000,000 already spent on Algoma expansion "substantially more than half of which has already been amortized from earnings before tax."¹⁵¹

The 1950-55 expansion program marked Algoma's coming of age as a steel producer. A combination of Dunn's frugal "no dividends" policy, Holbrook's managerial competence and the federal government's assistance had finally enabled the corporation to exorcise the deficiencies that had limited and at times hobbled its productive and earning potential since the days of F.H. Clergue. In May, 1954, Holbrook informed his president that

... we are currently experiencing just about the lowest blast furnace cost of hot metal in the industry and that in consequence, our open hearth ingot cost is about the best of any mill in the Chicago, Detroit, Cleveland, Pittsburgh or Valley Districts Beyond this we can still cut dollars from our costs when we realize the full efficiencies of our new equipment. Our problems are now mainly in expanding our markets and building up volume.¹⁵²

The expansion and modernization of Algoma in the early 1950's was accompanied by similar government assistance to other Canadian steel producers, notably Stelco and Dofasco,¹⁵³ and coincided with a period of consistently high North American steel demand and significant technological change, notably in continuous casting and oxygen steel-making.¹⁵⁴ Bolstered by Howe's assistance, Canadian steel was able

to keep abreast of these crucial developments and maintain if not improve its continental competitiveness. By 1955, a level of productive capacity generally acceptable to both the industry and government had been attained. Steel capacity, Howe told the Commons,

is to be 4,800,000 tons by 1955. At the present time consumption is about 5,500,000 tons. But there are certain types of steel Canada would never set out to produce. I have in mind, for instance, very heavy structural members. We have never supplied our full requirements, and I do not know it is advisable to do so. It is just as well to have a margin of tonnage that we import in good time, and do not require in poor times--just a little cushion for our steel industry, which has a rather restricted market.¹⁵⁵

By mid-decade "big steel's" prospects for further government assisted expansion were abruptly checked. The cessation of Korean hostilities had allowed the relaxation of steel control regulations by 1954 and the deceleration of defence-oriented industrial expansion.¹⁵⁶ "I cannot arrange for accelerated depreciation for the next round of expansion," Howe regretfully told Sherman of Dofasco in September, 1955. Explaining that he had been pressured by the Prime Minister and Finance Minister, Howe said that he "had to reluctantly concur with the views of the Government that special treatment must end."¹⁵⁷ Howe once again voiced his dissatisfaction with this turn of events, when he wrote to Sherman in early 1956.

I think we are all waking up to the fact that 4,500,000 tons of steel capacity is not enough when compared with the United States; England and Germany. It seems to me that our steel industry must keep on building for some time to come. Imports of steel and steel products are still about the largest items in our too large list of imports.¹⁵⁸

For Howe there was a cruel irony in the fact that the Trans-Canada pipe-

line project he had so zealously promoted, and which largely brought about his political demise, was designed to stimulate continued steel prosperity in Canada. "I believe that we finally have won the battle of the pipeline," he confided to Holbrook of Algoma in May, 1956, "which should mean business for all Canadian steel companies, probably enough to keep your mill reasonably full for some years."¹⁵⁹ Swept aside in the Diefenbaker onslaught, Howe could later at least take solace in the knowledge that he had directly contributed to the solidification of a strongly Canadian steel industry, assured not only of a large and stable share of the domestic market but also competitive with foreign steel in terms of productivity and profitability.

The growing resilience of Canadian steel in the years 1945-55 enabled Algoma to rectify other shortcomings that had plagued its insolvent early decades. Tariff and freight rates, the two contentious issues so frequently portrayed by pre-war management as prime impediments to corporate prosperity, progressively diminished in significance throughout these years. After repeated pre-war frontal assaults on the tariff and freight rate schedules, the post-war expansion and well-being afforded Algoma the opportunity of surmounting these two persistent barriers by somewhat less direct methods.

Algoma had emerged from the war with high hopes of utilizing its expanded capacity to exploit steel-hungry European markets. Blocked in this ambition by Ottawa's export sanctions, Dunn bitterly argued in 1947 that Canada "should sell at least a million tons of steel abroad while she can and build up credits instead of keeping

the steel at home and encouraging extravagance."¹⁶⁰ Frustrated in his European ambitions, Dunn eyed the American market with equal ambitions, noting in 1946 that Algoma's "purpose is to preserve what advantage present tariffs give us unless the surrendering of any advantage is compensated by more favourable entrance to the larger American market."¹⁶¹ While earlier Algoma presidents had ceaselessly pleaded for higher tariffs, Dunn now brazenly proclaimed that Algoma was "not afraid of low tariffs or no tariffs at all."¹⁶² It was clear however that Algoma's road into the American market and to a more generous slice of the Canadian market increasingly lay in its ability to exploit improved productivity and the better economies of scale afforded by expansion rather than by the age-old Canadian remedy of tariff-tinkering.

Although Algoma managed during the late 1940's to reestablish itself as a rail exporter, shipping rails to American railways and as far abroad as India, the decisive breakthrough into the American market came in the Korean war period. Not only was it able to market large quantities of its shell steel to American armament producers, but Algoma concluded a highly advantageous, long-term supply deal with the General Motors Corporation of Detroit in May, 1951. Conceived of by Holbrook, the idea of tying Algoma to a large American steel consumer at first aroused only suspicion in Dunn, ever on guard against challenges to his control of Algoma. G.M.'s interest in Canadian steel was sparked by the ongoing American steel "famine" and the realization, as Holbrook stressed, "that Algoma was the only producer whose existing plant was susceptible to substantial expansion

without going back into radical coke and blast furnace additions.¹⁶³ This reasoning, coupled to the American corporation's offer to extend long-term financing for Algoma expansion, gradually eroded Dunn's suspicions to the point that he actually visited G.M. president Charles Wilson in Detroit. The ensuing contract, signed in May, 1951, provided Algoma with a \$15 million loan to be repaid with shipments of Algoma pig iron and semi-finished steel to G.M. and its Canadian subsidiaries down to 31 December, 1967.¹⁶⁴ Not only had Sault steel found a steady market in the United States, but its steel was now also destined to flow to G.M. subsidiaries in southern Ontario. "[O]ur greatest customer, General Motors," Dunn enthusiastically noted.¹⁶⁵ Furthermore, the \$15 million loan along with Ottawa's depreciation allowances, precluded any necessity of resorting to external financing during the upcoming expansion program, a factor of great salience for a president unwilling to loosen his grip on corporate control at any cost.

Able to compete with American steelmakers for some types of American demand, Algoma's concern for tariff restructuring waned considerably. Although Canada's four integrated steel producers petitioned Ottawa in 1954 for "a modernization and simplification of the 1907 Customs Tariff," they freely admitted that the industry made no pretext of being an "infant industry" and that their goal was a rationalization, rather than an intensification, of the tariff.¹⁶⁶ Throughout the 1945-66 period the Canadian iron and steel tariff remained fairly consistently at a "moderate," and at times "low", level of protection, indicating that improved economies of scale and increased

productivity rather than heightened protection were more directly responsible for Canadian steel's post-war prosperity.¹⁶⁷ Further acknowledgement of Algoma's international competitiveness was won in May, 1955, when Mannesmann A.G., a German steel multinational, agreed to build a seamless tube works at the Sault, contracting Algoma to supply the raw steel for production.¹⁶⁸ As early as 1948, C.D. Howe had urged Algoma to develop a tube making capacity in order to cater to the demand for pipe generated by the burgeoning Canadian oil and gas industry. Unable to muster sufficient capital itself, Algoma pursued foreign backers to underwrite its aspirations, first with Sir Charles Hambro in England and ultimately with the German firm.¹⁶⁹ Adroitly negotiated by Holbrook, the Mannesmann deal allowed Algoma to capitalize handsomely on its newly expanded capacity. Estimating that Algoma would eventually be purveying about 275,000 tons of tube rounds to the Mannesmann mill, Holbrook remarked that it was "significant that three years ago we were not producing any steel for this class of business."¹⁷⁰

From the perspective of the Algoma boardroom it was clear that ability to produce steel on a continentally competitive basis must be matched by an ability to market its products competitively and to assemble its raw materials as cheaply as possible. Rail rates structured to cater to the needs of industrial "Old Ontario" had aroused Algoma's ire for decades. Under 1946 rates, for instance, Algoma faced a 41½¢ charge on every 100 lbs. of steel bars shipped to Oshawa, site of the G.M. works, whereas Stelco bars arrived for 18¢. When rate increases were proposed for 1947, Algoma protested vehemently,

demanding differentiated rates that would lessen the competitive disadvantage of northern industry.¹⁷¹ Thwarted in his bid to gain control of the Algoma Central or even start his own railway, Dunn concluded that it was imperative that Algoma break the monopoly of the railways and gain cheap entry to southern markets.

From the days of Hepburn [he reflected] I have wondered how we could make a similar inroad on the geographical privileges of Steel of Canada but never seem to be able to get anywhere which, perhaps, is the only reason why I have begun to feel that our only answer to the railways is Canada Steamships.¹⁷²

A director of the Canada Steamship Line since 1944, Dunn appreciated that the company's fleet offered Algoma the means of cheap and assured transport of its ore and coal requirements as well as offering some competitive leverage on the railways. Dunn's ambitions of using the C.S.L. fleet primarily for "upper lakes" traffic were repeatedly overruled by a majority of company directors whose inclination was to favour the needs of the lower lakes customers and "down river" traffic, a policy tailor-fit to Stelco's needs for coal and ore assemblage. Infuriated by Canada Steamship's willingness to sign "imbecile" contracts with Stelco, the Algoma president railed violently at the policies of the line's executive, citing, among other follies, the profligacy of maintaining passenger service on the Great Lakes.

Unable to have his way on the C.S.L. board, Dunn struck out to seize financial control of the line. "My present thought," he concluded in 1948, "is that we should take an interest big enough to swing the policy from down the river to the upper lakes as we must look ahead to people who can carry our coal and ore."¹⁷³ This resolved,

Dunn surreptitiously embarked upon a sustained buying drive for C.S.L. stock, a stock market campaign for which his more than forty years of financial fast-dealing stood him in excellent stead. Empowered by the Algoma Board to buy on the corporate account,¹⁷⁴ Dunn also pursued C.S.L. stock for his private account, a two-pronged assault that drove the selling price of C.S.L. common from \$15 to over \$50 a share by 1950. Sir James' market operations were underwritten by generous lines of credit, frequently surpassing a million dollars, extended by the Royal Bank and the Bank of Montreal. At one point in 1951, Dunn incurred the wrath of Royal Bank manager, W.E. McLaughlin, by wantonly overextending his credit line by \$500,000 to a total of \$1,500,000, in flat contradiction of the government's anti-inflationary freeze on loans to individuals for security purposes. McLaughlin rather plaintively expressed a hope that Dunn would be "quick to realize the sort of squeeze that we are in."¹⁷⁵

With assistance from Henry Gauer, a Winnipeg grain dealer also dissatisfied with C.S.L. policies, and J.W. McConnell of Montreal, Dunn worked Algoma into a position to exercise a controlling influence in the steamship company's affairs by April, 1951.¹⁷⁶ With control solidly established, Dunn sold his personal holdings in C.S.L. to Algoma at current market prices, an act of questionable financial propriety that yielded the President a handsome profit at the expense of his company. Having disposed of the old C.S.L. Board, Dunn turned to C.D. Howe for advice on the selection of a new Steamship President. Initially declined by J.V. Clyne of Vancouver, the presidency was given to T.R. "Rodgie" McLagan, the wiry former

President of Canadian Vickers. Along with McLagan, Algoma solidified its grasp on C.S.L. with interlocking directorships and maintenance of majority control, totalling at least 526,998 shares by 1954.¹⁷⁷

As if to symbolize Algoma's victory, C.S.L.'s newest laker was christened the S.S. Sir James Dunn in late 1951. At the Port Arthur launching of the vessel, the largest yet built in Canada, Dunn claimed that the vitality of Canadian shipbuilding was "a triumph of the man I admire most greatly," namely the local M.P., C.D. Howe.¹⁷⁸

The assurance of steady deliveries of American coal and ore to the Sault by the Canada Steamship Line was reinforced by the outright acquisition of Yankcanuck Steamships Ltd. in April, 1951.¹⁷⁹ Engineered by Holbrook, Yankcanuck provided Algoma with a small fleet of lakers capable of delivering finished steel to southerly markets and, like the C.S.L. deal, afforded Algoma some leverage in influencing Great Lakes freight rates. Dunn's determination to offset Algoma's geographical disadvantages in marketing its products was further evidenced by 1950 purchase of the Canadian Furnace Company of Port Colbourne. At a cost of \$2.5 million, Canadian Furnace afforded Algoma additional pig iron capacity, carrying the parent company's operations "into the centre of industrialized Old Ontario."¹⁸⁰

With control of two transportation subsidiaries and a productive beachhead in Canada's industrial heartland, Dunn congratulated himself that he had set the capstone in place on an Algoma "empire", an empire vertically integrated from its extractive to its marketing phases. In his more nostalgic moments, Sir James envisaged himself as the man who had brought order to the shambles of Clergue's brilliantly conceived but recklessly implemented industrial empire at the Sault.¹⁸¹ When David Holbrook suggested in 1955 that Algoma had

achieved such economies of scale that it could seriously contemplate entering the American pipe market, Dunn revealingly replied:

This crossing of the River to the U.S. side is all in line with the original programme of that very great man Francis Hector Clergue. I think we are entitled to aim at taking and holding our place in both U.S. and Canadian markets. I can envisage a time--not too many years ahead--when we will have become, as far as necessary, equipped from the raw material to the finished product on both sides of the line. Our geographical position for this achievement is not equalled by any other Canadian steel enterprise.¹⁸²

"Crossing the river to the U.S. side" had a much deeper significance than the fulfillment of Clergue's vision and Dunn's narcissism. It was one indication of the ineluctable continentalist pressures which had buffeted and at times engulfed the Canadian economy in the years since the frenzied production of the Second War had jolted North America out of the lethargy of the Depression. Canadian steel, stalwartly supported by Canadian government, had met the American advance on the national economy with a double response. The working consensus achieved between Howe and the leaders of Canadian steel in the years since 1940 had, in the first place, enabled Canada to build up sufficient productive capacity by the mid-1950's to minimize the disadvantages of its previous high level of dependency upon foreign steel. By 1955, "big steel" in Canada was in a position to ward off the intrusion of all but the most specialized types of foreign steel by matching the costs, productivity and economies of foreign producers and by incorporating technological advances in steelmaking at a comparatively rapid pace. As Howe had theorized before the Commons, steel imports acted as a "cushion", absorbing marginal consumption in

fat years and contracting in lean years. The Canadian steel industry had thus become an exemplary model of a National Policy "infant industry" that had grown up, able to compete continentally, evolve its own industrial strategies and retain a high degree of domestic control. Reaction to the pressures of continental integration at the extractive levels of the industry, on the other hand, followed a markedly different course over the same period.

Availability of high grade American iron ore from the Superior ranges, coupled with the belief that Canada's iron ore was of a low-grade and inaccessible nature, had long precluded the development of a viable Canadian iron ore industry. Since the late 1930's low grade Algoma sinter from the Helen mine was finding its way to American blast furnaces, serving in a small way to offset Canada's heavy reliance upon Mesabi ore. War and the accelerated depletion of high grade, domestic ores intensified American interest in Canada's iron ore potential. James Dunn had a formative influence on these developments. To George Humphrey of the Hanna Company he confided in 1947:

Canada as a nation is increasingly concerned with iron ore. Our Minister [Howe] has discussed our low grade ore with me frequently lately and has told me something of Labrador. I am anxious to learn as much about the latter as you can tell me. While you and I are still 'young' men we must devote our energies vigorously to assuring North America of a plentitude of the raw materials from which to maintain our dominant position in the steel trade of the world.¹⁸³

For Dunn, the iron ore question had a deep personal importance that transcended pure economics and touched upon the psychological mainsprings of his entrepreneurial motivation. The Helen Mine in

Dunn's mind symbolized not only the resurgence of a vital sector of Canadian mining but acted as a touchstone for a belief in his own vitality as an entrepreneur and his at times obsessive veneration of the hardy individualism he saw as central to North American society. "Our Continent must maintain individual liberty," he sermonized to Humphrey, "and dominate the world to save it."¹⁸⁴ Dunn's messianic fervour was intensified by his post-war realization that Britain had abandoned "her old Imperial role", leaving North Americans either to shoulder the burden "or retreat and contract our vast production of trade and our own consuming powers."¹⁸⁵ Unwilling to counsel retreat, Dunn advocated that North America gird itself with a strong resource base, a crucial sector of which was iron ore.

I believe [he said in 1947] Divine Providence intended people of the two Sault's to tie a knot between the two nations, so that together we will develop the vast wealth to the north of us and thus perpetuate into the distant future the dominance of North America in the industrial wealth, power and culture of the world. We North Americans should have no economic boundary lines.¹⁸⁶

Often perplexed by the technical intricacies of steelmaking, Dunn could readily grasp the relatively simple act of ore extraction at the Helen and in time it came to assume an immense and pervasive significance for him. "I agree," he told Beaverbrook, "that the extent of the ore discoveries and of the developments gradually being made there far out-rank the importance of the Algoma Steel Company itself."¹⁸⁷

Dunn's predisposition for an integrated continental resource strategy was willingly reflected by fellow Canadian and American steelmen and by Ottawa politicians, although their motivation varied

from that of the Algoma president. Desperate in their search for new ore sources, American steel companies were scouring North and South America for exploitable ore bodies. As George Humphrey explained in 1950, Canada's Steep Rock and Labrador ore proved alluring for more than geological reasons.

I think it would be practically impossible to get any Americans interested whatever in the Labrador ore, but because we over here have so much confidence in our friends in government in Canada and in the stability of the Canadian Government and economic condition, we feel that some other disadvantages as compared to Venezuela can be offset.¹⁸⁸

From Howe's perspective, a rejuvenated Canadian iron ore industry held out the prospect of diminishing Canada's long-standing dependency upon American ore. Total national self-sufficiency in iron ore, he reasoned, was an impossibility, given the intricate mix of ores necessary to produce steel, many of which were unavailable in Canada. As he informed the Commons in 1948:

All ore goes into the Great Lakes pool. Our industry gets the ore it needs out of the pool and the United States industry gets the ore it needs. A steel company cannot operate on one class of ore.¹⁸⁹

At other times Howe spoke of the ore trade as "a natural movement" that operates "without trade restriction and as the economy dictates."¹⁹⁰ Echoing these sentiments, Dunn ebulliently told the New York Herald Tribune that Americans must "remove trade barriers between our two halves of North America; write 'interchangeable' on the money of both countries."¹⁹¹ Drawn together by a common perspective on continental resources, Howe, Dunn and Humphrey formed the nucleus of a strong transnational government-business lobby dedicated to exploiting the iron wealth of Quebec and Ontario. Joined by Jules Timmins, "Charlie"

Wilson of G.M.C., Quebec premier Duplessis and others, the group exerted a formative influence on the opening of a new Canadian mining frontier in the 1950's. Interest in mineral exploitation was intertwined with advocacy of other schemes for integrated continental development. Dunn became an outspoken proponent of the St. Lawrence seaway proposal, arguing that "all the guns, all the planes and all the gold would avail us nothing if iron ore were not available to 75% of the blast furnaces in the U.S."¹⁹²

Within the continental alliance, both Howe and Dunn insisted that the benefits of the iron ore frontier be subject to an equitable reciprocity in which Canadian interests were well protected. Howe frequently reiterated his belief that Canadian entrepreneurs must "do all they can to make Labrador a Canadian project" and in Dunn and the Helen mine he found cause for considerable hope.¹⁹³ By the fiscal year 1951/2, Algoma Ore Properties was able to market 1,232,006 tons of Algoma sinter, approximately half of which was shipped south to American consumers.¹⁹⁴ A major expansion program, announced in late 1953, was geared to extract a further 50 million tons of ore from the Helen and its adjacent ore bodies.¹⁹⁵ "New developments of iron ore in Canada, which include Labrador, Steep Rock and Algoma, have advanced to a point where it is difficult for the Government to appear to be promoting a particular project," Howe told Cyrus Eaton in the spring of 1954. "I am wondering if the Canadian expansion in iron ore is not being overdone."¹⁹⁶ Despite the economic slump of 1954, two years later Howe displayed little anxiety that iron ore development had been "overdone".

For many years we have been dependent on the United States for practically all our iron ore and within the last year this situation has been changed, so that Canada is now an exporter of iron ore. Surely this development is beneficial to our steel industry and is so regarded by the industry.¹⁹⁷

If any one factor was to be singled out of the myriad of influences shaping the remarkable post-war advances of the Canadian steel industry, it would unavoidably have to reflect in large measure the dynamic relationship that had developed between "big steel" and the federal government since the outbreak of the Second War. At the hub of this business-government linkage was the relationship of Sir James Dunn and C.D. Howe. Not so much a friendship as a meeting of minds, the Dunn-Howe relationship welded the fortunes of Algoma Steel to the policies of Ottawa. In the face of this federal ascendancy, the influence of the Queen's Park government had dwindled, significant only as a factor in the securing of hydro power rights and in the simmering and inconclusive feud over the cancelled Hepburn iron ore bounty. The primacy of federal policies was the direct result of the ability of Howe and the steelmakers of Canada to strike upon mutually advantageous goals and mutually acceptable methods of achieving them.

The Dunn-Howe entente was never totally free of friction. On at least two occasions Sir James clumsily intruded into the arena of federal politics by pressuring "Chubby" Power to seek the national Liberal leadership in both 1948 and 1951 in a bid to spite Howe.¹⁹⁸ Yet by the early 1950's minister and steel magnate shared a strong bond of trust and respect. Both came to speak of the fate of Algoma and the fate of Canada in the same sentence. For Dunn and "Rodgie" McLagan

at Canada Steamship, Howe was "the Great White Father" in Ottawa.¹⁹⁹ For Howe, Dunn amply substantiated his belief that "millionaires" were the artisans of national prosperity.²⁰⁰ Howe certainly saw little conflict of interest between his role as a federal policy-maker and his status as confidant to a steel president. Throughout the early 1950's, for instance, Howe bought a sizable holding of Algoma common stock, which he sold at a handsome profit when forced, as an executor of Sir James' estate, to surrender his investment. While Howe may have at times failed to make the subtle distinction between the good of James Dunn and the good of Algoma Steel, by and large he shared the Algoma president's view that the ends of business and government were largely coterminous. A year after Dunn's death in early 1956, just before Sir James' massive Algoma holdings were parcelled out to a group of predominantly Canadian buyers, Howe reiterated his belief in this parallelism of interests to Lady Dunn: "It seems to me that the transaction as now arranged is not only good for the Dunn estate but is also good for Canada."²⁰¹

Notes

- 1 "Location and Effects of Wartime Industrial Expansion in Canada 1939-1944," Department of Reconstruction and Supply, Directorate of Economic Research, Nov. 1945, p. 6, RG 28 A, vol. 13. See also: J.D. Gibson, "Post-War Economic Development and Policy in Canada," C.J.E.P.S., Vol. 20, 1954.
- 2 JHD to H. Richards, 17 Feb. 1945, DP 233.
- 3 Kilbourn to J.H. Berry, Acting Chairman, Departmental Advisory Committee on Dominion-Provincial Conference, 31 Aug. 1944, DP 330.
- 4 Submission of R.H. McMaster to Steel Control on post-war steel outlook, 25 Aug. 1944, ibid.
- 5 "Report on the Algoma Steel Corporation," Coverdale and Colpitts, 10 Dec. 1943, Algoma Steel Historical Files.
- 6 "Location and Effects . . .," op. cit., p. 10.
- 7 Kilbourn to Berry, op. cit.
- 8 P.C. 7153, 29 Nov. 1945.
- 9 J.H. Perry, Taxes, Tariffs and Subsidies, op. cit., chp. 26.
- 10 Submission of R.H. McMaster . . ., op. cit.
- 11 JHD to M. Hoey, 22 Aug. 1944, DP 330.
- 12 See, for instance, "What Post-war Markets for Steel: Count on General Expansion to Absorb our Doubled Capacity," The Financial Post, 29 July, 1944.
- 13 "Location and Effects . . .," op. cit.
- 14 JHD to editor, The Financial Post, 21 Nov. 1945, DP 328.
- 15 W.T. Hogan, Economic History of the Iron and Steel Industry in the United States, op. cit., vol. 4, p. 1445. For the origins of the American "steel crisis" of the late 1940's, see: Henry W. Broude, Steel Decisions and the National Economy, New Haven, 1963.
- 16 JHD to E.J. Brunning, Coal Controller, 7 Aug. 1945, DP 328 and H.J. Sissons to T.M. Bryson, 25 July, 1945, Howe Papers, vol. 2.
- 17 I. MacLaren, Assoc. Coal Controller, To A. MacNamara, Dep. Min. of Labour, 10 July, 1946, Rg 27, vol. 1744.
- 18 M.A. Hoey to C.D. Howe, 14 May, 1946, DP 330.
- 19 Howe to H.B. Hosmer, 7 May, 1946, Howe Papers, vol. 171.

- ²⁰JHD to Howe, 6 May, 1946, and Howe to JHD, 27 May, 1946, DP 329.
- ²¹M.A. Hoey to JHD, 21 Oct. and 4 Nov. 1946, DP 330.
- ²²JHD to D.S. Holbrook, 7 April, 1946, DP 329.
- ²³"British Iron and Steel Corporation," file 4, DP 328.
- ²⁴M. Hoey to JHD, 28 Nov. 1946, DP 330. Howe told the Commons on 20 March, 1946 that Canada was in "a period of balancing our sales with our ability to produce" and therefore exports would be "closely governed" DHC, 20 March, 1946, p. 118.
- ²⁵"Memo. for Ottawa," prepared by JHD, c. mid-1946, DP 329 and C.D. Howe to JHD, 20 June, 1947, DP 234.
- ²⁶Dunn inundated Howe with telephone calls during these years, trying the Minister's patience in the extreme. Interview with Miss A. Saint-Denis, 25 May, 1977.
- ²⁷C.D. Howe to J.G. Fogo, 7 Dec. 1946, DP 329.
- ²⁸DHC, 17 July, 1947, p. 5888.
- ²⁹M. O'Brien to JHD, 20 Oct. 1947, DP 234.
- ³⁰JHD to J.S. Duncan, 24 Aug. 1947, DP 331.
- ³¹Howe to JHD, 21 Dec. 1947, DP 329.
- ³²"Speed-up policy in War Industries," RG 27, vol. 80, file 401: 55.
- ³³See: R.M. Adams, "The Development of the United Steelworkers of America in Canada, 1936-1951," unpublished M.A. thesis, Queen's University, 1952 and I.M. Abella, Nationalism, Communism and Canadian Labour, Toronto, 1973, chp. 3.
- ³⁴C.H. Millard, Victory Needs Steel, published by S.W.O.C., Canadian region, 1942, introduction.
- ³⁵ibid., pp. 9-10 and recommendations.
- ³⁶Crisis in Steel, published by the National Office, U.S.W.A., Toronto, 1943.
- ³⁷JHD to H.S. Hamilton, 26 May, 1943, DP 329 and S.V. McLeod, acting General Manager, to JHD, 31 July, 1943, DP 330.
- ³⁸JHD to McGowan, 2 April, 1943, DP 212.

³⁹ Millard to W.L.M. King, 21 Aug. 1942 and King to Millard, 26 Aug. 1942, King Papers, J1 series, vol. 330.

⁴⁰ J.W. Pickersgill, The Mackenzie-King Record, 1939-44, Vol. I, Toronto, 1960, entry for 3 Sept. 1942, p. 441. King also noted: "What we prevent even more than what we do is what counts most in the long run."

⁴¹ Millard to King, 27 Aug. 1942, King Papers, J1 series, vol. 330. Ironically King himself was predisposed to classifying steel as a national industry, but was put off this course by Millard's "belligerence".

⁴² "Labour trouble at Sault Ste. Marie, 29 Aug.-3 Sept., 1942;" memo. by T.F. Rahilly, DP 330; Crisis in Steel, op. cit. and R.M. Adams, "The Development ...," op. cit.

⁴³ "Steel Workers: Algoma Steel Corporation," strike file, statement of Hon. Humphrey Mitchell, 13 Jan. 1943, RG-27, vol. 424 and P.C. 5963, 14 Sept. 1942.

⁴⁴ "Majority Report," Report of the Royal Commission appointed to report as to the adjustments (if any) of wage rates of employees in Algoma Steel Corp. Ltd. and Dominion Steel and Coal Corp. Ltd., RG 27, vol. 424.

⁴⁵ "Minority Report," ibid.

⁴⁶ Crisis in Steel, op. cit., p. 6.

⁴⁷ Pickersgill, op. cit., pp. 466-74.

⁴⁸ ibid., p. 473. Due to the strike, the national steel industry failed to achieve its production quotas in January, 1943. The "steel budget" had projected output of 243,189 tons, but only 178,973 tons was produced. Steel production statistics, RG 28A, vol. 307.

⁴⁹ Crisis in Steel, op. cit. There is no direct evidence to substantiate Millard's charge, but Dunn and McTague soon became close friends. See: JHD to McTague, 27 April, 1944, DP 329.

⁵⁰ Crisis in Steel, op. cit., p. 32.

⁵¹ Local 1005 did not win certification until 1944 and did not sign its first collective agreement with Stelco until early 1945. Adams, "The Development ...," op. cit.

⁵² Pickersgill, op. cit., p. 475.

⁵³ See: RG 27, vols. 428, 430, 435, 439 and 443.

- 54 Memo. from telephone call, 27 July, 1943, DP 330.
- 55 Interview with D.S. Holbrook, 4 Aug. 1977 and Adams, op. cit., pp. 144-54.
- 56 "Interim Report of Justice W.D. Roach," 16 July, 1946, RG 27, vol. 1744, p. 11.
- 57 Copy of agreement of 23 April, 1946, RG 27, vol. 1744.
- 58 M.M. Maclean to J.G. Fogo, 26 June, 1946, ibid. Fogo agreed that there were "fewer issues between Algoma and its local than in the case of the other steel companies." Fogo to Maclean, 2 July, 1946, ibid.
- 59 Kilbourn, Elements Combined, op. cit., p. 183 et seq.
- 60 Millard to A. MacNamara, 1 July, 1946, RG 27, vol. 1744.
- 61 JHD to editor, The Financial Post, 21 Nov. 1945, DP 328.
- 62 "The two Gordons [Fogo and McMillan] handle these labour questions with the help of David Holbrook and Louis Derrer and I remain on the side lines because I believe our friends will handle them well." JHD to T.A. Crerar, 27 April, 1949, Crerar Papers, box 88.
- 63 Adams, "The Development . . .," op. cit., p. 141 and Montreal Star, 24 July, 1946.
- 64 JHD to J.W. Hobbs, 25 July, 1946, DP 329.
- 65 D. Gordon to A. MacNamara, 16 July, 1946, RG 27, vol. 1744.
- 66 M. Hoey to A. MacNamara, 4 July, 1946, ibid.
- 67 DHC, 17 July, 1947, p. 5888.
- 68 JHD to J.G. Fogo, 21 Mar. 1946, DP 329.
- 69 Hearing of 26 July, 1946, Commons Standing Committee on Industrial Relations, Evidence, p. 295.
- 70 J.W. Pickersgill and D.F. Forster, The Mackenzie King Record 1945-46, Vol. III, Toronto, 1970, pp. 200-1.
- 71 ibid.
- 72 See, for instance: "What Steel Controllers Have in Their Laps," The Financial Post, 20 July, 1946 and Globe and Mail editorial 13 July, 1946.

- 73 C.H. Millard to H. Mitchell, 20 July, 1945, RG 27, vol. 1744.
- 74 Millard to Mitchell, 28 Feb. 1946, ibid.
- 75 Millard to M.M. Maclean, 28 May, 1946, ibid.
- 76 "Interim Report of Justice W.D. Roach on Steel Dispute, 16 July 1946, op. cit.
- 77 ibid.
- 78 Roach to M.M. Maclean, 22 June, 1946, RG 27, vol. 1744.
- 79 "Interim Report," op. cit.
- 80 P.C. 2901, 10 July, 1946. Kilbourn was appointed under authority of the National Emergency Transitional Powers Act of 1945.
- 81 Pickersgill, op. cit., pp. 284-5. Premier Drew of Ontario called for the use of "seasoned troops" to suppress the strike, Drew to L. St. Laurent, cable, 24 Aug. 1946, RG 27, vol. 1744. The Algoma/U.S.W.A. contract of April, 1946 contained a "no strike" clause.
- 82 DHC, 16 July, 1946, pp. 3489-90 and Pickersgill, op. cit., pp. 285-6.
- 83 JHD to J.W. Hobbs, 25 July, 1946, DP 329.
- 84 Globe and Mail, 10 Sept. 1946.
- 85 R.C.M.P. "O" division reports, RG 27, vol. 499.
- 86 Globe and Mail, 10 Sept. 1946.
- 87 JHD to Dr. C.H. Greig, 17 Sept. 1946, DP 213.
- 88 All McMillan quotations from Commons Standing Committee on Industrial Relations, 24 July, 1946 sitting. Although Algoma was receiving government freight subsidies throughout 1946, McMillan's statement was true in the strictest sense. Algoma did however have a guarantee from Howe's department of guaranteed profits of \$500,000 a quarter which was held in abeyance during the strike. "Both Mr. Howe and I thought we were better not to execute the contract while labour difficulties threatened a possible strike... the questioning of our people by judicial and parliamentary authorities justified the decision to defer execution of the document." JHD to JG. Fogo, 22 Oct. 1946. DP 329.
- 89 Commons Standing Committee ..., op. cit. There are definite indications that Dunn personally wrote the Algoma brief. This would account for some of the outrageous claims made therein.

⁹⁰ Glace Bay Gazette, 6 Sept. 1946 and statistical information furnished by Murray Cotteril, Publicity Director of U.S.W.A., to Labour Minister Mitchell, n.d., RG 27, vol. 1744.

⁹¹ "Submission of U.S.W.A. to Industrial Disputes Inquiry Commissioner," June, 1946, p. 3, ibid.

⁹² "Brockington's proposed settlement," 15 Aug. 1946, RG 27, vol. 1745.

⁹³ C.M. Anson, General Manager, Dosco, to H. Mitchell, 10 Sept. 1946 and M.M. Maclean to H. Mitchell, 2 Aug. 1946, RG 27, vol. 1745.

⁹⁴ ibid.

⁹⁵ DHC, 21 Aug. 1946, p. 5175.

⁹⁶ JHD to J. Hobbs, 25 July, 1946 and "memo of conversation between E.G. McMillan and Hilton of Stelco," 17 Sept. 1946, DP 330.

⁹⁷ DHC, 26 Aug. 1946, p. 5358, and Financial Post, 12 Oct. 1946.

⁹⁸ Toronto Telegram, 21 Mar. 1947.

⁹⁹ L.E. Baker, DHC, 21 Aug. 1946, p. 5145.

¹⁰⁰ Howe to Mitchell, 20 Sept. 1946, RG 27, vol. 1745 and Pickersgill and Forster, op. cit., pp. 340-1.

¹⁰¹ Labour Gazette, Oct. 1946, p. 361 and Adams, "The Development...", op. cit.

¹⁰² E.G. McMillan to JHD, 8 Oct. 1946, DP 330.

¹⁰³ Adams, "The Development ...," op. cit., p. 228.

¹⁰⁴ Labour Gazette, Oct. 1946, p. 1436.

¹⁰⁵ E.G. McMillan to JHD, 6 May, 1949, DP 348.

¹⁰⁶ JHD to H.G. Hilton, 26 Jan. 1948, DP 333.

¹⁰⁷ JHD to J.G. Fogo, 22 Oct. 1946, DP 329.

¹⁰⁸ Howe to JHD, 20 June, 1947, DP 234.

¹⁰⁹ DHC, 27 March, 1947, p. 1814.

¹¹⁰ ibid., 3 March, 1948, p. 1824.

¹¹¹ Draft notes for reply to Hume Wrong, 24 Dec. 1947, Howe Papers, vol. 86.

- 112 See, for instance, DHC, 17 July, 1947, p. 5888.
- 113 ibid., 19 Dec. 1947, p. 498 and Kilbourn, Elements Combined, op. cit., chp. 12.
- 114 Encouragement to Industrial Expansion in Canada: Operation of Special Depreciation Provisions, 10 Apr. 1944-31 March, 1949, prepared by O.J. Firestone, King's Printer, Ottawa, 1948. Between 1940 and 1946, the "big three" steelmakers received \$14,128,441 in depreciation allowances; Algoma receiving \$3,170,472. DHC, 21 March, 1949, p. 1674.
- 115 Encouragement ..., op. cit., p. 11.
- 116 JHD to D.S. Holbrook, 7 March, 1949, DP 332.
- 117 Sherman to Howe, 4 Feb. 1949, Howe Papers, vol. 173. For an interesting interpretation of North American business-government relations in the early Cold War, see: R.D. Cuff and J.L. Granatstein Canadian-American Relations in Wartime--from the Great War to the Cold War, Toronto, 1975, chp. 7 "Looking Back at the Cold War."
- 118 JHD to Howe, 4 April, 1949, Howe Papers, vol. 173. It was rumoured that in a moment of pique, Howe angrily threatened to seize the big steel plants and put them under government operation. No documentary evidence has been found to substantiate this allegation.
- 119 Memo. by JHD, 12 Oct. 1948, DP 395.
- 120 See cartoon in Toronto Star, 3 Feb. 1949.
- 121 C. Gillis, DHC, 2 April, 1951, p. 1555.
- 122 Hogan, op. cit., vol. 4, chp. 39 and Broude, op. cit.
- 123 R.B. Elver, "Economic Character and Change in the Canadian Steel Industry since 1945," Mineral Information Bulletin MR94, Mineral Resources Branch, Dept. of Energy, Mines and Resources, Ottawa, 1969, table 4 and Algoma Steel Annual Report, 1948/9.
- 124 Howe to JHD, 26 March, 1949, Howe Papers, vol. 173.
- 125 Elver, op. cit., p. 8 and Lucy Morgan, The Canadian Primary Iron and Steel Industry, brief submitted to Royal Commission on Canada's Economic Prospects, Ottawa, 1956, chp. 4 and table 11.
- 126 Minutes of Minister's Advisory Committee, 15 Dec. 1947, Howe Papers, vol. 86. Defending the stringent import restrictions of the 1948 Foreign Exchange Conservation Act, Howe claimed that the "guiding objective" was "to encourage industries, activities and practices which will earn or save United States dollars." DHC, 23 Feb. 1948, p. 1492.

- 127 H.G. Hilton to Maj.-Gen. G.B. Howard, 31 Jan. 1949, DP 348.
- 128 Industrial Defence Board, Minutes of meetings, 5 May and 6 Oct. 1948, Howe Papers, vol. 197.
- 129 "Memo: Defense Organization--Ottawa," H.G. Hilton's office, 1 Feb. 1949, DP 348.
- 130 See: Peter C. Newman, The Canadian Establishment, Vol. I; Toronto, 1975, appendix E: "The Munitions and Supply Gang."
- 131 See, for instance: Howe to Carmichael, 14 Oct. 1950 and Carmichael to JHD, 24 Oct. 1950, DP 335.
- 132 DHC, 8 Sept. 1950, p. 459.
- 133 In 1952, for instance, Howe asked Dunn to report on the European steel situation. Howe to JHD, 11 Oct. 1952, Howe Papers, vol. 179. Conversely Dunn was quick to seek the minister's cooperation in coping with innumerable bureaucratic details, such as securing visa, tickets for the Coronation or even special preference in ordering a Vickers Viscount aircraft for private use.
- 134 DHC, 14 June, 1951, p. 4095.
- 135 Howe to Essington Lewis, 9 May, 1952, Howe Papers, vol. 180.
- 136 DHC, 26 June, 1950, p. 4175 and "Have We the Key to Great Steel Famine?", The Financial Post, 30 Oct. 1948.
- 137 Howe to D.A. Jones, Steel Controller, 11 May, 1949, RG 49, vol. 20.
- 138 DHC, 26 June, 1950, p. 4175.
- 139 "See Ottawa Braking Plan for Steel Boom," The Financial Post, 1 Jan. 1949.
- 140 "Memo: Defence Organization..." op. cit.
- 141 JHD to Glendyne, 19 Oct. 1949, DP 217.
- 142 JHD to G.M. Humphrey, 11 July, 1950, DP 334.
- 143 DHC, 26 June, 1950, p. 4174.
- 144 ibid., 8 Sept. 1950, p. 444.
- 145 15 George VI, c. 4; see also: RG 49.
- 146 DHC, 14 June, 1951, p. 4075 and RG 49, vol. 18.

- 147 D.S. Holbrook to K.S. Harris, 1 Nov. 1951, DP 335.
- 148 Algoma Steel Annual Report, 1952/3.
- 149 "Summary of Expenditures Necessary to Increase Iron and Steel Production and Produce Additional Rolled Products--Algoma Steel Corp. Ltd.," prepared by D.S. Holbrook, 12 April, 1951, Algoma Steel Historical Files and Algoma Steel Annual Report, 1955.
- 150 Dunn's receptivity to any proposal for expansion at Algoma was still coloured by the memory of the tinplate mill fiasco of the late 1930's. Dunn's relations with even his senior executives was also still marked by a deep, almost irrational, fear of betrayal or sedition. This naturally introduced a certain disfunctionalism into corporate planning.
- 151 JHD to Peacock, 8 Dec. 1954, DP 230; details of depreciation in annual reports. See also: J.H. Perry, Taxes, Tariffs and Subsidies: A History of Canadian Fiscal Development, op. cit., vol. 2, pp. 452-4.
- 152 Holbrook to JHD, 29 May, 1954, DP 339.
- 153 "In five years we have doubled our ingot production: 1950--300,000 tons; 1955--600,000 tons," F.A. Sherman of Dofasco wrote Howe on 24 Sept. 1955. "We spent over \$50,000,000... This, of course, would not have been possible without accelerated depreciation." Howe Papers, vol. 195. See also; Kilbourn, Elements Combined, op. cit., chp. 12 and J.H. Dickey, DHC, 11 Dec. 1953, pp. 580-1.
- 154 Hogan, op. cit., vol. 4, chp. 41.
- 155 DHC, 7 May, 1953, p. 4924.
- 156 See: RG 49, vol. 49 and Report of the Department of Defence Production, King's/Queen's Printer, Ottawa, 1951-4.
- 157 Howe to Sherman, 30 Sept. 1955, Howe Papers, vol. 195.
- 158 ibid., 3 Jan. 1956, Howe Papers, vol. 184.
- 159 Howe to D.S. Holbrook, ibid., vol. 185. Canadian steelmakers were only able to provide the small diameter pipe for Trans-Canada project, with the main trunk, large diameter pipe, being imported.
- 160 JHD to Essington Lewis, 9 May, 1947, DP 331.
- 161 JHD to J.G. Fogo, 21 March, 1946, DP 329.
- 162 JHD to J.A. McPhail, 15 Feb. 1946, DP 330. A broader perspective on Canada's post-war international trade dilemma is provided

in R. Cuff and J.L. Granatstein, "The Rise and Fall of Canadian-American Free Trade, 1947-8," C.H.R., December, 1977.

163 D.S. Holbrook to JHD, 26 Oct. 1950, DP 334.

164 Algoma Steel, Minutes of Executive Committee of Board of Directors, 10 May, 1951 and "Algoma's commitments under contract with General Motors and Canadian Subsidiaries," Algoma Steel Historical Files.

165 JHD to C.E. Wilson, 2 June, 1951, DP 336.

166 H.G. Hilton to J.J. McCann, Minister of National Revenue, 27 Oct. 1954, DP 340. Copy of detailed tariff submission, prepared in 1953, in DP 336.

167 R.B. Elver, "Economic Character ...," op. cit. Anti-dumping and the industry's interests in the GATT negotiations have remained objects of vital concern for Canadian steel.

168 JHD to A.D. Nesbitt, 12 May, 1955, DP 340.

169 Hambro to JHD, 9 June, 1949, DP 333 and Holbrook to JHD, 21 Oct. 1954, DP 339.

170 Holbrook to JHD, 20 Oct. 1955, ibid.

171 "A Brief on behalf of Algoma Steel Corp. Ltd.," re: application of Railway Association of Canada, 5 Feb. 1947, Algoma Steel Historical Files.

172 JHD to J.G. Fogo, 28 Nov. 1949, DP 332.

173 JHD to E.G. McMillan, 25 Oct. 1948, DP 332.

174 Minutes of Directors' Meetings, op. cit., 20 Nov. 1948.

175 McLaughlin to JHD, 4 Sept. 1951, DP 242.

176 See: Sault Daily Star, 30 April, 1951.

177 "Memo: C.S.L. Ltd.," 14 July, 1954, DP 338.

178 Montreal Star, 6 Dec. 1951.

179 "Agreement of 26 April, 1951," Algoma Steel Historical Files.

180 P.G. Harrison to JHD, 29 May, 1950, DP 334 and Algoma Steel Annual Report, 1949/50.

181 In 1946, Dunn commissioned Alan Sullivan, author of The Rapids, to write Clergue's biography, to be entitled Before the Tide. Sullivan died before completion.

182 JHD to Holbrook, 25 March, 1955, DP 339. Clergue had in fact incorporated a tube works in 1902, but predictably it had failed.

183 JHD to Humphrey, 18 Dec. 1947, DP 329. Dunn also corresponded with Cyrus Eaton, head of Steep Rock Iron Mines, and was rumoured at one point to have refused an offer to buy out Eaton's Steep Rock holdings.

184 ibid., 20 Dec. 1946.

185 JHD to R. Adeane, 8 March, 1947, DP 208.

186 The Evening News, Sault, Michigan, 5 ug. 1947.

187 JHD to Beaverbrook, 9 Dec. 1949, DP 216. See also: JHD to M.L. Duplessis, 17 July, 1952, DP 225 and JHD to P.G. Dunn, 4 May, 1946, DP 233. See: Conrad Black, Duplessis, Toronto, 1977, chp. 18.

188 Humphrey to W.H. Durrell, 27 March, 1950, Howe Papers, vol. 176.

189 DHC, 23 Feb. 1948, p. 1518.

190 ibid., 4 Oct. 1949, p. 524.

191 4 Jan. 1949.

192 Montreal Star, 6 Oct. 1952.

193 Howe to J.B. Cardwell, 15 April, 1950, Howe Papers, vol. 176.

194 Algoma Steel, Annual Report, 1951/2 and G.W. MacLeod to JHD, 3 April, 1952, DP 336.

195 Northern Miner, 5 Nov. 1953.

196 Howe to Eaton, 12 March, 1954, Howe Papers, vol. 182.

197 Howe to J. Phillips, 4 July, 1956, ibid., vol. 185.

198 N. Ward, ed., A Party Politician: The Memoirs of Chubby Power, Toronto, 1966, pp. 394-7. Dunn was annoyed with the minister in 1948 because "some ruling of Howe's had caused difficulty for Algoma Steel." Dunn tried again in 1951. See: "July and August 1951," in "Political Jottings," Power Papers, Queen's University Archives, box 1.

199 McLagan to JHD, 23 Feb. 1954, DP 338.

200 Howe to H.R. Milner, 2 April, 1955, Howe Papers, vol. 183.

201 Howe to Lady Dunn, 12 April, 1957, ibid., vol. 138.

EPILOGUE

In March, 1954, an eager reporter from Beaverbrook's Evening Standard intercepted Sir James Dunn on his way to the boat train at the end of a visit to England. When asked his plans for the future, the seventy-nine year old steel magnate haughtily answered: "I am going back to Canada to do more work."¹ Throughout his last years, Dunn took an inordinate and vainglorious pride in the success and longevity of his business innings. When Ben Fairless stepped down from the presidency of U.S. Steel in 1955, Dunn rather snidely cabled his best wishes: "I send you warm greetings and every kind thought and think it all wrong that you retire at 65 while I go on in my small way at 80."² This tremendous self-esteem, tangibly symbolized by his Algoma empire, was for Dunn mingled with a growing sense of bitterness and isolation. Faced on the one hand by what he perceived as the insidious "slavery of bureaucracy,"³ gnawing relentlessly away at the hardy individualism he saw as the foundation of western civilization, Dunn had also to contend with the disheartening attrition of his old financial acquaintances. "The old group of merchant bankers," he told "Chubby" Power in 1950, "who made London--and London made England--are all dead."⁴ Dunn combated these dyspeptic observations by simply redoubling his efforts at Algoma and intensifying his keen vigilance over all his many other business involvements. He conducted himself as if he and the values he embodied and practiced would live forever. Certainly the Canadian public perceived the aging and rather eccentric mogul of Canadian steel in this heroic light. Dunn was, in the words of Maclean's, "the last of the multimillionaires."⁵ After proposing a feature story on Dunn's

long career, a bumptious young Canadian reporter assured the steel president in 1950 that "it would be a nice way of putting forward a little propaganda about the merits of our economic system. The Horatio Alger story still excites."⁶ Until within two days of his death, Sir James Dunn continued to trade heavily and frequently on the Montreal and Toronto stock exchanges. There was always money to be made. "Sir James not only made money;" Beaverbrook noted in The Three Keys to Success, "he enjoyed money. He lived usefully and he died rich."

Long before his death on New Year's day of 1956, it had become unavoidably apparent that Dunn was amongst the last generation of a dying breed of North American capitalists. The fame that Dunn publicly attracted through his last years at Algoma was no doubt occasioned by the knowledge that his feat of monolithic control at Algoma would never be duplicated again. Sir James, as the Globe and Mail eulogized, "was among the last of a type once common in North America--the totally self-made man."⁷ By the mid-1950's, the odds of any would-be successor retracing Dunn's illustrious path to wealth and ironclad corporate control were greatly diminished by obstacles thrown up by a vastly changed and modified capitalist system. Enconced in his position of solid financial and operational control over Algoma, Dunn himself had sensed that the times were changing. Since the Ives Royal Commission of 1944/5 had first scrutinized the structure of income taxation, the financial rights and privileges of "closely held" corporations, such as Algoma, had come under increasing pressure for reform.⁸ "I have no hesitation," one member of parliament critically pointed out in 1953,

in mentioning in the House that the great Algoma Steel Company which issues an unconsolidated balance sheet from

which you cannot get any information about its subsidiaries whether Sir James Dunn likes it or not, there are some subsidiaries of Algoma Steel which are making as much money as Algoma Steel itself. Yet this Company has not paid any dividends to its shareholders for over 20 years.... How can you expect people to participate in our industries unless there is a law to protect the investments of our people.⁹

The key to much of Dunn's success in revivifying Algoma had lay in his power to allocate arbitrarily corporate profits. Praised by R.S. McLaughlin on his "ability to 'plough back' such a large percentage of your earnings,"¹⁰ Dunn's position was increasingly threatened in the late 1940's and early 1950's by changes in the income tax and company laws of Canada. "It appears to me," Finance Minister D.C. Abbott noted in 1950 as he introduced new taxation regulations on undistributed income, "as sensible to encourage these family corporations to pay reasonable dividends while at the same time making it possible for them to retain profits essential for growth and expansion without imposing on shareholders an almost impossible potential tax burden."¹¹ New taxes plugging old loopholes, the creeping incidence of personal and corporate taxes and the ever insistent call for dividends from Algoma's long suffering shareholders all made Dunn's style of financial control and management increasingly untenable.¹²

Dunn's style of business leadership was also vitally threatened by the escalating complexity of modern business enterprise. A financial manager of superlative calibre, Dunn progressively found himself out of his depth in the myriad technical matters that constitute the management of a modern steel plant. In fact, Dunn's inability to grasp or act upon many of the pressing demands for modernization confronting the steel industry in the 1950's introduced a dysfunctional element into

Algoma's corporate planning, much to the chagrin of the firm's senior paid executives. When Ben Fairless departed the U.S. Steel Corporation in 1955, he grudgingly noted that "the trouble with the old-time management was that it was just a little too individualistic." Acknowledging that it was "the lone wolf genius" who had given birth to many of the giants of American steel, Fairless reluctantly conceded that the time had come for professional management. "Some critics," Fairless concluded,

Fortune magazine is one of them--deplore the fact that all businessmen today seem to be modest and polite duplicates of one another instead of flamboyant 'characters' as in the old days. But you cannot have it both ways, and today's man in the gray flannel suit is ten times more efficient than his more colorful, more hot tempered predecessor.¹³

Such was exactly the case at Algoma. Having created the new company in 1935 in an act that bore all the marks of the classic Schumpeterian entrepreneur, Dunn's utility in perpetuating the fortunes of Algoma through routine management was progressively diminished. The ultimate success of the whole Sault venture lay not with the captains of industry like Clergue and Dunn, but in the hands of the trained professional managers. While financial control would always be the ultimate seat of authority, it was technocratic expertise that would govern the success of the investment. C.D. Howe, upon hearing that David Holbrook had been elevated to the Algoma presidency in May, 1956, was quick to acknowledge that the appointment was "long overdue" and similarly that George MacLeod, now head of the Algoma Ore Properties Ltd., had the "recognition he deserves."¹⁴ As J.K. Galbraith has perceptively noted:

Thus what the entrepreneur created passed inexorably beyond the scope of his authority. He could build. And he could exert influence for a time. But his

creation, were it to serve the purposes for which it was brought into being, required his replacement. What the entrepreneur created, only a group of men sharing specialized information could ultimately operate.¹⁵

Algoma's transition from "one-man" steel company to technocratic corporation was ably and impartially overseen by C.D. Howe, D.S. Holbrook and the corporate lawyers. Howe saw his status as an executor of the Dunn estate not only as an act of personal loyalty to a friend, but as a national duty. After hurriedly divesting himself of his own Algoma holdings, Howe devoted his prodigious energy to the management and disbursement of Sir James' massive controlling block of Algoma common shares. Although Dunn had bequeathed his entire estate to his widow and children, Howe speedily concluded that there could be no question of their assuming executive control at the Sault. "I think," he confided to David Holbrook shortly after Sir James' death, "we can agree that none of the heirs should continue in charge of the property."¹⁶ Howe's decision was shaped by the immediate necessity of marshalling sufficient funds to pay the succession duties on the estate, a payment estimated at about \$35,000,000.¹⁷ Only by disbursing some, if not all, of their Algoma holdings could the heirs hope to satisfy this heavy obligation imposed by the state. More importantly, Howe was vitally concerned that control of Algoma should devolve into responsible hands. With the news of Dunn's passing, and the sudden hope of dividends on the valuable stock, the market price for Algoma common had leapt dramatically upwards. In the very act of dying, Dunn had unwittingly created his last "bull" market. Howe rightfully feared that under such volatile conditions, Algoma might fall victim to unscrupulous interests that could use the controlling block

of shares "to raid the finances of the company."¹⁸ "I think," he advised Holbrook, "it would be better for Algoma to have ownership that is better able to supply the capital needs of the company for development."¹⁹

Howe's search for the "right customer," or as Lady Dunn called it, "the dynamic bid," lasted until April, 1957.²⁰ In the interim the Dunn block of shares attracted immense interest in the business and political world. After twenty years of Dunn's careful husbanding of corporate finances, control of Algoma seemed a lucrative and enticing investment opportunity in many eyes, especially in view of the significant expansion and 'rounding out' of its facilities during the early 1950's. Howe and the executors, aided and advised by Holbrook and various corporate lawyers, were confronted with a wide range of interested purchasers. American steel concerns, notably Inland Steel and the M.A. Hanna Company, eyed the profitable Sault works as a prospective Canadian beachhead for their operations. European firms like the German steel multinational, Mannesmann A.G., similarly viewed Algoma as an entrée into the expanding Canadian market. Within Canada, financial coteries, ranging from E.P. Taylor and associates to McIntyre Porcupine Mines, plotted and schemed to seize control at Algoma. Finally in the spring of 1957 agreement was reached and on 18 April the executors of the Dunn estate met for the last time to preside over the breaking-up of Sir James' financial empire. In a transaction involving \$60,000,000, a half million Algoma common shares were sold in blocks to Mannesmann A.G., A.V. Roe Canada Ltd., McIntyre Porcupine Mines and the Royal Bank. The Dunn heirs retained a small remnant of their previous holdings. No one

party held controlling interest, although Mannesmann and A.V. Roe possessed the largest blocks.²¹ As if to symbolize its manumission from Dunn's sway, the Algoma directors in 1957 split the stock 4:1 and voted the first common share dividend in corporate history.

In the Commons, Howe was verbally battered by the opposition parties for his role as an executor of the Dunn estate. Noting that Howe was occupying the Trade and Commerce portfolio at the same time as he was involved in directly determining Algoma's fate, Conservative Donald Fleming alleged that the minister was guilty of "a fundamental moral conflict."²² Howe answered his critics by asserting that his ties with Algoma through the estate were only "fiduciary" and that he had "no financial interest in any asset of the estate."²³ When the opposition continued its campaign of insinuation, Howe angrily defended himself. "If every little twerp--excuse me--someone who is just out of kindergarten can get up here and slander me as he likes, I do not like it."²⁴ By April, 1957, Howe's patience was so thin on the subject of the Dunn estate that he simply shouted "Nuts!" across the House floor in response to his persistent critics.²⁵ In C.D. Howe's mind there was no conflict of interest between his obligation to the late Sir James and the affairs of state. While the opposition searched vainly for evidence that the minister had abused his position as an executor of the estate, Howe assured himself that the only profit he had exacted was for Canada. He repeatedly talked of Algoma as "a great Canadian asset" that could not be squandered in a fit of rashness. "I do not want to see control of this company pass outside of Canada," Howe proclaimed on the eve of the final sale. "I think I have been influential in preventing any

trend in that direction."²⁶

The faith that C.D. Howe placed in the Algoma enterprise throughout the 1956/7 transition of ownership was amply justified over the next two decades. The effects of the business-government consensus that had formatively molded the tremendous expansion of the Canadian steelmaking in the early 1950's continued to be felt into the 1960's, well after both Dunn and Howe had gone to their graves. "Had Sir James appeared here today," David Holbrook declared at the hearings of the Royal Commission on Canada's Economic Prospects in January, 1956, "the Commission would have the greatest possible proof of unalterable belief in the future of the Canadian Iron and Steel Industry."²⁷ The succeeding twenty years bore witness to this faith in the Canadian steel industry in terms of bouyant demand, steady profits and near-capacity utilization. The vitality of Canadian steel has provided Canada with a model of competitive and domestically-controlled primary industry in an economy that has all too frequently suffered from foreign ownership and low manufacturing productivity.

The health of Canadian steel was soundly attested to by the Report of the Royal Commission on Canada's Economic Prospects. At the extractive level of the industry, the Gordon Commission pointed with satisfaction to Canada's new-found status as an iron ore exporter and predicted that iron ore was "likely to show the greatest increase in volume from the 1955 level over the next quarter century with a fivefold to sixfold expansion." Steel production, the commissioners reported, had become "a soundly-based and strong contributor to the Canadian economy" and could be "expected to triple in the twenty-five year period." These

conclusions coincided with the "bright picture" foreseen for Canadian steel by Algoma in its brief to the Commission. By Algoma's calculations, Canadian steel capacity would grow to 11 million tons by 1975, by which time it would amply cater to 85% of Canadian steel requirements.²⁹ The Gordon Commission's inquiries and conclusions were reinforced and amplified by a wholesale investigation of the steel tariff conducted by the Tariff Board in 1957. While conceding that the aging 1906 steel tariff was in need of some simplification in its complexity and terminology, the Tariff Board praised that competitiveness of Canadian steel producers and suggested that "in the case of not a few important lines of basic steel, the industry today practically disregards the tariff...."³⁰

By the late 1960's and early 1970's the optimistic predictions of the mid-1950's had been largely realized. "The Canadian primary iron and steel industry," observed one economist in 1969,

scores high both by the standards of performance of the Canadian economy and by the tests one can devise for comparing industries across international boundaries. It is an industry that has surged ahead, from its modest beginnings as a small, tariff-protected industry, to become a reasonably large giant (ranking tenth in world output of raw steel in 1966) able for the most part ... to stand on its own feet internationally.³¹

In 1974, the Steel Profits Inquiry conducted by Mr. Justice Willard Estey was moved to much the same conclusion. "This is an industry uniquely Canadian," Estey concluded.

It is almost entirely owned and financed by Canadians. It is an unusual phenomenon in our community in that it produces a manufactured product at prices currently below the United States, Western European and Japanese levels. There are few industries, or manufactured products, if any at all, in Canada today about which this can be said.³²

Such evidence of the vigour of Canadian steel continues to the present

day.³³

Since the death of Sir James, Algoma Steel has not lagged in the steady progress of Canadian steel. From 1956 to 1966 net earnings at the Sault climbed steadily from \$15.7 million to \$24.8 million, with only slight recessions in 1958 and 1960. Through the same period, net earnings as a percentage of total income averaged a very respectable 11%. This sterling financial performance was made possible not only by the buoyant and expanding demand for steel generated by the Canadian economy but also by the solid financial patrimony bequeathed to the company by Sir James Dunn, whose conservative if stingy fiscal policies gave Algoma a sturdy foundation on which to expand. Although dividends were regularly paid after 1957, the company still managed to devote \$195,905,000 to expanding Algoma's capacity in the years 1952 to 1962. Such spending ensured that the Sault steel works remained at the forefront of steelmaking technology. In 1957, Algoma became the eighth major steel producer in the world to adopt the revolutionary and highly efficient oxygen steelmaking process and, a decade later, introduced the cost-saving continuous casting method to its mills. Such progress helped Algoma to overcome, finally and decisively, its long-standing problems in diversifying its product line. In 1952, Algoma was able to compete for only 25% of the Canadian steel trade, but by 1963 with its new array of primary and finishing equipment, it was a keen competitor for 68% of the trade. Steel rails, the old centrepiece of Algoma's market offerings, had by 1966 withered to 7% of total sales. Algoma, after Dunn's death, continued to play a leading role in the reawakening Canadian iron ore industry. Relying upon both captive and free market

purchases, the company drew ore from its own Michipicoten mines, Steep Rock and from various American mines, including the Tilden mine in which it holds part ownership. When the venerable Helen mine was finally closed in 1962, its place was taken by the Sir James and George W. MacLeod mines. The progress of steel at the Sault over the last two decades has by any yardstick been remarkable and, while the credit to a large degree belongs to its present, competent management, few can forget, as the Sault Daily Star told its readers in 1956, that it is still "The House Sir James Rebuilt."³⁴

When Sir Leonard Tilley brought down his 1879 National Policy budget, he spoke in imperative terms of the necessity of cladding his frail young nation in some industrial armour. "We find in every country," he stressed,

no matter what country it is--take England for instance, take France or any other country that has risen to any position of wealth and commercial greatness--and you will find the iron interest is one of the most important interests of that country. I would also instance the United States. It may safely be said that it is the basis of every other industry. It is true we have not developed it to a great extent yet.³⁵

In the minds of many late nineteenth-century Canadian nationalists, iron and steel occupied an important, symbolic position. It loomed large as a sine qua non in their schemas for national survival. "In the great age of steel, this was the fondest of hopes," two historians have recently noted. "Iron and steel production was at once the prestige symbol of industrialization and the base of any respectable industrial power."³⁶

If the vision and hopes of Macdonald, ~~Tilley and the National~~ National Policy have in large measure been fulfilled by the Canadian steel industry, the journey from conception to reality does not lend itself

easily to teleological explanation. The fluctuating fortunes of Algoma Steel and its parent industry have been governed by an intricate skein of influences. Government, at all three levels of the Canadian constitutional framework, initially served to stimulate and protect the nascent industry. As the industry took root, the frictions and antagonisms generated between the federal and provincial political echelons frequently impeded or blocked progress, or forced the industry to seek preference under the developmental strategy of one or other authority. The federal paramountcy in time of national emergency has invariably accelerated the maturation of the national steel industry to the point that steel producers have been able to achieve self-sustaining growth and, to an increasing degree, shed the protective cloak of government assistance. If governments created the environment in which the industry began to germinate, it was the entrepreneurs who set the tenor of the industry's response. It was in the uncoordinated and sometimes coincidental meeting of government vision and business ambition that the Canadian steel industry found its origins and determined the pace of its progress. Ultimately however it was prescient men like Francis Hector Clergue and Sir James Dunn who, for a variety of motives, set the course for Canadian steel, leaving government to respond to their bold and often devious entrepreneurial navigations. The cost of their achievement was often high, devastatingly high when measured in terms of jilted investors, absentee ownership and meagre industrial wages, but it was their actions, never quite as heroic as they painted them, that at root accounted for the eventual success of Canadian steel. "Sir James Dunn had tremendous faith in himself and in Canada," The Globe and

Mail noted in 1956, "and because of it left Canada a tremendous inheritance."³⁷

Notes

- ¹London Evening Standard, 13 March, 1954.
- ²JHD to B. Fairless, cable, 18 May, 1954, DP 340.
- ³JHD to Hon. A.L. Macdonald, 17 Dec. 1945, DP 215. Reacting to Truman's presidential victory of 1948 and the proposed nationalization of the British steel industry, Dunn confided to Senator T.A. Crerar that: "All this is so contrary to your idea and mine that individualism has developed the world as it is or was before the Roosevelts and similar like people in Britain began to upset it." JHD to T.A. Crerar, 18 Nov. 1948, Crerar Papers, Queen's University Archives, vol. 88.
- ⁴JHD to C.G. Power, 14 June, 1950, DP 222.
- ⁵See: Ian Sclanders, "The Last of the Multimillionaires," Maclean's Magazine, 14 Nov. 1950.
- ⁶John Fisher to JHD, 14 Nov. 1950, DP 221.
- ⁷Globe and Mail, 3 Jan. 1956.
- ⁸J.H. Perry, Taxes, Tariffs and Subsidies: A History of Canadian Fiscal Developments, op. cit., pp. 404-7.
- ⁹Charles Parent (Liberal-Quebec West) in DHC, 3 March, 1953, p. 2591.
- ¹⁰R.S. McLaughlin to JHD, 20 July, 1955, DP 339.
- ¹¹DHC, 28 March, 1950, p. 1217. See: C.P. Keeping, "Tax on Undistributed Income of Closely-Held Companies," The Tax Review, Sept. 1950, pp. 133-6.
- ¹²See: J.H. Perry, "Development of the Corporation Income Tax in Canada," Report of the Proceedings of the Fourth Tax Conference, Canadian Tax Foundation, Toronto, 1950.
- ¹³B.F. Fairless, It Could Happen Only in the U.S., New York, 1956, p. 37.
- ¹⁴C.D. Howe to D.S. Holbrook, 31 May, 1956, Howe Papers, Vol. 185.
- ¹⁵J.K. Galbraith, The New Industrial State, Mentor edition, Boston, 1967, p. 101. See also: J.A. Schumpeter, Capitalism, Socialism and Democracy, Harper edition, New York, 1975, chp. 12.
- ¹⁶Howe to D.S. Holbrook, 19 Jan. 1956, Howe Papers, vol. 138. A copy of the Dunn will is in the same volume of the Howe Papers.
- ¹⁷See: financial details of Dunn Estate in volume 138 of the Howe.

Papers. The "windfall" revenues accruing to the federal government from the estates of Sir James Dunn and I.W. Killam were subsequently used to establish the Canada Council. J.W. Pickersgill, My Years with Louis St. Laurent, Toronto, 1975, p. 318.

¹⁸C.D. Howe to E.G. McMillan, 14 April, 1956, Howe Papers, vol. 138.

¹⁹C.D. Howe to D.S. Holbrook, 20 Feb. 1956, Howe Papers, vol. 138.

²⁰Howe to E.G. McMillan, 25 April, 1956 and Lady Dunn to Howe, 11 March, 1957, Howe Papers, vol. 138.

²¹The Financial Post, 20 April, 1957 and Toronto Daily Star, 20 April, 1957. Mannesmann took 200,000 shares or 14% of total stock, A.V. Roe, 150,000 or 10.5%; McIntyre Porcupine 100,000 or 7% and the Royal Bank, 50,000 or 3.5%. In May, 1957, Algoma split its 1.4 million shares 4:1, at the same time cancelling 225,030 shares held by its subsidiaries, in the parent company.

²²DHC, 29 June, 1956, pp. 5525-9.

²³ibid., and 12 April, 1957, p. 3503.

²⁴ibid., 29 June, 1956, p. 5541.

²⁵ibid., 12 April, 1957, p. 3503.

²⁶ibid., p. 3506.

²⁷Royal Commission on Canada's Economic Prospects: Public Hearings, Toronto hearing of 30 Jan. 1956, RG 33/35, p. 5437.

²⁸Royal Commission on Canada's Economic Prospects, Final Report, Ottawa, 1957, p. 217 and pp. 218-29.

²⁹Hearing of 30 Jan. 1956, op. cit.

³⁰Report by the Tariff Board: Relative to the Investigation Ordered by the Minister of Finance Respecting: Basic Iron and Steel Products, Reference No. 118, Ottawa, 1957, p. 93.

³¹Jacques Singer, Trade Liberalization and the Canadian Steel Industry, Toronto, 1969, p. 3.

³²Mr. Justice W.Z. Estey, Steel Profits Inquiry Report, Ottawa, 1974, p. 115.

³³See, for instance, "Canadian Steel Industry is Considered Among the Best," Globe and Mail, 12 Nov. 1977.

³⁴Sault Daily Star, 3 Jan., 1956. All Algoma performance statistics from Algoma Steel Annual Reports 1954-76.

³⁵DHC, 14 March, 1879, p. 421.

³⁶R. Cook and R.C. Brown, Canada 1896-1921: A Nation Transformed, Toronto, 1974, p. 87.

³⁷Globe and Mail, 3 Jan. 1956.

APPENDIX A: A NOTE ON THE PERSONAL WEALTH OF SIR JAMES DUNN

It needs little emphasis that Sir James Dunn, like the rest of the very rich, was very different from you and me. The historian is still left, however, with the difficult task of quantifying Sir James' fortune and explaining the circumstances of its accumulation. Any estimation of Dunn's precise wealth, either cumulatively or at any one point in his long career, is impeded by two significant obstacles. In the first place, the great bulk of Sir James' fortune was made at a time when the businessman's obligation to the state in terms of personal and corporate income tax was minimal or non-existent. Dunn's mercurial rise to millionaire status occurred at a time when the state imposed no demand for elaborate and intricate annual returns on personal income. Even with the introduction of income tax in Britain and Canada during the First War, Dunn quickly mastered the art of disguising his wealth, using such financial subterfuges as secret trusts and holding companies to hold the taxman's greedy arm at bay. The second factor militating against precise calculation of this fortune is the near total absence of Dunn's financial records in his collected papers at the Public Archives of Canada. Sir James claimed in later life that the large mass of the Dunn, Fischer & Co. ledger records had been destroyed during the Blitz. This being so, one is left to garner an impression of the magnitude of the firm's business and its profits from the extensive body of office correspondence remaining in the Dunn collection. This task is further complicated by the fact that Dunn maintained separate private and corporate accounts at both Dunn, Fischer & Co. and Algoma and that the two must at all times be kept distinct.

Despite the problems confronting him, the historian is still able to make fairly plausible generalizations about Dunn's financial stature. It is clear that Dunn rose to millionaire status with exceeding rapidity and at a time when the pound enjoyed a much higher value relative to foreign currencies. Office correspondence indicates that the arbitrage and underwriting Dunn undertook in Montreal and London in the years down to 1910 generated immense profits. Lord Beaverbrook, reflecting upon Dunn's astonishing early years in business, acknowledged in 1956 that "... Sir James Dunn had a vast fortune in 1905."¹ Dunn's obituary, drawing upon unspecified information, estimated that in his early financial career in London Dunn sold up to \$10 million worth of securities every day, pocketing as much as \$60,000 in commissions.² The Dunn, Fischer & Co. offices on Threadneedle Street were located at the very heart of the City, a short walk from both the Stock Exchange and the Bank of England. Dunn's daily appointment lists indicate that he met almost continuously with representatives of the most respected financial houses of England, Europe and America.

Sir James enjoyed portraying his long financial career as a steady advance, punctuated by several severe setbacks. Lord Beaverbrook's biography of his dear friend certainly perpetuated this impression. The most deadly challenge to Dunn's wealth came in the dark years just before the Great War when Fischer, his partner, irresponsibly fled to Europe, leaving Dunn with considerable liabilities. This reversal coincided with unprecedented difficulties encountered by F.S. Pearson's global utilities empire, culminating in the great engineer's death. According to Beaverbrook in Courage, this was a period of "Betrayal and

Disaster."³ There was a large element of truth in this depiction of Dunn's situation in 1913/14. War, revolution and disloyalty undoubtedly jeopardized the underpinnings of Sir James' financial success, but the evidence suggests that Beaverbrook very much overdramatized the potential for ruination. Although he frantically attempted to ease his financial predicament by offering to sell £ 150,000 of his treasured art collection to Henry C. Frick,⁴ Dunn remained a wealthy man by any measure. One of the few financial profit and loss statements for Dunn, Fischer & Co. found in the Dunn Papers indicates that as of 31 December, 1913, at the very height of the crisis of "betrayal and disaster," the firm had assets of £ 994,736,1007 and had recorded profits of £ 156,720, 18.5 for the last six months.⁵

The same exaggerated picture of Dunn's financial affairs applies during the Second World War. Sir James himself complained in October, 1940 that he had "no income and require to cash in capital from time to time as I cannot afford to pay dividends ..."⁶ Lord Harry McGowan, a close friend, later claimed that Dunn had told him he "was deeply involved in Algoma and that he held on to his control by "shoestrings"."⁷ Dunn's poverty in this case was occasioned not so much by absolute penury but by his stingy unwillingness to yield up any of his Algoma common stock holdings. In actual fact, he had secured an annual salary of \$50,000 from Algoma in 1938 as remuneration for his services as President and Chairman. In 1941, Algoma allocated an additional \$50,000 for "services" to Dunn, Fischer & Co.⁸ A further indication of the magnitude of Dunn's personal income is revealed by the £ 41,029 in tax arrears claimed by Inland Revenue in England for income in the

years 1929-42.⁹

It is well worth noting that while this study focuses upon Dunn's Algoma investment, and to a lesser degree on his nickel, utilities and textile ventures, he was lucratively involved in many other areas of investment at any one time. These varied investments produced both profits and losses but had the overall effect of spreading Dunn's financial liabilities. In 1932/3, for instance, Sir James engineered a brilliant financial coup in which he repatriated ownership of Boots the Chemists to England at great personal profit. At the same time he was unsuccessfully angling for control of Eno-Ritchie, the Canadian proprietary medicine maker. All these ventures served to swell Dunn's personal wealth and heighten his financial acumen. This pattern continued until his death. "My experience," he told his son in 1945, "is that financial contacts and occasional financial operations keep one's mind fresh which otherwise tires in the daily hammering at one's occupation no matter how important that may be."¹⁰

There can be little doubt that Sir James Dunn was a man of sizable wealth from the earliest days of his financial career until his death. While he occasionally found himself under great pressure and in a "cash poor" situation, he was never poised upon the precipice of financial ruin. It cannot be forgotten that while the bulk of his wealth after 1935 hinged directly upon his immense Algoma holdings, estimated at 702,086 shares of common stock worth \$64,855,000 at his death,¹¹ Dunn had also cleverly cached and diversified his wealth in other, less obvious places. Property trusts and private holding companies, such as County Freehold and Leaseholds and Norwich House Investments Ltd.,

gave the steel president a substantial financial nestegg.¹² Throughout his tenure at Algoma, Sir James continued to hold a wide range of other securities, notably those of Price Brothers, Bathurst Power and Paper and the Algoma Central Railway. At his death, Sir James Dunn was worth just under \$69 million.

A circumstantial, but very revealing, indication of Dunn's wealth lies in the lavish style of life he maintained without interruption from the turn of the century. Sir James seldom kept up less than three residences at any one time. In England, he gravitated as his career progressed from his first country home, Coombe Cottage, to an opulent residence, Norwich House, in central London. From the early 1920's, he owned a French villa, Lou Mas, at Cap Ferrat on the Côte d'Azur. In Canada, he possessed a 10,000 acre forest retreat, dubbed "Dunn's Camp," in the New Brunswick forest, while his St. Andrews home, "Day-spring," was purchased for him by Algoma. After the Second War, Algoma also purchased several aircraft for the personal use of its president, including the famous DC-3 "Victoria" which carried Dunn back and forth between the Sault and St. Andrews. At the time of Dunn's death, C.D. Howe was negotiating on the steel president's behalf for the purchase of a turbo-prop Viscount.

Dunn exercised his lifelong passion for fine art and wine to the point of overindulgence. His walls at various times displayed masterpieces ranging from Holbein to Dali, while his cellar stocked the finest vintages that Berry Brothers and Rudd, London's exclusive vintners, could purvey. Dunn's sybaritic lifestyle was perhaps best thrown into bold relief during the depths of the Depression. In 1932, while Britons

reeled from savage unemployment, Sir James maintained a livery at Norwich House of 12 servants, several occasional workers, two Rolls-Royces and one Chrysler. As well as several trans-Atlantic journeys, Dunn took a Christmas vacation that year in St. Moritz.¹³ Yet in February, 1932, office salaries at Dunn, Fisher & Co. were cut in response to the worsening economic situation. In May of the same year, Sir James severely reprimanded his chauffeur for his "extravagant" electric bills and forbade him to use the Norwich House phone for private calls.¹⁴

If an exact figure cannot be placed on Sir James Dunn's wealth at any one moment in his lengthy career, one can at least share in the observation of Noel Coward, who remarked after a meeting with Dunn in Deauville in the 1920's:

Jimmy Dunn's personality was strong, and I expect the atmosphere of the whole place had nurtured in me a reverence for riches which, even in my most poverty-stricken moments, I had not been aware of before.¹⁵

Notes to Appendix A

¹Beaverbrook to Lord McGowan, 6 June, 1956, Beaverbrook Papers, box C-232.

²Time, 16 Jan. 1956.

³Lord Beaverbrook, Courage: The Story of Sir James Dunn, Fredericton, 1961, pp. 83-90.

⁴JHD to H.C. Erick, cables of 24 and 27 July, 1914, DP 269.

⁵Profit and Loss Account, as of 31 Dec. 1913, DP 54.

⁶JHD to P.G. Dunn, 4 Oct. 1940, DP 207.

⁷McGowan to Beaverbrook, 5 June, 1956, Beaverbrook Papers, box C-232. See also, Beaverbrook, Courage, op. cit., pp. 145-7.

⁸Algoma Steel Corp. Ltd., Minutes of Directors' Meetings of 2 Nov. 1938, 3 May, 1941 and 26 May, 1941.

⁹JHD to A.G. Bryant, 12 April, 1945, DP 208.

¹⁰JHD to P.G. Dunn, 15 Feb. 1945, DP 233.

¹¹For details of the valuation of Dunn's estate and the probate of his will, see C.D. Howe Papers, vol. 138.

¹²See: JHD to Morris Wilson, Royal Bank, 18 March, 1936, DP 178.

¹³Details in DP 160.

¹⁴F.C. Strudwick to JHD, 16 Feb. 1932, DP 163 and JHD to Frosdick, 11 May, 1932, DP 184.

¹⁵Noel Coward, Present Indicative, London, 1937, p. 212.

APPENDIX B: A Note on the Financial Structure of the Lake Superior Corporation (1904), the Algoma Steel Corporation (1912) and the Algoma Steel Corporation (1934)

Since its inception under F.H. Clergue, the Lake Superior Corporation never managed to maintain a very creditable image in the eyes of the investing public. The lavish fanfare and soaring flight of confidence that had initially welcomed Clergue's splendid industrial complex was quickly replaced after the 1902 "smash-up" by the sobering realization that the corporation, even after much of its original \$117 million in watered stock had been drained off in the 1904 reorganization, was far from a sanely conceived and responsibly financed enterprise. The financial press delighted in portraying the Lake Superior Corporation as the botched product of overambitious and greedy Philadelphia lawyers. K. Sandwell, despatched to the Sault by the Toronto Daily News, was left with the impression of the corporation as "a fine example of the evils of absentee ownership."¹ Even Canadian academics contributed to the corporation's invidious reputation by alleging that it had "not been an altogether happy venture."²

By 1928, when Sir James made his first concerted effort to force a reorganization at the Sault, the capital structure of the corporation was still undisputably governed by the parent Lake Superior Corporation, which through stock ownership controlled its three principle subsidiaries: Algoma Steel, the Algoma Eastern Railway and the Algoma Central and Hudson Bay Railway. Many of the other L.S.C. subsidiaries chartered by Clergue had been sold off or amalgamated in the two decades since the founder's departure. The relationship of the parent holding company and the steel company was legally complex and financially involved.

In essence, the Lake Superior Corporation used its assets of approximately \$47.5 million, book value, to control Algoma and its subsidiaries. The L.S.C. consisted of \$40,000,000 in stock capital and a funded debt of First and Collateral Trust Bonds. Algoma Steel had \$15 million in common stock, \$10 million in 7% preference shares, about \$5.8 in 5% Purchase Money Bonds and \$15.3 million in 5% First and Refunding Bonds, for a total book value in 1928 of approximately \$45 million. Algoma in turn controlled through stock ownership four subsidiaries: Cannelton Coal, Fiborn Limestone, Lake Superior Coal and Algoma Steel Products. The pivotal and controlling elements in this financial arrangement were the three sets of bonds, with the Algoma Steel Purchase Money and First and Refunding bonds having first lien on "all the undertaking, property and assets" of the steel company.³

Significant changes took place in this structure in the late 1920's and early 1930's. The Algoma Eastern was sold to Canadian Pacific and in 1931 a scheme of reorganization enabled the parent corporation to reduce dramatically its obligations to the long-indebted Algoma Central and Hudson Bay Railway. Ownership of the resultant corporate structure was consolidated in the Algoma Consolidated Corporation (1931), a new Charlottetown-based holding company, which held complete sway over the assets of the Lake Superior Corporation, achieved by means of a share exchange between the old and new holding companies. The Algoma Consolidated had no funded debt, only a capital stock of \$16 million in common and 7% preference shares, thus leaving it very vulnerable in any dispute to the rights of Algoma and Lake Superior bondholders.⁴ Algoma Consolidated maintained a 51% ownership of the Algoma Central

Railway and complete control of the Algoma Eastern and Central railways' lands in the Northern Ontario Land Corporation.

This was essentially the situation when the steel company was forced into receivership in mid-1932 by its failure to honour obligations to its bondholders. The receivership had the effect of elevating the rights of the respective Algoma Steel and Lake Superior bondholders to a position of preeminence. Any solution of the Lake Superior Corporation's tangled affairs was unavoidably dependent on the negotiation of a mutually satisfactory compromise between the Algoma Purchase Money and First and Refunding bondholders and the Lake Superior First and Collateral Trust bondholders. Sir James Dunn's whole Algoma take-over strategy in the period down to late 1934 was directed at the goal of working himself into a position of control at each bondholding echelon and then dictating the solution to his own satisfaction. If he could achieve a thoroughly decisive solution amongst the bondholders he realized that he stood an excellent chance of cleanly severing the steel company from all its encumbering junior investors. The Lake Superior Investment Company, the holding company created in 1908 as a repository for the English syndicate's non-controlling block of Lake Superior bonds, was to serve as Sir James' lever on the parent corporation's affairs.⁵

From 1928 to 1934 Dunn assiduously strengthened his holdings of Algoma Steel Purchase Money 5% Bonds and First and Refunding 5% Gold Bonds as well as building up his grasp on the Lake Superior First Mortgage Collateral Trust Gold Bonds. This he achieved by means of outright purchase and by striking mutually advantageous agreements with

the London and Philadelphia bondholders' protective committees. Assured of his control over the all-important bonds, Dunn could confidently enter negotiations with the lawyers and politicians in late 1934, knowing that he could muster a solid two-thirds majority in any settlement put before the bondholders.

The sale agreement transferring the assets of the old Algoma to the new Algoma in early 1935 opened the way for a drastic simplification of the whole financial structure of the Sault enterprise. In one bold stroke, Dunn cast adrift not only the common and preferred shareholders of the old Algoma but also those of the Algoma Consolidated. Left to contend with the bondholders, he arbitrarily downgraded their rights by forcing them to exchange their bonds for preferred and common shares in the new Algoma corporation.

The capital structure of the new corporation was miraculously unencumbered and streamlined. Preference shares to the value of \$2.7 million were issued to protect the dominant rights of the old Purchase Money bondholders, while 130,000 no par value common shares were authorized to compensate the other two classes of bondholders. Of the 99,725 common shares actually issued, Dunn collected a commanding block of 50,456 (as of March, 1936). While he failed to attain absolute control of 26,390 preference shares issued in exchange for bonds, the new steel president adeptly used his power on the Algoma board in 1940 to sanction a plan by which the company could buy back its own preference shares on the open market and cancel them from company records. Until this gradual elimination was completed in 1947, Dunn was obliged to pay dividends on all outstanding preference stocks. These were the only divi-

dends paid by Algoma under Dunn's regime. The only provision made for a funded debt in the 1935 capital structure of the new corporation was the proposed \$5 million issue of 5% First Mortgage Bonds. This "new money" so important in securing Queen's Park's blessing on the whole reorganization, brought Dunn a windfall gain of 25,000 Algoma common shares as a commission on the prospective underwriting of the bond issue. While Dunn eagerly snatched up his commission, he acted sluggishly to promote the bond issue until 1938, when an issue of \$3 million in First Mortgage bonds was made. Significantly, the bonds carried a conversion privilege for exchange with Algoma common. These were the only bonds Sir James ever attached to the capital structure of Algoma Steel.

In stark contrast with the hopelessly involved capital structure of the old Lake Superior Corporation, the New Algoma Steel Corporation had a singularly straightforward capital structure. The only changes of note throughout Dunn's tenure as president, except the one sortie onto the bond market, were two 4:1 stock splits in 1936 and 1949. By 1956, the entire equity of the corporation was vested in its 1,650,800 common shares, of which Sir James held 702,086. While this in itself did not give the president absolute control, his authority was unchallenged at the annual meeting, especially when the 225,030 shares held by the wholly owned subsidiaries of the parent company were thrown into the balance.

Notes

¹B.K. Sandwell to W.H. Moore, 22 Nov. 1928, R.G. 36/11, file 2-1,
See also: Toronto Daily News, 22 Sept. 1903.

²H. Marshall, Frank Southard Jr. and K.W. Taylor, Canadian-American
Industry, New York, 1936, p. 58.

³See: The Financial Post, 24 Aug. 1928.

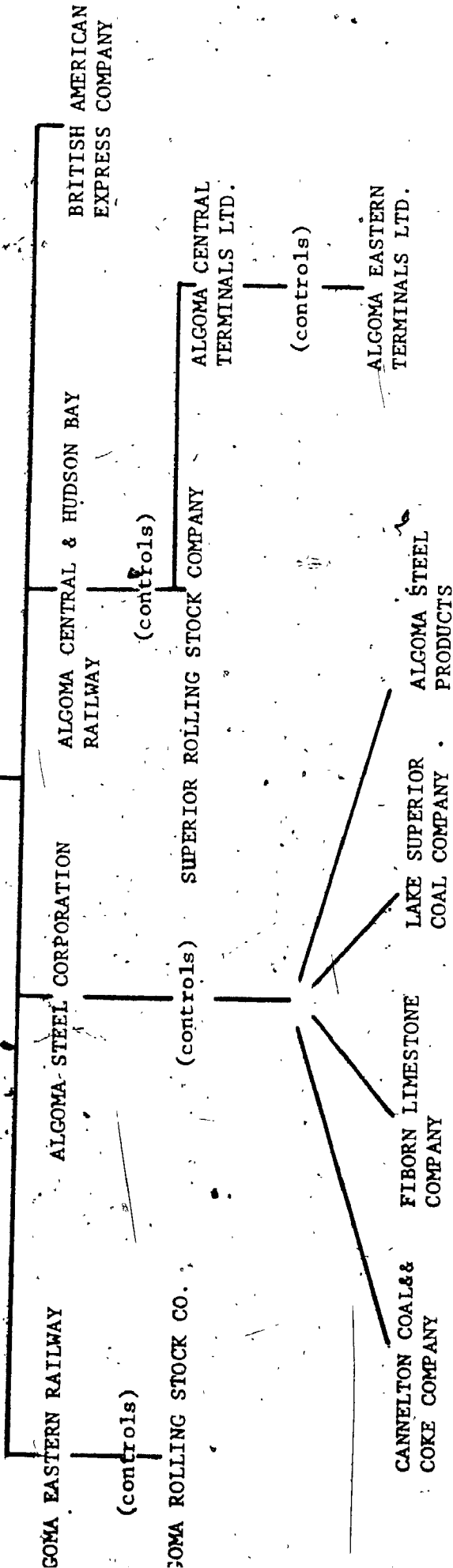
⁴See: Incorporation file for Algoma Consolidation Corp. Ltd.,
R.G. 95, file 146144.

⁵Balance sheets for the Lake Superior Investment Company are in
DP 385.

THE LAKE SUPERIOR CORPORATION AND ITS RELATED COMPANIES: 1928

Lake Superior Corporation

Controls Through
Stock Ownership



THE ALGOMA CONSOLIDATED CORPORATION AND ITS RELATED COMPANIES: 1931-4

ALGOMA CONSOLIDATED CORPORATION
(controlled by former shareholders
of the Lake Superior Corporation)

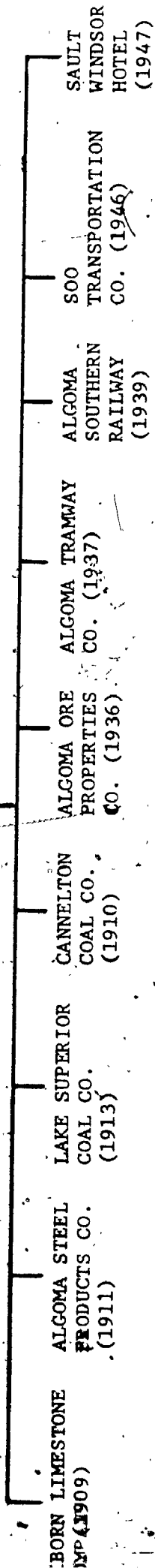
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THE ALGOMA STEEL CORPORATION (1934): 1935-56

ALGOMA STEEL CORPORATION

controls as
(wholly owned subsidiaries)



APPENDIX C: TABLES

Table A: Consumption of Iron Ore in Ontario 1896-21

Year	Native ore smelted		Foreign ore smelted		Total ore smelted
	tons	per cent.	tons	per cent.	
1896	15,270	30.86	35,868	70.13	51,138
1897	2,778	7.38	34,722	92.62	37,500
1898	20,968	27.22	56,055	72.77	77,023
1899	24,498	22.25	85,542	77.74	110,040
1900	22,887	22.72	77,805	77.27	100,692
1901	109,109	56.09	85,401	43.89	194,510
1902	92,883	49.69	94,079	50.31	186,962
1903	48,092	31.81	103,137	68.19	151,229
1904	50,423	22.56	173,183	77.44	223,605
1905	61,960	13.90	383,459	86.10	445,419
1906	101,569	20.40	396,463	79.60	498,032
1907	120,156	23.60	388,727	76.30	508,883
1908	170,215	33.20	342,747	66.80	512,962
1909	220,307	28.80	543,544	71.20	763,851
1910	143,284	17.40	678,890	82.60	822,174
1911	67,631	7.40	848,814	92.60	916,445
1912	71,589	6.50	1,062,071	93.50	1,133,660
1913	132,708	10.90	1,095,561	89.10	1,228,269
1914	163,779	17.80	752,560	82.20	916,339
1915	293,305	32.00	623,094	68.00	916,399
1916	215,366	16.90	1,056,810	83.10	1,272,176
1917	94,318	7.10	1,221,881	92.90	1,316,199
1918	99,852	6.75	1,400,085	93.25	1,499,937
1919	97,514	7.50	1,201,834	92.50	1,299,348
1920	152,176	10.40	1,341,661	89.60	1,493,837
1921	113,083	13.50	723,858	86.50	836,941
Totals	2,705,720	.....	14,807,850	.....	17,513,570
Average per year	104,000	15.50	569,500	84.50	673,500

source: Report of the Ontario Iron Ore Committee, Department of Mines, Queen's Park, 1923, p. 14.

Table B: Annual Production of Pig Iron in Canada by Provinces 1887-1935

Years	Nova Scotia	Ontario	Quebec	Canada	Years	Nova Scotia	Ontario	Quebec	Canada
1887..	17,250	.....	4,917	22,167	1912..	379,459	526,422	.....	905,881
1888..	15,675	.....	3,788	19,463	1913..	428,632	579,374	.....	1,008,006
1889..	19,008	.....	4,136	23,144	1914..	202,725	496,529	.....	699,254
1890..	16,412	.....	3,027	19,439	1915..	375,246	440,625	.....	815,871
1891..	18,607	.....	2,724	21,331	1916..	419,692	624,287	.....	1,043,979
1892..	30,708	.....	7,187	37,895	1917..	421,560	611,287	12,224	1,045,071
1893..	41,493	.....	8,460	49,953	1918..	371,313	667,545	28,598	1,067,456
1894..	36,914	.....	7,699	44,613	1919..	254,542	558,029	6,876	819,447
1895..	31,421	.....	6,484	37,905	1920..	296,869	668,812	7,887	973,568
1896..	28,885	25,270	5,906	60,061	1921..	151,343	441,876	610	593,829
1897..	20,089	23,317	8,386	51,792	1922..	120,769	262,198	.....	382,967
1898..	19,310	43,083	6,370	68,763	1923..	277,654	602,168	.....	879,822
1899..	27,768	57,811	6,334	91,913	1924..	177,078	415,971	.....	593,049
1900..	25,119	55,703	5,406	86,228	1925..	201,795	368,971	.....	570,766
1901..	134,938	103,903	6,138	244,979	1926..	250,238	507,079	.....	757,317
1902..	211,825	100,614	7,116	319,555	1927..	249,549	460,148	.....	709,697
1903..	179,684	77,682	8,603	265,969	1928..	302,756	734,971	.....	1,037,727
1904..	146,864	114,147	9,930	270,941	1929..	310,801	769,359	.....	1,080,100
1905..	233,048	229,200	6,775	469,023	1930..	212,636	534,542	.....	747,178
1906..	281,257	246,034	7,004	534,295	1931..	101,393	318,645	.....	420,038
1907..	327,193	245,946	8,971	582,110	1932..	30,697	113,433	.....	144,130
1908..	314,859	242,396	5,990	563,245	1933..	118,514	108,803	.....	227,317
1909..	308,375	363,403	4,259	676,937	1934..	133,360	271,635	.....	404,995
1910..	312,756	399,351	2,890	714,997	1935..	208,002	391,873	.....	599,875
1911..	348,430	470,210	588	819,228					

source: Iron and Steel and Their Products, Dominion Bureau of Statistics, Ottawa, 1935, table 17.

LEAF 473 A OMITTED IN PAGE NUMBERING.

Table C: Production of Steel Rails in Canada 1896-1935

Year	Tonnage	Year	Tonnage
1896	600	1916	81,497
1897	500	1917	41,349
1898	600	1918	145,309
1899	835	1919	282,415
1900	700	1920	227,848
1901	891	1921	266,170
1902	33,950	1922	125,866
1903	1,243	1923	206,861
1904	36,216	1924	200,710
1905	178,885	1925	193,478
1906	312,877	1926	166,820
1907	311,461	1927	235,683
1908	268,692	1928	349,189
1909	344,830	1929	383,002
1910	366,465	1930	233,432
1911	360,547	1931	140,145
1912	423,885	1932	45,090
1913	506,709	1933	67,835
1914	382,344	1934	96,689
1915	209,752	1935	109,198

source: Iron and Steel and Their Products, Dominion Bureau of Statistics, Ottawa, 1935, table 49.

Table D: Steel Production in Ontario 1900-35

Year	Tonnage
1900	2,819
01	14,471
02	68,802
03	15,229
04	51,002
05	138,387
06	167,026
07	237,855
08	172,108
09	296,031
1910	331,321
11	361,581
12	457,817
13	648,948
14	479,320
15	471,059
16	686,959
17	862,504
18	881,509
19	616,251
1920	707,692
21	932,473
22	358,126
23	607,385
24	499,986
25	529,327
26	534,732
27	635,173
28	885,414
29	1,007,784
1930	639,128
31	444,107
32	244,693
33	258,841
34	476,699
35	584,239

source: Ontario Bureau of Mines, Annual Reports, 1900-35.

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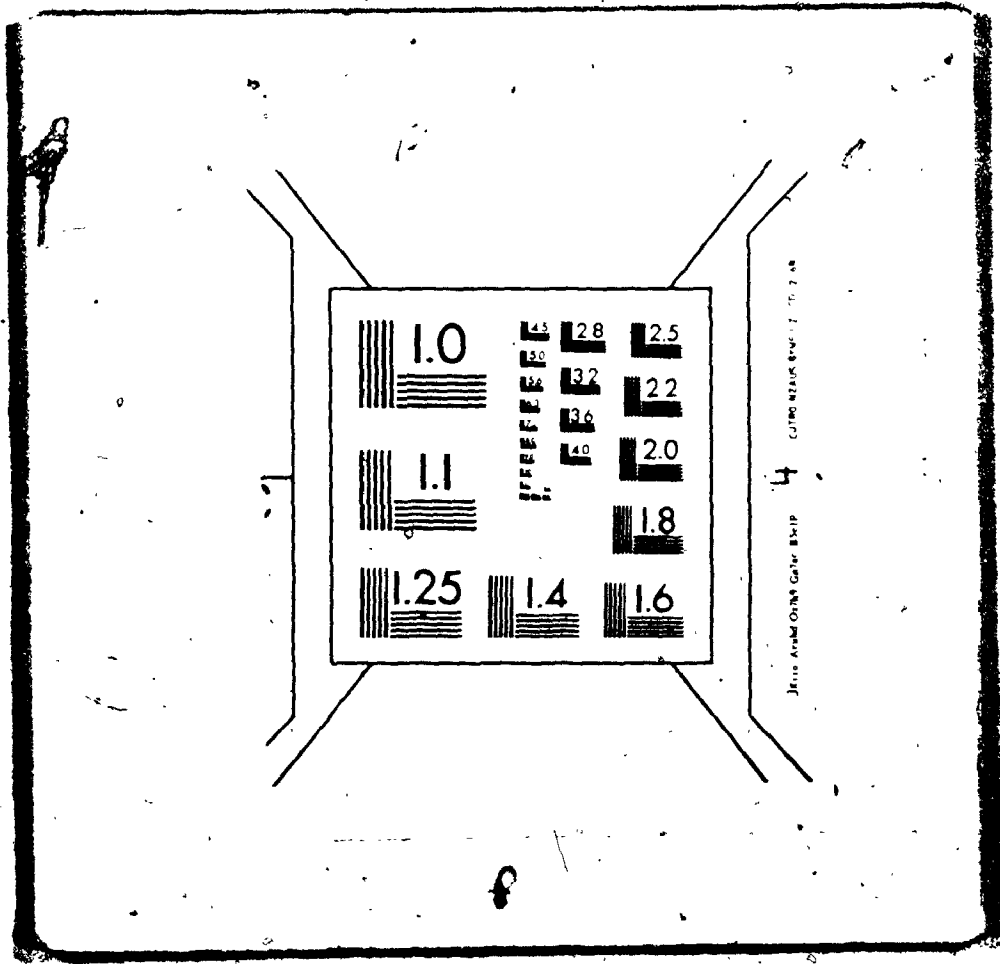


Table E: Iron and Steel Bounties Paid in Canada 1884-1912

Fiscal Year	Pig Iron	Puddled Bars	Steel	Manu. of Steel	Federal Bounties Total	Ontario Prov. bounty calendar yr.	Grand Total
1884	\$ 44,090	\$.....	\$.....	\$.....	\$ 44,090	\$.....	\$ 44,090
1885	38,655	.....	.....	.....	38,655	.....	38,655
1886	39,270	.....	.....	.....	39,270	.....	39,270
1887	59,576	.....	.....	.....	59,576	.....	59,576
1888	33,314	.....	.....	.....	33,314	.....	33,314
1889	37,234	.....	.....	.....	37,234	.....	37,234
1890	25,697	.....	.....	.....	25,697	.....	25,697
1891	20,153	.....	.....	.....	20,153	.....	20,153
1892	30,294	.....	.....	.....	30,294	.....	30,294
1893	93,896	.....	.....	.....	93,896	.....	93,896
1894	125,044	.....	.....	.....	125,044	.....	125,044
1895	63,384	.....	.....	.....	63,384	.....	63,384
1896	104,105	5,611	59,499	.....	169,215	.....	169,215
1897	66,509	3,019	17,366	.....	86,894	4,000	90,894
1898	166,654	7,706	67,454	.....	240,814	2,603	243,417
1899	187,954	17,511	74,644	.....	280,109	8,647	288,756
1900	238,296	10,211	64,360	.....	312,777	12,752	325,529
1901	351,259	16,703	100,058	.....	468,020	6,737	474,757
1902	693,108	20,550	77,431	.....	791,089	25,000	816,089
1903	665,001	6,702	729,102	.....	1,401,805	25,000	1,426,805
1904	533,982	11,669	347,990	15,321	908,962	25,000	933,962
1905	624,667	7,895	676,318	231,324	1,540,204	15,236	1,555,440
1906	687,632	5,875	941,000	369,832	2,004,339	25	2,004,364
1907	385,231	312	575,859	338,999	1,299,801	.....	1,299,801
1908	863,817	.....	1,092,281	347,135	2,303,153	.....	2,303,153
1909	693,423	.....	838,100	333,091	1,864,614	.....	1,864,614
1910	573,969	.....	695,752	538,812	1,808,533	.....	1,808,533
1911	261,434	.....	350,456	526,858	1,138,748	.....	1,138,748
1912	.....	.....	.....	166,750	166,750	.....	166,750
Totals	\$7,707,648	\$113,674	\$6,706,990	\$2,868,122	\$17,396,434	\$125,000	\$17,421,434

source: Report of the Ontario Iron Ore Committee, op. cit., pp. 13-14.

Table F: The Consolidated Lake Superior Corporation 1897-1904
(incorporated under Connecticut law, January, 1897,
altered in 1899 and 1901)

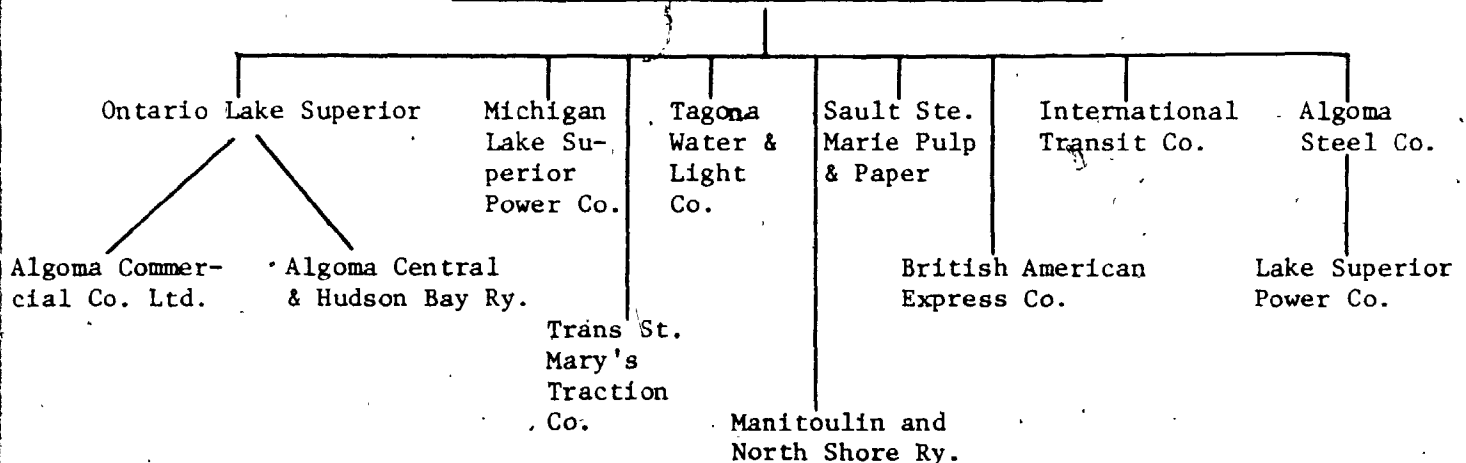
as of 31 December, 1902, capitalization: \$117,000,000
consisting of: \$ 35,000,000 preferred stock
(\$ 27,400,200 issued)
\$ 82,000,000 common stock
(\$ 72,286,200 issued)

subsidiaries	charter	total stock	stock owned by L.S.C.
Ontario Lake Superior Co.	Ontario	\$20,000,000	\$19,989,000
Algoma Commercial Co. Ltd.	Ontario	\$10,000,000	\$ 9,998,250*
Algoma Central & Hud. Bay Ry. Co.	Ontario	\$10,000,000	\$ 9,998,600*
Algoma Steel Co.	Ontario	\$20,000,000	\$19,998,600
Lake Superior Power Co.	Ontario	\$ 2,000,000	\$ 1,996,500**
Michigan Lake Sup. Power Co.	Michigan	\$ 500,000	\$ 499,300
Tagana Water & Light Co.	Ontario	\$ 200,000	\$ 199,500
Sault Ste. Marie Pulp and Paper	Ontario	\$ 2,000,000	\$ 1,965,000
International Transit Co.	Ontario	\$ 150,000	\$ 150,000
Trans St. Mary's Traction Co.	Ontario	\$ 400,000	\$ 400,000
British American Express Co.	Ontario	\$ 100,000	\$ 100,000
Manitoulin & North Shore Ry.	Ontario	\$ 1,000,000	\$ 1,000,000
Totals:		\$44,350,000	\$44,301,400

*stock held by Ontario Lake Superior Co.

**stock held by Algoma Steel Company, as of January, 1903.

The Consolidated Lake Superior Corporation



source: Dunn Papers, Vol. 386, Agreements and Documents Relating to the Reorganization of the Consolidated Lake Superior Company, 1902-05, pp. 3-8.

Table G: Algoma Steel Corporation: Financial Performance 1938-1945
(fiscal year ending 30 April)

Year	Sales	Net Profits before taxes	Net Profits as percentage of sales	normal depreciation	special depreciation
1938	12,942,783	768,263	7.0	548,181	---
1939	10,344,255	284,401	3.9	566,828	---
1940	16,264,821	1,016,073	7.3	683,163	---
1941	25,117,776	1,579,948	7.2	791,372	---
1942	30,337,866	662,247	2.9	1,065,285	725,022
1943	31,100,535	1,466,932	6.0	1,176,864	943,990
1944	33,802,594	1,754,013	6.1	1,207,977	1,059,319
1945	41,216,857	2,284,272	6.3	1,055,616	---

source: Financial return for Algoma Steel Corporation, signed by R.E. Saunders,
13 March, 1946, RG 28 B-2, Vol. 1.

NOTE ON SOURCES

The Sir James Dunn Papers at the Public Archives of Canada served as the principle source from which this thesis was researched. A massive collection of just over four hundred volumes, the Dunn Papers afford the historian an intimate understanding of Sir James' business and private affairs from 1905, when he transferred his financial operations to London, to the day of his death in 1956. Filled with meticulous thoroughness, these volumes contain copies of all incoming and outgoing correspondence relating to Dunn's exceedingly diverse affairs. So complete is the Dunn collection that it is possible to reconstruct in detail a record of Dunn's activities and interests in any given week throughout the whole period covered by the documents. The papers themselves stand as a monument to Dunn's irrepressible entrepreneurial energy and insatiable appetite for life.

As a source for the history of Algoma Steel, Dunn's papers reveal the full texture of his involvement in the corporation's affairs. From 1905 to 1935, years in which Algoma represented only one of Dunn's myriad financial endeavours, the Dunn Papers are best employed to provide an understanding of the labyrinthine workings of international finance. The large quantities of documentation originating from the Dunn, Fischer & Co. offices in London present an intimate picture of the deliberately secretive operations of a large and highly successful arbitrage and underwriting business that operated well into the 1920's. Such an understanding of the inner complexities of the City of London can by no means be garnered from outside the financial maelstrom, especially through the financial press. In this light, the fortunes of

Algoma are cast in an international perspective, comparable to innumerable other world-wide investments made from the major English and American centres of financial power. Dunn's sustained drive to capture control of Algoma through the decades up to 1935, from his first contacts with F.H. Clergue to the final coup de grace in the Ontario legislature, can be plotted in great and intricate detail from the Dunn papers, revealing his adept marshalling of the financial, legal and political allies necessary to fulfill his ambitions.

In the period after Dunn's assumption of the Algoma presidency in 1935, the papers disclose an unparalleled record of the daily management of the last "one-man" steel company in North America, a record ranging from the president's pedantic irritation over the most trivial details to multi-million dollar investment decisions that decisively changed Algoma's future. Enormous volumes of letters, cables and telephone memos lay bare the complexities of corporate policy formation, routine management and relations with the various levels of Canadian government. There is also considerable evidence of Algoma's cooperation with and competition against its principal rivals in the Canadian primary steel industry. Largely because of his position of invulnerable financial control over the corporation, Dunn's office files became an all-inclusive repository for correspondence pertaining to the varied financial, governmental and legal interests affected by or affecting the corporation's progress.

The Dunn Papers have a significance beyond their immediate relevance for Algoma's history. They offer a unique window on the evolution of the modern Canadian economy and the Canadian business community.

Reflecting a business career that spanned more than half a century of prodigious national growth, wartime economic upheaval and devastating depression, the many volumes of the Dunn Papers contain correspondence from the first days of Sir James' business innings, days in which he dealt with the likes of Sir William Van Horne and Sir William Mackenzie, great railway barons of the turn of the century, and conclude with a record of his dealings with Canadian businessmen like E.P. Taylor and J.A. "Bud" McDougald, the mid-century wizards of corporate Canada. Because Dunn was seldom an outsider in the affairs of the business world, such correspondence offers a highly personal and candid glimpse into the mores and motivation of some of Canada's most influential businessmen, men who formatively molded the Canadian economy. The growth of an increasingly regulated national economy, slowly superceding the old norms of a laissez-faire economy, is witnessed in the Dunn Papers by extensive correspondence, of both an official and informal nature, between Dunn and the politicians of Queen's Park and Ottawa. Dunn's acquaintanceship with many of these politicians throws into high relief important and influential linkages between business and politics, linkages in which politicians can be seen to act not only in their public capacity but also as emissaries of private interests acting as legal counsellors and political facilitators for the business community's ambitions. This at times imperceptible interlock of business and political interests, perhaps best typified in this thesis ~~top~~ ~~by~~ ~~the~~ ~~careers~~ ~~of~~ ~~N.W.~~ ~~N.W.~~ Rowell, Roaul Dandurand and Arthur Meighen, has underlain much of the evolution of the modern Canadian economy and has, to a large extent, been overlooked by most traditional political biographies.

While this study has not chosen to pursue it, the Dunn Papers also offer an excellent opportunity for unravelling the psychology of a great Canadian entrepreneur. Besides revealing Dunn's intense preoccupation with his financial and business activities, the documents also provide a continuing record of Sir James' extraordinarily busy social life, the joys and crises of his family life and his general political and social views. By plotting these varied pressures and releases, some indication of the inner motivation and perceptions of one of Canada's most successful businessmen might well be surmised and related to his stellar success in the world of business and finance.

The historical records retained by the Algoma Steel Corporation were utilized to supplement the Dunn Papers. Company files, for instance, furnished the most detailed account of the earliest years of the Sault enterprise, especially the extensive assistance rendered by the local municipality and Ontario provincial government. Correspondence and directors' minute books from the old Lake Superior Corporation provided a revealing picture of Algoma's original absentee owners, meeting in New York and Philadelphia hotels to discuss the fortunes of their distant and often ailing investment. Reports of Algoma general managers at the Sault eloquently testified to the operational shortcomings of the mill and the never-ending and at times desperate search for markets and, as such, provided an excellent barometer to measure the progress of a crucial primary industry against the fluctuating fortunes of the national economy. During the period of Dunn's presidency, 1935-56, the Algoma records provide striking testimony to the totality of Dunn's grasp on corporate affairs. The entire decision-making process at the

corporation can be seen to be hinged directly on Dunn. Records of annual shareholders' meetings and directors' meetings indicate the perfunctory manner in which the seal of approval was set on Dunn's decisions. Only in the minutes of the executive committee of the Board of Directors is there any indication of open and flexible discussion of corporate policies. Company records also yield a record of Algoma's ongoing relations with its bankers, lawyers and shareholders, as well as its formal dealings with Canadian government in matters of tariff, freight rates and resources policy, although the informal relationships cultivated by Dunn underlying these delicate issues are better revealed in the Dunn Papers.

Algoma's evolution was next examined from the perspective of those in close contact with either the affairs of the corporation or its president, but not necessarily involved in the Sault enterprise to the exclusion of all other interests or investments. The papers of John Alexander McPhail, a local Sault lawyer and Algoma director, offered an invaluable record of an inveterate "Soo booster" and go-between for the management of the Sault complex and the various levels of Canadian government. The papers of Lord Beaverbrook provide insights into Dunn's relationship with his oldest and probably closest friend. To a lesser degree, the R.B. Bennett and C.G. Power papers provide similar insights. The C.D. Howe and M.F. Hepburn manuscript collections allow glimpses into the convivial friendships that occasionally developed between Dunn and various politicians out of what were initially formal and official associations. Upon such friends, Dunn sometimes bestowed candid and unpretentious assessments of Algoma's fortunes. Such was also the case

of Dunn's friendship with Lord Glendyne, a correspondence well-documented in the Dunn Papers themselves.

The interaction of Algoma and its management with the leaders of the federal and Ontario provincial government was most tellingly dissected in the extensive and often revealing collections of Canadian politicians. The degree to which Algoma impinged upon any one Canadian political administration was governed by a complex mixture of national economic conditions, political inclination and the persistence of corporate executives. In some collections, notably that of Prime Minister W.L.M. King, there is a distinct disinterest in the affairs of the steel industry on the part of the politicians. Other national politicians, notably Arthur Meighen, R.B. Bennett and C.D. Howe, displayed a keen and informed interest in the steel industry and its problems. From these sources emerges a vivid picture of business-government relations on the thorny issues of the tariff, freight rates and relief subsidies as well as the more pervasive interaction of government and the private sector in times of war. The collected papers of Ontario's premiers from G.W. Ross to M.F. Hepburn provide, with some exceptions, graphic evidence of the commitment of both Liberal and Conservative provincial politicians to the vision of "New Ontario," of which Algoma was so integral a part. This was especially true of the G.H. Ferguson and M.F. Hepburn collections, both of which abound with evidence of the province's predisposition to come to the aid of the Sault corporation.

Lacking any cohesive body of papers for F.H. Clergue, it was in the above political manuscript sources that a somewhat piecemeal record of the career of the Sault industries' founder was reconstructed. The

Laurier, Borden, White, Dandurand, Bennett and King Papers all yielded fragments of Clergue's long and varied career, vividly portraying the role of the captain of industry as the prodder and beneficiary of national development policies. The Dunn Papers furnish evidence of Clergue's last desperate efforts to salvage his Sault venture in 1906/8.

Government record groups at the Public Archives contain sizable amounts of materials relating to Algoma and its interactions with the federal bureaucracy. Under peacetime conditions in the years up to the Second War, Algoma's overriding fixation with the tariff issue is well documented in the records of the various federal tariff boards and commissions, jointly grouped under R.G. 36. The various tariff inquiries conducted up to the late 1920's convey a precise and anatomical picture of Algoma's position in the structure of the Canadian economy, setting it in perspective against its competitors and consumers. Algoma's role as a munitions producer during the Great War is best reconstructed through the papers of J.W. Flavalle, although the picture that emerges is far from complete. Only with the advent of the modern federal bureaucratic structures during and after the Second War, is a more complete record of Algoma's place in federal calculations readily accessible. The massive Munitions and Supply Department collection contains ample evidence of Algoma's wartime operations. This picture gains depth and perspective when supplemented with information from the files of the Finance Department, the post-war Reconstruction and Supply department and the personal papers of the ubiquitous C.D. Howe. While much of the record group material is of an administrative nature, correspondence with the minister, minutes of advisory committees and analytical

reports on government activities afford a better impression of the formation of government policy and the influence of the steel lobby upon it.

Newspapers, trade journals, government publications and the Debates of the House of Commons have been used selectively to obtain a better understanding of the national implications of Algoma's achievements and demands and at the same time augment the factual record. Statistical synopses of national iron and steel production, published by the Dominion Bureau of Statistics beginning in the 1920's, provided an ongoing measure of the health of the national industry, although the criteria on which these calculations were based varied considerably over the whole period. The only journal devoted exclusively to presenting the viewpoint of the national industry, Iron and Steel of Canada, ceased publication in 1936. Foreign steel journals proved especially helpful in understanding the march of technology in the industry. Leading national newspapers, coupled with the financial press, afforded some perspective on the broader ramifications of Algoma and its place in national economic developments, while the local Sault press predictably served to echo the enthusiasms and anxieties of the Sault populace for one of its key industries.

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