

Economics 2170
Midterm Examination
Fall 2007
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Instructions: Choose any **two** of the following three essay questions. Please spend a few moments to think about each question and your answer **before** you begin writing. Your responses should be clearly reasoned and neatly written. You will be graded on the depth, clarity, and factual correctness of your arguments. You have 50 minutes to complete the exam.

1. Explain some of the economic arguments for and against Confederation used by the various British colonies prior to joining (or not joining) the Dominion of Canada in 1867.

Newfoundland didn't join because they didn't like the high tariffs on manufactured goods (which would increase the costs of inputs to the fishery) and also because they thought the financial commitment to Central Canada would be too large.

PEI thought the same, and didn't like the fact it would have only a small voice in Confederation as well as the fact they were worried about Canada West (i.e., Ontario) agricultural imports to the island.

NB and NS liked the fact that they had ice-free ports and saw linking with Central Canada as important for the use of these ports, plus a market that was large and growing for raw materials and manufactured goods, although they too didn't like the high tariffs, nor the fact that there was still railway and canal debt to which they would be responsible for. Still they wanted the rail link to Toronto and Montreal.

Central Canada was the big backer of Confederation. They saw the east and west as areas to be developed for resources and for markets for Central Canadian products. They needed the other colonies to provide the financial resources necessary to build the railway and construct a country along an east-west axis and this was much easier to do as a country than as a group of colonies (as the Province of Canada was unable to float new loans in the London market). Finally, the certainty of abrogation of the Reciprocity Treaty by the United States, as well as increased protectionism in that country meant that the deal was sealed.

2. Explain the pros and cons of railways in the pre-Confederation economic development of Canada.

Railways were very important in BNA largely because of the vast frontiers and the small population bases in many of the regions. Before the railways, there was a system of canals linking various waterways which were developed in the 1820s. But, these waterways were slow, they froze, and they offered only limited service. Railways were expensive, and there was not enough venture capital in BNA to build them. By 1850, things looked up since Britain had lots of investment funds . . . the Industrial Revolution created lots of wealth in Britain. In the 1830s and 1840s, lots of railway construction was occurring in Britain, but this boom ended by the 1850s. British investors, however, still were not interested in far off places like BNA, therefore governments had to be involved. The government, however, did not want direct public ownership, but they did realize that railways had positive externalities (in terms of settlement, increased business activity, etc.) and this is the reason that the government

became involved. Also the need to compete with American railways and canals. In 1849, the Province of Canada threw its credit behind railway ventures. The Guarantee Act of 1849 provided bond guarantees (on interest, not principle) to investors if railways met certain conditions. In the Municipal Loan Act of 1852, provincial credit was made available to municipalities who wanted to get involved in railway subsidization. And a lot did, trying to link their towns and cities to the main railway lines in the country. Feeder lines to tie farming hinterlands to urban centres along the St. Lawrence and the Great Lakes. These didn't always work out. The Province of Canada was nearly driven to bankruptcy because of money paid out to bondholders as a result of its bond guarantees. But, in the 1850s, there was nonetheless a boom in railway construction with financing mainly through British and US (and some Canadian) sources. The most ambitious of these was the Grand Trunk Railway that went from Quebec City to Sarnia (1800km, the longest in the world in the 1850s). They created linkages to other parts of the economy which would also prove essential in the economic development of the country (e.g., financing, timber, steel, machine shops, etc.).

3. In Pre-Confederation Canada, living beside the United States was both an economic blessing and a curse. Comment on this statement.

Answers to this question will vary greatly, but depend factors should include a discussion of the economic benefits to Canada of being next to the United States (e.g., milling during mercantilism, the Civil War, Reciprocity, the farming skills of the Empire Loyalists, etc.), but also being a foe to the Americans militarily (e.g., War of 1812, Fenian Raids, etc.) and also the target of American expansionism (e.g., Manifest Destiny, "54-40 or fight," etc.)