

HAROLD INNIS AND CANADIAN CAPITALIST DEVELOPMENT

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In one of the last pieces he wrote before his death, Innis used the evocative term "soft capitalism" to describe the particular type of development that had occurred in Canada.¹ From his exhaustive studies of the staple trades, Innis had reached the conclusion that Canadian economic development never achieved its full potential and thereby would not enjoy the stability and industrial maturity that centre economies had. Innis knew that development at the periphery took a different route from that at the centre, as his studies had repeatedly demonstrated. His research, of pre-industrial as well as industrial staples, produced ample evidence that staple-led growth leads to an ever-deepening arc of dependency of the hinterland on the metropole.

It was this basic insight which, when examined institutionally and in terms of the interplay of market forces, allowed Innis to document the complexity of Canadian capitalist development with such perceptiveness and accuracy. He was the first to explain theoretically why the external economy shaped, directed, and ultimately controlled the destiny of Canada as a hinterland, preventing it from becoming a fully integrated, autonomous, centre economy. What has become known as 'the staple approach' is Innis' lasting contribution to the study of Canadian political economy.

Both friendly and hostile critics have often made the point, however, that the staple is too narrow a concept to account for the successive waves of Canadian development.² Though the staple may account for much, it is at best only a partial explanation. This critique of Innis contains an important truth. The staple is part of a larger set of structures that needs greater elaboration and analysis than was provided by Innis. Developed in this manner, the concept of the staple, or as it will be termed here, the staple mode of development, continues to provide the most convincing explanation of the fate of the periphery in the international economy.

If too much emphasis has been placed on a narrow perspective of the staple, the fault for this does not lie so much with Innis as with 'Innisology' — the flourishing industry of interpreting Innis. Throughout a lifetime of research and writing, Innis pursued many other themes and issues which he regarded as no less important. He was preoccupied with the spread and consequences of industrialism in all of its many aspects. He paid a great deal of attention to the creation and establishment of monopolies. He studied the state, the infrastructure of development, technology, and transportation systems, as well as taking a special interest in the rise and decline of regional economies. Beyond these aspects of political economy, Innis was greatly concerned with the importance of cultural factors, such as nationalism and the impact of democracy

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on economic development. By the end of the thirties, Innis had developed a broad overview of Canada's commercial and industrial origins going far beyond staples and the importance of transportation and geography. Yet twenty-five years after his death Innis continues to be read narrowly and often selectively and the richest part of the Innis tradition remains to be discovered.

The fact that he was concerned with so much more than the staple suggests that the most important aspect of the Innis legacy has yet to be seen in its theoretical complexity. His work on the staples should be considered a concrete application of his broader *theory of rigidities*. Innis used this framework to account both for the incomplete nature of Canada's industrial revolution and the inability of Canada to pursue a path of integrated development and become a centre economy in its own right. It is this neglected aspect of Innis which is so valuable: his penetrating insights into the weaknesses of neo-classical equilibrium theory, and his equally impressive achievement in elaborating a disequilibrium model of economic development to explain the long-run trends at the periphery, trends which anticipate and account for many of Canada's current difficulties (de-industrialization and economic dependence).

Seen in this perspective Innis' pioneering examination of rigidities should be considered a natural bridge between neoclassical economic theory and Marxist theory of dependency and capital accumulation at the periphery. When Innis identified rigidities such as unused capacity, monopoly, and fixed overhead costs, he laid the groundwork for a systematic and effective explanation of Canada's unique position as a settler colony. As such, it had the social relations of advanced capitalist but an economy which was unable to escape the original division of labour that inhered in a staple colony. These rigidities, he believed, were finally responsible for Canada's semi-peripheral economic status.

Because Innis developed such a thorough-going and compelling critique of the neo-classical explanation of growth, the general thrust of his work remains surprisingly contemporary. As the Science Council of Canada has recently shown, the general inefficiencies of the Canadian market economy are an immediate product of the rigidities of export-led growth.³ As well, in reformulating Innis' theory of rigidities in the light of contemporary reality, it becomes possible to move the discussion from his specific concern with the burden of disequilibrium to the broader issues of class relations, regionalism, and capital accumulation. Thereby, we can focus more directly on the staple mode of development of resource capitalism. The argument proceeds on two levels: the first constitutes an excavation into the past, a restatement of Innis' general theory; the second may be developed from Innis' insights as they affect our understanding of class relations, the state and the staple mode of development.⁴

Disequilibrium Theory and Incomplete Development

By "soft capitalism" Innis meant those countries at the periphery whose industrial development would at best only be partial because of the long-term danger inherent in export-led growth. In the case of Britain and the U.S., the

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pattern of development, though cyclical, had resulted in an integrated process in which periodic crises in the international economy were used to consolidate and integrate these national economies, allowing a move to the next stage of growth and development. At the periphery something very different occurred. Economic growth, in responding to changes in the international economy, was not able fully to use these downswings in the economy to reorganize and consolidate the unevenness of development. As a result, economic development is fragmented and consolidation only partial. Despite the fact that each period begins with a spurt of development, it ends in incomplete and uneven development.

Schematically, these marked differences between the dynamics of a periphery and a centre economy can be represented as follows:

1. At the centre: growth/development — crisis — consolidation/integration — growth/development.
2. At the periphery: growth/development — crisis — limited consolidation or regression/fragmentation — incomplete and uneven development.

The latter has been called the staple trap, or what Innis believed to be the straightjacket of soft capitalism as it moves from disequilibrium point to disequilibrium point. Innis repeatedly turned to this problem of the violence inherent in the swings in staple production. He came to the conclusion that the distortions entering into the economic process became cumulative the longer the process was dominated by metropolitan institutions and that the price system, or the market institutions of capitalism, failed to correct these imbalances.⁵

In attributing the permanent nature of developmental crisis to the price system, Innis rejected the idea that export-led growth produced a viable developmental strategy. At the periphery the presence of structural rigidities constitutes not abnormality but the normal order of things.⁶ By rigidities Innis meant a number of things, including inelasticities in supply or demand, and diseconomies of scale in the sphere of production and distribution (particularly transportation). He also used the concept to refer to pressure points, or bottlenecks, causing temporary or permanent disruptions in the economic process. A rigidity would occur because of imbalance or breakdown in a particular phase or aspect of development. At its simplest, the term was used to denote a structural obstacle to development such as unused capacity, fixed overhead costs, monopoly, fluctuating demand and government intervention. In one of his most important conclusions, Innis claimed that these rigidities did not dissolve but persisted. They took new forms even when the periphery, as in the case of Canada, became partially industrialized, acquiring limited industrial and technological capacity, with a powerful home-controlled banking system and a large market for consumer goods, etc. Deep-seated rigidities would effectively

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prevent transformation of a hinterland into a centre economy.⁷

Innis' economic views were remarkably astute in recognizing a 'dynamics' of staple development which would provide no relief for the periphery from a cycle of incomplete development. Subsequently Mel Watkins systematized the Innis paradigm by arguing that "the staple theory becomes a theory of capital accumulation."⁸ According to neo-classical economics, says Watkins, the export of staples creates inducements to invest in other sectors of the economy. These linkages — expansion of the domestic market, railway building, the replacement of foreign goods with locally produced goods, and increased processing of raw materials—are the motor of development, the pump-priming device which in due course would allow the periphery to escape its supply role in the world economy. But, as Watkins so convincingly argues, even though the export of staple generates large capital inflows and unusually high rates of capital accumulation (higher than the rate of capital accumulation occurring in centre economies at their stage of industrialization) incremental growth leading to indigenous, innovative and sustained development does not occur. At the periphery the backward, forward and final demand linkages are weak, and minimize the spread effects necessary to transform a resource-based economy into a fully developed industrial one. As Watkins shows it is the centre that profits from these weak linkages since it not only controls demand but also the supply end of the relationship through technology transfers and foreign investment. A weak set of linkages at the periphery supports a strong economy at the centre.

Mackintosh's Theory of the Staple

Orthodox economists never endorsed Innis' theoretical perspective, or even the restatement by Watkins, as constituting the central problematic of Canadian development. In the main they have accepted uncritically the formulation of W.A. Mackintosh, an economist at Queen's University, and a contemporary of Innis.⁹ Incomplete development was the central premise of Innis' work; for Mackintosh it was little more than a transitional stage in the history of a settler colony, and a stage which would ultimately be transcended in Canada's favour. Mackintosh's 'staple approach' was a theory of incremental development from a staple base. He argued, in effect, that the linkages and the spread effects from staple production would become gradually stronger as capital accumulation from the sale of resources to more advanced economies was reinvested in domestic industries, and as economies of scale were achieved with the assistance of foreign investment and the import of modern technology.

Writing in the twenties, Mackintosh based his theory of the staple on what he thought was the apparent success of the National Policy. In broad outline he saw Canadian development as paralleling the American experience. The U.S. had left behind its colonial past and emerged as an industrial power in its own right.

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Canada, in following the American model of economic expansion through resource export and railway-building, could expect the same results. "Nothing is more typical of colonial development", he wrote, "than the restless unceasing search for staples which would permit the pioneer community to come into close contact with the commercial world and leave behind the disabilities of a pioneer existence."¹⁰ Each of the successive waves of Canadian development had depended upon a commercial staple for export. With the settlement of the Canadian West the world staple would prime "the pump of Canadian industry."¹¹ Hence for Mackintosh there was no reason to doubt his original central assumption that the "prime requisite of colonial prosperity is the colonial staple."¹²

In retrospect, Mackintosh's theory seems crude and simplistic in the way it accounts for the particular mix of Canadian development. The analogy with the U.S. was largely superficial given firstly that the U.S. had had a commercial revolution that put the American economy directly in the hands of its business class and secondly, that despite American reliance on British capital the latter was largely portfolio investment (not direct investment) which left control of American industry in American hands. Nonetheless, the importance of Mackintosh's analysis should not be underestimated. Like other neo-classical economists who live in a world of imperfect market forces, Mackintosh needed to account for the phenomenon of incomplete or arrested development. The answers he gave remain very much in force today not because they are scientifically based but because they acquired the status of a paradigm¹³ seeming to account for the broad contours of economic history in the last half of the nineteenth and early twentieth century. He claimed that if Canada had been unable to tap its full industrial potential, the 'fault' must be purely internal.

In fact, Mackintosh skillfully presented the case that Canada's economic difficulties were mainly a question of geography—a large country with a difficult climate and hence a small population. Even if Canada's resource endowment was bountiful, he argued intractable geography caused industry to be slow in emerging and introduced inefficiencies of production. For Mackintosh, the main problem of Canadian development was not staple production *per se* but stemmed from the conflict between 'rational' economic market forces and the 'irrationality' of geography. In the most memorable sentence he ever wrote, he claimed that "Canada is a nation created in defiance of geography..."¹⁴, an unnatural economic unit created in opposition to the north/south flow of economic life.

Invoking geographical determinism in this fashion may be regarded as Canada's unique contribution to neo-classical theorizing, a tradition which has been carried on notably in Harry Johnson's writings¹⁵ and more recently in the publications of the Economic Council of Canada.¹⁶ However it should be noted that the principal weakness of geographical determinism is that it blames geography—a non-market force—for the phenomenon of uneven development and the inefficient allocation of resources rather than the particular behaviour of market forces in a hinterland setting.

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By twisting the importance of geography out of all proportion, Mackintosh ignored a basic fact of Canadian economic history which even he himself wrote about extensively. Geography is constantly being modified by the forces of production and geographical barriers to economic development such as distance and topography are mediated by advances in technology and transportation.¹⁷ The question which he never explained and which lies outside the neo-classical paradigm is: why does Canada's supply role in the world economy not change even when it has met the conditions for the industrial 'takeoff'? By contrast Innis *did* confront this central problematic of Canadian development. He answered it by saying, in effect, that it was the division of labour under the price system and not geography which holds the key to understanding Canada's particular form of development.

Turning his attention away from the staple and focusing on the spread of relations between an imperial economy and a white settler regime, Innis produced a theory of capitalist development to explain why the price system — his word for the market forces of capitalist production — functions differently for a periphery economy. In analyzing the process by which developmental linkages turn into permanent rigidities, Innis was able to show that even though Canada was a privileged social formation and shared common institutions and traditions of the centre, something mediated the transfer of capitalism. For Innis that something was the system of capitalism itself which reproduced these rigidities in the economic process, thus preventing Canada from becoming a self-generating autocentric economy characterized by what he called "integrated development."¹⁸

Innis had no lack of evidence of this phenomenon in which the successful neo-classical instruments of centre economies were 'inverted' and had the opposite effect at the periphery, becoming in due course structural obstacles and a source of disequilibria. Railway building was a classic instance of economic policy designed to promote economic expansion and indigenous industrialization and had been so in both Britain and the U.S. In Canada by contrast, Innis stressed that the era of railway building had produced a weak backward linkage, greater reliance on imported manufactured goods, unmanageable fixed overhead costs, diseconomies of scale that had forced government ownership of rail lines and so had reinforced monopoly.¹⁹ The tariff, similarly, did not have the effect of protecting infant industries but, as Innis noted, repeatedly had forced American firms to locate behind the tariff wall, thus giving foreign capitalists access to and control over the Canadian industry.²⁰ In terms of final demand linkages such as technology transfers, Innis discovered that Canada's easy access to British and American technology had not made Canada more self-reliant and competitive with advanced countries, nor had the acquisition of scientific knowledge lessened Canada's traditional reliance on the export of resources and the import of consumer and capital goods.²¹ In analyzing this phenomenon, Innis was brought face to face with what he called the price system, which prevented the periphery from being able to alter fundamentally the terms of its participation in the international economy. His explanation of why inversion occurs and rigidities

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result is a powerful one because it allowed him, without abandoning neo-classical economics completely, to explain development at the periphery in terms of a disequilibrium economics.²²

Disequilibrium Economics

Disequilibrium economics is based upon a complex analysis which argues, on theoretical and empirical grounds, that the price system fails as a mechanism for adjustment for the periphery. It holds that the price system is impaired because of the dominance of monopolies under resource capitalism at the periphery, and because the centre economy constantly exploits the forces of production of the periphery for its own development. This in turn leads to a rupturing of the normal economic processes of capitalist development. It is for this reason that the periphery is unable to smooth out price and structural rigidities by the same means available to centre economies. A centre economy achieves equilibrium in the sense that the price system serves not only to optimize the scarce allocation of resources but as a mechanism of adjustment, periodically revolutionizing the forces of production, changing the division of labour, and strengthening the market economy through expansion. To account for development at the centre, Innis subscribed to Adam Smith's unshakable conviction in the universal features of the market mechanism as a force for progress.²³ Like the founder of liberal political economy, Innis believed that the price system was a superior mode of production evidenced by its ability to transform the "rotting timbers of feudalism" into a new system of production. Subsequent transformations demonstrated again for Innis the power of market forces to harness capital, technology and trade to overcome all obstacles in the way of commodity production. Even the severe, recurring crises of capitalism which paralyzed the normal balance of market forces responded to the laws of the price system through bankruptcies, mergers, or the elimination of unproductive or marginal units of production. In the end, this ability to retrench and reorganize production made possible new ventures and eliminated bottlenecks in supply and demand. For Innis all this pointed to the existence of market forces which found their equilibrium at the point of optimum use of land, labour and capital.

But, by the same token, Innis argued that the equilibrium model of the price system only accounted for development in the advanced economies of the international price system. When Innis says that the periphery "is the storm centre to modern economies",²⁴ it is a statement referring to the long-term trends of international capitalist development from the perspective of the periphery. The periphery is subject to another dialectic, the dialectic of equilibrium/disequilibrium, with the stability of the centre economies resting on disequilibrium economies at the margin. Or as he explained, "...disturbances in one area were offset by advances in the other."²⁵ The theoretical explanation of why market forces were 'inverted' in this way and caused disequilibrium in the

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functioning of the price system he developed in terms of factors of production. At the periphery labour, capital and resources were exploited by the centre in a trade arrangement which constituted normal market behaviour for the imperial economy, but had the effect of depriving the periphery of capital and resources to revolutionize its own mode of production. Because trade was controlled by monopolies or the terms of trade arranged under a preferential tariff or commercial policy, the market was not free but was organized to perpetuate the existing mode of development and the original division of labour.

The classic instance of this was the system of mercantilism where, in theory and to a large extent in practice, the terms of trade were fixed by the centre which was thus in a position to determine the economic future and rate of development in each of its colonies.²⁶ Industrial capitalism, abandoning protectionism for free trade, redrew the economic relations between the centre and the old commercial empires, increasing the scope for the production and export of staples. But in one key respect the basic relationship of mercantilism passed into the new order unchanged. The periphery continued to specialize in the sphere of exchange, while the centre dominated the sphere of production and other sectors. Hence, under industrial capitalism, the periphery did not have greater opportunity than under mercantilism to transcend its commercial status as a supplier of resources and a market for manufactured goods. Most importantly, it could not acquire the capability to revolutionize its own mode of production.

To explain the persistence of disequilibrium at the margin, Innis isolated two broad categories of rigidities that entered into the price system:

1. *Structural rigidities*, referring to the division of labour and unused capacities both of which played a dominant role in a resource periphery and were long-term and historical in origin.²⁷

2. *Price rigidities*, such as fixed overhead costs and debt repayments which were introduced via the business cycle and became cumulative over time.²⁸

Structural Rigidities

Of the two Innis attached special importance to structural rigidities because they reflected the long-run trends of capitalist development, trends which in his judgment were rarely reversed. Further, Innis took the position that the division of labour imposed on the periphery by the imperial power did account in no small measure for subsequent social and economic development. To illustrate this he used the case of Canada and the United States, both of which had been a colony of Britain yet with very different results. To explain the principal differences between the two formations Innis was able to show that this was due to the type of colony each had originally been in the hierarchy of the world capitalist system, as well as the status confirmed on it by British imperialism.²⁹ It is in the course of this analysis that Innis discovered the source of these historically determined

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structural rigidities.

The British empire had created three types of colonies each with a different division of labour. At the top of the hierarchy was the commercial settler colony of New England which traded with other colonies and had acquired its own hinterland in the interior. Its staple agrarian economy supported a relatively large settler population. British North America belonged to the second tier. It was founded primarily as a staple exporting colony for luxury and later industrial resources. Its staples supported a small domestic market with few inhabitants initially and only acquired a commercial status late in the nineteenth century. At the bottom of the imperial pyramid were plantation/slave colonies maintained by conquest. Unlike settler colonies these had large indigenous populations which became the source of labour in single-crop economies. In the plantation/slave colonies British colonial policy erected a new economic order on the existing mode of production with the sole purpose of staples exploitation.

Settler colonies had a different status for Innis from that of colonies of conquest. The difference rested on the fact that settler colonies shared with the imperial centre the same mode of capitalist production and therefore entered into the international system on a level of equality with other market economies. As great an advantage as this was, settler colonies suffered from the disadvantage of having a commercially oriented economy at a time when "the price system had gradually but persistently eaten out the rotting timbers of European colonial structures..."³⁰ Innis noted that New England was the only commercial colony of the first British empire that had successfully attacked the old order and in doing so freed itself from the "shackles of the colonial system." The effect of the American War of Independence was both long-term and revolutionary in that it created the conditions for a new division of labour and opened up the American economy to the floodgates of industrialism. Innis singled out this historical moment as being without parallel in explaining how the American economy transcended the original division of labour and acquired the means to become a centre economy in its own right.

Coming to this conclusion, Innis did not evoke the doctrine of comparative advantage or a theory of entrepreneurship à la Schumpeter to account for American industrial development. With respect to the special circumstances of New England's commercial development he stressed the far-ranging political and economic consequences of a colony successfully freeing itself from the cycle of dependency and imperial domination. He wrote: "The advantages of freedom of trade supported by the fisheries and shipping broke down the colonial system of France and in turn England. Shipping implied commercial strength, naval power, and defeat of European control."³¹

By comparison, the case of Canada had to be a different affair. Canada's commercial revolution of 1837 had ended in defeat, causing it to remain a staple colony over a much longer period, subject to the more intensive exploitation of a backward commercialism embedded in the empire of the St. Lawrence.³² Counterposing the old to a new system of commercialism, Innis believed that he had identified the source of Canada's comparative disadvantage. Commercialism

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was antagonistic to industrialism because it retarded economic activity by imposing what Innis called "restraints on trade"³³ which supported an economy based on monopoly rather than on competition and the free play of market forces. Innis came to regard both these aspects of commercialism as responsible for preventing the price system from transforming the forces of commercialism into an industrial system of production. On this point Innis never wavered: "The rise of industrialism was the reverse side of the decline of the commercial system. The emergence of free trade...reflected and enhanced the efficiency of the price system and the growth of industrialism. The ebb of commercialism was the flow of industrialism."³⁴

Canada's structural rigidities arose out of this situation. Canada remained a backwater of commercialism after centre economies had made the transition to an industrial footing. With the passage from early to late industrial capitalism, the demands from the more advanced countries for industrial staples would increase as would their penetration and control of the domestic market of this white dominion dependency with a high per capita income. Significantly it was this fact, Innis believed, that made Canada particularly attractive in the eyes of metropolitan capital as a place to exploit. The industrial price system of centre economies operated "at a high stage of efficiency in the occupation of resource rich economies."³⁵ But the burdens of development were nonetheless inevitable. They fell on the state in recently industrialized areas which also continued to act as both banker and protector of imperial interests. Because the colonial state continued to be dependent on and indeed 'compromised' by the imperial state, the former was unable to function as an instrument of adjustment to reduce the rigidities brought in the wake of uneven development. Possibly more than any other single factor Innis viewed with alarm the institutionalization of a commercial-based colonialism in the state apparatus and believed that this relationship was responsible for the economic disequilibrium causing so many of Canada's problems.

Regionalism par excellence was a case in point. Canada was an amalgam of regional economies at different stages of development and the commercial orientation of the Canadian state perpetuated and aggravated existing regional rivalries. The results were plainly evident in the weakness of Canada as a social formation. Ontario with a commercial agrarian economy had reached the status of New England by the late nineteenth century and via the National Policy had acquired the rest of the country as its hinterland. The West had been created as a permanent staple colony with all the attendant difficulties that that mode of development brought in its wake. Although Innis did not write much about Quebec, he considered it a staple colony by conquest, controlled by the Church and Anglo-Canadian interests. Finally, the Maritimes had achieved a pre-industrial footing but after the National Policy once again became a staple economy.³⁶ All these competing modes of development reinforced the dominance of commercialism at the expense of strong national institutions. As a consequence "the more rigid channels of surviving commercialism"³⁷ would perpetuate Canada's dependence on one or another metropolitan power as well

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as be a chronic source of regional conflict and internal division.

Price Rigidities, Unused Capacity, and the Business Cycle

Having analyzed the long-term disabilities which Canada suffered from, Innis turned to examine the short-term operation of market forces including the movement of prices, capital formation and the business cycle. It is this incisive and highly original account of the business cycle that enabled him to identify the source of short-term crippling price rigidities. More than any other part of Innis' theorizing, it explains the special vulnerability of a resource-based economy to a price system with a commercial bias.

Initially, Innis identified the problem of price rigidities as they related to high transportation costs in moving bulky goods such as fur, timber and wheat over long distances in the absence of a balanced cargo.³⁸ This problem, resulting from intense specialization and what Innis called the chronic misallocation of capital and resources, was evident in the failure of successive waves of Canadian development to achieve sustained growth. This was entirely different from the experience in the American commercial colonies. In these, a "relative absence of unused capacity meant low costs and contributed to rapid economic development." In Canada by contrast, "an unbalanced cargo facilitated the addition of trading goods on the outward voyage for the development of trade on the St. Lawrence...[but] added little to the cargo of the home voyage."³⁹ These imbalances in the sphere of circulation (and later in the sphere of production) had occurred in all successive stages of development and accounted for the shortfalls in export-led growth. For Innis, unused capacity raised the important question of why it was so difficult for an economy to find what he termed a mechanism of adjustment to reduce the sharp fluctuations in international demand responsible for over-expansion when the economy was buoyant and a shortfall in revenues followed by the inevitable economic crisis when it began to contract. This cycle of short spurts of growth followed by a severe recession had had crippling consequences for a resource economy burdened with the escalating costs of capital formation.

Orthodox economists such as Mackintosh argued that the way to respond to unused capacity was to stimulate the economy by additional government expenditures and to attract foreign capital to make new investments particularly in the resource sector. Innis refuted this, and demonstrated that such a strategy did not alleviate the problem of unused capacity but in fact aggravated it. Here is his account describing how indebtedness and unused capacity are a direct result of a strategy of incremental growth:

Low rates of interest during a period of depression and recurring deficits stimulated renewed activity in borrowing and in encouraging further construction. Deficits increased

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during a period of depression and borrowings during a period of prosperity. Throughout the period of the National Policy government debts increase and, in turn, tariffs and capital equipment.⁴⁰

The key to this dilemma lies "in the difficulties in adjusting expenditure to receipts...in a period of depression and possibly in encouraging new industry by more aggressive protection, and in meeting the interest on loans during a period of prosperity."⁴¹ In Innisian terms the business cycle sought to "reduce the weight of the burden by increasing the extent of the burden."⁴² It operated from disequilibrium point to disequilibrium point.

In any number of ways, the periphery is constantly subject to severe economic pressures resulting from unused capacity. Because the market has a weak mechanism of adjustment, the government is forced to intervene and stimulate the economy by new investment, particularly in the most productive and competitive sectors, such as resources, or by improving the accessibility and availability of resources by expanding the capacity of the transportation system to move bulky goods more easily and at a lower cost. Capital expenditures in support of these resource projects are long-term in nature. They create higher levels of indebtedness in the expectation that they will generate additional revenue to cover the costs of this new indebtedness as well as producing linkages in the form of additional income to labour, capital and the state. For a brief period after the investments are made, the economy can be said to be in equilibrium as government borrowing generates a spurt of economic growth. However the spread effects are short-lived as conditions in the international market change and the demand for Canada's resources softens. These downswings, Innis discovered, reflect not only disturbances in the international market dominated by a few leading staples for export, but also are a consequence of the application of neo-classical fiscal and monetary policy designed to expand a centre economy during a period of economic difficulty. Innis identified the source of the 'disturbance' as the new capital outlays. He showed that these new capital outlays—an expansionist measure—have the reverse effect on a resource-based economy and quickly become a rigidity—an obstacle to economic growth—because in a period of recession revenues begin to decline while the backflow of profits and debt payments remain constant, or increase at a faster rate than the inflow of new revenues.

The immediate consequence of this shortfall in revenues is, as many economists have noted, to slow the rate of economic growth. Innis, however, stressed that the cumulative effect is by far the more decisive for three principal reasons. First, the expansionist phase of the business cycle is constantly being prematurely curtailed. Secondly, the new injections of capital repeatedly become a source of 'disequilibrium' when capacity exceeds demand and expenditures exceed revenues. Finally, in these circumstances the new capital expenditures rarely attain their intended purpose of creating either new economies of scale or

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other measures necessary to reorganize, consolidate, or expand the industrial side of the economy. Faced with this recurring problem and failing to understand its structural origins, the government is once again forced to intervene financially and undertake new investments from its own resources as well as to attract new foreign investment to stimulate demand and reduce excess capacity.⁴³ Significantly Innis was able to show how this cycle translates into a long-term structural problem. Because the periphery recurringly faces falling prices, soft markets, and declining revenues, the business cycle fluctuates between new indebtedness undertaken in the expectation of generating new industrial growth which never materializes and the fixed capital costs of past indebtedness reflecting the excess capacity and overdevelopment of the resource sector. Hence in any given moment of the business cycle the principal rigidity of unused capacity is being reproduced in full as a structural feature of the staple mode of development.

The significance of the cycle as a 'diseconomy' of development was not lost on Innis. He emphasized repeatedly that, as a persistent problem of Canadian history, unused capacity "...had its effect in prolonging the dominance of one staple or in hastening its decline and contributed powerfully to the disturbance of equilibrium in Canada and Europe."⁴⁴

Price rigidities would play a dominant role in Canadian development at all points in time. In periods of rapid expansion requiring large capital investments rigidities would be severe. They were equally present in times of crisis when interest payments, debt charges, and other obligations had to be met. Furthermore, price rigidities were inherent in the staple trades because monopolies such as Hudson's Bay Co., the CPR and the Canadian banks occupied such a pivotal role in the exploitation, transportation and sale of Canada's resources. Under industrial capitalism, Innis believed that centre economies had profited from these price rigidities which "enabled the older centres to benefit from the industrial growth of new centres by disposing or dumping obsolescent machinery e.g., agricultural implements to countries with virgin natural resources and in this way to reduce their own costs of improved equipment."⁴⁵

There were other examples which showed how rigidities were *institutionalized* in Canada's political and social arrangements. The most important of these was Confederation which, from Innis' perspective, was a direct response to the continuing developmental crisis Canada faced in the nineteenth century from capital indebtedness and pricing problems. He writes:

The emergence of Canada as modern state is inevitably a part of the spread of industrialism and capitalism. Confederation became an effective credit institution with the demands for long-term securities which accompanied the rise of industrialism especially as shown in transportation. The rise of Canada was in a sense a result of the demand for adequate imperial costing accounting which arose with Gladstonian liberalism.⁴⁶

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In the twentieth century price rigidities were again very much in evidence in the wheat economy as well as in the disturbances accompanying the growing trade and investment with the U.S. In assessing the persistence and chronic failure on the part of Canadian authorities to deal with this problem, Innis believed that Canada's problems stemmed from its position in the international economy and the rapid exploitation of its wealth. At the centre of its difficulties were debt and interest charges

paid to British, American and Canadian capitalists on equipment designed to produce and transport wheat... The effects of these rigid costs strike at the heart of Canadian economic life. Neglect in facing this vital problem may lead to consequences of serious import to the Empire. The crystallization of capital in fixed charges might be compared to the hardening of the arteries for the empire.⁴⁷

In the Innisian framework it was the combination of price and structural rigidities which had prevented Canada from transcending its commercial origins. As a result, Canada had been left with a badly co-ordinated machinery to cope with the violence accompanying resource capitalism.

No country has swung backwards and forwards in response to such factors as improvement in technique or transportation, exhaustion of raw materials and the advance of industrialism with such violence as Canada. Our history presents the same baffling complexity to the historian as does the Canadian shield to the geologist.⁴⁸

And as he further put it in one of his summary statements on this basic point:

The structure of Canada's economy was an extension of European and British economies, with a consequent increase in efficiency guaranteed by cheap water transport, imperial preferences, and the opening of new resources. It was handicapped by the extent of government intervention, the rigidity of government indebtedness, railway rates, and tariffs, and dependence on a commodity subject to wide fluctuations in yield and price.⁴⁹

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The World System: The Origin of Rigidities

Stressing the severe limitations imposed on the periphery enabled Innis to arrive at a path-breaking theory of rigidities. As a political economist and not simply an economic historian, Innis placed particular importance in examining the evolution of capitalism as a world system. Although not as systematic in generalizing the laws of capitalist development as for instance—and more recently—Samir Amin,³⁰ there is a striking similarity between Innis' theory of rigidities and Amin's theory of *extroversion*. Even though one must tread cautiously and avoid superficial comparisons between developed dependency and stark underdevelopment, Innis and Amin share a common perspective in their respective efforts to discover the dialectic of incomplete development and the complex means by which centre economies have been able to impose through intensive specialization a division of labour on periphery formations. In his writing on the social formation of peripheral capitalism, Amin shows how the prolonged export of resources leads to extroversion of the resource industries, while sectors slotted for industrialization for the home market suffer from low productivity, marginalization and undercapitalization. From a Marxist perspective Amin explains "how the rapid spread of simple commodity production cannot reverse the extroverted character of the economy."³¹ In language which echoes Innis' reasoning, he explains how a country at the periphery has a narrow range of productive activities and expansion of the economy via export-led growth in primary resources means that indebtedness grows faster than income.

Amin systematizes the dynamics of peripheral capitalism as follows: the spread effects of investment benefit foreign capital more than domestic industry; the resource sector has the highest rate of profitability and therefore capital flows into the 'preferred' export sector while light industry selling to the domestic market suffers from low productivity, lower rates of return and undercapitalization; foreign investment rather than expanding the economy disarticulates the key sectors by truncating the domestic market; and the backflow of profits exceeds the inflow of investment. All varieties of dependent capitalism suffer from what he terms the double crisis: "Exports that are destined for the center cannot grow faster than demand at the center—that is, approximately at the rate of growth of the center" and "international specialization...always constitutes a mechanism of primitive accumulation to the disadvantage of the center."³² Because of this crisis, Amin contends, it is impossible for a country to catch up on its historical handicap "while sticking to the basis of international specialization."³³

Innis also examined the origins of this 'comparative disadvantage'. He discovered that it was a necessary condition of the way capitalism evolved as a world system. His analysis is surprisingly comprehensive in detailing the historical evolution of capitalism from its mercantile origins to late monopoly capitalism. Committed to liberal political economy, he naturally regarded the

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early period of industrial competitive capitalism as the golden age of the market economy. Economic liberty went hand in hand with personal liberty and produced what Innis regarded as the great advances in civilization, in the arts and sciences and in government, by the destruction of the vested interests and the mercantile monopolies of the old order.⁵⁴ The strength of the new order was in Innis' view based upon a belief in economic and social progress dependent upon the free and full functioning of market forces. However he also saw that the system of competitive capitalism had been displaced by 'late mature capitalism' in which monopoly rather than competition was dominant. He was disturbed by this trend which he believed brought with it profound social and economic consequences. By the twentieth century the industrial order of Europe and the U.S. had been further transformed, as capitalism had evolved into a system of imperialism based upon "a vital relationship of militarism to capitalism and the modern state."⁵⁵

To account for the rise of imperialism and the decline of competitive capitalism, Innis focused on monopoly, militarism and the modern state as forces threatening the stability of both late neo-technic capitalism and the viability of peripheral regions in the world system. In his eyes, trade wars, narrow nationalism, price fixing, financial capitalism, and international indebtedness reflected "the drive of the price system on the economic and social structure within the state" as well as "continual disturbances between the states."⁵⁶ Analyzing the extent and severity of these social disturbances led Innis to study the consequences of the decline of competition and "the rise of economic warfare."⁵⁷

For Canada, the anarchy of a monopoly-dominated world system had serious implications.

Canada developed at the latest stages of modern industrialism and is among the first to feel the effects of the turn. The importance of the state, reliance on production of raw materials for export, particularly wheat, and the rigidities of continental development create serious problems of internal maladjustment as shown by quotas, bonuses, unemployment relief, the breakdown of provincial-federal relations and the like.⁵⁸

Significantly Innis noted that the sheltered metropolitan areas "tend to impose burdens on regions exposed to world fluctuations", whose effects would be profound and immediate. "The new internationalism is upon us. No country stands to gain or lose more than Canada."⁵⁹

Under late capitalism Canada faces three immediate dangers. The first stems from its ambivalent status in the world economy. On the one hand, "it stands in danger of being burned at the stake of natural resources and on the other hand of

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being boiled in the oil of unrestricted competition."⁶⁰ The second arises out of Canada's industrial position. "For a country which rides on the crest of modern industrialism and has been concerned with the demands of an international market, industrialism has provided an abundance of goods but not the first luxury of security."⁶¹ The third danger results from Canada's dependence on the U.S. "We have built up in Canada in competition with the United States a delicately balanced economy which has more than once crashed through ill-designed machinery."⁶² In the new order Canada's difficulties stem from its "proximity to the U.S. [which] places a severe handicap on control of capital movements. The character of our development results in rigidities such as those governing ownership."⁶³ In the circumstances, Innis had few illusions as to "the obvious significance of American economic policies to Canada." He did not hesitate "to point out the existence of an American empire" and to inquire whether American policy makers were conscious of "the responsibilities which accompany imperialism."⁶⁴ Whether the United States agrees or not, "its monetary and tariff policies are largely the monetary policies of the North American continent, including Canada."⁶⁵

Innis' analysis of monopoly capitalism is surprisingly contemporary in singling out the centrality of capital movements, the problem of foreign ownership, and the phenomenon of unused capacity to explain why Canada was and would remain a periphery exploited by center formations — short of a revolution as imperial capital does not permit of any other possibility. Unlike the U.S. and Europe which have revolutionary traditions, Canada's origins were profoundly counter-revolutionary, a fact for Innis which reinforced the commercial orientation of the state and elites as well as explained the long history of imperialism in Canadian affairs. As he frequently lamented, Canadians had repeatedly failed to generate alternatives to the debilitating consequences of dependence in either political or economic life. Under late industrial capitalism Canada would fare less well than it had under competitive capitalism. "The old system had linked her to Europe by a geographic background dominated by the St. Lawrence and provided efficiency of specialization under free trade."⁶⁶ With the decline of the St. Lawrence all of Canada's economic life would be endangered from a much more powerful American hegemony in the establishment of branch-plants in Canada, the fixing of Canadian wage levels with those in American industry, "the movement of liquid capital, ownership of government securities and the temporary migration of tourists..."⁶⁷ Emphasizing the link between capital movements and rigidities, Innis showed how closer ties to the U.S. increased "the instability of Canada's political and economic structures."⁶⁸ Politically, imperialism leads to "a weakening of nationalism" and "the strengthening of regionalism,"⁶⁹ while economically Canada did not have the policies to improve capital allocation, reduce capital costs or lessen the "burden of defence." The strains from this asymmetrical relationship would intensify. "[I]t may be expected with the more rapid growth in population in the United States and the continued decline of natural resources, that Canada will become increasingly dependent on the U.S. and that the problem will become more,

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rather than less acute..."⁷⁰

Writing against the backdrop of the Depression reaffirmed for Innis all that he had been saying about the importance of rigidities in the study of Canadian development. "An array of conflicting forces" had produced a succession of structural imbalances with the inevitable result that regional and national economies found themselves unable to develop proper adjustment mechanisms to respond to the rapid changes in economic life.⁷¹ The severity of the Great Depression made evident the very real social costs of this mode of development. As he repeatedly stressed, those who were least able to shoulder the burden had to pay the costs of these permanent rigidities. This included Canada's hinterland regions, which were most exposed to price fluctuations and suffered directly from declining incomes and unused capacity. The federal government was forced into an imperialist role vis-à-vis the regions and hence was incapable of mediating the disparities and responding creatively to the demands of regional protest movements.⁷² Equally affected were farmers and those working in the resource sector who through their labour and loss of income were forced to subsidize the commercial policies of foreign and domestic interests.

This aspect of Innis' work on the social consequences of rigidities notably compliments and extends his more narrowly economic concerns. Economic rigidities as he discovered also are responsible for a system of exploitation having far-reaching implications for Canada.⁷³ They not only work their way through the economy but profoundly affect other areas of Canadian life as well. He was disturbed by the fact that a society based on resource capitalism put power in the hands of the few, relied so extensively on centralized authority, accepted rule by administrative fiat and was constantly subject to absentee control. He blamed the coercive and anti-democratic institutions of Canadian life on the dominant presence of monopolies, the practices of the commercial state, and the influence of the branch-plants which had prospered and grown in influence often at the expense of the Canadian population. His research on the origins and evolution of Canadian capitalist development ultimately led him to question the role and purpose of the modern liberal state⁷⁴ and its many links with corporate interests. In his mind the power of monopolies was linked to the erosion of individual and collective rights both within Canada and without. His preoccupation with these central issues made Innis into a nationalist, a critic of incremental growth, an opponent of continentalism, and an agnostic about the viability of the liberal tradition itself.⁷⁵

There can be no doubt, then, that to view Innis' principal interest as the history of the staple or even staple-led growth does a gross injustice to his grasp of political economy. What concerned him was to account for the structural design of successive waves of Canadian development economically and socially, and in shifting his attention beyond the staple he thus laid the foundation for the study of the historical dynamics of what should properly be termed resource capitalism. To this end Innis was first and foremost an economic structuralist in his approach, contending that internal and external market forces accounted for the incomplete or blocked form of resource capitalism. Many have wrongly and

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disparagingly regarded Innis as an economic determinist. However, as a structuralist, he rigorously held that even geography was neither fixed nor unchanging but, like any other structure, was modified by advances in the economy. Evidence of his geographical determinism comes from Innis' oft-quoted assertion, taken from the conclusion of *The Fur Trade in Canada*, that modern Canada in following the boundaries of the fur trade was created *because* of geography. Yet a few pages later he says that with the onset of industrial capitalism Canada's economic geography was being eroded by this new mode of production. His words are worth recalling: "The geography unity of Canada which resulted from the fur trade became less noticeable with the introduction of capitalism and railroads."⁷⁶ As we have seen, his particular analysis of late capitalism showed how Canada's problems, stemming from a system of staple production, were institutionalized in such economic structures as monopolies, the state-structure and American branch-plants, each of which contributed to or reinforced the diseconomies inherent in a staple economy.

However, as unequivocal as Innis was about the long-run trends of capitalism and liberalism, his theoretical understanding went no further. He saw no class, no economic system, no ideology which, when all is said and done, was more attractive than liberalism or preferable to the price system. Had he been able to conceive of an alternative he might have shifted his ground both as a political economist and in terms of his class loyalties. Even his pioneering and innovative work on rigidities did not lead Innis finally to reject the neo-classical economic perspective. For it must be remembered that while he saw and deplored 'disequilibrium' at the periphery, he assumed, and approved of, 'equilibrium' for the centre. In the end, his reworking of the liberal political economy tradition had brought him far but not far enough, because the difficult question of the historical viability of the capitalist mode of production was not on his intellectual agenda.

The Staple Mode of Development

His theoretical conceptualization of rigidities constitutes the vital and lasting part of the Innis legacy. His study of monopoly and the pervasiveness of commercialism suggests that these rigidities are part of a larger process which can be called the staple mode of development. Its characteristics are as follows:⁷⁷

1. *The staple mode of development is defined by its commercial orientation, where commercial relations of exchange and distribution rather than industrial relations of production predominate. What we have as a pattern of development is commercial dominance in an industrial guise.*
2. *Resource development is based on monopoly and monopolized sectors, not competition and competitive units of production.*
3. *Infrastructure projects such as railways are designed to link the domestic market to the imperial centre, with the result that the external market dominates industry and other core areas of the economy.*
4. *Direct investment gives foreign capitalists perpetual control of key*

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industrial and resource sectors, while the branch-plant movement results in dependent industrialization and comparative disadvantage in goods-producing industries caused by truncation and extroversion accompanying the inflow of capital.

5. *The rate of capital accumulation is persistently high, a reflection of Canada's status as a semi-centre economy; nonetheless, like other periphery economies Canada suffers chronic capital shortages due both to the constant backflow of profits and dividends and to the capital intensive nature of resource capitalism, dependent upon advanced technology to exploit highly sophisticated industrial and energy staples.*
6. *In economic matters, the Canadian state is autonomous neither in a relative nor an absolute sense; rather, as the creation of the imperial state, it functions as the instrument of foreign capital, and by direct intervention in the economy underwrites the strategies of accumulation and legitimation.⁷⁸*
7. *The traditional neo-classical instruments of growth such as the tariff, resource exports, technology transfers and foreign investment become structures of dependency in a satellite economy. At the periphery, they are responsible for perpetuating commercialism long after it has declined in the more advanced economy.*
8. *The resource/financial/transportation bourgeoisie are the 'dynamic' and dominant ruling class formation in this mode of development.⁷⁹*
9. *Paradoxically, staple-led growth accentuates regional disparities and undermines balanced regional development. But, because resource capitalism is dependent on a continental market, the continued export of staples supports strong regional economies and even stronger regional loyalties.*
10. *In an economy organized around public and private monopolies,⁸⁰ it is the subordinate classes, not capital, which are required to sell their labour or their produce on a competitive basis; it is this condition of inequality par excellence which the state utilizes to accelerate the rate of capital accumulation.*
11. *Incomplete development is not a passing stage but a permanent condition of the periphery in the absence of a profound realignment of class forces. Even though the mix of incomplete development can be seen to evolve, the basic division of labour and Canada's role in the international hierarchy are not altered. More accurately, what each new stage of incomplete development reflects are changes in internal class alliances accommodating or responding to the strategy of capital accumulation initiated by foreign capital and the imperial state and/or crises in the international economy.⁸¹*

It is only when we come to this final point that the Innisian contribution ends and the Marxist tradition in Canadian political economy begins. Unlike liberal political economy, the Marxist perspective no longer focuses on rigidities *per se*

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but on a different problematic, one which is frequently implicit in Innis' work: explaining the unique set of class relations responsible for the staple mode of development. In laying the groundwork for this, we may say of Innis what he once wrote about the Fathers of Confederation—that he "buildded other than he knew" and, we should add, better than he himself realized.

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Notes

An earlier draft of this paper was prepared for presentation to the H.A. Innis Symposium, Simon Fraser University, March 30-31 1978. Special thanks is due to Mel Watkins and Sten Kjellberg for their comments and encouragement in preparing this expanded and revised version.

1. See his 1951 presidential address to the American Economic Association, published as "The Decline in the Efficiency of Instruments Essential in Equilibrium", *American Economic Review*, 43, 16-22.
2. See M.H. Watkins, "A Staple Theory of Economic Growth" in W.T. Easterbrook and M.H. Watkins, eds., *Approaches to Canadian Economic History*, Toronto, 1967, and Hugh G.J. Aitken, "Myth and Measurement: The Innis Tradition in Economic History", *Journal of Canadian Studies*, Vol. 12, No. 5 (Winter 1977).
3. Science Council of Canada Report 29, *Forging the Links*, Ottawa, 1979. Consult also the more detailed study by John Britton and James Gilmour, *The Weakest Link A technological Perspective on Canadian Industrial Underdevelopment*, Background Study 43, Science Council of Canada, Ottawa, 1978. Both supply much detailed evidence on the rigidities of export-led growth.
4. The special issue of *Studies in Political Economy*, No. 6 (autumn 1981) is devoted among other things to a critical assessment of the thought and influence of Innis on the resurgence of Canadian political economy. It is evident that I don't share the perspective of David McNally who among others calls for a 'pure' Marxist model as an alternative to the 'flawed' Innisian tradition. I will need a lot more persuading that the classical European model of development is going to serve as the basis for explaining class and class conflict in Canada.
5. Innis' explanation of the many different aspects of the price system can be found in Mary Q. Innis, ed., *Essays in Canadian Economic History*, Toronto 1956. For an overview of Innis' perspective on economic development, see the following: "The Penetrative Power of the Price System", "Unused Capacity as a Factor in Canadian Economic History", "Significant Factors in Canadian Economic Development"; "Transportation as a Factor in Canadian Economic Development"; and "Liquidity Preference as a Factor in Industrial Development."
6. Innis developed his own specialized vocabulary of political economy to analyze and discuss the laws and relations of development. In addition to the concept of rigidity, here are some other key words Innis employs throughout his writings and to which he often attached unorthodox meanings: elasticity, unused capacity, incidental price system, fixed overhead costs, disturbance, monopoly, factors of development, disequilibrium, business cycle, geographic unity, capital movements, cyclonics, liquidity preference, vested interests, technique of production.
7. The terms "persistence" and "transformation" pervade the writings of the economic historian W.T. Easterbrook.

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8. M.H. Watkins, *op. cit.*, p. 55.
9. For a discussion of the theoretical importance of Mackintosh's and Innis' contrary views on the staple, see my article "The Re-Discovery of Canadian Political Economy", in Wallace Clement and Daniel Drache, *A Practical Guide to Canadian Political Economy*, Toronto, 1978, Mackintosh's version of the staple theory is found in Easterbrook and Watkins, *op. cit.*, with the deceptively modest title "Economic Factors in Canadian History". For a fuller exposition of his views which contain much useful information on regional disparities caused by the National Policy, see *The Economic Background of Dominion-Provincial Relations*, reprinted in Carleton Library, No. 13, Toronto, 1964.
10. W.A. Mackintosh, "Economic Factors in Canadian History", p. 4.
11. *Ibid.*, p. 14.
12. *Ibid.*, p. 4.
13. For other neo-classical economists, Mackintosh is regarded as being 'a man of science' while Innis is often seen as the myth-maker. Hugh G.J. Aitken, *op. cit.*, is a good example of the scholarly bias directed against Innis. In point of fact it was the Mackintosh model which acquired the status of having myth-making appeal. Innis was the more 'scientific' of the two in the best sense of the term, as this paper attempts to demonstrate.
14. *Ibid.*, p. 15.
15. Consult Harry Johnson's collection of articles, *The Canadian Quandry*, Toronto, 1977.
16. Economic Council of Canada, *Looking Outward*, 1975.
17. W.A. Mackintosh, "Economic Factors in Canadian History."
18. The term appears in his essay "Unused Capacity" (1936), in *Essays*, p. 144.
19. Though it is infrequently consulted, Innis' *Problems of Staple Production in Canada*, Toronto, 1933, now out of print, contains much useful information on railways and technology.
20. See his essay "Introduction to Canadian Economic Studies" in *Essays* for a lengthy discussion and examination of the branch-plant movement.
21. See "Economic Trends in Canadian-American Relations" in *Essays*.
22. His philosophic views on the role and limitations of economics is found in "On the Economic Significance of Cultural Factors" and "The Political Economy of the Modern State" in his *Political Economy in the Modern State*, Toronto, 1946.
23. Innis made constant reference to Adam Smith in his writings and used Smith's analysis of the price system to stress its "transforming" capability. See Innis' "Penetrative Powers of the Price System" in *Essays*.
24. "Political Implications of Unused Capacity", *Essays*, p. 382.

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25. "Liquidity Preference" in *Political Economy in the Modern State*, p. 197.
26. Innis' view of mercantilism and late capitalism respectively are found in "The Penetrative Power of the Price System" and "Liquidity Preference as a Factor in Industrial Development". In these essays, Innis examines the evolution of capitalism as a world system.
27. See "Unused Capacity as a Factor in Canadian Economic History" and "The Political Implications of Unused Capacity", in *Essays*.
28. For a discussion of structural rigidities, consult "Economic Trends in Canadian-American Relations" and "Recent Developments in the Canadian Economy", in *Essays*.
29. This is an important aspect of Innis' work. His views are outlined in "Penetrative Power of the Price System" in *Essays*.
30. *Ibid.* p. 257.
31. *Ibid.* p. 256.
32. Innis regarded the failed revolutions of 1837 as a decisive moment in Canadian political economy and, unlike Creighton, constantly pointed out the inadequacy of the St. Lawrence commercial system as a structural determinant. See "Significant Factors in Canadian Economic Development" in *Essays*.
33. "Penetrative Powers of the Price System", p. 256.
34. *Ibid.*, p. 259.
35. *Ibid.*, p. 260.
36. For a sampling of Innis' complex views on regionalism see "Decentralization and Democracy" in *Essays*, particularly pp. 367-371. He believed that regionalism had become so severe that it had rendered obsolete Canada's political machinery and necessitated "concentration on the problem of machinery by which interests can become more vocal and their demands be met more efficiently." (p. 370.)
37. "Penetrative Powers of the Price System", in *Essays*, p. 260.
38. For an elaboration of Innis' views on transportation, see "Transportation as a Factor in Canadian Economic History", in *Essays*.
39. "Unused Capacity", in *Essays*, p. 142.
40. *Problems in Staple Production*, p. 23.
41. *Ibid.*
42. *Ibid.*, p. 115.
43. "The impact on Canada of the business cycle in the highly integrated industrial system of the U.S. varies directly with the importance of American capital and of the American market and with the

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character of the industrial structure of Canada." In "Labour in Canadian Economic History", *Essays*, p. 198. More explicitly the American control of the business cycle means "continued migration of capital in the form of branch plants from the U.S. and further exploitation of natural resources." *Problems in Staple Production*, p. 121.

44. "Political Implications of Unused Capacity" in *Political Economy of the Modern State*, p. 218.
45. *Problems in Staple Production*, op. cit., p. 19.
46. *Ibid.*
47. *Ibid.*, p. 118.
48. *Problems in Staple Production*, op. cit., p. 73.
49. *Ibid.*, p. 82.
50. Samir Amin, *Unequal Development; An Essay on the Social Formations of Peripheral Capitalism*, New York, 1976.
51. *Ibid.*, p. 202.
52. *Ibid.*, p. 291.
53. *Ibid.*
54. In Innis' *The Political Economy of the Modern State*, there are two lengthy essays in which he identifies the problems which stem from the decline of liberty and the rise of monopoly and imperialism. The first is "The Political Economy in the Modern State" and the second is "On the Economic Significance of Cultural Factors".
55. "Canadian Economy and the Depression", in *Essays*, p. 133.
56. "The Penetrative Power of the Price System", in *Essays*, p. 271.
57. *Ibid.*, p. 270.
58. "Canadian Economy and the Depression", in *Essays*, p. 134.
59. *Ibid.*, p. 135.
60. *Ibid.*, p. 130.
61. *Ibid.*, p. 135.
62. *Ibid.*, p. 140.
63. *Ibid.*, p. 139.
64. "Recent Trends in Canadian-American Relations", op. cit., p. 238.

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65. *Ibid.*, p. 239.
66. "Recent Trends in Canadian-American Relations", *Essays*, p. 235.
67. *Ibid.*, p. 238; the text reads "important wage levels" but it seems clear imported is intended.
68. *Ibid.*, p. 238.
69. *Ibid.*, p. 238.
70. *Ibid.*, p. 240.
71. Two themes which dominate Innis' writing on Canada are that "Regionalization has brought complex problems for an economy developed in relation to the St. Lawrence" and that "Provincialism has paralled the new industrialism." While he held it "imperative that serious attention should be given to the problem of revising political machinery so that democracy can work out solutions to modern problems", he was not optimistic that Canada's political system would be able to reform its political structures. The above quotations are from "Decentralization and Democracy" in *Essays*, p. 368 and 370.
72. See "Decentralization and Democracy", "The Penetrative Power of the Price System", "Political Implications of Unused Capacity" and "Labour in Canadian Economic History". His major thesis was "that the conflict between a price structure dominated by Great Britain and a price structure increasingly dominated by the continent has serious implications for the Canadian economy in the inequalities between groups and regions." To counter this trend he believed that "provinces will require elaborate machinery to protect themselves against the exploitation of haphazard federal policies." p. 198 and p. 371, respectively, in *Essays*.
73. For an overview, see "Great Britain, The United States and Canada," in *Essays*.
74. After 1940, Innis turned his attention to a number of philosophic concerns; the results are to be found in *The Political Economy of the Modern State*, op. cit. The last period of his life was devoted to the study of the modes of communications and the ownership of the means of communication.
75. On the relationship between Innis' Liberalism and nationalism, see my earlier article "Harold Innis: Canadian Nationalist", *Journal of Canadian Studies*, Vol. 4, No. 2, (May, 1969).
76. *The Fur Trade in Canada*, p. 402.
77. In "Staple-ization: A Theory of Canadian Capitalist Development, I examined the phenomena of dependent industrialization as a particular aspect of the staple mode of development, John Saul and Craig Heron, eds., *Nationalism, Imperialism and Canada*, Toronto, 1977. The eleven points set out in this article require a fuller explanation than is possible in the present circumstances. Nonetheless, the present discussion would be incomplete without showing, albeit cryptically, the link between Innis' theory of rigidities and the larger structure.
78. Leo Panitch and others in *The Political Economy of the Canadian State* (Toronto, 1978) err badly in a) discussing the Canadian state without reference to the imperial state and b) adopting the metropolitan Marxist theory of the state as the theoretical backdrop to their analysis. The contributors dismiss out of hand an instrumentalist view of the state and yet on conceptual and empirical grounds the policies, structure and behaviour of the Canadian state for reasons given in

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points 3, 5, 7, 10, 11, demonstrate the relevance of the instrumentalist approach. Nor do they reconcile a Millibandian view of the state with Canadian statist tradition.

79. Both R.T. Naylor's *History of Canadian Business*, Vol. I and II (Toronto, 1975) and Wallace Clement's *Continental Corporate Power: Economic Elite Linkages Between Canada and the United States*, (Toronto, 1977) document this point conclusively and exhaustively.
80. The monopoly aspect of development has important ramifications for the study of working class history in a double sense: firstly, the resource proletariat, being forced to carry the burden of the rigidities, became the most class conscious element of the working class movement. Many labour historians erroneously continue to regard the urban industrial proletariat as its leading element. Secondly, under resource capitalism, the indigenous tradition of Canadian unionism has been a unionism of struggle arising out of the objective conditions that confronted the resource, transportation, and construction proletariat. The entry of American unions into Canada established their hegemonic control over much of organized labour, destroying this older radical tradition of unionism and replacing it with a corporate ideology of business unionism. The destruction of the radical Mine Mill Union by the Steelworkers is a telling case in point. Much of the Canadian Left has been compromised on this issue because both the social democratic and Marxist political parties have relied on these American 'internationals' for political and financial support.
81. In the twentieth century two types of class alliances reflect Canadian development at the national level: a) 1890 to 1930 was the period of a national development strategy under the direction of the commercial/financial elite, the state, and British capital; b) 1945 to the present has been a period of renewed dependency under the same elite, orchestrated by the state in alliance with American capital. At the regional level only south-central Ontario has reached the lofty heights of the national development plateau. Significantly, Alberta and Quebec have attempted to acquire a new status in Confederation but by very different means. Quebecers have opted for a national popular government possibly leading to independence while Albertans believe that a national development strategy based on alliance with American capital offers salvation from the 'exploitative' policies of Ottawa.
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