"A GREAT INHERITANCE AND A GREAT PROPERTY": THE HUDSON'S BAY COMPANY, ENGLISH FINANCE CAPITAL AND THE FERTILE BELT[1]

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The recent closing of the Hudson's Bay Company (HBC) flagship department store in Winnipeg was a symbolic acknowledgement of the termination of the historical influence of the HBC on the economy and geography of Canada.[2] Founded by Royal Charter in 1670, the HBC had participated in the mercantile revolution that allowed European companies to initiate a global dominance; but unlike all the other state-chartered companies, it survived several subsequent economic revolutions (industrial, financial, consumer). It continues to outlast all the other state chartered joint stock companies (e.g., East India Company, Royal African Company). After 1870, the HBC circumvented extinction by:

- accumulating surpluses through land sales; and
- channelling its merchandizing experience and capital into the modern urban department store.

Despite the loss of monopoly, the fur trade was not abandoned.[3]

The view of Confederation as a successful implementation of a political ideal, along with the acquisition of the Northwest, is an unbalanced nation-building narrative. Cogitation by the Fathers of Confederation cannot deserve all the credit for the creation of the nation state. In fact, the impera-

1 A sojourn at Department of Anthropology at the University of Aberdeen provided an excellent collegial setting to work on the financial dynamics of the Rupertsland Transfer. A longer version of this paper was presented at the annual meeting of the Economic History Society (2018). Thanks to Erik Ellehoj for the mapping out of the HBC Territory and for calculating the surface area of Rupertsland and the North-Western Territory. At different times, Matthew Kearcher, Nicole Anderson, Nathilie Eng, Danielle Patzer and Victoria Anderson assisted with the compilation and presentation of the supporting numerical data set. Encouragement from Peter J. Usher was appreciated.

2 Ian Austen, "Canada Letter," *New York Times* (2 January 2021).

3 Arthur J. Ray, *The Canadian Fur Trade in the Industrial Age* (Toronto: University of Toronto Press, 1990) p. 12.

tive for both Confederation and western expansion can be traced back to a supportive interest of British capital. This assertion that the Imperial Center, especially "the City," promoted the development of the Canadian nation state is somewhat at odds with the conviction that a sensible compact was fashioned largely out of a spirit of compromise.[4] Instead, it will be demonstrated that finance capital expedited the opening up of the Northwest.

In particular, Sir Edward Watkin played a determining role; as reiterated by E. E. Rich, he was the "motivating genius," and a key promoter of transcontinental railroad and telegraph schemes.[5] He was an influential proponent of both confederation and settlement of The Fertile Belt. The idea that the tiny 1867 nation was geographically or economically feasible without a transcontinental link to the Pacific, and later, the ongoing conversion of regional natural resources to a national wealth requires attention. The map depicts the territory that was transferred to Canada in 1870 and which now accounts for 63.5 percent of our land mass. It entailed 6,276,609 square kilometres and was the largest real estate deal ever (See Figure 1).[6]

With its royal charter, the HBC was a legal barrier to the pursuit of private ownership of land, railways, immigration, urban centres, and cereal production for export. The 1863 buyout of the HBC by the newly formed International Financial Society (IFS) avoided forcing a political rupture with mercantile capital. This investment bank began with the acquisition of the HBC; however, the IFS generally sought "undertaking, assisting, and participating in financial, commercial, and industrial operations, both in England and abroad, and both singly and in connection with other persons, firms, companies and corporations."[7] The directorship of the IFS was comprised of important English and European merchant bankers. Cottrell explained that the IFS "was one of a considerable number of investment banks formed in London during the first half of the 1860s."[8] The creation of investment banks facilitated the export of surplus English capital during the era of High Imperialism (1870-1914).

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4 With respect to British capital's backing of Confederation, see Andrew Smith, *British Businessmen and the Canadian Confederation: Constitutional-Making in an Era of Anglo-Globalization* (Montreal: McGill-Queen's University Press, 2008).

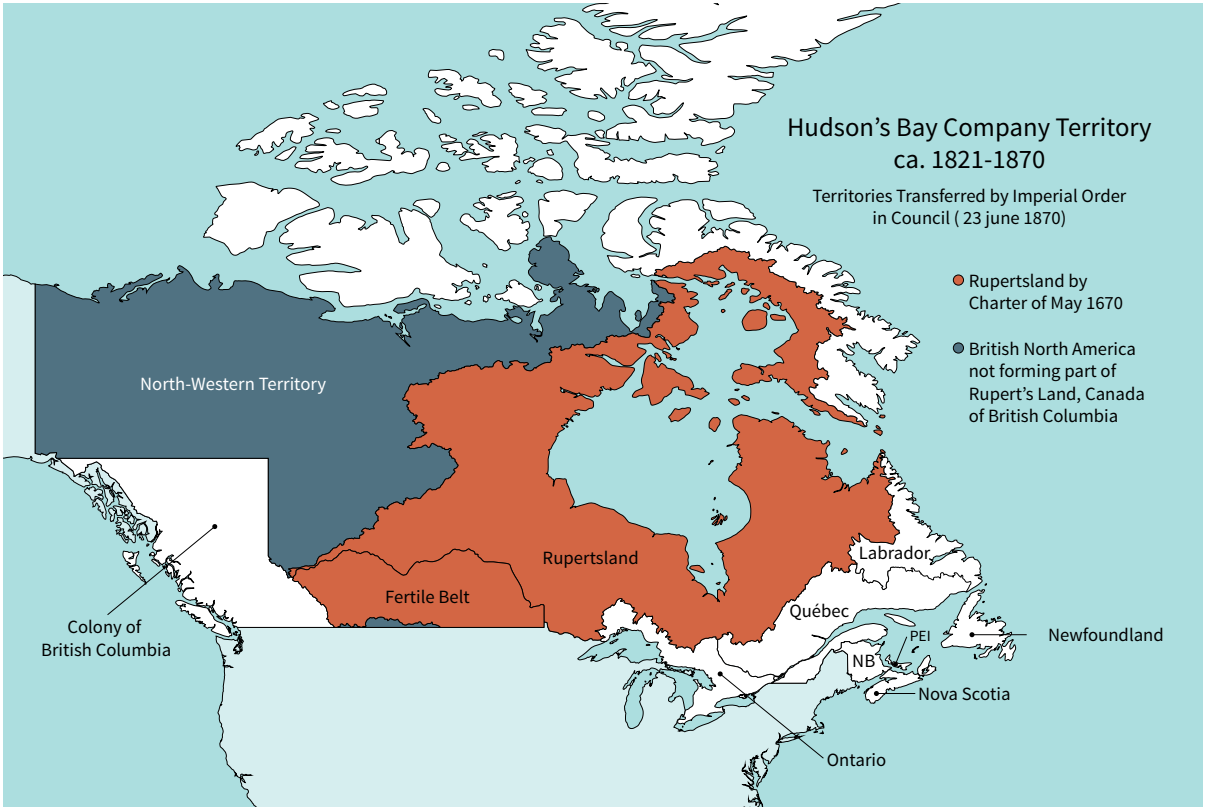
5 E. E. Rich, *History of the Hudson's Bay Company, 1670-1870* vol. 3, 1821-1870 (Toronto: McClelland and Stewart, 1960) p. 820.

6 Given the Empire's fixation on India, it is worth noting that the HBC Territory was much larger than the 3,287,263 km^2 that now make up Indian, Pakistan and Bangladesh.

7 Rich, *History of the Hudson's Bay Company* vol. 3, p. 836.

8 Philip L. Cottrell, « The Role of the International Financial Society in the Buying-Out of the Hudson's Bay Company, 1863, » Revue internationale d'Histoire de la Banque vol. 10 (1975) p. 192; and P. L. Cottrell, *Investment Banking in England, 1856-1881: a case study of the International Financial Society* 2 vols. (London: Routledge, 2012, [original 1985]).

FIGURE 1: ACQUISITION OF THE HUDSON'S BAY COMPANY TERRITORY, BY CANADA, 1870



Notes: The border between Canada and Labrador was settled in 1927. Arctic Islands were transferred to Canada by Imperial Order in Council (1 September 1880).

After much "toing and froing" about the acquisition of the Fertile Belt for the good of the empire, HBC Governor Berens sarcastically retorted: "If these gentlemen are so patriotic, why don't they buy us out."[9] And they did. Although HBC stock was valued at £500,000, Watkin agreed to Berens' price of £1.5 million! The control of the HBC then passed to Watkin and his IFS backers.[10] Subsequently, the

9 Rich, *History of the Hudson's Bay Company* vol. 3, p. 832.

10 The IFS was founded on 11 May 1863. The first entry in the IFS Capital Journal was a deposit on 28 May 1863 for £366,662 10 s for the issue 146,665 shares (£2/10/0 per share). Hull History Centre (HHC), International Finance [Financial] Society U DFS/24, p. 2.

IFS raised the old stock of £500,000 to £2.0 million following a very promising, and an enthusiastic prospectus; not surprisingly, a widely subscribed public issue ensued.[11] The refinancing of the HBC was not trivial, Cottrell noted that "The size of the transaction dislocated the London money market and led to a heavy demand for discounts at the Bank of England."[12] The refloating of the HBC stock earned the IFS an institutional presence in the London capital market.[13] Historically, profit taking is associated with financial maneuvers and Rich saw an "apparent gift of easy profit" for the IFS.[14] As the IFS minutes referred, "Watkin and friends," were go-betweens for the IFS and HBC.[15] Total payments of £123,967 to Watkin, Potter,[16] and Crédit Mobilier[17] indicate quick gains, the sort that characterize successful financialization.[18] Rather than the state terminating an obsolete monopoly by cancelling its charter, the HBC, in keeping with the march of finance capital and investment banking, was simply bought out by the sort of commercial forces that would also promote formal and informal empire in the late 19th century.

The IFS's buy-out of the Hudson's Bay Company forebode new, but long-lasting and formative, political, and economic directions for both the Northwest and the Dominion of Canada. Purportedly, Colonial Secretary Newcastle, as a steadfast proponent of confederation of the British North American colonies, upon learning of the IFS takeover, "evidently believed that a new era was about to open in the north-west, and the wild animals and fur traders [would] retreat before the march of 'European' settlers."[19] Despite the commercial contrasts between a stayed mercantile company and a hastily organized investment bank, an orderly purchase opened the door to evidential settlement, railways, and cereal production. Still, the HBC remained intact and continued to shape economic development in the Northwest after 1870.

The 1880 edition of Skinner's London Stock Exchange yearbook ceased designating the HBC

11 Rich, *History of the Hudson's Bay Company* vol. 3, p. 838; and Archives of Manitoba, Hudson's Bay Company Archives, A.27/1 International Financial Society Prospectus Issue of Stock in the Hudson's Bay Company, 1863, ff. 93 d-95 (hereafter HBCA).

12 Cottrell, *The Role of the International Financial Society*, pp. 195-196.

13 Cottrell, *The Role of the International Financial Society*, p. 197.

14 Rich, *History of the Hudson's Bay Company* vol. 3, p. 839; however, Cottrell disputed Rich concept of IFS profit taking. Cottrell, "The Role of the International Financial Society," pp. 195-196.

15 HHC, IFS, UDFS/1, *Board Minute Book* (1863-1867) pp. 3-4.

16 Robert Potter was involved in the buyout negotiations and was later appointed to the HBC governing committee. Rich, *History of the Hudson's Bay Company* vol. 3, pp. 836, 838.

17 *Crédit Mobilier's* had a momentary interest in the HBC/IFS. Even such a passing interest is telling, since *Crédit Mobilier* had been instrumental in Napoleon III financial revolution. Michael Lee, *From Malaise to Meltdown: The International Financial Folly, 1844* – (Toronto: University of Toronto Press, 2020) p. 36.

18 Cottrell, *The Role of the International Financial Society*, p. 196.

19 Canada, *Sessional Papers*, 1869, no. 25, *Report of the Delegates appointed to negotiate for the acquisition of Rupert's Land and the North-West Territory*, Sir George E. Cartier and William MacDougall to Sir Frederick Rogers (8 February 1869) p. 19.

as a miscellaneous concern but instead, classifying it as a "Land, Investment, Finance and Discount Company."[20] This assessment reflected the outcome of supervised Colonial Office negotiations between the Company and Canada. A process that secured valuable considerations for the 1870 surrender of the HBC charter rights, including: (1) £300,000 cash; (2) 50,000 acres around its posts (e.g., 3,000 acres at Edmonton); and (3) 1/20th of the Fertile Belt. Manifestly, 1/20th of the surveyed Fertile Belt was a large estate in land. In 1930, the Department of Interior reported that some 7,031,257 acres had been granted to the HBC,[21] but as of 31 January 1931, the HBC still held title to 2,381,364 acres.[22] In other words, after six decades, 33.9 percent of the estate remained. Bookkeeping records for 1961 indicate some leased and unsold lands, lingering residuals of a diminished estate.[23]

> **"Because the HBC served as both the vender and the mortgagee, considerable revenues were earned by interest from the land."**

The Long Depression (1873-1896) precluded quick speculative returns for those that had bought shares in the 1863 HBC refloated. Later, and coincident with the Wheat Boom, land revenues escalated (see Figure 2). The Land Department costs involved: salaries and commissions, surveying and land inspection, advertising, rent, office costs, etc., and legal expense, and taxes.[24] The Land Department's revenues included:

- Cash received for farming land sales;
- Cash received for town lot sales; and
- Interest received on instalments and rents.

Because the HBC served as both the vender and the mortgagee, considerable revenues were earned by interest from the land. The essential components of the HBC sale policies were to:

- Finance the purchaser over seven to eight years at seven percent per annum;
- Sell at higher prices than other corporate holders of large prairie land grants; and
- Operate with a long-view of its valuable land estate, but as diminishing capital.

The sale of land around posts was a significant source of revenue. For the year ending 13 March 1913, Edmonton town lots generated £372,785 10 s

20 Thomas Skinner, *The Stock Exchange Year-Book: 1880* (London: Cassell, Petter, Galpin, 1880) p. 199.

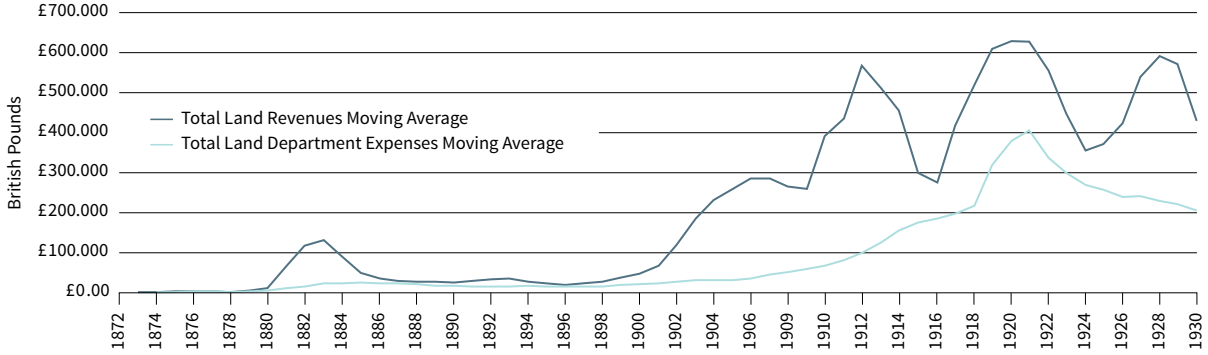
21 Canada, Annual Report for the Department of the Interior, 1930 (Ottawa: F. A. Acland, 1931) p. 26.

22 HBC, *Report and Accounts, of the Governor and Committee*, (9 April 1932) p. 7 copy found in HBCA, H9/-171-3-1.

23 HBCA, H.221/6/4, Land Department Accounts, 1956-1961.

24 See, HBC, *Reports to shareholders, accounts and proceedings (1875-1931)* Land Department Account Statements, 1872-1931.

FIGURE 2: HUDSON'S BAY COMPANY LAND DEPARTMENT EXPENSES AND REVENUES, THREE YEAR MOVING AVERAGE, BRITISH POUNDS, 1873-1931



Notes: Hudson's Bay Company, *Reports of the Governor and Committee of the Hudson's Bay Company*, 1873-1932, Land Account Statements (1872-1932).

7d in cash sales.[25] Even though much remained for the HBC to sell, during the period 1873-1931, the Land Department generated £13,238,754 in revenues with expenditures of £5,669,619 – thereby generating a surplus of £7,569,135.[26] It took several decades, but these returns compared very favourably with the 1863 recapitalization.

Profits flowed to London: Between 1905 and 1922, the Company's dividend rate ranged from 20 to 50 percent; these spectacular dividends, a marvellous rentier income, were supported in good part by strong and sensible land sales.[27] Figure 3 depicts the nominal and market value of HBC ordinary shares. During the Wheat Boom, the London market perceived HBC shares as a serious asset well above the nominal value. It was after all a land and finance entity.

> **"The most beneficial payment was not the £300,000 cash, but the land grants for future sale and capital accumulation."**

In early March 1869, pressure – in form of a take-it-or-leave-it ultimatum from Colonial Secretary Lord Granville – on Canada and the HBC, produced an agreement. Canada had reluctantly accepted

25 HBC, *Report to shareholders, accounts and proceedings* (1913) Land Department Account (13 March 1913).

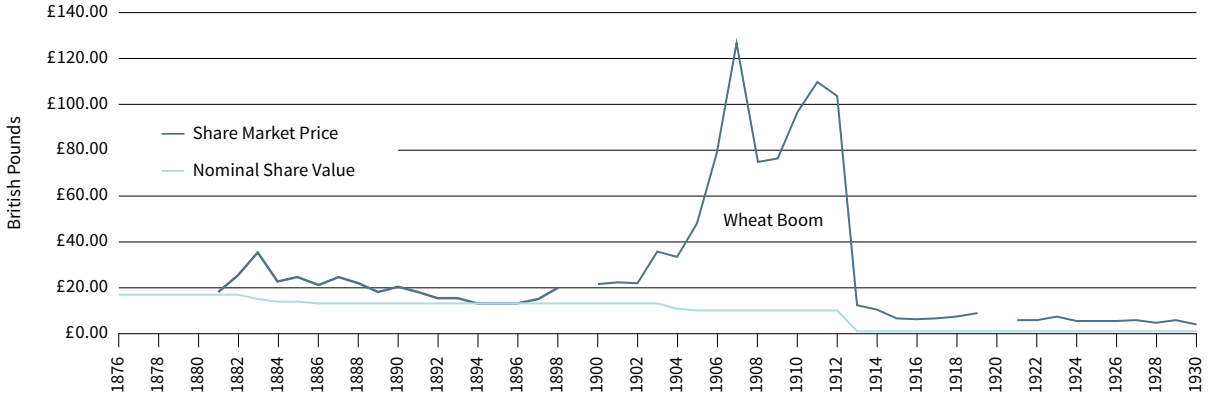
26 HBC, *Reports to shareholders, accounts and proceedings* (1875-1931) Land Department Account Statements, 1872-1931.

27 Douglas MacKay, *The Honourable Company*, 2nd. ed. (Toronto: McClelland and Stewart, 1949) p. 349.

the reality of compensating the HBC for the surrender of its 1670 charter rights. The most beneficial payment was not the £300,000 cash, but the land grants for future sale and capital accumulation. During the midst of the Long Depression, Governor Sir Donald A. Smith had imparted prescient advice to HBC shareholders: "I hope you will see that you have *...a great inheritance and a great property* that is well worth conserving and that with good management it cannot fail to be to the Hudson's Bay Company a mine of wealth."[28] The governor was not wrong. As Figures 2 and 3 indicate, the downstream results of the financialization of the Company's charter rights were impressive. A large and enduring land grant allowed the HBC to adapt and survive the loss of its monopoly status by:

- Providing some liquidity during the Long Depression;
- Capitalizing a sizeable fund to invest in "sales shops;"[29] and
- Procuring nice returns to English coupon clippers (Figure 3).

FIGURE 3: MARKET CAPITALISATION OF HUDSON'S BAY COMPANY SHARES, 1876-1930



Notes: Thomas Skinner, *The Stock Exchange Year-Books: A Careful Digest of Information Relating to the Origin, History, and Present Position of Each of the Public Securities and Joint Stock Companies known to the Markets of the United Kingdom, 1876-1932* (London: Thomas Skinner and Co).

28 HBC, Report of the proceedings of the Shareholder's Meeting of the Hudson's Bay Company, held on Tuesday, the 17th of December, 1889, p. 5 [emphasis added].

29 For example, financing from land sales revenue for expanded merchandizing is documented in the Land Accounts for the year ending 31 March 1913. Major stores and warehouses were being developed in Calgary, Edmonton and Vancouver. Lord Strathcona reported that Land Account contributed £300,000 to the Saleshops Extension Fund. HBC, *Report of the Governor and Committee submit[ed] to the Proprietors the Report and Annual Accounts of the Company* (3 June 1913).

"The instrumental convergence in 1863 of seemingly incongruent interests of an ancient monopoly and emerging investment banking illustrates the resilience and flexibility of English gentlemanly capitalism."

The transfer of the HBC Territory (Figure 1) on 23 June 1870, by Imperial Order in Council, is our other 150th anniversary. Officially unrecognized, it is of little interest to historians and political scientists. Without this surrender, there would have been no need for the population of the Red River Settlement to act, but their agency contributed to the creation of the Province of Manitoba (15 July 1870).[30] The formative role of the fur trade to the economic geography of our nation was first revealed by Harold Innis in *The Fur Trade in Canada*; yet, the HBC itself remained a "builder" in the north and west after 1870. It influenced a fast-evolving economic landscape by:

- Selling farm land as an alternative to homesteading;
- Supplying town lots to urban land markets that sprang up around antiquated posts; and
- Developing modern department stores to capture rising consumption.

My argument that finance capital was a crucial material factor for the geographical expansion of the embryonic 1867 nation state does not comport easily with the ideational narrative that often conflates confederation with independence or self-government with sovereignty. In my view the Canadian academy seems reluctant to acknowledge imperial influences.[31] The instrumental convergence in 1863 of seemingly incongruent interests of an ancient monopoly and emerging investment banking illustrates the resilience and flexibility of English gentlemanly capitalism; and significantly, corresponds nicely with the pattern identified by Cain and Hopkins in which domestic and imperial developments were joined most pervasively through "the bond created by finance."[32]

30 Harold A. Innis, *The Fur Trade in Canada: An Introduction to Canadian Economic History* rev. ed. (Toronto: University of Toronto Press, 1970 [original 1930]).

31 In another context, see Elizabeth Mancke, "Early Modern Imperial Governance and the Origins of Canadian Political Culture," *Canadian Journal of Political Science* vol. 32, no. 1 (1999) pp. 3-20. Cain and Hopkins observed that historians from Canada, Australia and New Zealand, "... have now nationalized the study of their own histories so successfully that they are scarcely thought about outside of their own borders." P. J. Cain and A. G. Hopkins, *British Imperialism: 1688-2015*, 3rd ed. (Oxon: Roultledge, 2016 [original 1993) p. xix.

32 Cain and Hopkins, *British Imperialism*, p. 76.