Appendix A: Prize Money – Spanish Silver and the Rideau Canal

Better not to go to war if you have not the money to pay for it.

—Arthur Wellesley, Duke of Wellington

This appendix discusses how the British military managed their off-shore reserves of captured Spanish silver, and how they employed it to beef up fortifications in the St. Lawrence Valley, subsidize the Rideau Canal, and fund the military settlement of Bytown.

It also examines how and why contractor Thomas Mackay reaped handsome profits from his Ordnance contracts, and details how he invested his Rideau Canal capital for the benefit of Bytown and Ottawa.

1806 Carlos IV silver half dollar, struck at the Nueva Granada Mint
The Spanish Dollar

The British forbade their North American colonies to mint money of their own. Montréal merchants still had to pay in pounds sterling for finished British goods imported into the colony. They often ran out of coins from the Royal Mint to use in day-to-day business, and resorted to using Spanish or Yankee half dollar or dollar coins or the silver Spanish dollar—worth 8 “reales,” a unit of currency in Spain. Use of the 32-real Spanish gold doubloon was rare in British North America (BNA).

Merchants called the silver coins “pieces of eight” because they were generally cut into eight pieces, or bits. To make change, merchants would use two, four or eight pieces, or “bits.”

These coins were preferred because of their purity, and because they had a milled edge, which prevented dishonest traders from shaving off slivers of silver from the coins without being detected.

Beloved by pirates and potentates, the Spanish dollar was the first global currency, accepted everywhere. From the 1700s onward, it was the basis of the American and Canadian dollar, the Japanese yen, and the Chinese yuan.

Pieces of eight became the primary medium of exchange in BNA and the Caribbean. Silver was in short supply in the colonies, so the silver half dollars paid to Thomas Mackay, John Redpath, and other contractors, firmly filled the void for circulating coinage, along with the smaller quarter dollars (called “two bits”) and the pie-shaped pesos de ocho, or “pieces of eight.”
Nelson’s Golden Harvest

More and more of the silver coinage circulating in BNA came from Spanish galleons captured in the Anglo-Spanish War of 1796–1808. In just one engagement in October 1799, four British frigates intercepted two treasure ships off Cape Finisterre, carrying indigo, cocoa, sugar, and two million Spanish dollars.

The sterling value of the cargo was at least £618,040 (worth about £60 million today). Under the Royal Navy prize system—called by Admiral Nelson “the Golden Harvest”—each captain was awarded £40,730 and each sailor or marine £182. Much of the balance was sent to Britain’s Portuguese and German allies.

The main beneficiary of Nelson’s Golden Harvest was Admiral Peter Rainier, who served during the Seven Years’ War, the American Revolutionary War, and the Napoleonic Wars. From 1794 to 1805, Rainier was commander-in-chief of the navy’s East Indies Station, covering all seas between the Cape of Good Hope and the South China Sea. Rainier and his captains feasted on captured prizes.

At his death, Rainier’s personal fortune was valued at nearly £250,000. After providing for his friends and relations, he modestly left 10 percent of his estate to the Chancellor of the Exchequer to be
used to reduce the national debt, acknowledging, “the national establishment of the Royal Navy, in which I have acquired the principal part of the fortune I now have, which has exceeded my merit and pretensions.”

**Napoleon’s Need for Cash**

The eighteenth century and the French Revolution ended with the Republican general Napoleon Bonaparte orchestrating a coup in Paris, and installing himself as first consul of the Republic. In 1804, the little Corsican crowned himself first emperor of the French. Happily handing out chateaux and land to his generals, he began his bloody wars of conquest against the Prussians, Austrians, and Russians.

The French Emperor was constantly seeking booty to fund his ambitions and feed his soldiers, who were for the most part conscripts, unlike Wellington’s, who were largely volunteers.

In 1808, Napoleon conquered Spain and installed his brother Joseph (José) on the throne, which made the gold and silver treasure held in the mints of Spanish America his family’s personal property. The Emperor desperately needed to access his family’s new riches, but he faced a major problem. Royal Navy warships—the victors at Trafalgar in 1805—commanded the high seas, thwarting any attempt to ship New World treasure to Spain and France.

Pressured by his bankers, Bonaparte hit on the only solution possible—he called a truce in the war, and sent his financier, François Ouvrard, to London to strike a deal with Barings, his opposite number. Barings Bank was deemed to be the “sixth great Power of Europe,” as well as the largest and most stable bank in the world.

Senior partner, Sir Francis Baring, played a vital role in establishing the firm as the leading force in international finance. In 1803, he and Dutch banker Pierre César Labouchère largely underwrote the $15 million Louisiana purchase by the USA from France, and Barings became the official agency for the United States government in London. Both future Whig prime minister, Earl Grey and Henry Labouchere, Lord Taunton, were cousins of the Barings. Henry

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1 On May 8, 1792, Captain George Vancouver named Mount Rainier in today’s Washington state after his friend Rainier.
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Labouchere was later appointed Civil Lord of the Admiralty in 1832, and he served in the second Melbourne ministry as master of the Mint, vice-president of the Board of Trade, and under-secretary of state for War and the Colonies.

Barings Bank of London had been the biggest financier of the British army and the Royal Navy in this hugely costly war against Bonaparte. Even after Napoleon’s exile, Barings arranged a loan to the French government to pay off its war indemnities. It was Barings who would later pull together financing for Canada’s first major railway, the Grand Trunk, and thirty years later, for the transcontinental Canadian Pacific.

The Mexican Silver Caper

_Bonaparte does not understand anything and thinks that we conduct finances as we do with armies._

—Napoleon’s Financier, Gabriel Ouvrard

In early 1808, François Ouvrard and Sir Francis Baring hammered out a deal, whereby the Royal Navy would send a fleet to Mexico, and
transport a large consignment of Spanish dollars to its owner, Napoleon’s brother Joseph, the new king of Spain. In return, King José would allow the British Admiralty to keep half of the Spanish American booty.

Assuming that half of these British warships carried nothing but barrels and chests of Spanish gold and silver, and that the value of each cargo was £1 million, that means that Mexican Silver Caper delivered £13 million—worth approximately £9 billion today—into the hands of the British military.²

The Admiralty engineered this handsome heist under the terms of the Cruizers and Convoys Act of 1708, whereby ships captured at sea were “Droits of the Crown” and became the property of their

² C$15.3 billion
captors, who received the full value of the ships and cargo in prize money. However, since technically Britain and Spain were not at war at the time of the action, all revenues had to revert to the Admiralty. There was a precedent—four years earlier, the Admiralty Court had already ruled that three treasure ships captured off Cadiz were “Droits of the Admiralty.”

**The Imperial Piggy Bank**

_The British wisely hoarded a good deal of this Mexican silver, and a fortune in Mexican coinage, shipped to Quebec in chests and barrels, was used judiciously and wisely, to protect the Canadas from American invasion… It was these dollars that saved British North America._

—David Gates, *The Napoleonic Wars, 1803–1815*

So where did this Mexican booty end up? Clearly some went into military expenditure through the Ordnance. Frigate loads were sent to Quebec to prosecute the costly War of 1812 in North America. Some was initially used to back anti-Bonaparte guerrillas in Spain, and then to supply Wellington’s army in Portugal. Some was doubtless paid out to six-hundred-odd New England ship captains, ruined by the Jeffersonian embargoes, who spent the War of 1812 in the Baltic, hauling Russian hemp and Swedish timber for the Royal Navy—and who happily took payment in gold and silver bullion.³

In 1816, after Waterloo, Britain joined the gold standard, and began to reform—indeed, modernize—it’s banking system and coinage. A new British one pound coin made of gold, the sovereign, was introduced and, in 1821, silver pennies were replaced by copper coins, while silver continued to be used for higher value coins.

The governments of Liverpool and Wellington opted to keep the Mexican bullion out of circulation in the home country. Knowing how gold and silver from the new world had debauched the Spanish economy, their goal was to prevent inflation and forgery, protect the monopoly of the Royal Mint, ease the burden on the British taxpayer from wartime debts, and keep control over the growing empire.

³ Alastair Sweeny, *Fire Along the Frontier*, 178.
Indeed, in 1825, Lord Liverpool passed the *Sterling Silver Money Act*, which made British coins the only recognized form of currency in the British Isles, ending any legitimate onshore use of the Spanish dollar.

This decision caused a national banking crisis: over the next year, sixty country banks failed, due to issuing too many small denomination banknotes. To alleviate the liquidity shortage caused by the financial panic, the Bank of England stepped in and issued a flood of one-pound notes, while the Royal Mint boosted the production of gold sovereigns. Parliament also allowed the creation of new joint-stock banks outside a 65-mile radius from central London and let the Bank of England set up regional branches.

To benefit the colonies of North America, offshore use of the Spanish dollar remained intact, and the coins circulated freely. Most importantly for BNA merchants, used to dealing with Yankee dollars, Spanish silver was also accepted as legal tender in the United States and in trade in the West Indies.

### How Spanish Silver Kept Canada British

*War is not so much a matter of weapons as of money.*

—Thucydides

During the War of 1812, the cash-flush British military used this Spanish booty to erect fortifications and move supplies unto Lake Ontario. They used Durham boats that could carry about eight tons, and were manned by six men for the twelve-day trip. It cost about a thousand dollars to ship a twenty-four-pounder cannon from Québec to Kingston.

On Lake Ontario, the Royal Navy easily outspent the Americans. Commodore Sir James Yeo built a warship at Kingston naval yards that was bigger than Admiral Nelson’s *Victory*. HMS *St. Lawrence*, bristling with 112 long-range guns, half of which were big twenty-four- and thirty-two-pounders, was in fact the largest ship in the Royal Navy.

This massive three-decker cost over £500,000 to build and was manned by hundreds of sailors from the Royal Navy’s Halifax fleet. One major reason the Americans capitulated in 1815 was because they knew they could never outspend the British on the Great Lakes.

In 1814, with the war drawing to a close, Wellington suspected that the Americans might not abide by the peace. From one of his
officers, who had talked to US Secretary of State, James Monroe, Wellington learned that the Americans were bound not to make the same mistakes as in the 1814 campaign. They would completely ignore Niagara and the West and do what he thought they would do in the first place—direct all their forces against Montréal.

In April 1814, with the French army on the run from Spain, Wellington ordered General George Ramsay, Lord Dalhousie, to turn away from the general advance, and begin breakup of the army at Bordeaux. In June, Dalhousie sent four regiments to Halifax, Québec, Montréal, and Kingston. Dalhousie would serve as lieutenant governor of Nova Scotia from 1816 to 1820, and governor general of British North America from 1820 to 1828, replacing the Duke of Richmond.
Strategic Canal Contracts

In his 1814 report to the Duke, Commodore Sir James Yeo suggested building a canal from Kingston to the Ottawa River to bypass the American border and rapids on the St. Lawrence and better secure Montréal. In the 1820s, Wellington set this project in motion, ordering the Duke of Richmond and then the Earl of Dalhousie to plan and execute the mammoth project.

At least £100,000 had been spent to subsidize the Lachine Canal at Montréal. In return, the canal was to be toll-free for the military.

With regard to the Rideau Canal, the Duke of Wellington trusted Colonel John By of the Royal Engineers enough to give him carte blanche to build the waterway. The matter was urgent. Wellington ordered Colonel By in a letter, “not to wait for Parliamentary Grants, but to proceed with all despatch consistent with economy.”

In other words, do your best and damn the expenses.

However it was used, we know that profits amounting to at least £50,000 worth of Spanish silver made its way into the accounts of contractors Mackay and Redpath in the Montréal banks. Mackay probably earned at least £10,000 more. This was an extraordinary amount of cash, but similar to what a Royal Navy captain would make after a successful capture of a treasure ship.

The British could afford to reward its canal contractors lavishly. The funds ensured rapid fulfillment of the contracts.

To put things in perspective, the hold of one particular galleon taken in 1805 contained silver worth over £800,000. That is almost exactly what the Ordnance would pay out to build the Rideau Canal.

The final cost of the Rideau Canal, tallied up in January 1834, was £822,804, which included land to be flooded for slack water lakes.

In addition to the Rideau Canal, Spanish silver also helped pay for building a more secure armoury on Île Notre-Dame, constructing Fort Lennox on Île aux Noix, and building the new Fort Henry at Kingston.

Richmond and Dalhousie were keenly aware of the ongoing strategic importance of British North America. The Napoleonic Wars and Philemon Wright’s timber rafts had made the Ottawa Valley an essential source of oak planks, pine masts, and hemp ropes and sails for Royal Navy frigates. Expanding inland navigation on the Ottawa was a high priority.
According to Lord Lansdowne in 1820, “our timber trade has moved to distant Canada where we spend £500,000 a year more on procurement than we formerly spent in the Baltic timber trade.”

After Waterloo, Britain’s problem was no longer France, it was the United States. Everything had to be done, from diplomacy to money power to fortifications, to prevent the Americans from capturing BNA.

Wellington was also proceeding to downsize the British regular army, from a high of 226,000 in 1810, to a low of 106,000 in 1830. Emigration was a prime solution, and the intention of the two dukes was to offer free land, provisions, and tools to British veterans of the Napoleonic Wars and War of 1812 who settled in the Canadas. They had one major goal, “to form a loyal and war-like population on the banks of the Rideau and Ottawa.”

**Handsome Profits**

By the end of 1829, Thomas Mackay’s labour on the Ottawa Locks was essentially complete, while the work at Hog’s Back and Hartwells was not finished until the summer of 1831. He and most of his masons had already made the decision to stay in Bytown, while partner John Redpath opted to return to his Montréal businesses the following year. Mackay and Redpath continued their joint shipping business in the Ottawa and Rideau Forwarding Company with the help of Redpath’s wife, Janet. In 1832, Bank of Montréal directors John Molson Jr. and Peter McGill joined the company as investors.

How wealthy was Thomas Mackay as the decade of the 1830s began, and how did he employ his extraordinary capital, living in a tiny outpost of empire?

His friend, the lawyer and later judge John Glass Malloch—also born in Perth, Scotland—estimated that Mackay emerged from the Rideau Canal contracts about £32,000 richer. In an accounting made on March 17, 1831, Mackay shows a handsome profit of £28,205 for the Bytown lock work and Redpath £20,847 from the Jones Falls dam and locks. Subcontractors Philips and White were also paid £7,600 for work at Black Rapids, Long Island, and for completing the Jones Falls locks.

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4 John Glass Malloch, *Diary (OA); Malloch’s mansion, Victoria Hall, is now the central building of the Perth Hospital.*

5 McCord Museum, Redpath fonds.
How were they paid?
According to the Reverend John Lowry Gourlay, in his history of the Ottawa Valley, “Redpath and Mackay had to cart home, in Mexican silver half dollars, etc., their part of the profits of the contract.”6

I can find no contradiction to this statement.

This coinage, packed in barrels, was probably forwarded by the Ordnance from Quebec, and stored at the fortress on Île Saint-Hélène opposite Montréal. The funds were likely delivered by wagon and wheelbarrow into the vaults of the Bank of Montreal, and credited to the accounts of the partners. Of course the bank immediately put this capital to good use.

Why was Thomas Mackay paid in Spanish silver coinage?
For one main reason: the Ordnance was flush with booty from Spanish galleons captured by the Royal Navy, and which was stored offshore by the War Department.

The Cash-Rich British

After fighting the costly War of 1812, and defeating Napoleon at Waterloo, the Duke of Wellington and his advisers came to realize that their strategic holdings in North America, particularly Upper and Lower Canada, were still at risk from an American takeover.

Fortunately, the British military emerged from the conflict still loaded with cash from captured Spanish treasure ships. This let them signal to the United States that by building public works such as canals, and strengthening their military fortifications, they had no intention of abandoning BNA.

In 1824, the Duke of Wellington tasked his old colleague, the Duke of Richmond, to examine and strengthen the defences of BNA. The Spanish silver booty helped pay for construction of a secure armoury on Île Notre-Dame, and rebuilding Fort Lennox on Île aux Noix in the Richelieu River. Some was used to subsidize the Lachine Canal, to build the new Fort Henry and to construct the Rideau Canal.

Why was the British Royal Ordnance so generous to Thomas Mackay and his fellow contractors? Were these men expected to do anything in return, apart from using their capital wisely?

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6 J. L. Gourlay, History of the Ottawa Valley.
I suggest that Mackay earned £60,000 in profits from the works, which included £10,000 from the Lachine Canal, £40,000 from the Rideau Canal and Ordnance projects in Bytown, and at least another £10,000 from work in Lower Canada.

However, there was significant deflation in this period. High-quality Spanish silver bullion bought more than paper. Placed in the vaults of the Bank of Montreal and Bank of British North America, the bullion gave Mackay and Redpath immense buying and borrowing power.

**Buying Power Considerations**

The Rideau Canal cost over £800,000 to build. Parks Canada estimates it would cost over a billion dollars (£580,000,000) to replicate today.

In 1830, Mackay’s £60,000 could roughly buy what it would cost £5,850,000 in 2020 money, i.e., over 100 times as much.

Mackay’s £60,000 in 1830 would have the extraordinary buying power of about C$85 million today.

Dalhousie and the Ordnance knew that depositing the silver dollars in BNA banks would give a needed boost to the economy and help drive out Yankee coin. John Mactaggart, Clerk of the Works for the Rideau Canal, complained that American half dollars were helping to make “Yankees of the colonists.”
The British also paid canal workers in copper pennies. The required money to cover the sappers and miners’ salaries were in silver half crowns—each coin amounted to two shillings and sixpence—brought from England to Montréal in small barrels and then to Bytown in birchbark canoes or flat bottomed batteaux. This cash stimulated the local economy with a trusted medium of exchange.

By paying handsome profits to the main Rideau Canal contractor, Mackay, the British held continuing influence over a solid citizen—a builder—who accepted his growing responsibilities, and who would invest his capital in Bytown.

In the case of Bytown, Mackay’s capital ensured that this wilderness outpost of empire had the wherewithal to grow and thrive, with help from his investments in lumbering, milling, shipping, and railways. Inspired by Dalhousie, Thomas Mackay’s duty became clear, to help the young military settlement grow and prosper, turning it into a city worthy of becoming the capital of a new nation.

How Did Mackay Invest his Profits?

After completing his canal work, Thomas Mackay chose to stay in Bytown, and create a community in the wilderness. In 1830, he founded a village he called New Edinburgh, and put his capital into creating a mill complex at Rideau Falls that eventually boasted a saw-mill, brewery, grist mill, and cloth factory.

For a quarter century, Mackay served as a member of the Assembly, executive councillor, and militia colonel. He and his friends helped the town incorporate after the British military handed over their Bytown and Rideau Canal property to the Canadian government.

Informed by Governor General Metcalfe’s staff that Ottawa could not be considered as the capital without a rail connection, Mackay also risked—and lost—a substantial amount of his fortune on the Ottawa & Prescott Railway, a line that bled money and never made a profit.

Mackay’s Spanish silver capital benefited the city in many ways; Mackay was:

- 1828 – Builder of the first Presbyterian church in the settlement capital, St. Andrews
- 1828 – A member of Bytown’s first municipal council
- 1830 – Founder of the village of New Edinburgh
- 1830–55 – Builder and owner of the Rideau Falls industrial complex
1831–55 – Owner of the large tract of land, which son-in-law Thomas Keefer developed into Rockcliffe Park

1838–53 – Builder of the two best-known residences of Ottawa: Rideau Hall and Earnscliffe (1855)

1834–41 – A member of the Legislative Assembly for the county of Russell

1837–55 – Colonel of the Russell and Carleton militias

1841 – A founding trustee of Queen’s University, Kingston

1841 – Founding president of the Bytown Emigration Society, to encourage immigration to Canada

1842–55 – A member of the Legislative Council of Canada

1842 – Builder of the first Bytown courthouse and jail

1847 – Founding president of the Mechanics Institute, forerunner of the Ottawa Public Library

Son-in-law Thomas Keefer employed Mackay Estate capital to develop the large tract of land which became Rockcliffe Park; today home to over seventy residences of ambassadors and their staff.

1870 – Keefer also employed Mackay Estate capital to create the horse-drawn Ottawa City Passenger Railway Company, and later invested in electrification of the line, making it the forerunner of the city’s OC Transpo system.

1874 – Keefer built the city’s first waterworks

I suspect Mackay had an understanding with Lord Dalhousie to hold himself in readiness, in case a fortified Citadel needed to be built on the hill where Mackay’s masons constructed Bytown’s first barracks.

If the hill was not needed for defensive purposes, it would instead become, as Dalhousie expected, an eminently suitable site for the parliament of a new nation called Canada.

It is said that at the turning of the first sod of the Rideau Canal, Mackay heard him utter this prophesy: “I may not live so long, but whoever lives to see the Canadas united, will, from this eminence, see the seat of the United Legislature.”

**British Inflation and Public Works**

The Spanish bullion treasure managed by the War Office may have enabled the British government to control military demands on the Exchequer, during and after the wars against Napoleon, and prevent severe depressions from getting worse, particularly after the panic
of 1825, today regarded as the first modern financial crisis. In an early application of Keynesian economics, the Rideau Canal and other military construction projects in the Canadas operated by the Ordnance were public works of the highest order.

Though the national debt grew enormously in the course of England’s many wars with France, reaching a peak of more than 260 per cent of GDP in the decade after 1815, this leverage earned a handsome return, because on the other side of the balance sheet, acquired largely with a debt-financed navy, was a global empire. Moreover, in the century after Waterloo, the debt was successfully reduced with a combination of sustained growth and primary budget surpluses. There was no default. There was no inflation. And Britannia bestrode the globe.

―Niall Ferguson, *The Great Degeneration*

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7 http://inflation.iamkate.com/
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<td>£20 million paid out in compensation to 46,000 British slave owners, including ancestors of William Gladstone, George Orwell, David Cameron, and Graham Greene, for losing their property</td>
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See Appendix B: The Rideau Canal Debates, for my take on what happened in Westminster.
Appendix B: An Uncommon Case – The Rideau Canal Debates 1828–32

Some individuals may recollect all the little events of which the great result is the battle won or lost, but no individual can recollect the order in which, or the exact moment at which, they occurred, which makes all the difference as to their value or importance.

—Arthur Wellesley, Duke of Wellington

This appendix addresses a question raised by Rideau Canal historian Robert Legget in 1955. Legget wondered why the Rideau Canal was completed “with no real authority from the British Parliament, the only authorization being for a preliminary expenditure of £5,000.” Where did the remainder of the financing come from?

I suggest that a close attention to Hansard shows that the War Office (WO) had already paid for the canal in full—with Spanish silver. And that the WO did not press Parliament for the full subsidy, but swallowed the whole expense at the request of Earl Grey’s cash strapped ministry.

Much turned on the growing desire of the Whig reformers to do more to ease the crisis of the poor. At the same time, many Reform MPs wanted the military to back off asking Parliament to reimburse the Ordnance for money spent on the Rideau Canal—a military project that the Ordnance had already funded with Spanish silver.

At least three of the leading Whigs were fully aware that the Ordnance was rich enough to bend to this desire. Certainly, Grey himself and two members of his ministry were intimately related to the Baring brothers, the bankers who originally arranged the “Pieces of Eight” caper with their opposite number in Paris, Napoleon’s banker Gabriel Ouvrard. Henry Labouchere, Lord Taunton, a Whig
Treasury Lord, was the grandson of Sir Francis Baring of the banking family, and a cousin of Earl Grey.

The State of British Finances

The first appearance of the Rideau Canal in the debates at Westminster occurred two years into construction, on July 7, 1828, when Whig MP Edward Smith Stanley—later Lord Derby—rose in the Commons to complain about the desperate state of British finances, which were strained by the demands of the military. He especially targeted the sum of £1,900,000, apart from £500,000 for the Rideau Canal—which he called “proof of the animus which actuated this half-military, half-civil government.”

Smith Stanley’s fellow Whig, Henry Labouchere, of the banking family, begged to differ, arguing that the important thing was to keep the Americans aware that they were prepared to spend what it took to keep Canada British. He supported the Rideau Canal project in these perceptive terms:

He wished this country to remain on friendly terms with the United States, and therefore he thought it unwise to hazard that friendship, by leaving Canada a tempting object for invasion. He should support not only the present, but all future votes, of the like nature.

Edward Smith Stanley
Mr. Huskisson—former Tory secretary of state for War and the Colonies—agreed, adding in more practical terms, that the Rideau Canal was built to fortify the Canadas, and lessen the huge expenses of military transport:

Were we not wise, therefore, to provide against a similar aggression, by adopting those precautions which sound policy dictated? When the enormous expense incurred in conveying arms and military stores from one part of Canada to another was considered; it was surely a measure of sound policy to adopt that plan, by which not only those expenses would be lessened, but the country fortified against invasion.

Two years later, the financing of the Rideau Canal again arose in the Commons, as the project neared completion. On November 5, 1830, Smith Stanley gave notice that he would bring up resolutions on how Parliament and the country had been led into an expenditure of £600,000 on the Rideau Canal, and how that colossal sum “might be in future saved to the country.”

Earl Grey Comes to Power

The Duke of Wellington’s Tory government fell ten days later, on November 15, 1830; defeated on a motion of non-confidence, and King William IV called upon the Whig reformers under Earl Grey to form a government.1

The incoming Whig ministry of Earl Grey was not at all opposed to the Rideau Canal and supporting Canada militarily, but Britain’s finances were in a mess. A few radical reformers complained about funds being wasted on the military, when the people were suffering, but the ministry had to tread carefully, as Wellington’s Tories still held the majority of seats.

The new Whig Treasury secretary, Thomas Spring Rice, took up the Rideau Canal challenge on December 6, 1830. He noted that his government were not prepared to agree to further demands without “the most diligent inquiry into its propriety.”

1 Earl Grey’s ministry was noteworthy for the passage of the Reform Act of 1832, and the abolition of slavery throughout the British Empire in 1833. The tea, flavoured with oil of bergamot, is named after him.
William Maberly, a bellicose Whig MP, protested against any further expenditure of British capital on the canal. But Henry Goulburn, former Tory chancellor of the Exchequer, defended the conduct of the Wellington government, contending that:

it had never agreed to advance a single shilling without calling on a Board of Engineers to examine the works, and make a report of their condition, and the probable expense of completing them. The original sum stated to be required for the canal was only £150,000; but when the forest was cleared, and the ground opened, it was found that £300,000 more would be necessary; and a Board of Engineers were twice called on to examine the works before it was agreed that this sum should be expended.

Sir Henry Hardinge, former Tory clerk of the Ordnance and Wellington’s secretary at War, backed him up, assuring that savings in military transport costs up the St. Lawrence would more than make up for the cost of the canal. Nearly £1,000,000 was spent on transport during the War of 1812—with another £630,000 for ammunition and provisions alone.

Whig MP Henry Labouchere noted, with some irony, that he still backed funding the Rideau Canal, but “he was not prepared to say that the Government might not have been much deceived with respect to the amount of expenditure required for that purpose.”

Hardinge replied that Britannia’s very ability to rule the waves might be at stake had not the Rideau Canal been completed:

when it was recollected that our maritime, and thence our commercial superiority over America, depended in a great degree on our maintaining a good line of frontier, of which the Rideau Canal was the main chain, he was sure hon. Members would not be too eager to cavil at the expense we had already gone to, and might feel necessary to continue till the original design was complete. He was confident that the day on which we gave up that frontier, with all our works on it, to America, would be the date of her maritime superiority, and, as a consequence, of our maritime decline.

On February 10, 1831, Spring Rice supported the motion to fund the canal, but felt called upon “to condemn the practice of lavishing the public money on works without the consent and approbation of Parliament.”
Sir Francis Baring of the banking family, another of the Treasury lords and a cousin of both Labouchere and Earl Grey, quite correctly argued that the expenses—essentially for public works—had been beneficial to the poor:
The money had not been altogether thrown away, since it had given employment to so many emigrant labourers from this country. It must not, however, be supposed that the Committee was appointed to save us the £400,000 or £500,000; for that money he was afraid, and a considerable sum besides, had already been expended.

Viscount Althorp, Government House Leader and chancellor of the Exchequer, said “he did not know how much had been expended upon fortifications, but thought it highly desirable the whole subject should be looked into by a Committee.”

**The Select Committee on Fortifications**

A Select Committee held two days of hearings on March 21 and 24, 1831. The major figures interviewed were:

- Major General Sir Alexander Bryce, Colonel-Commandant in the Royal Engineers and Inspector-General of fortifications, 1829–32.
- Sir Robert Wilmot Horton, Tory Under-Secretary of State for War and the Colonies from 1821–28; later Governor of Ceylon.

**Major General Bryce’s Testimony:**

When asked about contracts for the Canal, Bryce set the record straight by stating that the Canal was *not* an Ordnance work, and that Parliament had not voted the necessary sums:

Q: You are connected officially with the Ordnance department, are you not?
—Bryce: I am inspector general of fortifications.

Q: Have the goodness to inform the Committee if it is the practice of that Board to correspond on the subject directly with the officers of the Ordnance department in the colonies, on the prosecution of those works?
—Bryce: Yes; with the commanding engineer, or. with the local Board of Ordnance officers, as the occasion requires.

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2 Report from the Select committee appointed to take into consideration the accounts and papers relating to the Rideau Canal. Ordered, by The House of Commons, to be printed, https://qr.ae/pNVAKT; April 22, 1831.
Q: Did you give, in that case, instructions to the officers who are employed under the Ordnance in the colonies, to proceed with these works, either with reference to the sums voted by Parliament, or without reference to the limit of the sums voted in the year, or are they allowed to go on without any specific sum?
—Bryce: They are always limited to the sum voted in the year, in all ordinary cases.

Q: You were understood to say, that as the work would be likely to be finished in August or September next, you thought contracts might have been entered into for the completion of the work?
—Bryce: That is necessary, in all cases where works are constructed by contract.

Q: You are aware Parliament has not voted the sum necessary?
—Bryce: Yes.

Q: By what authority have officers, who are employed under the Ordnance in the Canadas, entered into contracts to complete this work, Parliament not having voted, within so many hundred thousand pounds, the sum necessary for that purpose; do you know whether that is the usual course at the Ordnance Office, or if this is any deviation from the general practice?
—Bryce: This has been an uncommon case; not being an Ordnance work, it has not taken the regular Ordnance course.

Q: You say this is not an Ordnance work; in what sense is this not an Ordnance work; have not the Ordnance had the superintendence of it?
—Bryce: Yes; but the finding of the money and the authority has emanated from the Colonial Office, not from the Master General and Board of Ordnance.

General George Murray was secretary of state for War and the Colonies from 1828 to 1830, during the building of the Rideau Canal. He was also a Wellington stalwart and Peninsular War veteran. Murray had served in Canada from December 1814 to May 1815 as provisional lieutenant-governor of Upper Canada, at which time he carefully reviewed the country’s defences. From 1825 to 1828, he served as lieutenant-general of the Ordnance.

According to Bryce, when Murray’s Ordnance ordered the Royal Engineers to execute the Rideau Canal work by hiring contractors, Durnford and Colonel By had no means of stopping the contracts once they were framed and signed.
Robert Wilmot Horton, former Tory under-secretary of state for War and the Colonies Office, noted that Colonel By’s work was not at issue, and that he was simply a servant of the Ordnance, ordered to proceed with the project without waiting for the parliamentary grants.

Sir Robert Horton’s Testimony:

Lord Bathurst is of opinion, that it would be proper to authorize the contractor to commence as early in the season as circumstances will permit, without waiting for the passing of the annual grant.

Q: Is it usual, in the Colonial Office, to give authority to any officers employed in a work of this description abroad to draw for money, without the distinct authority of the Treasury or Parliament?

—Horton: It will be observed that the Board of Ordnance in this instance had stated an opinion, that it was desirable to proceed by contract, and it is impossible to proceed by contract upon a vote of Parliament, unless you were to take a vote for the whole sum in the first instance. Although there might have been some irregularity in the proceeding, it will at once be perceived that it is impossible to enter into a contract, limiting the pledge to the contractor to the sum voted for the current year. No contract could be formed on such a principle. In such a case, therefore, the only mode ought to be to take a vote for the whole expense, spreading the payment over the period. I wish distinctly to say,
you cannot execute a work by contract, if you are merely to limit the expenditure to the proportions which each separate year may afford for the purpose. …

Q: It appears in this despatch, written by Lord Bathurst’s instruction, that no limit is put on the contract into which Colonel By might feel himself at liberty to enter?

—Horton: I would remind the Committee that this had distinct relation to an Estimate prepared by a civil engineer, and sanctioned by an officer of the Ordnance, therefore the contracts alluded to must be contracts founded on that Estimate; undoubtedly, Colonel By might have exercised a discretion, and finding that the original Estimate could not be acted upon, or rather could not be kept within, he might have considered that it was only a conditional instruction, having reference to a particular Estimate. I would beg also to call the attention of the Committee, in illustration of the practice of the department, to what was done by a person so conversant with public business as Mr. Huskisson3. If the Committee will refer to Mr. Huskisson’s letter of the 26th of March 1828, in page 52, he says,

That though he cannot but regret that Lieut.-Colonel By should have felt himself at liberty, before his increased Estimates had been considered and approved by the Board of Ordnance, to conclude contracts for carrying-on the work on the present very extensive scale, and have entered into engagements involving so large an expenditure of the public money, without waiting for specific authority from the department at home, yet so many reasons appeared to combine in favour of the plan of Water Communication, which he had recommended, that he was not disposed to withhold the sanction of the Government to the prosecution of the work on the scale recommended by him, provided the Commission to be employed in the investigation of this subject should, after careful survey and examination, concur in the expediency of the measures proposed, and in the steps which have been taken by Lieut.-Colonel By for the furtherance of this great work.

If the Committee refer to another part of the same letter, they will perceive that Mr. Huskisson states that he does not propose

3 In 1823, William Huskisson was appointed president of the Board of Trade and treasurer of the Navy.
to apply to Parliament, that year for a larger sum, in the whole, than 120,000; though, from the context of the sentence, it appears that a larger sum might be necessary to be expended.

Q: In point of fact, did not Colonel By go out under a general authority to enter into contracts on the faith of the Estimate of 169,000, and when upon examination on the spot, he found that that Estimate was not nearly sufficient for the purpose of the work, did he not feel himself at liberty under the original instructions from the Colonial Office, to enter into contracts on an extended scale of expense?

--- Horton: Colonel By had received no instructions whatever from the Colonial Office.4

The select committee released a fairly inconclusive report a month later, detailing why the Rideau Canal was needed in the first place, why the Ordnance used the contract system, and why Colonel By’s costs kept increasing.

On July 25, 1831, Spring Rice rose to propose a grant of £296,000 to complete the water communications in Canada. During the debate on the motion, Reform MP Henry Warburton wished to know,

whether any more information had been communicated to the present Government, as to the sum necessary to complete the works in question, than what the Committee who had recom- mended the grant, possessed?

Spring Rice replied, that,

no additional information on that head had been received. He expressed regret, that the information which the former Government had in its possession had not been laid before Parliament, for if so, it would have been more satisfactory. The sums since voted for these works, amounted to about £1,000,000. He found by a Minute, that in April, 1826, an estimate of £169,000 was made, and an order given to proceed with the works, before any communication was made to Parliament.

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4 But he had received general instructions from the Duke of Wellington to proceed with construction and damn the expense.
Sir Henry Hardinge of the Tories argued that:

the Ordnance Department had acted in conformity to directions given from the Colonial office. He was sure, that the canal was of the highest importance to the welfare of the colony. The Ordnance Department had acted solely for the defence and the well-being of the colony; and he thought that the Colonial Department was in some degree warranted in their proceedings, from the great benefit, commercial as well as military, likely to ensue.

Warburton then asked, “whether there was any document in the Treasury to show that the Colonial Department was authorized to expend money on the Canadas without first applying to Parliament.”

Spring Rice replied, “that there was no document to show, that what he considered the objectionable part of the grant had been sanctioned by the Treasury.”

The Grey government then took the fight directly to the Colonial and War Office, passing new regulations that:

- limited future Ordnance spending to the amount of the annual parliamentary grants;
- required that all future estimates be submitted for parliamentary approval prior to the start of military construction, and;
- mandated that the total of all future contracts must stay within the limit of the parliamentary grant.

As for the Rideau Canal, the horse had already left the barn—its bills paid off with pieces of eight.

The next mention of the Rideau Canal in debate occurred nine months later, in February, 1832, when lead reformer Viscount Althorpe, Chancellor of the Exchequer, complained that his government was facing a deficit of £700,000 (coincidentally close to Colonel By’s estimate of the amount spent by the Ordnance on the construction of the Rideau Canal):

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5 T. Spring Rice, *Canada Canal Communication – Return to an address to His Majesty, dated 4 February 1831; for Copies of the Correspondence between the Treasury, the Secretary of State for the Colonies and the Ordnance, on The Canal Communication in Canada*, Whitehall, Treasury Chambers, February 10, 1831.
The present was the first occasion on which we had found ourselves with a large deficiency of income as compared with expenditure. The noble Lord [the former Chancellor of the Exchequer], in the statement he had made, when the supplies were granted predicted a surplus little short of £500,000; but now it was ascertained that, instead of a surplus, the noble Lord’s arrangements had caused a deficiency of £700,000 according to the financial accounts of last quarter, so that a change of no less than £1,200,000
had been effected in the finances of the country within the short period of three months.

Gentleman, it was his duty to give, in defence of himself and the First Lord of the Treasury, the grounds on which they had made the statements the right hon. Gentleman had alluded to. It would also be, he admitted, his duty to state what he hoped and believed the prospects of the Government were. The right hon. Gentleman had accused them of having deceived Parliament, by stating their expectations of a surplus of about £500,000, while, in fact, there was a deficiency of £700,000.

Spring Rice then proposed a vote on the “Army Extraordinaries,” that a sum not exceeding £300,000 be granted for the purpose of defraying the extraordinary expenses of the army:

The House would perceive that a great reduction had been made in those Estimates, and he hoped a similar service would be effected on the sum which might now be voted. He should be most happy to give every explanation on the subject of those Estimates, which might be required, and he would reserve himself for that purpose.

This would seem to suggest that the government might be willing to go halfway toward subsidizing the Rideau Canal costs.

Joseph Hume, a radical MP known for his tedious speeches, complained that:

the form of these accounts rendered them totally unintelligible. They seemed to be a mere cover for expenses of every description, which could not be brought regularly before the House. He would not ask his right hon. friend for any explanation of them, because he knew it must be out of his power to give it.

Spring Rice agreed, that:

he had always objected to the form of the accounts, as there were a great many of the most incongruous items introduced under this head: a Government ship for Newfoundland, Indian presents for Canada, and the payment of the clergy in the same colony, appeared strangely in an account like this....
Finally, reformer Henry Warburton “wished to have some estimate of the expense likely to be incurred for completing the Rideau Canal, before this vote was granted.”

It appears that Warburton’s question lay unanswered. Papers were not found; the late under colonial secretary, Robert Horton, was unavailable for questioning, as he was now serving as governor of Ceylon; *Hansard* is mute.

**The Duke Weighs In**

The Duke of Wellington himself appeared before the Commons select committee that March and was asked, “what would be the probability

Wellington engraving ca. 1835
of defending Canada if neither the water communication nor the works mentioned in these estimates were executed?" His sanguine reply was:

I should say that the defence of Canada would be impossible. I have never been in that country, but I must add that I have been astonished that the officers of the army and navy employed in that country were able to defend those provinces in the last war; and I can attribute their having been able to defend them as they did only to the inexperience of the officers of the United States in the operations of war, and possibly likewise to the difficulty which they must have found in stationing their forces as they ought to have done upon the right bank of the St. Lawrence.

The last word on the subject was a Minute from the Lords of the Treasury, dated May 25, on Colonel By’s final report of February 27. The Lords slapped Colonel By on the wrist for exceeding expenditures by more than £80,000 “beyond the amount granted by Parliament.”

It is impossible for My Lords to permit such conduct to be pursued by any public functionary. If My Lords were to allow any person whatever to expend with impunity, and particularly after repeated increases of the original Estimate, upon any work under his superintendence, a larger amount than that sanctioned by Parliament and by this Board, there would be an end of all control, and My Lords would feel themselves deeply responsible to Parliament.

They desire, therefore, that the Master General and Board will take immediate steps for removing Colonel By from any further superintendence over any part of the Works for making Canal Communication in Canada, and for placing some competent person in charge of those Works, upon whose knowledge and discretion due reliance can be placed; to whom must be furnished a Statement of the Estimates and Grants, and who must be strictly charged upon no account whatever to exceed the amount of the Grants.

Huffing and puffing, the Lords called on the Ordnance to order Colonel By’s return to England to explain his actions.
Summary

Back in the House of Commons, the Whigs were determined to move on to other business. They were facing ongoing riots in the countryside and were intent on enacting a substantial reform bill. Included was the need to compensate British slave owners upon the abolition of slavery in the empire. Grey’s ministry was not overly upset about the prospect of not funding the Rideau Canal, which would have cost the Treasury at least £700,000—money better spent on relieving distress in the country.

Earl Grey and his chancellor Lord Althorp were perfectly aware that the Ordnance, under the thumb of the Duke of Wellington, had already paid for the Rideau Canal—solely as a military project—using Spanish bullion captured during the wars against Napoleon.

So, why not make an informal demand to the Colonial Office that they help the government deal with the crisis in the country, by swallowing the entire cost of the Rideau Canal? Almost as if it were a charitable donation.

Certainly the meetings in 1832 marked the end of the debates on Rideau Canal financing in the House of Commons at Westminster. Further research is needed to prove that there was a standoff on the issue, and that the two sides blinked simultaneously—with the ministry backing off from investigating further, and the Colonial Office agreeing to swallow the entire cost of the Rideau Canal, less some original parliamentary subsidies.

Earl Grey and his ministry were quite aware that the War and Colonial Office and Royal Navy possessed major sums of bullion offshore, and had used it to subsidize the building of the Lachine and Rideau Canals. In 1832, during a time of belt tightening and social unrest, they prevailed upon the military to swallow the entire cost of the Rideau Canal—about £800,000—and not ask for subsidies from Parliament.

We may never be able to prove beyond a doubt what happened exactly, because on October 16, 1834, a catastrophic fire destroyed much of the old Palace of Westminster. The flames devoured countless

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6 When slave ownership was abolished throughout the empire in 1833, the British government paid out a colossal £20 million to compensate some three thousand families who had owned slaves for the loss of their “property.” This figure represented a staggering 40 percent of the Treasury’s annual spending.
priceless and important records, as well as the building itself, parts of which dated from shortly after the Norman Conquest.

The blaze was caused by employees of the Exchequer burning the small wooden tally sticks used as part of their ancient accounting system. Overloaded into two coal furnaces, they caused a chimney fire that spread under the floor of the House of Lords. Only medieval Westminster Hall was saved from the fire. The ruin on the north bank of the River Thames was eventually cleared to build the current Victorian Houses of Parliament.
Appendix C: The Failure of the Bytown & Prescott Railway

Far away to the South is heard the daily scream of the steam-whistle—but from Canada there is no escape—blockaded and imprisoned by Ice and Apathy, we have at least ample time for reflection; and if there be comfort in Philosophy, may we not profitably consider the PHILOSOPHY OF RAILROADS.

—Thomas Keefer, 1848

This appendix addresses several reasons why the Bytown & Prescott Railway failed so spectacularly. They range from the railway mania that affected the whole of society, to management incompetence, to double dealing by American investors, to poor economies of scale, to a badly sited terminal at Rideau Falls, to competition from George-Étienne Cartier and the Grand Trunk Railway, to Thomas Mackay’s insistence that the railway had to be built if Ottawa was to become the capital of Canada.

The appendix also addresses the charter of the St. Lawrence & Ottawa Grand Junction Railway, whose chief engineer was Thomas Keefer.

Beginning in 1850, Thomas Mackay became involved in the financing and chartering of two railway lines with his two sons-in-law, John MacKinnon and Thomas Keefer.

The first line was the Bytown and Prescott, promoted in June of 1850 by John MacKinnon, Nicholas Sparks and Robert Bell of Bytown, and others. The railway was to run from Bytown to Prescott, Ontario, a short ferry ride to Ogdensburg. On August 10, 1850, the Bytown & Prescott Railway Company was incorporated under Acts 13-14 Chapter 132 of the Statutes for the Province of Canada.

The second line was the St. Lawrence & Ottawa Grand Junction Railway, chartered by Mackay’s friend, Montréal merchant James Ferrier, also in 1850.
The Bytown & Prescott Railway

As the 1840s drew to a close, citizens of Bytown learned that the Northern of New York Railroad, funded by Boston financiers, was pushing its way westward along the south shore of the St. Lawrence to Ogdensburg, New York. They were told that with the opening of this railway, goods could be exported all year round via Boston at cheaper prices than the exorbitant rates being charged for exporting through Montréal. Mackay and his fellow Bytown boosters wanted to get all-weather access to the growing American market for sawn lumber, already being tapped using the Rideau Canal. A line to the St. Lawrence would also be able to join a railway now being promoted between Montréal and Toronto.

From 1847 on, Thomas Mackay began to risk some of his capital in charters for potential railways. He was very mindful of the warning by one of Lord Metcalfe’s staff that without railway communications to the outside world, Ottawa was not in the running as a potential capital of the Canadas. At the same time, Mackay realized the urgency of getting all-weather access to markets for the produce of his Rideau Falls mills. Like many similar ventures of the period, the railway never lived up to the hopes of its shareholders and creditors. It quickly fell into financial difficulty, then bankruptcy, for a variety of reasons, which I detail in this appendix.

By 1855, the year of Mackay’s death, the railway went into receivership, seriously damaging the credit of the City of Ottawa and other investing municipalities. Ten years later, railway financier Thomas Reynolds acquired the bankrupt line and moved the terminus of the line from Mackay’s Rideau Falls industrial complex to LeBreton Flats above the Chaudière Falls.

Mackay risked his fortune in supporting the line for a number of reasons, but primarily because he was told by Governor Metcalfe’s staff that Ottawa could not be considered a contender in becoming the capital of Canada without a railway.
A post-mortem on Ottawa’s first railway

**Opting for the US Market**

Infected by James Ferrier’s charter mania and Thomas Keefer’s prophetic railway promotion, Thomas Mackay and his son-in-law John MacKinnon bought into the Bytown & Prescott project. They intended to be the first in Canada to send sawn lumber by rail to the American market, a project then considered a risky but necessary venture.

They gambled that, aligning with Boston’s interests and barging sawn lumber over the St. Lawrence to Ogdensburg and on to Boston, would be more profitable that running a line to Montréal, and delivering Rideau Falls products to Montréal, as Keefer recommended.

It was not.

Clearly Thomas Mackay had shared in the pessimism expressed in the 1849 Annexation Manifesto, presided over by John Redpath and his son Peter, and by Mackay’s other son-in-law, Montréal lawyer Robert Mackay. But he understood, like them, that Canadians had to signal their growing lack of trust in the politicians in far off Westminster, and that they had to diversify into the American market, for fear of having all their eggs in the British basket. Mackay, therefore, backed MacKinnon’s fateful decision to partner with US railways, and choose the US market first, over Keefer’s projected Montréal connection.

**Railway Mania and US Perfidy**

Infected by railway mania, the Bytown & Prescott backers convinced themselves that sawn and finished lumber from Rideau Falls would have a ready and growing market in the US.
It was a fatal conceit.

As J. R. Booth and other lumber kings later proved, the Americans wanted squared timber in bulk for their big city planning and furniture mills. American buyers were not overly interested in the sawn lumber and finished products from Mackay’s small-scale operation at Rideau Falls, already feeling the heat of competition from mills at the Chaudière.

Canadians living in the Ottawa Valley were destined to be “hewers of wood.” For another thing, shipping rail cargo across the St. Lawrence was more difficult than anticipated—the cars could be ferried across the St. Lawrence on barges, but not in winter—the crossing needed a bridge, and the Ottawa terminus, located in New Edinburgh, was not well situated for this purpose.

MacKinnon’s US railway partners were also partially financed by Boston interests—so the Bytown & Prescott (B&P) venture went ahead and laid down the 4’ 8 1/2” “standard” gauge track, the same as used by the Ogdensburg to Boston line, and not the broad 5’ 6” “provincial” gauge, typically used in Canada at that time. This forced the line to do business with the US, not Montréal, because B&P cars could not travel on the wider Grand Trunk gauge.

The Canadians were naive about the men from Boston, whose long-term vision was inimical to the Canadians. Feeling boxed in by the New York Central, the Bostonians wanted their own route west but which would have to go through Canada. Their major goal was to build a railway bridge at Ogdensburg. But then they intended to build a line up the Ottawa Valley, to a Sault Ste. Marie crossing, tapping into Canadian trade all the way, and threatening Montréal’s geographical advantages. For George-Étienne Cartier, Chief Solicitor of the Grand Trunk and Chair of the Assembly’s railway committee, this would never do.¹

Indeed, after Confederation, the Bostonians and their financiers would spend lavishly to defeat Cartier and vote in a Canadian government friendly to their interests. Only Toronto railway interests prevented such a catastrophe, by insisting on an all-Canadian CPR.²

¹ Walter Shanley’s brother Francis worked for the American promoters of a railway line that would siphon traffic off the St. Lawrence River down to Boston.
² Alastair Sweeny, George-Etienne Cartier: A Biography.
Competition and Commercial Logic

Clearly MacKinnon and the Rideau Falls millers panicked, and backed the railway to hold off their Chaudière Falls competitors. In 1854, the year before his death, Mackay sold the Rideau Falls sawmill outright to J. M. Currier & Co. But even with Currier’s major expansion there was still not enough traffic to make the railway pay. The building of other rail lines would mean more competition and lower prices and profits.

An economic depression in the late 1850s cut into the revenues of the heavily indebted line. The railway’s Ottawa station was also inconvenient for much of the city’s growing lumber industry located above the Chaudière Falls in LeBreton Flats. With depression, and Keefer’s Ottawa River timber slide improvements, freight rates for volume shipments of barged lumber had plunged by 50 percent, to $3 per 1,000 board feet. The Ottawa & Prescott and the Rideau Falls mills could no longer compete with the Chaudière Falls lumber interests.

Mackay and MacKinnon’s original attempt to manufacture finished goods was fine in theory, but when railways changed the whole economies of scale, it was more profitable to ship square timber to US manufacturers in the big cities.
Incompetence and Panic

The B&P was plagued with financial problems from the start and failed in its plan to divert milled lumber shipments to the US. Perhaps the line’s lack of success was Mackay’s fault, in believing that a banker/bookkeeper son-in-law could successfully manage a railway. In hindsight, it would have been far better to rely on the opinion of his more experienced engineer son-in-law, Thomas Keefer, and start with a line to Montréal that could advance a line to western Canada and, eventually, on to the Pacific.

With economic depression affecting mill profits, Mackay decided to dissolve the partnership with MacKinnon, and lease out or sell the mills, so MacKinnon could concentrate on the railway. In about 1852, with the line bleeding money, MacKinnon may have started to panic, and may have been subjected to harsh words from his father-in-law about draining family capital and throwing good money after bad.

It may have been small-town desperation that made MacKinnon and Citizen publisher Robert Bell scramble for another way out, by trying to attract capital for yet another railway, the Bytown & Pembroke, which was incorporated June 4, 1853. Thomas Mackay agreed to serve as a director, but in spite of his presence on the prospectus, financing was impossible to find.

The small scale Bytown & Pembroke was conceived twenty-five years ahead of its time—it would have been totally eclipsed by the Canada Central, J. R. Booth’s Ottawa and Parry Sound Railway and the building of the CPR main line up the Ottawa Valley in the 1880s.

Perhaps there was a brother-in-law versus brother-in-law dynamic at work—MacKinnon favouring Prescott—Keefer favouring Montréal. MacKinnon was not in the same league as the big players, and was out of his depth as a railway president. In some ways the O&P was a tragedy of errors by John MacKinnon and his Ottawa friends. The railway may have dissipated a goodly chunk of his father-in-law’s fortune, along with the City of Ottawa’s credit. It certainly became a drag on the City of Ottawa’s finances for another decade.

A Patriotic Duty Fulfilled 1857–58

Mackay’s patriotism overruled his profit motive. In spite of his losses, Thomas Mackay was still motivated by developing Ottawa, and by
the vision he shared with Lord Dalhousie about the importance of the site now called Ottawa. And he also knew, remembering Governor General Metcalfe’s warning, that Ottawa needed a railway if it were to be considered a credible candidate for the capital of the Canadas. A town without a rail connection could simply not stand tall beside cities like Québec, Montréal, Toronto, or Hamilton. The Bytown and Prescott line had to be built—it was his patriotic duty. A very costly decision, but it had to be made—to convince the imperial authorities that Ottawa was big enough to have a railway, and ought to be the capital of Canada.

After Mackay’s death in 1855, his lawyer Richard W. Scott, who shared his client’s vision, became the hero of the piece, making sure the B&P stayed afloat for another couple of years until the Queen’s approval of Ottawa as the capital was given.

Scott put his money where his mouth was—he confessed that he “endorsed the Company’s paper for much larger sums than was prudent, and possibly on one occasion in connection with the purchase of the rolling stock which had been bought at Wilmington, Delaware. At one time, in order to save himself from possible ruin, he placed a lien on it before being brought into Canada. In another instance, when a passenger locomotive had been seized, he bought it at Sheriff’s sale and leased it to the Company until such time as it...
could be redeemed. No doubt other friends of the road had similar experiences.3

Scott kept the faith, and Her Majesty did not hesitate. On December 31, 1857, the Canadian government was advised of her decision. On February 17, 1858, Sir Edmund Head officially declared the City of Ottawa the capital of the Province of Canada. However, once Queen Victoria’s choice was finally made, the raison d’être of the Ottawa & Prescott Railway ceased. At that point, the knives came out, and municipal politics killed what remained of the line.

On January 5, 1858, Montréal lawyer (and later prime minister) John Abbott acquired the bankrupt Bytown & Prescott Railway for $5,300.

Politics: Lower Town versus Upper Town

MacKinnon was reeve of Gloucester. And Bytown & Prescott company Secretary Robert Bell also served on city council as one of three “Reform” representatives of East Ward, in the Lower Town. The Reform council of 1850–1855, of which Bell of the Citizen was a central figure, subscribed for £15,000 of B&P stock and approved the line and the terminal site, which were very convenient for Mackay’s properties.

The B&P bled money from the outset. In 1852–53 the Reform council came to the rescue, voting the company a £50,000 loan guarantee. The first train, pulled by “The Oxford,” reached New Edinburgh on Christmas Day, 1854. The following summer the Rideau River was bridged and the rail line brought into Ottawa. The line was already in deep trouble when the 1855 depression hit hard. In the same year, the Upper Town Tories took control of the town council. By October they were pressing the railway for the interest on the loan the town had guaranteed.

In 1857, the O&P was placed into receivership. For the next six years, largely due to the efforts of Bell, the railway gamely hung on from crisis to crisis. Perhaps nothing could have saved the Bytown & Prescott. At the Ottawa & Prescott’s annual general meeting in May 1863, a group calling itself the Municipal Reform Association of Ottawa, representing the Board of Trade and the Ottawa Board of Lumber Manufacturers, tried to take over the failing railway by force. The meeting ended in a fistfight, and the militia was called in to

3 Richard W. Scott, Reminiscences.
restore order. Later that year, the Municipal Reform Association moved a motion of censure in the town council that:

in consequence of gross mismanagement of the municipal affairs of this city, for some years past, a large outlay has unnecessarily and wastefully been made and large debt created, involving the necessity of imposing an amount of taxation found to be most burthensome to the ratepayers, prejudicial to trade, detrimental to the value of property and destructive to the general interests of the city.

In the local elections of January 1864 the Upper Town group took power against the Lower Town members of council. The new mayor, Moss Kent Dickinson, a prominent Ottawa and Rideau River forwarder, refused to guarantee additional aid to the railway under the terms of a provincial relief bill. This forced the O&P into receivership and finished the railway as a local venture. The town of Ottawa—now the capital of Canada—also slowly sank into near insolvency, the legacy of its 1850s optimism, and railway mania. The company’s senior creditors, most importantly, the Ebbw Vale Iron Company, based in Wales, and its representative in Canada, Thomas Reynolds, assumed control. Shareholders and junior creditors, including the municipalities, got nothing. The only benefits left to the Mackay Estate were a few empty lots in Lower Town West adjacent to the Bytown & Prescott terminal.4

By this time MacKinnon had ceased to be president of the company. In November 1865, a year before his death, the Ottawa & Prescott Railway, which had cost $2,088,994 in total ($37,203 per mile) to build, was foreclosed at auction in Toronto to Josiah Robinson for the sum of £50,000 currency. This wiped out over $543,333 in capital and a large floating indebtedness. The money invested by the municipalities was totally lost. All O&P Railway traffic stopped, and no trains ran into Ottawa for two years.

In December 1867, Reynolds acquired the first mortgage bonds held by his British partners Ebbw Vale, and reorganized the line as the St. Lawrence & Ottawa (StL&O) Railway. On December 23, 1871, the line opened its Chaudière Branch over the Rideau River and Rideau Canal to LeBreton Flats.

4 On Boteler, Cathcart, Dalhousie, and Bolton streets; City of Ottawa Archives, Mackay Papers.
Dominance of the Grand Trunk Railway

The major reason for the Ottawa and Prescott’s downfall was its attempt to divert lumber shipments from Montréal to the US, in direct competition with the emerging Grand Trunk Railway.

On October 27, 1856, the Grand Trunk Railway opened its main line between Montréal and Toronto, built to the broad provincial 5’ 6” gauge. The Bytown & Prescott Railway was built to the standard gauge (4’ 8½”) of American lines, so the rail cars could be shipped by ferry across the St. Lawrence River to Ogdensburg, for easy delivery to Boston and New York. An interchange of cars was originally not possible between the B&P and the Grand Trunk, and this turned out to be a major disadvantage. The Grand Trunk increasingly dominated the St. Lawrence corridor, whereas the O&P was hardly a competitor, let alone a feeder line.

In 1867, the Ebbw Vale Company and James Ferrier’s Grand Trunk Railway (GTR) picked up the pieces. They forced the sale of the rolling stock at a sheriff’s auction, engineered a corporate re-organization, changed the name from the Ottawa & Prescott to the St. Lawrence & Ottawa, and made it a feeder of the Grand Trunk. In 1871, the GTR built a branch line from Chaudière Junction to the Canada Central Railway yard, giving it improved access to the sawmill district. Two years later, the Grand Trunk converted to standard gauge, after which time engines and rail cars could be interchanged freely. Once again, Richard W. Scott, the Mackay estate’s family lawyer, and former mayor of Ottawa, used his growing political influence to come to the rescue of his city.

In the four years after Confederation the Government of Ontario had exacted payments from the City to the amount of $92,221, over $23,000 a year. Yet Ottawa was still owing $255,654.26 to creditors and the province.

Elected a Liberal MPP in 1867, Scott entered the Cabinet of Premier William Blake as commissioner of Crown lands. In 1873, the Ontario government forgave the debt of all defaulting municipalities for loans they had advanced to railways. Ottawa received a discharge by paying a compromise fee of $36,524.

Scott rescued the City of Ottawa, and other victims of railway mania, but could not remedy the losses suffered by the estate of Thomas Mackay.
Not Opting for the Ferrier-Keefer Option

Keefer, with Ferrier’s backing, may very well have argued with his father-in-law that the line to Montréal was a much safer alternative. It’s also possible that an ailing Mackay, opting to protect the Rideau Falls mills, overruled his Montréal son-in-law, arguing for “one railway at a time.”

In this “battle of the brothers-in-law”, Keefer’s vision of a railway to Montréal would have worked to boost profits from the Rideau Falls mills. Most of the freight would have been milled wood, but Rideau Falls flour, whisky, and textiles would have found a ready market in Montréal.

As Keefer suspected, MacKinnon would have been far better to ship finished goods down the Ottawa Valley from the Rideau Falls complex to fast growing Montréal, the metropolis of Canada, where there was a growing market for doors and windows and shingles and sashes, and, if profitable, from the Montréal railway, which connected to Boston, New York, and Philadelphia.

It would have been more profitable in the long run to build a line down the Ottawa Valley, already being eyed as the route of a Pacific railway. This was the original idea of the Montreal & Lachine Railroad. Eventually of course, a railway from Montréal would reach Ottawa. But the O&P lost so much money, it soured the desires of the promoters and killed off Ottawa’s railway mania.
Opposition from George-Étienne Cartier

Boston interests were prominent in backing the Bytown to Prescott choice. New Englanders wanted their own hinterland and were boxed in by the New York Central and Pennsylvania railways. The long-term goal of the Americans was to use the O&P to cross the St. Lawrence by bridge, then build the line up the Ottawa Valley and across to Northern Michigan at the Sault, then west to the Pacific. In addition, some of the US backers were annexationists, believers in America’s “Manifest Destiny,” eyeing Canada’s fertile northwest as a potential acquisition.

As chief solicitor of the Grand Trunk and chairman of the Commons Railway Committee, there was no way Cartier would have allowed Boston interests to cross the Grand Trunk and reach the Ottawa Valley, where Cartier’s CPR was being planned. After Confederation, Cartier was armed with the BNA Act Section 92.10.c, which allowed the Cabinet to disallow any works that crossed
provincial or international borders if they were not in the general interest of Canada. It was designed specifically to prevent any competing line from bridging the St. Lawrence into the US.

Cartier operated on the principle that what was good for the Grand Trunk was good for Montréal, which he saw as the hub of a continental trading system. Indeed, the Grand Trunk line eventually stretched as far as Chicago and became profitable. Draw a line over a globe stretching from Chicago to Montréal to England. The line is nearly straight—it clearly shows why Montréal held at least a two-day advantage in shipping western grain to Britain than from New York or Philadelphia. In the 1870 election, Boston and Eastern Township railway interests spent a fortune defeating Cartier at the polls, with a view to engineering their own line up the Ottawa Valley, instead of the CPR. However, most Ontario Liberals refused to go along with their scheme, preferring an all-Canadian CPR. Finally, a US stock market crash and depression put an end to the vision of the Bostonians and their Canadian allies.

MacKinnon and friends were too naive to realize what the Americans were up to, and their dream of shipping sawn lumber to the US was eventually crushed by Cartier, Chairman of the Commons Railway Committee.

New Competition

The Ottawa & Prescott also faced heavy competition from new local lines, the Brockville & Ottawa Railway (B&OR) and the Canada Central Railway (CCR). The former was chartered in 1853 to run from Brockville on the St. Lawrence line north to a point on the Rideau River at or near Smiths Falls, and then on to the Ottawa River at or near Pembroke, to tap into the square timber trade farther upriver from Bytown.

The Brockville & Ottawa opened in 1859, on the provincial gauge, between Brockville via Smiths Falls to Perth. This line is still used by Via Rail passenger trains between Ottawa and Toronto via Brockville.

The second railway into Ottawa, the Canada Central, was also built to the wide gauge and had the advantage of easy interchange with the Grand Trunk at Brockville. The Canada Central was chartered in 1856, as the Lake Huron, Ottawa & Quebec Junction Railway, to build a line from Arnprior west to Lake Huron. Even though it was
endowed with large land grants, it floundered until 1861 when it was reincorporated and allowed to connect with the Brockville & Ottawa Railway (B&OR) at Carleton Place. The first phase of the Canada Central project began in 1869 from Carleton Place to terminal facilities at Broad Street near the Chaudière Falls. The two lines became one in the 1870s and were swallowed up by the CPR in 1881, all of which inexorably caused the industrial centre of Ottawa to shift away from Rideau Falls to LeBreton flats and the Chaudière Falls, and the O&P to go bankrupt. Politics, and protecting the hinterland of the Grand Trunk, was a major part of the O&P’s problem.

As Mackay’s friend James Ferrier shifted his allegiance to the Grand Trunk, the GTR gobbled up any lesser lines, and absorbed their charters. The Grand Trunk, financed by Barings Bank and built by British engineers Peto, Brasse, Jackson and Betts, became the “main line” of the St. Lawrence Valley, making Montréal a major North American entrepôt. Indeed, by 1880, the GTR took their line into Chicago, Illinois, and at one point the GTR was the longest railway in the world.

Montréal now had a deep-water harbour it could use to beat winter; the St. Lawrence and Atlantic Railway from St. Lambert to Portland, Maine. The line was leased that August 1853 by the Grand Trunk Railway, giving the city an all weather extension east via Sherbrooke to Portland, Maine. A branch was also built from Richmond, Québec northeast to Point Levis, across the St. Lawrence River from Québec City. In 1860, a ferry service across the St. Lawrence from Montréal to St. Lambert was replaced by the Victoria Bridge, first designed by Keefer.

If Keefer’s Ottawa to Montréal railway had been built, Ottawa would have profited by joining up with the Grand Trunk lines, with direct access to the ice-free port of Portland, Maine. It would also have the potential of being a feeder for the proposed Canadian Pacific Railway.

The End of the Road

The Ottawa & Prescott eventually became a CPR branch feeding Montréal. Like many similar ventures of the period, it never lived up to the hopes of its shareholders and creditors and quickly fell into financial difficulty. An economic depression in the late 1850s cut into the revenues of the heavily indebted line.
The Grand Trunk Railway Company offered to take over its charter, but protests from the inhabitants of Ottawa, Prescott, and other, smaller, municipalities prevented it.

The railway was eventually renamed the St. Lawrence & Ottawa Railway company in 1867. The federal *St. Lawrence & Ottawa Railway Act* of 1867 stated: “The Ottawa and Prescott Railway, ... is hereby declared to be a work for the general advantage of Canada.” This status still applies to the remaining sections of rail today, and remaining sections of that route also operate under federal regulatory status.

In 1872, the Act to amend the St. Lawrence & Ottawa Railway explicitly extended its authorizations to any other railway company seeking to make use of the rail and the bridge across the Ottawa River.

With these allowances came more rail connections, namely the construction of the railway between Montréal and Hull, and of the

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**1872. ST. LAWRENCE AND OTTAWA RAILWAY.**

**The Old Reliable Line.**

- 35 Miles Shorter from all Points East,
- 9 Miles Shorter from Brockville and all Points West to **OTTAWA**.

**4 Trains Each Way Daily.**

- Comfortable SOFA CARS by Night, and PALACE CARS by Day.
- 20 Minutes allowed at Prescott Junction for Meals, and Connection with all Grand Trunk Trains certain.
- Option of Two Stations in Ottawa—one at the West, the other at the East End of the City.

**Ask for Tickets Via Prescott Junction, to be had at the Principal Agencies and Stations of the Grand Trunk Railway. BAGGAGE CHECKED THROUGH.**

**Freight Arrangements.**

- Shippers can have Freight sent Through to Ottawa by this Line WITHOUT TRANS shipment, in CHANGE GAUGE CARS.
- Application for Cars to be made to Agents at Principal Stations on the Grand Trunk Railway.

R. LUTTRELL, THOS. REYNOLDS,
Superintendent, Prescott, Managing Director.
Prince of Wales Bridge by the Quebec, Montreal, Ottawa and Occidental Railway (QMO&O), then owned by the Quebec provincial government. That line was also declared to be “for the general advantage of Canada”. The QMO&O officially opened the Prince of Wales Bridge in 1880 then, as planned, sold it in 1882 to Canadian Pacific to connect it with their new Canada Central Railway, which connected Brockville, the St. Lawrence, the Ottawa River, and eventually North Bay.

J. R. Booth took advantage of the possibilities of expansion by rail to create, in 1892, the largest lumber mill of its time. In order to outsource his lumber to Quebec, Vermont, and Georgian Bay, Booth formed the Canada Atlantic Railway Company in 1897. By that time, rail was synonymous with an explosion of business opportunities in the National Capital Region. Spurred by Thomas Keefer and Ahearn & Soper, Ottawa’s rail transit system—first horse drawn, then electric—would turn out to be a catalyst to transform the city we see today.

**Thomas Keefer and James Ferrier’s Railways**

Mackay’s major partner in railway enterprises was a fellow Scot named James Ferrier, who arrived in Montréal in 1821, after several years of working in a mercantile house in Perth, Scotland. Ferrier was five years younger than Mackay. The two became acquainted in the late 1830s, and during the era of railway mania in the later 1840s and 1850s. Ferrier also joined Mackay on the Legislative Council in 1847.

In the spring of 1837, Ferrier was appointed to the Montréal board of directors of the newly chartered Bank of British North America, a British-based bank that began operations in Upper and Lower Canada with a nominal capital of £1,000,000. Part of the bank’s capital came from the Lachine and Rideau Canal profits of Mackay. His first bank manager was a young Scot named John MacKinnon, who in 1846, married Mackay’s eldest daughter, Annie.

Ferrier’s first foray into railway building was the Montreal & Lachine Railroad, the first line built on the island of Montréal. In 1846, under his direction, £75,000 in share capital was raised in partnership with the Proprietors of the Lachine Canal. The enterprise attracted seventy-four co-sponsors, among them Sir George Simpson of the Hudson’s Bay Company, the landowning Sulpician Order, and William Molson, who was also interested in the Champlain & Saint Lawrence Railway, up the Richelieu Valley towards Lake Champlain.
The 12-kilometre Montreal & Lachine line, built to bypass the Lachine Rapids, began operating on November 19, 1847, between Bonaventure Station at Chaboillez Square in Montréal and its terminus at the Lachine wharf. With the area around the Lachine Canal seeing increasing industrial development, the line provided a commuter service, and hauled freight when the canal was closed for the winter. The line was Montréal’s—and Canada’s—first “rapid transit” system, running six round-trips a day.
The official opening of the Montreal & Lachine Railroad took place on Friday, November 19, 1847. At 1 p.m. that afternoon, Thomas Mackay joined Ferrier, Governor-General Lord Elgin, Louis-Joseph Papineau, Peter McGill, and a party of directors, shareholders, and politicians, as their train left Bonaventure Station for the twenty-minute trip to Lachine, with a ten-minute stopover before returning to Montreal. On July 24, 1848, Ferrier boosted the rolling stock of the line with the locomotive “James Ferrier,” the first railway engine imported from England. Ferrier’s Montreal & Lachine was never a great money-maker, but it was the first link in a chain of charters that enabled his railways to expand westwards up the St. Lawrence and Ottawa Valleys, as well as south, as far as Lake Champlain and New York.

To promote the Montréal & Lachine and other lines emerging from the imagination of railway promoters, Ferrier hired Mackay’s new son-in-law Thomas Keefer to write a pamphlet singing the praises of railway building. Keefer responded with a full-scale book, *Philosophy of Railroads*, first published in 1849. It had a huge impact upon communities hankering for railways, and rapidly became a North American bestseller, being reprinted four times.

In 1852, Canada had less than 110 kilometres of railway laid down. By 1871, when his book had gone through five editions, there were thousands.

Keefer’s lyrical hymn to progress set forth the main benefits of what he called “the civilizing rails”—how technology could remedy the age-old abuses of oppression, poverty, and ignorance—and for Canadians, level the playing field for a country smothered by snow and ice for four months of the year. It also promoted a strategic rail
link between Montréal and Toronto and the West, so as to outdistance American rivals for control of the Great Lakes trade.

James Ferrier was a visionary. He and his longtime partner, Peter McGill, were masters at obtaining railway charters from the Assembly, and locking up territories well before the lines were built. Mackay was a trusted associate of the partners, and used his influence and his capital to promote the lines leading to and from Ottawa.

In 1850, Ferrier also involved Keefer in launching an ambitious program of railway expansion radiating out of Montréal. On August 10 of that year, Ferrier got two amendments to the Montreal & Lachine’s charter. The first gave the Montreal & Lachine permission to change its name to the St. Lawrence & Ottawa Grand Junction Railway and to build northwest from Lachine into the hinterland of the Ottawa River to Grenville or Hawkesbury, then west to Kemptville and south to Prescott on Lake Ontario. Ferrier appointed Keefer chief engineer of the line. The second merged the Montreal & Lachine with Molson’s Montreal and New York Railroad, to go south through Plattsburgh to New York City.
Urged on by Ferrier, Mackay sat on the board of the St. Lawrence & Ottawa Grand Junction Railway, and was an early investor in the railway. However, the St. Lawrence & Ottawa Grand Junction Railway was in reality a territory marker—a move on the chessboard of railway charters. It would never materialize as a viable project.

Ferrier and Mackay’s capital kept the valuable St. Lawrence & Ottawa charter active, and Keefer began promoting a “central” trunk line up the Ottawa Valley to Georgian Bay as potentially the first stage of a railway to the Pacific. The St. Lawrence & Ottawa Grand Junction Railway eventually became a CPR branch, and some of the track is still in use today.