

Steel at the Sault. Francis H. Clergue, Sir James Dunn, and the Algoma Steel Corporation, 1901-1956. DUNCAN McDOWALL. Toronto: University of Toronto Press, 1984. x, 326 p. ISBN 0-8020-5652-0.

This is a Canadian business success story, part of the larger story of the remarkable success of the Canadian steel industry. It features a number of the elements that recur in such stories: an agonizingly slow start, foreign ownership, frequent and eagerly sought intervention by various governments, Canadianization, and a final breakthrough to a rather precarious profitability. It is a tale worth telling, and it receives here a detailed and intelligent treatment from Duncan McDowall, an economic historian currently with the Conference Board in Ottawa.

The story centres around two rather peculiar men. The first was Francis H. Clergue, an American entrepreneur, visionary, and crank. The idea of building a primary steel plant at Sault Ste. Marie was his; in addition to an unflagging enthusiasm for the project, he provided the necessary financial leadership (though none of his own money) and undeniable negotiating skills. Clergue's forte seems to have been persuasion. The Sault was hundreds of miles from the nearest markets and, as it turned out, almost as far from permanent sources of raw materials; to this day there is some doubt whether it was ever a suitable site for a steel mill. But Clergue thought it was and was able to infect a sufficient number of Philadelphia capitalists with his own enthusiasm to see his vision come true. He was also a tireless and successful proponent of government assistance; at one point municipal, provincial, and federal levels of government were all contributing to the support of the project in one form or another. Thus supported and financed, the Algoma Steel Corporation rolled its first rail in 1902.

Unfortunately, Francis Clergue's talents stopped short of managerial ability. The industrial complex that he created was dangerously unbalanced; it consisted principally of a steel mill which produced only steel rails, a railway which chronically lost money, and an iron mine which, while initially profitable, soon ran out of high-grade ore. Clergue never showed any capacity to approach these problems and was replaced as general manager of the firm in 1903. He later severed his connection with the firm and set off to promote other schemes, some viable, some harebrained; one of the latter was a railway that would have travelled from Quebec to James Bay, by ship to the western shore of Hudson's Bay, and thence by rail again due west across the Arctic.

Relieved of Clergue's guiding genius, Algoma Steel enjoyed a few years of modest profitability. But it never produced enough revenue to permit it to diversify out of the steel rail business, nor was its absentee ownership able to untangle its crippling organizational structure. With the end of the railway boom in the early thirties, the company slipped into receivership.

That set the scene for the arrival of the second remarkable character in the company's history, James Hamet Dunn. A New Brunswicker by birth (his closest boyhood friends were Max Aitken and R.B. Bennett), Dunn had emigrated early in his life to London, where he had established himself as a ruthless and effective financier. Successively involved in currency arbitrage, brokerage, South American utilities and railways, war materiel, nickel mining, and a variety of other enterprises, Dunn was by the late twenties many times a millionaire. But he had never had the opportunity to put his stamp on any enduring enterprise, and he cherished a desire to return to his native country. In the collapse of Algoma Steel he saw an opportunity to do both.

Dunn began buying up Algoma stock as early as 1926; by 1935 he had consolidated his position and was ready to assume control. In that year he arranged a foreclosure sale of the old company, set up a new Algoma Steel Corporation with himself as President and Chairman, undertook a complete reorganization of the company's financial structure, which left virtually everybody except Sir James holding the bag, and had the whole process given legislative sanction by the obliging Ontario government of Mitch Hepburn.

Within the new corporation progress was reasonably steady. A period of slow recovery in the late thirties was followed by a frenzied expansion of capacity during the war years, largely at the expense of the federal government. Postwar reconstruction and the entry of Algoma into the American market permitted, at long last, diversification in the company's product line. By the time of Sir James's death in 1956, it was one of the most modern on the continent, was on extremely solid financial ground, and was in the midst of an expansion which was to last into the seventies.

To be sure, not all of this was Sir James's doing. Vainglorious, curmudgeonly, and intensely conservative, Dunn had a decidedly equivocal effect on the company. He never understood much of the technical side of steel making; he was slow to press modernization and reluctant to take chances. Although he hired good managers, his near-paranoid suspicions made it difficult for him to delegate authority to them. He had difficulty in distinguishing between trade unionism and Communism, and only the interposition of a capable president prevented a damaging confrontation between the company and its labour forces during the forties. By the fifties, the age of one-man rule in large North American corporations had long passed, and Dunn's exit from the scene in 1956 was probably well timed from the point of view of the company's minority shareholders.

Curiously, Dunn regarded his greatest achievement as the revival of the Helen Iron Mine, near Wawa. McDowall suggests that this may have reflected Dunn's puzzlement with the technical side of steel making; digging iron ore out of the ground was a technology he could understand. Later in life he had Salvador Dali paint a ridiculous portrait of him, enthroned and clad in Roman robes, staring out over Lake Superior from a point near Wawa. He also tried to have Wawa renamed Jamestown in his own honour; but some of the local citizens tore the offending name off the post office, and Wawa it remained.

But for all this, Dunn was probably essential to Algoma's survival. He was a very solid financial manager, and his Draconian intervention in 1935 and subsequent no-dividend policy on common shares left the company with a very sound balance sheet. Just as important was his ability to elicit the cooperation of governments. Dunn possessed what McDowall describes as "an uncanny knack for convincing both Ottawa and Toronto politicians that the ends of Algoma Steel and those of their governments were largely synonymous." In particular, Dunn was able to develop a close working relationship with C.D. Howe which helped Dunn arrogate a disproportionate share of federal wartime and postwar assistance to the company.

This interplay between the company and the various governments with which it dealt is at the core of McDowall's interpretation of Algoma's history. Clergue and Dunn left few government strings unpulled in an effort to make Algoma viable. While they didn't get everything they asked for, they got a great deal: tariffs on steel and iron ore, provincial bounties on iron ore production, orders from the CNR for unneeded rails, legislative sanctions for Dunn's restructuring of the company, subsidies and accelerated write-downs

for wartime plant expansion, and much else. In the long run, in McDowall's analysis, it all seems to have been worth it. Like Japan and South Korea, which also have a tradition of close cooperation between government and steel, Canada has succeeded in creating a modern and internationally competitive industry. In the United States, where cooperation between the industry and federal government virtually ceased during the Truman administration, the industry has entered a long and apparently terminal decline.

If it is easy to accept this argument in principal, it is a little more difficult to see merit in the kind of chaotic and haphazard relationship described in this book, at least for the first four decades of this century. For one thing, tariffs on primary steel imports, the principal federal contribution to the industry, are a two-edged sword; they help the primary industry but hurt secondary steel manufacture, potentially a greater source of employment. Provincial assistance tended to come and go in response to regional political pressures and was often of dubious value. Only under C.D. Howe was the industry part of a coherent industrial strategy, and that strategy died with Howe's political career. In recent years the relationship between steel and government in Canada has probably been closer to the American model than to that of Japan Incorporated. Further, it is significant that a disproportionate percentage of federal aid to the industry over the years has gone to Algoma and Sysco, the two companies without direct access to the major Canadian markets in southern Ontario and Quebec. With Algoma once again operating deeply in the red and Sysco established as a bottomless hole for government subventions, it is worth asking whether the whole thing has worked out that well after all.

Steel at the Sault began life as a doctoral thesis on Sir James Dunn, and the principal source for the expanded work remained the Sir James Dunn Papers at the Public Archives of Canada. The papers are probably the best source for modern business history in the PAC; Dunn knew all of the major businessmen of his time and most of the politicians, and he kept all of their letters. Clergue, unfortunately, left no papers — “a documentary fate,” as McDowall observes, “which often awaits those who fail.” McDowall had to track his story through the Laurier Papers and those of other Canadian political figures. Befitting its academic origins, the book is extremely well researched and documented. McDowall has not, unhappily, succeeded in writing a page-turner; reworked theses on Canadian business history seldom become best sellers. But *Steel at the Sault* is a very good book, and one that throws light on aspects of Canadian economic history well beyond the bounds of Francis Clergue's mill at Sault Ste. Marie.

Neil Forsyth
Manuscript Division
Public Archives of Canada

Kingston Penitentiary: The First Hundred and Fifty Years. DENNIS CURTIS, ANDREW GRAHAM, LOU KELLY, and ANTHONY PATTERSON. Ottawa: Correctional Service Canada in conjunction with Supply and Services Canada, 1985. xiii, 173 p. ISBN 0-660-11823-8 \$24.95.

Correctional Service Canada commissioned this work to commemorate the anniversary of the founding of Kingston Penitentiary. The authors trace the history of Canada's oldest penitentiary from 1 June 1835 (the day the first six inmates were committed) to the present time.