

For the first sixty years of British rule, Canadian commerce was carried on almost exclusively with or through the United Kingdom, the merchants of New England complaining, after the American Revolution, of being shut out from the Canadian trade. The geographical juxtaposition of the United States to British North America was, however, a factor which could not permanently be ignored, and smuggling became more and more prevalent as settlement extended westward along the International Boundary. In 1822 Great Britain made considerable concessions to United States traders in respect of the Canadian trade. In 1846 she abolished the preferential treatment which she had given to Canadian wheat, and in 1860 all vestige of preference to colonial products disappeared from the British tariff. As a consequence, the colonies which, like Canada, were by this time enjoying responsible government, could not any longer be refused the right to control their own commercial policy—a fact which was emphasized in an important report prepared in 1859 by the then Minister of Finance, (Sir) A. T. Galt, and forwarded to the British Government. This report declared that the responsibility of the Canadian Government must be to the Canadian people, more especially in matters of taxation (the greater part of the revenue being raised by customs duties), and that the Canadian Government must affirm the right of the Canadian Parliament to adjust the taxation of the people in the way it deemed best, even if this should happen to meet with the disapproval of the British Ministry. This doctrine remained unchallenged by the British Government and, coming at a time when all important parties in Great Britain had accepted free trade as a *fait accompli*, it facilitated the setting up in Canada of a protective tariff, designed to secure the establishment in Canada of manufacturing industries, at a time when British opinion desired that the colonies should concentrate their attention on the production of food and raw materials and import from Great Britain the manufactured commodities which they required.

The Abolition of Preference and the Reciprocity Treaty of 1854.—The abolition of the British preference on Canadian wheat in 1846 brought about a depression in the flour-milling industry of Montreal and an ephemeral agitation for union with the United States. The effects of the repeal of the preference were, however, mitigated in 1849 by the repeal of the Navigation Acts and the consequent throwing open of the carrying trade between Canada and the United Kingdom to the shipping of the world. Meanwhile, the abandonment of protection in the Mother Country led to the initiation of negotiations for a reciprocity treaty with the United States. A treaty for the free exchange of natural products between them and the British North American colonies was negotiated in 1854, and became effective on Mar. 16, 1855. From its operation the Canadian farmer and fisherman derived considerable benefit, more especially during the period of the Civil War, when prices in the United States were particularly high. Partly as a consequence of the friction between Great Britain and the United States during the Civil War period and partly because the new Canadian tariff of 1859 shut out the manufactured goods of the United States, the treaty was denounced by the United States at the end of the ten-year period for which it had been negotiated and ceased to operate 12 months later on Mar. 17, 1866. The denunciation of the treaty had a considerable effect in bringing about the confederation of the British North American colonies, which it was hoped would to a great extent absorb each other's products.

Tariff Policy since Confederation.—The immediate effect of Confederation was to abolish the tariff barriers which existed between the provinces entering the Dominion. As the area of Canada increased until, except for Newfoundland and