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Ken Cruikshank

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KEN CRUIKSHANK

The Intercolonial Railway, Freight Rates and the Maritime Economy

THE INTERCOLONIAL RAILWAY OCCUPIES an important place in the new historiography of Maritime economic development. Beginning in the 1970s, T.W. Acheson and Ernest Forbes, among others, sought to counter the fatalistic view of Maritime economic decline that had become current in the scholarly and popular mind.¹ In his pathbreaking work, Acheson demonstrates that the Maritimes did make the transition from the age of wind, wood and water and enjoyed a period of industrial growth under the aegis of the National Policy customs tariffs. Forbes links Maritime industrial growth to another national policy — the freight rates adopted on the government-owned and operated Intercolonial. He contends that the freight rate structure overcame the serious obstacles to growth that other scholars so often cite in explaining the problems of the Maritime economy — the absence of a large local population and the distance of the region from the industrial heartland of North America. The region's geographic situation did become a factor after 1912, Forbes argues, when rate advances effectively cut off many Maritime businesses from their markets in Central Canada. He concludes that as Maritime political influence waned in Ottawa, the government, the regulators on the Board of Railway Commissioners and the new managers of the Intercolonial became less sensitive to the region and “demolished the intricate rate structure developed over the previous forty years” in accordance with the misguided notion that rates should be equal throughout Canada.²

Forbes' influential article places freight rates and the Intercolonial at the centre of Maritime economic development. Since its publication, other scholars have relied on Forbes' argument in assessing the development of the region. Although the analysis of Maritime business and economic history has relied on more sophisticated models of underdevelopment and dependency since the mid-1970s, it is still possible for

1 T.W. Acheson, “The National Policy and the Industrialization of the Maritimes, 1880-1910”, *Acadiensis*, I, 2 (Spring 1972), pp. 3-28; T.W. Acheson, “The Maritimes and ‘Empire Canada’”, and E.R. Forbes, “Misguided Symmetry: The Destruction of Regional Transportation Policy for the Maritimes”, in David J. Bercuson, ed. *Canada and the Burden of Unity* (Toronto, 1977), pp. 87-114, 60-86; E.R. Forbes, *The Maritime Rights Movement, 1919-1927* (Montreal, 1979). Early versions of this paper were presented to the Workshop on Atlantic Canadian Economic History, 30 September 1990, and to a meeting of the Canadian National Railways History Project in October 1990. I thank all the participants at those meetings, and, in particular, would like to thank Peter George for once again providing an astute commentary of my work. This paper is part of a larger examination of the role of the Canadian Government Railways in the Maritime economy, supported by the Canadian National Railways, whose assistance I gratefully acknowledge.

2 Forbes, “Misguided Symmetry”, p. 67.

L.D. McCann to note the importance of the changes in the rate structure in his contribution to the *Historical Atlas of Canada*. And James Bickerton can similarly assert, following a comprehensive review of the literature on Maritime development, that “The most immediate and readily identifiable factor that triggered the deindustrialization of the Maritimes was the destruction of the ICR (Intercolonial Railway) as an instrument of regional development in Canada”.³

Oddly enough, given the central role attributed to the Intercolonial in the development of the Maritimes, the railway has been virtually ignored by historians and economists since the publication of Forbes’ work. In a recent review of the literature on Maritime development, Kris Inwood, one of the few scholars who has grappled with the subject of transportation costs in the region, concludes that the Intercolonial Railway and its freight rate policies remain something of an enigma.⁴ This paper is intended to make the railway less of an enigma, to raise questions about the conclusions reached by Forbes in his pioneering article and to reactivate debate about the role of the Intercolonial in the development of the Maritimes. The starting point for this reassessment is the Intercolonial itself, its position in the Maritime transportation system, its operations and its freight rates.

The Intercolonial, some observers have argued, was an instrument of public policy, whose freight rates and other policies were part of the Confederation bargain between the formerly separate British North American colonies of Nova Scotia, New Brunswick and the Canadas. Section 124 of the British North America Act committed the new government of Canada to the construction of a railway between the St. Lawrence River and Halifax, and undoubtedly was intended to strengthen the political and economic relations between the otherwise diverse colonies. Unable to interest private entrepreneurs in the project, the Canadian government constructed and operated the Intercolonial Railway itself. Officials on the public railway reported to the Minister and Deputy Minister of Railways and Canals, provided regular information to the Auditor General of Canada and were directly accountable to Parliament. The Intercolonial’s managers did not enjoy the kind of autonomy their successors at Canadian National would enjoy when the railway was incorporated into that system in 1923; instead, they ran a public enterprise highly sensitive to its political masters.

Those political masters sometimes debated the ways in which the railway should be operated so as to promote economic relations between the Maritime Provinces and the rest of Canada. For the most part, however, successive governments shared a common view of the public railway. The Intercolonial’s manager after 1879, David Pottinger, summarized what he understood to be the government’s position when he

- 3 L.D. McCann, “Industrialization and the Maritimes”, in Donald Kerr and Deryck Holdsworth, eds., *Historical Atlas of Canada, Volume III: Addressing the Twentieth Century* (Toronto, 1990), Plate 24; James Bickerton, *Nova Scotia, Ottawa and the Politics of Regional Development* (Toronto, 1990), p. 45. For reviews of this and the earlier literature, see James B. Cannon, “Explaining Regional Development in Atlantic Canada: A Review Essay”, *Journal of Canadian Studies*, 19 (1984), pp. 65-86; Eric Sager, “Dependency, Underdevelopment and the Economic History of the Atlantic Provinces”, *Acadiensis*, XVII, 1 (Autumn 1987), pp. 117-37.
- 4 Kris Inwood, “Maritime Industrialization from 1870 to 1910: A Review of the Evidence and its Interpretation”, *Acadiensis*, XXI, 1 (Autumn 1991), p. 146.

told the Deputy Minister of the Department of Railways and Canals that “it seems to be your desire and that of the department to operate the railway in such a way that the carriage will balance the expenses”.⁵ Governments did not care if the railway paid any return on the capital invested, and could expect to be criticized if net operating earnings were too large. On the other hand, continued operating deficits were a serious political liability to any government, which was bound to be accused of seriously mismanaging the railway. Pottinger and other government officials responsible for the railway remained acutely sensitive to the concerns of their political masters over the Intercolonial’s performance, and sought to balance operating expenses and earnings.

The Intercolonial’s managers, therefore, did have a potential advantage over their private counterparts — they did not need to worry about paying a return on the capital invested in their enterprise. Many private managers, whose railways were loaded with debt, frequently were driven by the need to meet the next interest payment. Financial pressures tempted private freight officials to cut rates dramatically in an attempt to attract immediate, if only temporary, increases in revenues. They sought to carry as much traffic as they could. Officials at the Intercolonial did not face these same pressures, and therefore were in a position to adopt a more conservative and less expansionary approach to their business. They did not necessarily need to scramble for all the business they could get, but rather could try to find the best mix of freight traffic for meeting their more limited objective of covering operating costs. Even that objective, however, would prove elusive.

Freight officials on the Intercolonial were not free to set rates in any way they wished, of course, but had to learn how to operate in their particular operating environment. The route of the Intercolonial played a crucial role in shaping the kinds of strategic choices they could make. In locating the railway, the Canadian government “danced to a military tune” and kept the railway a maximum distance from the American border.⁶ A traveller on the Intercolonial in 1876 journeyed from Halifax, through Truro and Amherst to Moncton, where the train would either travel to Saint John or continue across the North Shore of New Brunswick, through Chatham, Bathurst and via the Matapedia Valley to the terminus at Rivière du Loup. By the mid-1880s the railway had expanded west and east, acquiring direct access to Quebec City and Sydney. In 1897 the Laurier government’s railways minister, A.G. Blair, the former premier of New Brunswick, weathered a storm of protest in extending the Intercolonial into Montreal. In spite of these changes, the basic route of the Intercolonial remained unchanged, and it was this route which profoundly influenced the nature of its operations, and its freight rate policies.

The government railway was located, as one observer remarked, “between two

5 David Pottinger to Collingwood Schreiber, 27 March 1888, vol. 12301, Records of Canadian National Railways System, RG30, National Archives of Canada, Ottawa [NAC]. For a further discussion of the debate over the purpose of the railway, see Ken Cruikshank, “The People’s Railway: The Intercolonial Railway and the Canadian Public Enterprise Experience”, *Acadiensis*, XVI, 1 (Autumn 1986), pp. 87-91.

6 *Debates of the House of Commons*, 12 August 1891 (L.H. Davies).

devils and the deep blue sea".⁷ The two devils, the Grand Trunk and the Canadian Pacific railways, provided the Intercolonial with its main connections to Central Canada, at Quebec and, after 1897, at Montreal. Their co-operation was necessary to the maintenance of a flow of traffic and to the establishment of through rates. And they were not always co-operative. On a number of occasions when the Intercolonial sought to assist local shippers by granting reduced rates on shipments to Ontario, officials at the Grand Trunk refused to participate.⁸ "Our experience", complained Pottinger in 1903, "is that the Grand Trunk does nothing to assist the Intercolonial with industry along the line", although the Canadian Pacific was "usually more amenable". The general manager was concerned that neither railway was willing to set rates that would prevent the iron and steel industry in Cape Breton from using steamers rather than the railway. For a time in 1899, Pottinger did convince the Canadian Pacific to participate in a low rate on steel from the Nova Scotia Steel Company to points west of Montreal, but there was one catch: they would only agree to the reduction if the freight were shipped to Saint John and then over its own lines to Central Canada. Such a condition made the special rate a far less attractive proposition to the Intercolonial's traffic officers.⁹ Clearly, the dependence of the Intercolonial on other railways for access beyond Montreal circumscribed its activities.

The reluctance of the "two devils" to co-operate arose in part because both companies had their own eastern operations to consider. Both the Canadian Pacific and the Grand Trunk also competed with the government railway for oceanborne and oceanbound freight in the winter, when the port of Montreal was cut off from navigation. The Grand Trunk shipped goods between Montreal and Portland, Maine, and the Canadian Pacific began operating its line between the Montreal area and Saint John via Maine in 1890, making the city its official winter port beginning in 1895. These routes provided formidable competition for the Intercolonial: whereas trains travelling between Montreal and Saint John or Halifax on the government railway had to cover some 740 or 837 miles respectively, trains travelled only 297 miles on the Grand Trunk route between Montreal and Portland or 481 miles between Montreal and Saint John via the Canadian Pacific's "Short Line". Throughout the 19th century, the export rates to North American seaboard ports generally were equalized, so that rates on various goods, from hardware to grain, travelled at the same rate to Saint John, Boston, or Portland, regardless of the distance or route. To attract any export or import traffic, therefore, the Intercolonial had to accept the rates set by competitors with superior routes to the Atlantic.¹⁰

7 *Commons Debates*, 10 May 1892 (T. Kenny).

8 David Pottinger to Collingwood Schreiber, 11 January 1889, vol. 12302, RG30, Pottinger to Schreiber, 2 May 1900, vol. 12137, RG30, E. Tiffin to Pottinger, 22 February 1901, file 91167, vol. 867, Records of the Department of Railways and Canals, RG43 A1, NAC.

9 Pottinger to Schreiber, 26 June 1903, vol. 12142, RG30; Pottinger to Andrew G. Blair, 3 November 1899, vol. 12136, RG30, NAC.

10 Testimony of L.J. Seargeant, Montreal, 16 December 1887, vol. 46, Records of the Privy Council Office, RG2, Series 3, Dormants, Minutes 1074, 25 February 1898, Minutes 1123, 18 February 1899, vol. 10817, Canadian Freight Association Minutebooks, RG30, NAC; Elizabeth McGahan, *The Port of Saint John: From Confederation to Nationalization* (Saint John, 1982), pp. 108-14,

To develop the port of Halifax and create traffic for the Intercolonial, the government determined in the late 1870s to have its railway carry grain and other produce for export at “cost”. After consulting with various officials on the railway, a rate on grain between Rivière du Loup and Halifax was fixed at a maximum of just over three cents a bushel. The rate had no effect on grain rates from the west to the Atlantic seaboard — these were set in relation to the New York to Chicago rates — but simply limited the Intercolonial’s share of that overall rate. Little export grain traffic developed, given the shorter routes and more developed ports available to grain merchants. In any event, by the late 1880s, the general manager of the Intercolonial, David Pottinger, discouraged his officials from soliciting this traffic, since it paid the railway so little.¹¹ The only clear effort by the Canadian government to direct the freight rate policies of its railway failed to achieve the desired objective. The policy was frustrated by the inferior route offered by the Intercolonial, and the strength of railway competition for the grain trade.

The Canadian Pacific also competed with the government railway for some traffic originating in, or being shipped to, the Maritimes. It says something about views of the effectiveness of the Intercolonial, and about the faith in railway competition in the 19th century, that some Maritime leaders pressed the Canadian government to encourage the Canadian Pacific to build a more effective stretch of railway between the Maritimes and Central Canada — the Short Line from Saint John via Maine to Montreal. As one inducement, the government generously agreed to allow the Canadian Pacific to solicit traffic bound from Ontario and the west to stations on the Intercolonial and carry it via its Saint John route, a practice which was renegotiated and limited after 1900. Nevertheless, even after 1900, the Canadian Pacific remained in a position to compete for a portion of the traffic from shippers who in other circumstances would have had no choice but to ship their goods over the Intercolonial’s entire line. A number of shippers much preferred the Canadian Pacific route, which reduced the time during which freight was in transit. A Nova Scotia firm, the Stanfield Brothers, insisted that it would not use the Intercolonial unless the railway agreed to deliver freight travelling between its firm and the west to the Canadian Pacific at Saint John.¹²

Apart from the “two devils”, the “deep blue sea” also shaped the operations of the government railway. The coastal location of the Intercolonial — a product of Maritime geography and the choices made in locating the railway — produced competition, both real and potential, from water carriers. Regular and tramp steamers and other ships active in coastal trade stopped at many of the same ports that the railway served, and generally could offer to carry goods at rates considerably lower than any railway could afford. Water competition kept pace with the technological improvements on the railway; the freight capacity of individual steamers and

133-40. Rates to Halifax likely would have been the same, except that the Intercolonial agreed to maintain a .01 differential over Saint John as part of its agreement with the Grand Trunk to reach Montreal. The differential became a sore point among the Halifax business community: see correspondence, file 6949, pt.1, vol. 372, RG43, NAC.

11 Correspondence Re Shipment of Grain or other articles by way of Intercolonial Railway, *Sessional Papers* (1879), 21R; Pottinger to Schreiber, 29 December 1888, vol. 12302, RG30, NAC.

12 Tiffin to G.P. Graham (Minister of Railways), 4 December 1911, pp. 34734-39, file 532, E. Tiffin, vol. 62, G.P. Graham Papers, MG27 II D 8, NAC.

schooners increased significantly in the final decades of the 19th century, and the facilities of various ports, as well as the St. Lawrence River system, were updated and improved.¹³

Water carriers gave some Maritime shippers alternatives to the Intercolonial in carrying their goods — offering routes directly to other points along the railway and along the St. Lawrence to Montreal, or connecting them to other rail carriers serving major centres on the Atlantic seaboard such as Boston or Portland. Managers of the government railway introduced special rates to meet some of this competition. For example, the Intercolonial had a special freight tariff on most goods travelling between Saint John and Halifax to compete with steamers travelling between the two ports. Large shippers of coal received rebates at Halifax, Saint John and Moncton, since they were in the best position to resort to water carriers as an alternative. Grain and flour rates from Ontario had to be maintained at lower levels at points such as Halifax, Saint John, Moncton, Sackville and Sydney in order to prevent merchants from importing their goods from Montreal, Boston or Portland by water. Water competition could not always be met. In the late 1880s, the Intercolonial could not establish rates low enough to stop the sugar refinery at Halifax from shipping a portion of its business to Ontario using a combination of steamers to Boston and American railway connections. When the Intercolonial Coal Company of Pictou agreed in 1900 to cancel one of its steamers to Montreal in exchange for reductions in its rail freight rates, the arrangement was short-lived. Officials at the railway decided the traffic was not worth having at the low rate they had to offer.¹⁴

Steamers also gave shippers from outside the region various points of access to the Maritime market; to sustain traffic for the railway, Intercolonial managers fixed rates to protect the market position of local producers. For example, the rates on nails and other hardware from Saint John and Halifax to New Glasgow, as well as the rates on a number of commodities from Halifax to Sydney, were fixed to meet the competition from freight brought in by steamers from Montreal. The dramatic reduction in ocean freight rates in the late 19th century produced overseas competition for local manufacturers as well; managers of the railway were pressured to ensure that their freight rates allowed iron, steel and coal producers to compete in local markets that their English competitors were able to penetrate.¹⁵

Not all policy choices of Intercolonial freight officials were shaped entirely by competitive forces. Like most railways, the public railway sought to encourage the development of central distribution points, by granting lower rates to merchants

13 G.P. de T. Glazebrook, *A History of Transportation in Canada, Volume II* (Toronto, 1964), pp. 220-34; Eric W. Sager with Gerald E. Panting, *Maritime Capital: The Shipping Industry in Atlantic Canada, 1820-1914* (Montreal, 1990), pp. 47-60.

14 Pottinger to Schreiber, 7 June 1881, vol. 12201, Pottinger to Schreiber, 10 November 1894, vol. 12132, Pottinger to Blair, 24 February 1897, vol. 12134, Pottinger to Schreiber, 25 January 1889, vol. 12303, RG30, NAC.

15 Pottinger to Schreiber, 22 May 1888, vol. 12303, Pottinger to Schreiber, 10 May 1900, vol. 12137, Pottinger to Schreiber, 9 July 1903, vol. 12142, Pottinger to Schreiber, 10 November 1894, vol. 12132, RG30, NAC. For complaints re ocean rates, see Testimony to Tariff Commission, Londonderry, 27 January 1906, pp. 62, 112-3, 118, vol. 8, Tariff Commission 1906, RG 36/17, NAC.

operating out of larger centres. And, as with most railways, more and more towns and cities were able to acquire these special lower rates while few towns lost them, so that by the early 20th century, merchants in Halifax, Stellarton, Truro, New Glasgow, Trenton, Ferrona Junction, Westville, Amherst, Moncton, Saint John, Chatham, Fredericton, Gibson, Marysville, Levis and Quebec, all could distribute goods in their local area at rates lower than those listed in the general tariff.¹⁶

Managers of the Intercolonial also decided to follow the practice of many North American railways in granting lower westbound than eastbound rates. Other railway officials had found that traffic towards the Atlantic ports was generally heavier than incoming traffic, and made rate concessions to try to increase the loading of westbound trains. This policy did not make as much sense on the Intercolonial, because a strong export trade did not develop through the port of Halifax. During the 1880s, the railway carried more import than export freight at Halifax, by a margin of about 2 to 1. Exports did exceed imports at Halifax by the opening decade of the 20th century, but railway officials still contended that, overall, more of the Intercolonial's traffic moved west rather than east. They were convinced that there was no benefit to the railway in maintaining lower rates on westbound traffic.¹⁷

Those small, casual shippers who sent goods between stations on the Intercolonial and who did not benefit from any of the myriad of special rates, relied on the freight classification rules and the general tariff to determine their rates. Under this tariff, they paid less in freight charges than their counterparts elsewhere, even within the Maritimes. When it began operating in the region, the Canadian Pacific introduced the tariff used in Central Canada. The origins of the Intercolonial's local tariff are obscure. Generally, new railways simply used the merchandise tariff in effect on similarly located lines, and worked revisions from there. For example, the government of Nova Scotia's railway, which was incorporated into the Intercolonial system, had charged rates the same as elsewhere in Canada.¹⁸

16 Pottinger to Blair, 24 January 1900, vol. 12136, RG30, NAC; Freight Tariffs: C.A. 1 (Saint John), 1 March 1898, C.B. 1 (Moncton), 1 March 1898, E.A. 1 (Halifax), 1 March 1898, W.B. 1 (Quebec), 1 March 1898, E.C. 1 (New Glasgow, Stellarton, Ferrona Junction, Trenton and Westville), 18 April 1898, C.C. 2 (Amherst), 24 July 1900, C.D. 1 (Fredericton, Gibson and Marysville), 1 September 1904, C.E. 1 (Chatham), 1 September 1904, vol. 7983, RG30, NAC.

17 Traffic at Halifax calculated from Annual Reports of the Department of Railways and Canals, *Sessional Papers*, and from Dominion Bureau of Statistics, *Trade of Canada, 1867-1928*, (Ottawa, 1929), Table 25A. Although it is not clear how they made their calculations, in 1908 the Intercolonial's experienced general manager, David Pottinger, estimated that just under 40 per cent of the railway's freight traffic was eastbound, and one year later Deputy Minister Butler claimed that eastbound freight had exceeded westbound freight prior to 1905: Pottinger to M. J. Butler (Deputy Minister), 3 February 1908, vol. 12153, RG 30; NAC; Butler to Graham, 24 March 1909, 5722-3, file 97 M.J. Butler, vol. 12, MG 27 II D 8, NAC. There is some contradictory evidence: Howard Darling cites a remark in the House of Commons to claim that in 1906 three-quarters of the Intercolonial's traffic was eastbound, Howard Darling, *The Politics of Freight Rates* (Toronto, 1980), p. 87. With the exception of traffic at Halifax, I have been unable to find any other useful figures, but am inclined to accept Pottinger and Butler's statements, since they are consistent with one another.

18 E.G. Carty, *Maritime Freight Rates, 1867-1931: Comparison with Freight Rates in Ontario and Quebec*, 30 May 1931, file 372, vol. file 6949 #162, vol. 372, RG43, NAC.

The initial scale of rates established on the Intercolonial in 1874 was slightly lower than elsewhere, but significant reductions were made in 1876. A small Maritime merchant shipping merchandise 100 miles in 1877 could expect to pay from \$60 to \$24 for a 20,000 pound carload, whereas a similar shipment made in Ontario would cost from \$72 to \$34. The Maritime tariff may have been lower than that of Ontario because water competition was more pervasive, or freight officials may have estimated that the lower scale of rates represented figures equal to those of other railways, less the profit. Whatever the reasons, officials on the government railway did not use subsequent adjustments in the tariff to increase the scale of rates. In 1889, when officials adopted the freight classification and general rules used on other eastern Canadian railways, they sought to limit the disruption created by these changes by actually reducing the tariff. A further adjustment in 1898 brought consistency in the construction of the tariff between the Intercolonial and other railways, and did advance some rates. Nevertheless, in 1899 a local shipper in the Maritimes would pay \$56 to \$28 to ship 20,000 pounds of freight 100 miles, whereas the same shipment would cost \$72 to \$36 in Ontario.¹⁹

The general merchandise tariff did not apply to a large proportion of traffic carried on any railway. The amount of freight carried under this tariff and under the special distributing rates out of particular towns and cities probably never amounted to more than 15 per cent of the Intercolonial's traffic. It therefore does not provide the best measure for comparing the overall rate structure of the Intercolonial with other railways. The best available measure is the average earning on every ton of freight carried one mile, a measure which is unfortunately only available for the Intercolonial prior to 1887 and after 1908.²⁰ Earnings per ton mile followed a similar pattern on the Intercolonial as they did on three other eastern North American railways — the Grand Trunk, New York Central and Erie railways — declining sharply in the 1870s and 1880s and thereafter becoming more stable. The median average rate on the Intercolonial was 73 cents in the decade 1878-87, compared with 71 on the Grand Trunk, 74 on the Erie and 80 on the New York Central, although there was considerable annual variation on all of these railways. Earnings per ton mile were much more consistent between 1908 and 1914.²¹ By that time, earnings per ton mile on the Intercolonial were down to 58 cents, compared with 69 cents on the Grand Trunk, 63 on the New York Central and 59 on the Erie. For every dollar

19 P.C. 1476, 12 December 1874, Freight Tariff, 2 October 1876, P.C. 314, 25 February 1889, file 5360, pt. 1, vol. 340, RG43, NAC; J.A. Argo, "Historical Review of Canadian Railway Freight Rate Structure, 1876-1938", in R.A.C. Henry and Associates, *Railway Freight Rates in Canada* (Ottawa, 1939), Schedule 23. My figures follow the tariffs cited and not Argo; he does not include the 1874 tariff and uses a different and somewhat higher 1876 tariff introduced in June of that year.

20 For a discussion of this statistic, see Kris Inwood, "Freight Rates and the Canadian Primary Iron and Steel Industry", Paper delivered to Fourth Atlantic Conference, Halifax, 8-10 October 1981, pp. 11-12.

21 The coefficient of variation on the ICR was 9.5 per cent, compared with about 3 per cent on the Grand Trunk and 6 per cent on the American railways in the 1878-87 period. Between 1908 and 1914, the coefficient of variation remained highest on the Intercolonial, at 4.7 per cent, compared with 1.3 per cent on the Grand Trunk, 1.7 per cent on the Erie, and 2.3 per cent on the New York Central.

the Intercolonial earned moving freight a given distance, therefore, the Grand Trunk earned \$1.18, the New York Central took in \$1.08, and the Erie collected \$1.01. The Intercolonial's figure most closely resembles earnings per ton mile on the northeastern American railways, which carried substantially larger quantities of freight.²²

A comparison can also be made between the earnings per ton mile on the Intercolonial and the two eastern Canadian Pacific divisions, serving similar territory — Quebec and the Maritimes. In the four years 1908 to 1911, for which the Canadian Pacific figures are available, the two Canadian Pacific divisions carried similar quantities of goods as the Intercolonial in terms of freight tons carried per mile. The earnings per ton mile, however, were quite different, with those on the two Canadian Pacific divisions ranging from 70 to 74 cents, compared with a range of 55 to 60 cents on the Intercolonial. For every dollar in freight revenue collected by the Intercolonial in this four-year period, the Canadian Pacific collected between \$1.17 and \$1.32. The Canadian Pacific, with a somewhat different rate structure and a different mix of low- and high-paying traffic than the Intercolonial, was able to earn more money on the freight it carried in the region.²³

Beyond the fact that the managers of the Intercolonial did not have to worry about paying a return on the capital invested in the railway, there is little evidence of conscious public policy decisions shaping the rate structure on the Intercolonial. Most through rates and many local rates were fixed in an effort to attract freight away from competing carriers, or to ensure that locally produced freight could compete in various markets with similar freight. Given the distance of its route, its proximity to water and rail carriers with distinct competitive advantages, and its dependence on "two devils" for access to the North American railway network, the Intercolonial was not in a strong position to serve as a rate setter or to be used as an instrument of public policy. As the Confederation-inspired link between the Maritimes and the rest of the North American continent, the Intercolonial was seriously flawed.²⁴

The rate structure of the Intercolonial created problems for the public railway's managers. Rates might have been sustainable if, as Forbes suggests they did, those rates generated more traffic and greater earnings for the railway. Unfortunately, although the Intercolonial's freight traffic did grow steadily in the early 20th century, a successful balancing of expenses and earnings remained elusive. Cost pressures in

- 22 The statistics contained in this and subsequent paragraphs are calculated from information contained in: *Poor's Manual of Railroads*, 1878-1916, also known as *Poor's Railroad Manual of the United States* (the Erie, New York and Grand Trunk); "History of the Grand Trunk Railway", vol. 10934, RG30, NAC; Annual Reports of the Department of Railways and Canals, Railway Statistics, *Sessional Papers*, 1879-1923 (Intercolonial and Grand Trunk); "Evidence, Royal Commission on Railways", vol. 46, RG 2, Series 3, NAC (Intercolonial and Grand Trunk).
- 23 Canadian Pacific figures calculated from Western Freight Rates Enquiry, Productions of the Canadian Pacific Railway, file 18755 (#32-41), volume 579, RG 46, NAC. The Intercolonial carried a significantly larger proportion of coal and lumber; the Canadian Pacific more grain.
- 24 In some instances, managers of private railways in such a weak position might engage in rate wars, but only so as to force a merger with more powerful lines, and enhance the value of their road in any such merger. This strategy obviously made no sense for the Intercolonial.

turn forced the managers of the railway to conclude that changes in the rate structure were necessary, and to focus on those rate policies over which they had some control.

Although Forbes has suggested that the flexible approach to rate-making that he associated with the period of the 1890s and 1900s produced greater prosperity for the railway, the evidence is not clear.²⁵ Freight traffic did grow, and the railway's managers were able to put an end to the constantly growing deficits of the Intercolonial in the 1880s. Nevertheless, the early 20th century proved quite volatile, witnessing both the best and worst years in the history of the railway. Overall, the Intercolonial lost \$2.5 million between 1898 and 1914. In one nightmarish year, 1904-05, expenses outstripped earnings by \$1.7 million.

Why did the railway have so much trouble breaking even? As Forbes rightly suggests, the traditional argument that political patronage produced excessive costs on the railway has to be taken with a grain of salt.²⁶ Indeed, the claim seems to be undercut by the fact that the expenses associated with moving freight trains, which was one way of assessing efficiency, were comparatively low on the Intercolonial. Based on the median for the decade 1878-87, for every dollar it cost the Intercolonial to move a freight train, it cost the Grand Trunk \$1.78, the New York Central \$1.87, and the Erie \$1.92. As the Intercolonial matured as a business, expenditures more nearly approximated those of the Grand Trunk. For every dollar expended to move an Intercolonial train in 1908-12, the Grand Trunk spent \$1.01, and the New York Central and Erie railways spent \$1.39.

Unfortunately, the real business of the railway was carrying freight, not running trains. Estimates of the median cost of moving a ton of freight one mile produce quite different results, and show decidedly against the Intercolonial. In the decade after 1878, for every dollar expended by the Intercolonial to move freight a given distance, the Grand Trunk and Erie railways spent 69 cents and the New York Central spent only 64 cents. As the Intercolonial became a more developed line, it was able to reduce the gap, but expenditures were still considerably greater than those on other railways. In the seven years before the outbreak of the First World War, the Grand Trunk, New York Central and Erie railways expended only 86, 79, and 70 cents for every dollar it cost the Intercolonial to move freight. On the other hand, in operating in the same region, the Canadian Pacific spent more than the public railway, \$1.03 for every \$1.00 of Intercolonial expenditure.²⁷

These high costs per ton-mile suggest that, although they were able to control the cost of moving trains, the managers of the Intercolonial had trouble capturing some of the potential cost savings made possible by changes in railway technology. With the development of more powerful locomotives, the cargo capacity of individual freight cars could be enlarged. In 1891 the Intercolonial began strengthening its freight cars so as to increase their capacity from 24,000 to 34,000 pounds; within a decade it had begun to introduce box cars that could carry 60,000 pounds of freight,

25 Forbes, "Misguided Symmetry", p. 64.

26 Cruikshank, "The People's Railway", pp. 86-7.

27 For freight expenses I use the estimate commonly used by railway officials, the total expenses multiplied by the proportion of freight earnings to total earnings.

and by 1911 platform cars had a carrying capacity of 80,000 pounds.²⁸ As a result, on the Intercolonial and other railways the amount of freight carried by each train grew dramatically in the 19th and into the 20th centuries. In the years before the war, an Intercolonial train carried some 275 tons of freight, a considerable increase from 79 tons in the 1880s. A Grand Trunk freight train carried about 20 per cent more than its Intercolonial counterpart. The New York Central and Erie railways carried considerably more freight on each train, loads 60-90 per cent greater than those on the Intercolonial.²⁹

While inferior trainloading may be a sign that railway officials were scheduling too many trains given the freight available, it may also indicate that the Intercolonial simply could not attract and carry enough traffic to fill the new larger trains in which it was investing. Freight traffic density — the quantity of freight carried one mile for every mile of line — provides some indication of the traffic on the railway.³⁰ Despite considerable improvement between the 1880s and the years before the First World War, the Intercolonial remained a relatively small operation. The freight traffic density on the Grand Trunk was not that much greater, about 30 per cent larger than that of the Maritime railway. On the other hand, the freight traffic density on the two northeastern American railways was 3-4 times that of the Intercolonial. The public railway was not alone in facing traffic problems — the Canadian Pacific divisions serving Quebec and the Maritimes had an even lighter density than the Intercolonial in the period 1908-11. Operating lightly travelled routes, officials on the Intercolonial and on the Canadian Pacific's easternmost divisions were not in a position to capture some of the economies associated with traffic density.

In the case of both the Intercolonial and the Canadian Pacific's operations in the Maritimes and Quebec, light traffic resulted in relatively high costs for moving freight. The earnings per ton-mile on the Intercolonial, however, were significantly lower than those on the Canadian Pacific. The combination of high costs and low earnings placed considerable pressure on the Intercolonial's officials to maintain and even advance existing rates. While continuing to monitor costs, the managers and freight traffic officials at the Intercolonial looked for ways of increasing rates. They saw an opportunity to defend such advances beginning in 1905, following two years of the worst deficits ever recorded on the Intercolonial. In those two years, the railway spent \$2.6 million more than it earned. Such politically embarrassing and treasury-draining losses could not be ignored, not even by the Maritimes' H.R. Emmerson, the Minister of Railways, who appeared more committed than any of his predecessors or successors to the idea that the Intercolonial should be run in the interests of Maritime development.

In 1905 officials at the Intercolonial advanced a number of the special distributing rates offered merchants in selected communities. Originally intended to encourage

28 Annual Reports of the Department of Railways and Canals, *Sessional Papers*, 1892, 1902, 1912. For a discussion of technological changes on other railways, see Thomas Shaughnessy to Lord Strathcona, 16 November 1901, pp. 59-65, Shaughnessy Letterbooks #76, MG 28 II 20, NAC; Albro Martin, *Enterprise Denied* (New York, 1971), pp. 55-71.

29 Trainload = Ton-miles/Freight Trainmiles.

30 Freight Traffic Density = Ton-miles/Mileage of Railway.

the centralization of mercantile activity, the rates no longer seemed to serve that or any other purpose, and produced endless complaints and demands for equality from those towns which were excluded. The advances in these distributing rates made in 1905 were quite limited: only the summer rates to points from Quebec City to the region between the city and Matapedia were changed, and the reduced rates still applied to the most heavily populated territory served by businesses in Halifax, Truro, New Glasgow, Amherst, Moncton and Saint John. Beginning in 1910, the Intercolonial's traffic officer pressed his superiors to eliminate the distributing rates altogether. Following the appointment of F.P. Gutelius as manager of the Intercolonial by the government of Robert Borden, freight officials appear to have achieved much of their objective: the rates were not eliminated, but they were increased in 1912 and in 1913. The 1912 and 1913 changes in the special distributing rates resulted in some quite dramatic rate advances on traffic carried between Maritime communities and stations on the Intercolonial from Quebec City to Montreal.³¹

In 1913 Intercolonial managers also advanced the general tariff on their railway. This general tariff prescribed mileage rates, which were applied on goods shipped between smaller communities, and which were not covered by some other special distributing or commodity tariff. The federal cabinet had approved a new higher general tariff back in 1906, but railway officials chose not to introduce it. The new tariff, when finally implemented in April 1913, increased the cost of shipping a carload of fifth class merchandise 100 miles by \$6. Additional advances in 1915 resulted in a further \$6 being added to shippers' costs, so that the cost of shipping a carload of freight 100 miles rose from \$42.00 in 1912 to \$54 in 1916. Maritime shippers using the general tariff paid, for the most part, the same rate for a local shipment that shippers on Ontario railways, on the Canadian Pacific railway lines in the Maritimes, or for that matter on the Intercolonial lines west of Quebec City had been paying since 1907.³²

Distributing rates and the general merchandise tariff applied to a small proportion of the Intercolonial's traffic, but they provided some of the only manoeuvring room that the railway's managers had — they were among the only rates that were fixed in the absence of competitive pressures. Even special commodity rates applying on local traffic escaped the full brunt of the advances between 1913 and 1915. The special local Maritime rates on coal, from Springhill Junction, Stellarton and Sydney to various centres, were readjusted several times, in 1913, 1916 and 1917, but

31 Tiffin to W.A. Campbell, 30 August 1910, pp. 34704-15, file 532, vol. 62, MG27 II D8, NAC; Tiffin to Managing Board of Intercolonial, 3 February 1912, file 5360, pt. 2, vol. 341, RG43, NAC; Freight Tariffs, 17 July 1905: C.A.3 (Saint John), C.B. 3, (Moncton), C.C. 3 (Amherst), E.A. 3 (Halifax); Freight Tariffs, 15 May 1912: C.A.3 supplement 7 (Saint John), C.B. 3 supplement 7, (Moncton), C.C. 3 supplement 4 (Amherst), E.A. 3 supplements 6 and 7 (Halifax), vol. 7983, Freight Tariffs, 28 May 1913: J.5 (Saint John), vol. 8007, H. 2, (Halifax), vol. 8002, RG30, NAC; Argo, "Canadian Railway Freight Rate Structure", Schedule 25.

32 P.C. 23 February 1906, 29 May 1906, file 5360, pt. 1, vol. 340, RG 43, NAC; Freight Tariffs, Z 2, 21 April 1913, Z 8, 27 July 1915, Z 9, 1 November 1915, vol. 7999, RG30, NAC; Tiffin to Campbell, 5 July 1910, Memorandum [for Minister?] from Campbell, 2 June 1913, file 5360, pt. 2, vol. 341, RG43, NAC; Argo, "Canadian Railway Freight Rate Structure", Schedule 23.

generally produced only a slight advance.³³ In another case, it was late in 1916 before railway officials advanced a special tariff offered to stove manufacturers shipping their goods locally by about 10 per cent, an increase similar to that approved in the same year by the railway commission for Ontario.³⁴ In general, therefore, between 1905 and 1917, Maritime businesses engaged in local trade faced a series of advances. Because special distributing rates and the general merchandise tariff bore the brunt of these advances, merchants, farmers and small manufacturers, as well as other casual users of the Intercolonial, would have been most affected by the changes.

While officials at the Intercolonial were altering the freight tariffs enjoyed by some local shippers for several years, important changes were being made in the rates paid on freight shipped between the Maritimes and Central Canada. Intercolonial officials did not initiate these changes, but appear either to have approved them, or at least felt that they were not in a position to counteract them. The changes began in 1908, when the Board of Railway Commissioners negotiated a substantial revision of Central Canadian rates. To understand why and how these changes affected the Maritimes, it is necessary to understand how rates between the two regions were formulated.

In constructing through rates between the Maritimes and Central Canada, there were three pivotal points: Saint John, Montreal and Toronto. The freight tariff between Toronto and Saint John was composed of the regular winter rate between Toronto and Montreal plus an "arbitrary" between Montreal and Saint John, an artificial rate which was considerably lower than the actual rate paid on Saint John shipments to Montreal.³⁵ (Although Maritime Rights advocates would later claim that this "arbitrary" had been fixed at 20 cents per 100 pounds on first-class freight since the 1880s, Table One demonstrates that it had varied a good deal during the 19th century.) Rates to or from other parts of the industrial heartland of southwestern Ontario were fixed at various proportions above the Toronto rate; rates to or from the Maritimes were fixed at levels above the Saint John rate. Thus, the tariff on fifth class merchandise from Halifax to Windsor in 1900 would have been 40 cents per 100 pounds, composed of a one cent differential from Halifax over Saint John, a ten cent "arbitrary" from Saint John to Montreal, a 22 cent winter rate from Montreal to Toronto, and a seven cent differential to Windsor over Toronto.

33 Freight Tariffs: C.C. 3, 18 March 1909, C.C. 10, 1 February 1913, C.C. 15, 25 June 1913, C.C. 19, 1 June 1916, C.C. 19 supplement 16, 28 June 1917, vol. 7984, C.C. 22, 15 August 1917, vol. 7984, RG 30, NAC.

34 Freight Tariffs: C.I. 6, 15 April 1909, vol. 7977, C.I. 89, 20 December 1916, vol. 7976, RG 30, NAC.

35 Rates to or from points east of Toronto would have been calculated using the winter tariff rate between those stations and Montreal, plus the Montreal to Saint John 'arbitrary'.

Table One
Construction of Through Rates Between Saint John and Toronto
Eastbound (E) Versus Westbound (W)
First Class Freight, Cents Per 100 Pounds

	Toronto and Montreal		+	Montreal and Saint John (‘Arbitrary’)		=	Toronto and Saint John	
	E	W		E	W		E	W
1882	50	60		40	20		90	80
1885	50	34		40	38		90	72
1886	50	36		40	36		90	72
1890	50	38		34	34		84	72
1891	50	42		30	30		80	72
1896	50	42		30	28		80	70
1898	50	42		20	28		70	70
1900	50	44		20	20		70	64
1908	44	44		20	20		64	64

Source: E.G. Carty, *Maritime Freight Rates, 1867-1931: Comparison with Freight Rates in Ontario and Quebec*, 30 May 1931, Appendix 1, file 6949 #162, vol. 372, RG43, NAC.

The construction of rates between Saint John and Toronto involved a second issue. Throughout much of the period before 1908 the eastbound rates to Saint John were higher than the westbound rates from the same port. For the most part, as Table 1 shows, this was not determined by the “arbitrary”, which was the same on freight bound in either direction, but by the freight tariff from Montreal to Toronto, which had been from an early date lower than that on traffic moving from Toronto to Montreal. Such a difference in the rates ostensibly, and to a certain extent in fact,

corresponded to water competition between the two points. The low rates seem to also have been influenced by traditionally powerful Montreal business interests.³⁶

The difference in the westbound and eastbound rates between Montreal and Toronto occasioned considerable complaint throughout the late 19th century. Manufacturers in Toronto and southwestern Ontario complained that higher eastbound rates made it more difficult for them to penetrate markets anywhere east of Montreal. The railways' private association, the Canadian Freight Association, to which the Intercolonial belonged, undertook a number of studies of the question, but concluded that no changes were necessary.³⁷ In 1908, as part of a much larger response to a variety of complaints about the rate structure of Ontario and Quebec, the Board of Railway Commissioners ordered that, except during the season of navigation when water competition had some impact, rates to and from Montreal and Ontario had to be equal. This winter rate was one of the main components of the through rate between the Maritimes and Ontario, and the component which had resulted in differences between eastbound and westbound rates. By 1908, therefore, Maritime-Ontario trade was governed by what Forbes terms a "misguided symmetry".³⁸

Officials at the Intercolonial do not appear to have taken any steps to change the formula so as to make westbound rates lower than those eastbound. In fact, they gradually equalized westbound and eastbound rates on traffic carried locally. Although the "arbitrary" used in the construction of through rates between the Maritimes and Montreal had been unaffected by the direction of the traffic since 1900, the actual rate on goods destined for Montreal from the Maritimes had been lower than that on goods shipped from Montreal to the region. This preference on westbound freight to Montreal continued after 1908, since it applied to local traffic on the Intercolonial, and did not have to be set in agreement with other railways or in accordance with the standards of the railway commission. Nevertheless, railway officials gradually equalized the eastbound and westbound rates as other modifications were made in the rate structure. For example, when advances were made in the special distributing rates from centres such as Amherst, Saint John and Halifax to Montreal in 1912 and 1913, the new rates applied "to and from Montreal" instead of "to Montreal".³⁹ In 1914 the special commodity rate on bar iron and steel applied for the first time to traffic carried "to and from Montreal", phasing out yet another important preference on westbound traffic.⁴⁰

36 See *Dominion Sugar Co. v. Grand Trunk, Canadian Pacific, Chatham Wallaceburg and Lake Erie and Pere Marquette Railway Cos.* (1913), 17 *Canadian Railway Cases*, Commissioner Drayton, p. 245.

37 Minute 562, 5 June 1902, minute 634, 4 September 1902, vol. 10818, Canadian Freight Association Minutebooks, RG30, NAC.

38 Report of the Chief Traffic Officer re International and Toronto Board of Trade Rate Cases, 27 June 1907, *Annual Report of the Board of Railway Commissioners* (1908), pp. 5-23; E.G. Carty, *Maritime Freight Rates, 1867-1931: Comparison with Freight Rates in Ontario and Quebec*, 30 May 1931, file 6949 #162, vol. 372, RG43, NAC.

39 Freight Tariffs, 15 July 1912: H. 1 (Halifax), J. 3 (Saint John), vol. 8007, RG30, NAC.

40 Freight Tariff C.I. 40, 22 April 1914, vol. 7977, RG30, NAC.

By 1917, therefore, on the eve of a series of horizontal rate advances, the Maritime rate structure had already been transformed. Officials at the Intercolonial had used the discretion they enjoyed with respect to local rates to advance a number of tariffs, and, following the equalization of westbound and eastbound rates between the Maritimes and Ontario, to effect a similar equalization on their own road. Between 1918 and 1920, officials on the government railway followed three rate advances approved by the Board of Railway Commissioners to assist Canada's private lines in meeting the spiraling costs of labour and supplies associated with the war.⁴¹ The impact of the horizontal advances on the earlier changes can be seen in Tables Two, Three and Four. By 1916, a merchant in Amherst paid 38 per cent more to import a carload of merchandise from Saint John than in 1900.⁴² This rate then was multiplied by a 15 per cent and 25 per cent advance in 1918, and a 40 per cent increase in 1920. Although the 40 per cent advance was short-lived, even after two reductions at the beginning and the end of 1921, the carload of merchandise still cost 77 per cent more to transport from Saint John than it had in 1916, and 146 per cent more than in 1900. Even considering that inflation would have increased the value of that carload of merchandise, in constant 1900 dollars the advance between 1900 and 1922 still amounted to about 35 per cent. A similar shipment from Toronto cost 80 per cent more in 1922 than in 1900 which amounted to a very slight reduction of under 1 per cent in constant dollars.

What was the impact of these apparently dramatic changes on the competitive situation of merchants and manufacturers in the Maritimes? Merchants generally paid the freight charges on the goods they ordered, but manufacturers sometimes absorbed part of the freight cost in order to compete. Tables Two, Three and Four attempt to assess the potential impact of the rate changes on competition in the Maritimes, in southwestern Ontario and in Montreal. It is clear from Table Two that in 1922, a Toronto manufacturer shipping goods to Amherst might have to absorb even more of the freight rate costs than at the turn of the century in order to compete with a Saint John business. A similar situation would face an Amherst manufacturer competing with a firm in Montreal for business in Toronto, as Table Three demonstrates. The change between 1900 and 1922 is not identical, however: the Toronto manufacturer would need to absorb only 43 per cent more in freight rate costs to compete in Amherst, while the cost of absorbing freight rate costs would have doubled for the Amherst manufacturer competing in Toronto. Nevertheless, both tables indicate that the horizontal advances had one main impact — to increase the freight rate advantage of shippers serving their own region.

41 On the horizontal advances, see Ken Cruikshank, *Close Ties: Government, Railways and the Board of Railway Commissioners, 1851-1933* (Montreal, 1991), ch. 8.

42 These figures are based on changes in the special distributing rates enjoyed by Amherst merchants.

Table Two
Interaction of Rate Changes: Competition in Maritimes
Fifth Class Merchandise, Carload of 30,000 Pounds

	Saint John to Amherst	Toronto to Amherst	Difference in favour Saint John
1900	\$39.00	\$108.00	\$69.00
1905 (1900 \$)	\$45.00 (\$42.41)	\$108.00 (\$101.80)	\$63.00 (\$59.39)
1908 (1900 \$)	\$45.00 (\$38.69)	\$99.00 (\$85.12)	\$54.00 (\$46.43)
1913 (1900 \$)	\$48.00 (\$37.12)	\$99.00 (\$76.57)	\$51.00 (\$39.45)
1915 (1900 \$)	\$54.00 (\$37.95)	\$99.00 (\$69.57)	\$45.00 (\$31.62)
1916 (1900 \$)	\$54.00 (\$30.58)	\$108.00 (\$61.16)	\$54.00 (\$30.58)
March 1918 (1900 \$)	\$61.50 (\$23.98)	\$124.50 (\$48.54)	\$63.00 (\$24.56)
August 1918 (1900 \$)	\$76.50 (\$29.82)	\$156.00 (\$60.82)	\$79.50 (\$31.00)
September 1920 (1900 \$)	\$106.50 (\$37.04)	\$219.00 (\$76.17)	\$112.50 (\$39.13)
January 1921 (1900 \$)	\$103.50 (\$52.35)	\$210.00 (\$106.20)	\$106.50 (\$53.85)
December 1921 (1900 \$)*	\$96.00 (\$52.66)	\$195.00 (\$107.00)	\$99.00 (\$54.34)
*1922 Price Index			

Source: Freight Tariffs, C.A. 1, 1 March 1898, C.A. 3, 17 July 1905, vol. 7983, J. 5, 28 May 1913, vol. 8007, RG30; E.G. Carty, *Maritime Freight Rates, 1867-1931: Comparison with Freight Rates in Ontario and Quebec*, 30 May 1931, file 6949 #162, vol. 372, RG43; Exhibit 35, pp. 177-92, vol. 337, Exhibits — Board of Railway Commissioners, RG46, NAC.

Table Three
Interaction of Rate Changes: Competition in Central Canada
Fifth Class Merchandise, Carload of 30,000 Pounds

	Amherst to Toronto	Montreal to Toronto	Difference in favour Montreal
1900	\$99.00	\$66.00	\$33.00
1908 (1900 \$)	\$99.00 (\$85.12)	\$66.00 (\$56.75)	\$33.00 (\$28.37)
1916 (1900 \$)	\$108.00 (\$61.16)	\$69.00 (\$39.07)	\$39.00 (\$22.09)
March 1918 (1900 \$)	\$124.50 (\$48.54)	\$79.50 (\$30.99)	\$45.00 (\$17.55)
August 1918 (1900 \$)	\$156.00 (\$60.82)	\$99.00 (\$38.60)	\$57.00 (\$22.22)
September 1920 (1900 \$)	\$219.00 (\$76.17)	\$138.00 (\$48.00)	\$81.00 (\$28.17)
January 1921 (1900 \$)	\$210.00 (\$106.20)	\$135.00 (\$68.29)	\$75.00 (\$37.91)
December 1921 (1900 \$)*	\$195.00 (\$107.00)	\$123.00 (\$67.47)	\$72.00 (\$39.53)
*1922 Price Index			

Source: E.G. Carty, *Maritime Freight Rates, 1867-1931: Comparison with Freight Rates in Ontario and Quebec*, 30 May 1931, file 6949 #162, vol. 372, RG43; Exhibit 35, pp. 177-92, vol. 337, Exhibits — Board of Railway Commissioners, RG46, NAC.

Table Four
Interaction of Rate Changes: Competition in Montreal
Fifth Class Merchandise, Carload of 30,000 Pounds

	Amherst to Montreal	Toronto to Montreal	Difference in favour Toronto
1900	\$72.00	\$75.00	(-\$3.00)
1905 (1900 \$)	\$75.00 (\$70.69)	\$75.00 (\$70.69)	0.00 (0.00)
1908 (1900 \$)	\$75.00 (\$64.49)	\$66.00 (\$56.75)	\$9.00 (\$7.74)
1912 (1900 \$)	\$84.00 (\$64.17)	\$66.00 (\$50.42)	\$18.00 (\$13.75)
1916 (1900 \$)	\$90.00 (\$50.96)	\$69.00 (\$39.07)	\$21.00 (\$11.89)
March 1918 (1900 \$)	\$103.50 (\$40.35)	\$79.50 (\$30.99)	\$24.00 (\$9.36)
August 1918 (1900 \$)	\$129.00 (\$50.29)	\$99.00 (\$38.60)	\$30.00 (\$11.69)
September 1920 (1900 \$)	\$180.00 (\$62.61)	\$138.00 (\$48.00)	\$42.00 (\$14.61)
January 1921 (1900 \$)	\$174.00 (\$88.01)	\$135.00 (\$68.29)	\$39.00 (\$19.72)
December 1921 (1900 \$)*	\$159.00 (\$87.22)	\$123.00 (\$67.47)	\$36.00 (\$19.75)
*1922 Price Index			

Source: Freight Tariffs, C.C. 2, 24 July 1900, C.C. 3, 17 July 1905, C.C. 3 supplement 4, 15 May 1912, vol. 7983, RG30; E.G. Carty, *Maritime Freight Rates, 1867-1931: Comparison with Freight Rates in Ontario and Quebec*, 30 May 1931, file 6949 #162, vol. 372, RG43; Exhibit 35, pp. 177-92, vol. 337, Exhibits — Board of Railway Commissioners, RG46, NAC.

In Montreal, as Table Four illustrates, the prewar changes in Intercolonial rates increasingly gave the edge to Toronto against the Maritimes, a competitive edge then sharpened by the horizontal advances. An Amherst manufacturer might have to absorb \$39 more in freight charges in 1922 than in 1900. While Toronto manufacturers probably paid the 1908 official rate as early as 1900, the relative changes in the rate structure still appear most dramatic in terms of shipments to Montreal.⁴³ Given that Montreal was one of the largest markets close to the Maritimes, Table Four may indicate why some later Maritime observers recalled the year 1912 as a turning point, rather than 1908, 1913 or 1915.

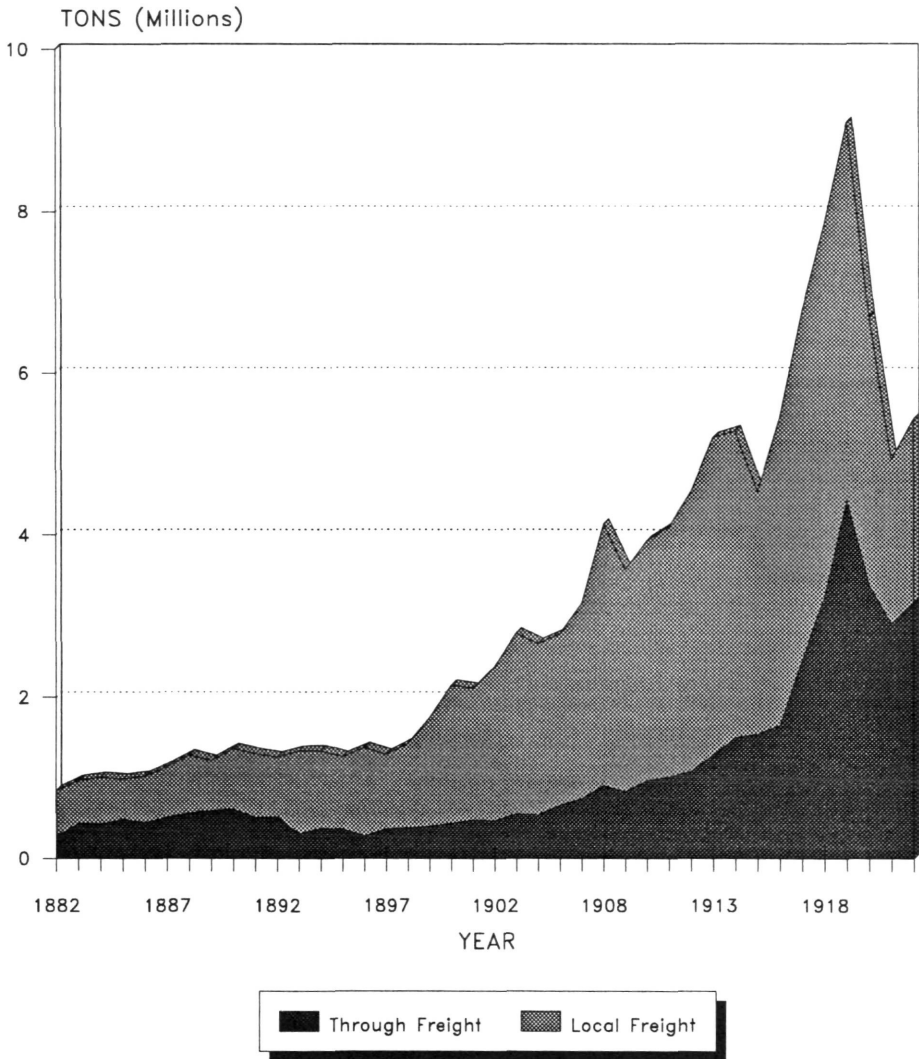
The traditional rate structure of the Maritimes, it has been argued, provided a measure of protection for shippers within the region, while at the same time allowing them to penetrate the larger markets of Central Canada. This analysis appears to confirm the argument, and shows that while Maritime shippers still enjoyed a competitive advantage in their own region in 1922, they faced increased barriers to penetrating markets in Montreal and Central Canada. Maritime manufacturers whose product had no other competitive advantage might have to absorb a larger portion of the freight costs in 1922 than they had in the early 20th century. Just how significant those barriers would actually be, of course, would depend on the significance of the freight rate in the overall value of the commodity, and the degree of competitiveness within a particular type of business.

How much did these changes in the rate structure affect Maritime trade? This is, of course, the real crux of the matter, and the most difficult to assess. The most compelling approach to this problem would be made by a comparison of specific manufacturers in different regions, which would integrate changing transport advantages into a larger analysis of changing labour and other production cost advantages and disadvantages. For the purposes of this paper, however, an alternative approach is adopted, one which examines the ways the rate changes affected the quantity or nature of the freight carried on the Intercolonial. The sources for even so modest a project are limited, but they do offer some insights that demand further attention.

One of the assumptions upon which much of the literature on the Intercolonial rests is that the rate structure allowed Maritime shippers to penetrate markets in Ontario and Western Canada. What is most striking about Figure One, however, is the dominance of local traffic and trade throughout much of the railway's history. From the turn of the century until the First World War, freight destined for points on the railway, regardless of origin, accounted for at least 75 per cent of the Intercolonial's business. The amount of freight that the Intercolonial delivered to other carriers for shipment beyond its line began to decline in the early 1890s, perhaps not surprisingly at the same time as the Canadian Pacific began to compete for Maritime business over its Short Line. Between the extension of the railway into Montreal in 1897 and the equalization of westbound rates in 1908, the average through freight traffic amounted to just over 500,000 tons annually, reaching a high of 900,000 tons in 1908. It would be 1911 before the railway carried more than 1

43 Minute 337, 1 November 1896, vol. 10820, Canadian Freight Association Minutebooks, RG30, NAC.

FIGURE 1
INTERCOLONIAL RAILWAY, 1882-1922
LOCAL AND THROUGH FREIGHT TRAFFIC



Annual Reports, Department of Railways
and Canals, 1917-1923

million tons of freight for delivery for points beyond the line. Just as a point of comparison, in 1911 water carriers handled more than twice as much freight tonnage through the St. Lawrence canal system in and immediately west of Montreal. Little wonder that when David Pottinger was asked in 1913 to assess the possible impact of the opening of the Panama Canal on the railway's operations, he responded that the impact would be minimal. The Intercolonial, he noted, was involved in the carriage of local traffic.⁴⁴

It is perhaps not surprising that during the First World War, when the Intercolonial became a favoured all-Canadian transportation route while the United States remained officially neutral, and when all lines to Atlantic ports were congested, through traffic grew quite dramatically. What is somewhat more surprising is that this trend continued into 1922, just before the Intercolonial was incorporated into the Canadian National Railways system. This is quite the opposite of what one might predict given the changes in freight rates. The change in eastbound and westbound rates after 1908 and the horizontal freight advances appear to have made interregional trade more difficult, yet deliveries beyond the railway remained almost twice as high as their prewar levels. At the same time, deliveries to local points, which were given a measure of protection from the horizontal advances, declined well below prewar levels.

Prior to 1916, the Intercolonial kept track of the contribution of a few types of traffic — coal, grain, European goods, fish and sugar — to the development of through and local traffic. The decision to select these goods reflects the kind of trade that supporters of the Intercolonial hoped it would create. With the exception of coal, however, these goods never amounted to more than 15 per cent of the total local and through traffic. In all but one of the categories, local traffic dominated. Only refined sugar appears to have been a major item in interregional trade by rail, with about half of the tonnage carried by the Intercolonial being delivered west of Montreal. Coal accounted for 25-30 per cent of all through traffic in the 1880s and early 1890s, but ceased to be a factor in shipments beyond the railway after 1900. Both before and after 1900, coal provided the Intercolonial with the largest amount of freight for delivery in the Maritimes, representing 35-40 per cent of this local tonnage. Related figures on originating and local traffic indicate that much of this coal originated from regions served by the public railway.⁴⁵

The iron and steel sector is often identified as key to Maritime industrial growth. Between 1908 and 1920, it accounted for 10-15 per cent of the total traffic of the Intercolonial. Although no record appears to have been kept of through and local traffic, there is a record of the source of the traffic; that is, whether the freight originated on the railway or had been delivered to the Intercolonial from another carrier. Changes in these categories may at least suggest whether the transformation of the rate structure produced increased competition for local producers in their own markets. Between 1908 and 1914, there does appear to have been a slight increase in the quantity of iron and steel products received by the Intercolonial from other

44 Pottinger to A.W. Campbell, 26 October 1912, vol. 12165, RG30, NAC.

45 Annual Report of Department of Railways and Canals, *Sessional Papers* (1880-1917).

carriers, although more than 85 per cent of all such products did originate on the railway. In 1920 this figure had declined to 75 per cent, although the horizontal advances would seem to have provided local manufacturers with more, not less, protection within their own markets.

Most of the changes noted above, moreover, can be attributed to changes in one particular category of iron and steel commodities. A very high percentage of the pig and bloom iron, bar and sheet metal, and iron and steel rails carried by the Intercolonial throughout the period originated on the railway. The category of freight the railways called "other castings and machinery" showed the most dramatic change. Between 1908 and 1912, the proportion of this type of freight, which originated on the Intercolonial line, declined from over 80 to 60 per cent. By 1920, over 50 per cent of this commodity was received from other lines. The fact that the most dramatic change is isolated to one particular group of secondary iron and steel commodities, and that even the change that can be measured occurred before there were any major changes in rates on this type of freight, suggests that freight rate changes alone cannot account for this new traffic pattern.⁴⁶

This analysis of the Intercolonial's freight traffic raises some questions about the standard interpretation of the railway in the development of the Maritimes. The major focus of the railway on local traffic, while perhaps not really that surprising given the disadvantages of its through route and connections, does tend to weaken the assumption that it played a major role in interregional trade. Moreover, observers such as Forbes always confidently link freight rate changes to trading difficulties. Some caution is obviously needed in making such assumptions: the growth of through traffic and the decline of local business after the war is quite the opposite of what one would predict on the basis of the degree of transportation protection within regions that the wartime rate changes would have produced. The Intercolonial became more, not less, active in delivering goods outside the region.

The role of the Intercolonial in the development of the Maritime economy is in need of careful reassessment. The route of the Intercolonial severely hampered its ability to provide an effective transportation link between the Maritimes and the rest of Canada, or to be used as an instrument of public policy. With the longest rail route between the interior and the Atlantic seaboard, dependent on the co-operation of other railways for access to points west of Montreal, and competing with steamers for traffic at many points along the line, the Intercolonial was hardly in a position to be the "undisputed rate-maker between the Maritimes and Central Canada".⁴⁷

Nor is there a great deal of evidence to suggest that the railway's freight rates were implemented as part of a government regional development policy. Most of the special rates on the railway resulted from the competition of other railways and from water carriers, and the concern that local businesses be able to compete in certain markets, all factors which shaped rate-making decisions on private railways. While not concerned with its mounting capital account, the managers of the railway believed they had a mandate to carry goods so as to meet their operating expenses.

46 Railway Statistics, *Sessional Papers* (1909-23).

47 Forbes, "Misguided Symmetry", p. 63.

No government suggested otherwise. As costs rose, they were more than willing to abandon what they believed was money-losing traffic and to attempt to raise those rates they were in a position to change.

There is little doubt that changes in the rate structure after 1905 could have altered the competitive position of some shippers on the railway, and that the changes facing these shippers were somewhat more dramatic than in other regions. It is not clear, however, whether those changes actually had any impact on trade. Between the mid-1890s and the First World War, the Intercolonial largely delivered goods to local stations, and delivered only a small amount of freight for carriage to points beyond its own lines. During and after the war, it was local business which declined most sharply, in spite of the fact that freight rate changes would have provided more protection for interregional trade.

Throughout Canada, railways represented one of the most visible symbols of the emerging industrial nation, and were apt to be the target of criticism among those who were dissatisfied with those changes. Such criticism was not always misguided, and should not be dismissed out of hand. Nevertheless, in the case of the Intercolonial, there appears to be some reason for being more cautious and critical of the claims of the advocates of Maritime Rights in the 1920s, upon which scholars have relied. It may be time to adopt a more modest image of the Intercolonial, not as the critical transportation link between the Maritimes and Central Canada and the developmental key to Maritime industrialization, but rather as a relatively small regional railway oriented towards serving local markets.