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The People's Railway:
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Ken Cruikshank

Volume 16, Number 1, Autumn 1986

URI: https://id.erudit.org/iderudit/acad16_1art03

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Publisher(s)

The Department of History of the University of New Brunswick

ISSN

0044-5851 (print)
1712-7432 (digital)

Explore this journal

Cite this article

Cruikshank, K. (1986). The People's Railway:: The Intercolonial Railway and the Canadian Public Enterprise Experience. *Acadiensis*, *16*(1), 78–100.

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KEN CRUIKSHANK

The People's Railway: The Intercolonial Railway and the Canadian Public Enterprise Experience

WHEN SIR HENRY DRAYTON, Chairman of the Board of Railway Commissioners, and W.M. Acworth, a British railway authority, investigated the nature of the Canadian railway problem in 1917, they sought a solution through government action. In the *Report* of the Royal Commission on Transportation, the two men recommended that the government should assume the enormous financial responsibility for the Canadian Northern, Grand Trunk, Grand Trunk Pacific, National Transcontinental and Intercolonial railways. They also recommended that management of this publicly owned railway system should be vested in a board of trustees, independent of and not accountable to Parliament. Railways, the commissioners concluded, were not "a proper subject for direct Parliamentary control".[1] The essence of their perspective on public ownership was captured in a polemic by W.H. Moore, who noted that "there is no maudlin sentiment about the 'people's railway' in this report; it is the 'trustees' railway' and the employees are the 'trustees' employees'. Everything about the railway is the trustees', except responsibility — that belongs to the people of Canada".[2]

While the Borden government did not create the kind of independent management recommended by Drayton and Acworth, the incorporation of Canadian National Railways in 1919 did limit the accountability of the new managers to both the government and Parliament. Each subsequent attempt to deal with the problems of Canada's public railway has been guided by the spirit of the Drayton-Acworth proposals, further reducing the railway's accountability to the public and their political representatives.[3] Although the Grand Trunk Pacific

The author wishes to thank Viv Nelles, Christopher Armstrong, Peggy Sample and members of York University's Association of Graduate History Students' Colloquium for their comments on an earlier version of this paper. A doctoral fellowship from the Social Sciences and Humanities Research Council supported the revision of the original research paper and is gratefully acknowledged.

1 Royal Commission on Railways and Transportation, *Report* (Ottawa, 1917), pp. liv-lxix.

2 W.H. Moore, *The Irresponsible Five: A New Family Compact* (Toronto, 1917), pp. 31-49. For a discussion of some of the values and symbols associated with the public ownership movement, see Christopher Armstrong and H.V. Nelles, "The rise of civic populism in Toronto, 1870-1920", in Victor L. Russell, ed., *Forging a Consensus: Historical Essays on Toronto* (Toronto, 1984), pp. 192-237.

3 John Eagle, "Sir Robert Borden and the Railway Problem in Canadian Politics, 1901-1920", PhD thesis, University of Toronto, 1973, pp. 315-61; W.T. Jackman, *Economics of Transportation* (Chicago, 1926), pp. 707-11; Leslie T. Fournier, *Railway Nationalization in Canada*

and Canadian Northern railways were at the centre of the "railway problem" that Drayton and Acworth sought to resolve, one railway which had been subject to direct Parliamentary control since its inception — the Intercolonial — was also placed under the new managing board. Thus Canada's original "People's Railway", as the Intercolonial was known, became part of the "trustees' railway".

During the past two decades, Canadians have begun to reassess the autonomy granted to crown corporations which was once thought to be essential to proper public management of enterprises. Governments and academics interested in crown corporations, have considered ways to re-establish Parliamentary control, or relinquish it altogether, in order to cope with the problems autonomy has created.[4] It therefore seems appropriate to reconsider one of Canada's earliest experiments in public enterprise, an experiment which preceded the creation of the somewhat autonomous crown corporations. The way in which successive governments coped with the challenges inherent in operating a railway which was under the direct control of Parliament, and the ultimate fate of the Intercolonial, provide important insights into Canada's public enterprise experience.

The Intercolonial Railway was originally constructed by the Dominion government to fulfill its commitment to the Maritime provinces as enshrined in section 145 of the British North America Act. Although no private company

(Toronto, 1935), pp. 69-73, 253-91; Garth Stevenson, "Canadian National Railways", in G. Bruce Doern and Allan Tupper, eds., *Public Corporations and Public Policy in Canada* (Montreal, 1981), pp. 319-51.

4 See, for example, Auditor General of Canada, *Report to the House of Commons for the Fiscal Year Ended March 31, 1976* (Ottawa, 1976); Royal Commission on Financial Management and Accountability, *Final Report* (Ottawa, 1979). For a good discussion of various proposals and a review of some of the literature on public enterprise, see G. Bruce Doern and Allan Tupper, "Public Corporations and Public Policy in Canada" in Doern and Tupper, eds., *Public Corporations*, pp. 269-366. This study of the Intercolonial Railway, like much of the literature by political scientists and policy analysts, focuses on the issue of control and accountability: see Lloyd D. Musolf, *Public Ownership and Responsibility: The Canadian Experience* (Cambridge, Mass., 1959); J.E. Hodgetts, "The Public Corporation in Canada", in W.G. Friedmann, ed., *The Public Corporation* (Toronto, 1954). There is another tradition, familiar to most historians, which examines the origins and extent of public enterprise, best exemplified in H.G.J. Aitken, "Defensive Expansionism: The State and Economic Growth in Canada", in W.T. Easterbrook and M.H. Watkins, *Approaches to Canadian Economic History* (Toronto, 1978). A more popular account of the Canadian public enterprise experience is that of Herschel Hardin, *A Nation Unaware: The Canadian Economic Culture* (Vancouver, 1974). Hardin's account contains two of the major flaws of the popular view of public enterprise in Canada: a tendency to exaggerate the unique extent of public ownership in this country and to assume that public ownership has made a significant difference to our national development. From an international or even commonwealth perspective, the public enterprise tradition in Canada seems neither remarkable nor particularly strong. While much more study of the actual operation of public enterprise is required, at least one recent study seriously challenges the notion that public ownership has made a significant difference: H.V. Nelles, *The Politics of Development: Forests, Mines and Hydro-Electric Power in Ontario, 1849-1941* (Toronto, 1974).

would undertake the project, the Intercolonial's public promoters were confident that the railway would be a commercial success in the long term. Halifax and Saint John would become "the Atlantic seaports of half a continent" and the economies of the communities along its route would be transformed.[5]

An exasperated Minister of Railways once exclaimed that had the Intercolonial enjoyed the good fortune of Ontario's public railway — "a few miles of road running into one of the richest mineral sections in the world" — all the mismanagement in the world would not have kept the line from paying.[6] Yet the managers of the Intercolonial faced operational difficulties which would have challenged any of their private counterparts. The circuitous route of the Intercolonial via the north shore of New Brunswick and through the Matapedia valley to Rivière-du-Loup placed it between "two devils and the deep blue sea".[7] The two devils were the Grand Trunk and, after 1890, the Canadian Pacific, which could offer shippers shorter routes to the Atlantic and which were more fully integrated into the North American railway network. The Intercolonial's route involved higher variable costs yet had to be maintained at rates competitive with the shorter lines. Because the public railway followed the shore line, it also faced competition between many stations along its route from coasting vessels and steamers.[8]

The Intercolonial had difficulty meeting this kind of rail and water competition while at the same time undertaking the intensive improvements required of all railways in the late 19th century. Between the completion of the railway in 1876 and the First World War, the tenfold increase in annual freight and passenger traffic required substantial expenditures on more powerful locomotives, larger and specialized freight cars, safety devices such as automatic couplers and air brakes, additional ballasting, stronger bridges and rails, larger terminal yards and other improvements. The financial dilemma facing the Intercolonial was reflected in its failure ever to pay a substantial return on its capital, or to meet its operating expenses in 19 of its first 40 years.[9] Critics of the public railway increasingly regarded it not as a public investment but as a sinkhole of

5 George Brown, quoted in R.G. Cowan, "A History of the Intercolonial and Prince Edward Island Railways of Canada", M.A. thesis, University of Toronto, 1918, pp. 19-20.

6 G.P. Graham to Wilfrid Laurier, 9 January 1909, Wilfrid Laurier Papers, Public Archives of Canada [PAC].

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

8 For a discussion of the economic impact of the Intercolonial's route see Cowan, "History of the Intercolonial", pp. 107-16.

9 David Pottinger to A.G. Blair, 24 February 1902, vol. 12435, Records of Canadian National Railways — Intercolonial Railway Company [RG30], PAC; Pottinger to Collingwood Schreiber, 5 May 1899, vol. 12431, RG30, PAC; Annual Report of the Department of Railways and Canals, *Sessional Papers* (1917), No. 20b. For a fine discussion of the technological demands and resulting financial problems facing North American railways in this period see Albro Martin, *Enterprise Denied* (New York, 1971), pp. 22-95.

public funds.[10]

The Intercolonial's critics had an arsenal of public information available to them. The Auditor General's report included a complete list of the amounts paid by the railway's managers for all materials and to all contractors. Additional information on improvements and on traffic was provided in the Annual Report of the Department of Railways and Canals. On request, the Intercolonial's managers also were expected to provide such items as lists of all the special rates in force on the railway, documents concerning the awarding of contracts, and internal correspondence concerning the making of rates, the dismissal of employees and the killing of livestock. The individual scrutiny of every capital expenditure and the annual statement on the Intercolonial's performance provided many opportunities in Parliament for public criticism of the administration of the government railway.[11]

Such opportunities for public scrutiny were complemented by a departmental structure which directly linked the railway's headquarters in Moncton to the Department of Railways in Ottawa and the responsible minister and other politicians. Two men played important roles in the management of the railway from 1879 until the early 20th century. David Pottinger, a fatherless boy brought up by his mother and maiden aunts in Pictou, began as a clerk on the Pictou Railway in 1863 and worked his way up to the position of General Storekeeper on the Intercolonial in 1874. He served as the railway's General Superintendent and General Manager between 1879 and 1913, dominating the Moncton headquarters for much of the period. Collingwood Schreiber was an English railway engineer who had come to Canada in 1852 and who had also worked, since 1863, on the Pictou and then on the Intercolonial Railway. As the Chief Engineer of Government Railways from 1879 to 1905, he supervised the Intercolonial's operations as well as other projects of the Department of Railways and Canals from his office in Ottawa.[12] Schreiber formally acted as a buffer between management, politicians and the responsible ministers. Pottinger was charged with operational responsibility, but also found it necessary to mediate the demands of conflicting politicians and shippers.

The appointment of Schreiber in 1879 was intended to ensure that control and management of the railway were directed from Ottawa and that the responsible

10 *Commons Debates, 1902*, 25 April 1902 (A.B. Ingram); *Debates, 1903*, 28 May 1903 (E.F. Clarke).

11 *Sessional Papers*: (1878), No. 21a-v; (1877), No. 49; (1888), No. 59a-f; (1898), Nos. 57, 78; (1907-08), Nos. 119,127, 205a-h. For examples of the kind of scrutiny and debate which occurred see *Commons Debates, 1903*, 16 October 1903 (Samuel Barker), *Debates, 1904*, 5 July 1904; *Debates, 1907*, 22 March 1907 (H.E. Emmerson); *Debates, 1909*, 16 March 1909 (G.P. Graham).

12 *Canadian Men and Women of Our Time* (Toronto, 1910); John Edward Belliveau, *The Monctonians, Vol. I* (Hantsport, N.S., 1981), p. 245.

minister approved all expenditures.[13] Pottinger forwarded formal weekly and monthly reports on traffic and earnings to the department and the Auditor General. Conscious of Ottawa's concern for the fiscal health of the railway, Pottinger often provided Schreiber with informal explanations for unusual changes or expectations in expenditures or revenues.[14] The result of this departmental management structure was a government enterprise which was both accountable and highly sensitive to its political masters.

Direct parliamentary responsibility created a set of challenges in the employment and rate-making practices of the public railway above and beyond the difficulties facing private railway managers. These challenges were complicated by the fact that despite the development of some administrative capacities, the 19th-century Canadian state largely served as an accepted instrument of party patronage. Passing through 18 constituencies and requiring the services of contractors, suppliers and labourers, the Intercolonial afforded numerous opportunities for rewarding the allegiance of government supporters. Of course, patronage was not a problem unique to the government railway. Private railways engaged in many of the practices for which the Intercolonial was criticized. While director of the Grand Trunk Railway, C.J. Brydges wrote to Hector Langevin: "I enclose you a list of all applications that we have received from the Province of Quebec...Will you mark it so that I may steer clear of all objectionable parties".[15] Six years later, now serving as superintendent of the Intercolonial, Brydges complained to Prime Minister Alexander Mackenzie of political interference in the hiring practices of the government railway![16] There was obviously a fine distinction to be made between patronage and political interference. Both the Intercolonial's public managers and their private counterparts were willing to fill vacancies with patronage appointments, so long as the applicant was not considered to be completely incompetent.

Pottinger and Schreiber quickly learned how to avoid contradictory instructions and prevent complaints concerning the treatment of those men who were hired. All nominees were appointed through the Department in Ottawa, while Pottinger kept track of their subsequent employment history.[17] While acquiescing in the matter of initial appointments, Pottinger objected to placing political

13 *Debates, 1880*, 23 April 1880 (Charles Tupper).

14 For examples of the kinds of reports and recommendations provided by Pottinger, see the following items in RG30, PAC: Pottinger to Schreiber: 18 September 1879, vol. 12200; 11 June 1885, vol. 12298; 3 March 1892, vol. 12308; Pottinger to A.G. Blair: 7 February 1903, vol. 12141; 4 January, 30 March 1890, vol. 12305; Pottinger to Department of Railways and Canals: 29, 30 March, 3 April 1902, vol. 12139.

15 Brydges to Langevin, 10 February 1869, quoted in Brian J. Young, *Promoters and Politicians* (Toronto, 1978), p. 75.

16 Brydges to Mackenzie, 20 May 1875, Alexander Mackenzie Papers, PAC.

17 Instructions to Station Managers, 13 August 1880, vol. 12467; Pottinger to Schreiber, 29 October 1881, vol. 12202, 4 January 1884, vol. 12295, RG30, PAC.

nominees in positions which should have been filled by promotions. He argued that such a practice undermined worker morale and deprived management of an important work incentive. During the 1880s, Pottinger won greater support for his recommendation that junior staff members be promoted and their vacated positions be then filled with political nominees.[18]

Pottinger also had taken strong exception to efforts by politicians to interfere in dismissals and other disciplinary actions. All dismissals had to be approved through Ottawa, with predictable results. Even after the ten days' notice was given, Pottinger complained to Schreiber, the men would "run over the country working up all possible political influence to retain them in their position".[19] In 1892, Minister of Railways John Graham Haggart attempted some decentralization of control over the railway and, in doing so, gave heads of all the railway departments and certain foremen the authority to discipline and dismiss men under their control for failure to perform their duties or for clear breaches of railway regulations.[20] This action strengthened Pottinger's ability to ward off politicians seeking to interfere in the personnel policies of the public railway.

Although he had little sympathy for railway labour unions, Pottinger found in them an ally in his efforts to control employment policy on the Intercolonial. In 1890, he explained to Shreiber that the trainmen's agreement, which established a formal scale of wages and regulated promotions by seniority, would reduce individual applications for promotions and increases in pay with which the Department was deluged. By 1908, 63 per cent of the railway's employees were governed by similar agreements.[21] Pottinger carefully respected these contracts, even during the early years of the patronage-starved Laurier administration. In 1897, he informed A.G. Blair, then Minister of Railways, that "seniority is what the employees ask should be considered provided the other circumstances are equal". On another occasion he refused to dismiss a telegraph operator at the insistence of a Liberal MP and on the request of the Prime Minister because it was contrary to the union contract.[22] Pottinger's defence against interfering politicians may help explain why only about 300 men out of a work force of more than 6,000 were dismissed for "political partisanship" or similar charges by

18 Pottinger to Schreiber, 8 April 1880, vol. 12200, RG30, PAC; Royal Commission on the Civil Service, Proceedings, *Sessional Papers* (1881), No. 113, p. 291; Pottinger to Schreiber, 25 November 1885, vol. 12299, 9 July 1890, vol. 12306, RG30, PAC.

19 Pottinger to Schreiber, 20 September 1884, vol. 12296, RG30, PAC.

20 Pottinger to Schreiber, 11 April 1892, vol. 12199, "Instructions", 6 April, 22 November 1892, vol. 12467, RG30, PAC.

21 Pottinger to Schreiber, 24 October 1890, vol. 12306; "Royal Commission on the Civil Service, Proceedings", *Sessional Papers* (1907-08), No. 29a, pp. 1198-99. Pottinger had criticized the government for allowing some Intercolonial workers to join union organizations: Pottinger to Schreiber, 20 March 1983, vol. 12294, RG30, PAC.

22 Pottinger to A.G. Blair, 21 January 1897, vol. 12134, 5 January 1900, vol. 12136, RG30, PAC.

special committees established by the Liberal Party after the election of 1896.[23]

As labour agreements eliminated much of the argument that inefficient "political" promotions were disrupting the operation of the government railway, critics increasingly focused on the idea that political pressures resulted in excessive staff on the railway. The *Railway and Marine World*, a railway journal perfectly willing to criticize the public railway, found little substance in these claims. Instead, it argued that the managers and senior officials of the railway were underpaid for the amount of work which they were expected to do.[24] Furthermore, in 1907 and 1908 the government attempted to refute charges of overstaffing by providing statistics comparing the number of workers per mile of line on various railways. In 1907, the Intercolonial employed fewer than six labourers for each mile of track while both the Grand Trunk and the Canadian Pacific utilized more than seven workers for each mile. In the following year as overall economic conditions deteriorated, the private railways reduced the number of men required to the public railway's figure. These statistics can also be adjusted to relate the railways' labour forces to the running of trains and the carriage of freight. In both years, fewer or an equal number of workers were employed on the Intercolonial than on the Canadian Pacific or Canadian Northern for the running of a train 1000 miles or for the carriage of one million tons of freight one mile. Of the railways, only the Grand Trunk used fewer employees relative to its train and freight carriage operations. While somewhat crude, these statistics challenge the argument that political interference resulted in a relatively larger work force on the Intercolonial than existed on the private railways.

Critics also argued that officials of the public railway were forced to purchase materials at inflated prices. However, while the award of purchasing contracts provided another opportunity for patronage, the challenge of dealing with such demands appears to have been reduced by the existence of formal rules. Announcements for tenders for larger articles, including railway ties, were made through poster and newspaper advertisements, and coal purchases were made on the basis of responses to circulars sent to all the mining companies along the railway. All contracts were awarded through the Department in Ottawa, except purchases of hardware which could be approved in Moncton. The lowest tender was accepted, except when the quality of the material or the time of delivery was deemed inadequate. To avoid disputes over quality, in the 1890s railway officials had items tested at the school of technology at McGill University.[25] These rules

23 Pottinger to L.K. Jones, Secretary, Department of Railways and Canals, 21 May 1900, vol. 12137, RG30, PAC. For the Liberals' approach to hiring see "Instructions to Station Managers", 15 August, 21 December 1896, vol. 12467, RG30, PAC; *Debates, 1896*, 18 September 1896 (A.G. Blair).

24 *Railway and Marine World* (Toronto), (December 1909), p. 127.

25 "Royal Commission on the Civil Service, Proceedings", *Sessional Papers* (1881), No. 113, p. 293; "Royal Commission on the Civil Service, Proceedings", *Sessional Papers* (1892), No. 16c, p. 325; Pottinger to M.J. Butler, 4 March 1909, vol. 12158, Pottinger to Schreiber, 9

Table One

Number of Workers on Canadian Railways, 1907 and 1908

	per mile	per 100 train-miles	per 1 million ton-miles
Intercolonial			
1907	5.72	1.2	8.6
1908	5.81	1.1	8.4
Canadian Pacific			
1907	7.39	2.0	11.1
1908	5.68	1.6	8.9
Grand Trunk			
1907	7.51	1.4	7.7
1908	5.52	.9	6.2
Canadian Northern			
1907	3.49	2.5	13.3
1908	2.58	1.6	8.4

Source: Calculated from *House of Commons Debates, 1909*, 8 March 1909; Railway Statistics, *Sessional Papers* (1907-8), No. 22b; *Sessional Papers* (1909), No. 22.

provided the management of the Intercolonial with greater freedom to resist the demands of politicians. When the Acting Minister of Railways indicated that he "wished" the contract for axles to be equally divided between two firms, Pottinger responded that because a third firm had the lowest offer and met the railway's specifications, the railway's management had no alternative but to award that company the contract. On another occasion, Pottinger was able to get a powerful government MP to agree to public tenders for the construction of a hay shed after the MP was shown that this was government policy and that the lowest offer of the 15 names he had submitted was 50 per cent above the engineer's estimate.[26]

The purchasing system established under Conservative administrations was somewhat altered after the 1896 election. The regulations for the purchase of ties, lumber, coal and larger items remained the same, but tenders for smaller

September 1885, vol. 12298, 23 July 1890, vol. 12306, RG30, PAC; *Debates, 1895*, 2 July 1895 (John G. Haggart).

26 Pottinger to Schreiber, 7 April 1886, vol. 12300, 20 August 1883, vol. 12294, 4 October, 24 November 1884, vol. 12296, RG30, PAC.

items were accepted in response to circulars which were sent only to persons recommended by Liberal MPs or defeated candidates.[27] However, Pottinger still insisted that the railway sought a price below the lowest tender and he remained alert to costly abuses. For example, in 1901 he stopped the award of a contract for tail lamps because there was something "evidently wrong" with the price.[28] Ultimately Pottinger succeeded in having the purchasing process restored to a less political footing in 1909.[29]

Statistics suggest that the managers of the public railway were able to prevent costly abuses in both labour and purchasing practices. As Table Two demonstrates, between 1882 and 1910 the Intercolonial spent between 10 cents and $1.25 less on both wages and materials per train-mile than did their private counterparts on the Canadian Pacific. From the 1890s onward, it cost the Grand Trunk just slightly less than the Intercolonial to run a train one mile. On the basis of this measure of efficient administration, the Intercolonial fares very well in a comparison with its private counterparts.

Table Two

Expenses per Train-Mile on Canadian Railways, 1882-1910

($)

	1882	1886	1890	1894	1898	1902	1906	1910
Intercolonial	.65	.62	.73	.71	.82	.92	1.02	1.34
Grand Trunk	.84	.78	.76	.69	.72	.93	1.02	1.16
Canadian Pacific	1.25	1.12	.84	.94	.83	1.11	1.31	1.44
Canadian Northern	-	-	-	-	-	1.30	1.22	1.50

Source: Calculated from Railway Statistics, *Sessional Papers* (1883-1911).

Over a period of 35 years the management of the Intercolonial had successfully grappled with the challenges posed by the railway's accountability within a political system dominated by patronage. Schreiber and Pottinger had asserted their right to limit the degree of political interference in the personnel and pur-

27 Pottinger to Schreiber, 3 February 1897, Pottinger to Blair, 26 January, 16 February 1897, vol. 12134, RG30, PAC.

28 "Royal Commission on the Civil Service, Proceedings", *Sessional Papers* (1907-08), No. 29a, pp. 1249-50; Pottinger to Blair, 27 December 1901, vol. 12139, RG30, PAC.

29 Pottinger to Schreiber, 15 June 1903, vol. 12142, Pottinger to M.J. Butler, 4 March 1909, vol. 12159, 16, 22 October 1909, vol. 12160, RG30, PAC.

chasing practices of the railway. With respect to labour practices, they had found themselves allied with labour unions interested in providing job security for their members. More importantly, they were supported by successive ministers who wanted to free themselves both from the trouble of providing unlimited patronage and from the political albatross of the Intercolonial's deficits. While accountability had created a unique set of problems, the railway had achieved a measure of efficiency which compared favourably with the record of privately operated railways.

As they were trying to minimize the costs of operation, the Intercolonial's managers were also trying to make ends meet by earning sufficient revenues. This aspect of the operation of a railway directly accountable to Parliament presented another challenge. Although the public railway could assist communities by creating railway jobs and awarding contracts, in the provision of transportation services the railway could powerfully affect the economic survival of communities along its route. For some communities, the railway provided the only access to markets; for others, it was one of several competing systems which could be played off against one another. Of all aspects of managing a railway, none was more fundamental or more confusing to the public than ratemaking.

During the 19th century, private railways developed the "value of service" principle, by which rates were based upon the demand for, and value of, an item. The shipper of an inexpensive bulk commodity such as coal or grain had to be charged a rate low enough to ensure it was worth sending over the railway. Railway officials also had to weigh the costs imposed by the bulk or special handling requirements of freight against the benefits to be gained by lowering the rate to meet competition. "Discrimination" occurred when one community where the railway faced competition was granted a lower rate than a nearby community where no competition existed, or when large shippers were granted rebates or special rates in recognition of their frequent use of the railway. Another form of "discrimination", the charging of relatively or even absolutely lower rates for longer hauls than shorter ones, resulted from the declining costs of carrying freight, and the need to maintain competitive charges over long distances. Such a confusing system, which created a web of agreements between shippers, localities and railways, did not bear any precise relationship to the cost of transporting a particular item of freight. The system was, therefore, quite vulnerable to criticisms based on the "principles" of fairness and equity.[30]

The Intercolonial's administrators were thrown into the complex system of ratemaking without any clear mandate as to how they should conduct business. Whatever views can be found in the statements of politicians concerning the development of interprovincial trade, it seems to have been assumed that such development would accompany the natural operation of the railway. Both Alex-

30 Martin, *Enterprise Denied*, pp. 37-45; Howard Darling, *The Politics of Freight Rates* (Toronto, 1980), pp. 20-23; Jackman, *Economics of Transportation*, pp. 93-404.

ander Mackenzie and Charles Tupper, the first two cabinet ministers responsible for the Intercolonial, set the tone for subsequent policy by emphasizing that the public railway had to be treated as a commercial enterprise. Tupper did not accept the proposition that the Intercolonial's object was to produce an interchange of commodities whatever the cost, although he was willing to concede that there might be a slight annual deficit in its operations. The government was, Charles Tupper explained, "prepared, wherever it was possible, to foster the trade or business of the country at as cheap a rate as they possibly could, without utterly disregarding the principles upon which a great work like [the Intercolonial] must run". It was clear from Tupper's comments that he was referring to the same basic business principles which guided the operation of privately-owned railways. Any attempts to have the railway adopt a special method of ratemaking, such as the use of a fixed mileage tariff, the equalization of long and short haul rates or even the outlawing of preferential rates, were rejected.[31]

Thus, the government railway's managers were left to determine rates on the most fundamental business principle — the self-interest of the railway. Like any railway, the Intercolonial had an interest in encouraging industrial and commercial growth in order to expand its traffic. As a result, sometimes the railway's traffic needs and the commercial aspirations of the Maritime communities neatly converged. Rebates were offered to manufacturers in Halifax and Saint John based on the amount of coal they had shipped over the railway. A similar rebate on flour was made to merchants in these two cities in order to meet water competition. Special rates were provided to businesses such as the Londonderry-based Steel Company of Canada, rates which Schreiber insisted should not be granted to others in the area.[32] However, there were limits to the accommodation offered by the railway, when its self-interest and the shippers' commercial aspirations diverged. The coal rebate was not extended to other regional manufacturers because it was established to meet water competition in the two major ports. Further reductions in the flour rebate were refused when the management was satisfied that the railway had captured as much traffic as it could. A special rate on raw sugar granted to the Moncton sugar refinery was cancelled when Pottinger became convinced that the firm was conducting a large portion of its business by water.[33]

Such an approach to the making of rates resulted in complaints of "discrimination". Testimony before the Royal Commission on Railways in 1886

31 *Debates, 1877*, 27 March 1877 (Alexander Mackenzie); *Debates, 1879*, 8 May 1879 (Charles Tupper, Alexander Mackenzie).

32 Pottinger to Schreiber, 5 September 1882, vol. 12202, 7 June 1881, vol. 12201, RG30, PAC; Schreiber to Macdonald, 23 July 1889, John A. Macdonald Papers, PAC. For a further discussion of grain rebates, see testimony of James Chipman and A. Curren, "Royal Commission on Railways, 1886-87, Evidence", vol. 46, series 3, RG2, PAC.

33 Pottinger to Blair, 24 February 1897, vol. 12134, Pottinger to Schreiber, 15 November 1881, vol. 12201, 1 October 1884, vol. 12296, RG30, PAC.

and 1887 revealed the way in which the Intercolonial's rates became the focus of conflicting metropolitan interests jealously seeking to establish and protect their advantages in the regional and national economy. Some Halifax merchants suspected that they were not enjoying the same kinds of rebates granted to Saint John businessmen. A Saint John businessman complained that the Intercolonial was largely operated in favour of Halifax and spent more on terminal facilities in the rival city. A representative of Cape Breton coal interests objected to the Intercolonial carrying the coal from the collieries on mainland Nova Scotia at an unremunerative rate. Several general merchants in Quebec City were upset that rates on flour and oil from Ontario were lower to Maritime points than to Quebec City. Two prominent Montreal sugar manufacturers charged that both the placing of raw and refined sugar in the same classification and the rates established for these items by the Intercolonial discriminated against their businesses. In a written response, Pottinger explained that not one of the "unsound" practices described to the commission differed from the ratemaking policies of other North American railways.[34]

Parliamentary accountability and direct ministerial control did provide shippers with additional leverage in seeking concessions from the public railway. John F. Stairs of Halifax, who combined powerful business and political influence, reminded one new Minister of Railways that there was an intimate connection between the success of the sugar refineries and that of the Conservative Party in Nova Scotia. He succeeded in having the westbound sugar rates reduced and maintained at a low level in the 1880s.[35] But although Pottinger frequently received instructions from Ottawa to grant certain shippers concessions, in the financial interests of the railway he would try to convince Schreiber to reconsider and modify the rate proposal. A typical case involved an order to reduce the rate on lumber for one firm in the Matapedia Valley. After explaining all the reasons why this request should not be granted, Pottinger recommended that they be offered a rebate on 40 carloads of freight only. If no individual rate concession was granted, he concluded, the firm might seek a general reduction in lumber rates for all merchants in the area. In this and other cases, the compromise offered by the Intercolonial's General Manager was accepted, producing complaints among shippers.[36] Throughout rate negotiations, Pottinger did not envisage any broad developmental role for the railway. As he explained in response to complaints from the Halifax Board of Trade,

34 Pottinger to Schreiber, 28 December 1887, vol. 12301, RG30, PAC; "Royal Commission on Railways, 1886-87, Evidence", vol. 46, series 3, RG2, PAC.

35 John F. Stairs to J.H. Pope, 10 September 1885, Macdonald Papers, PAC; T.W. Acheson, "The National Policy and the Industrialization of the Maritimes, 1880-1910", *Acadiensis*, I, 2 (Spring 1972), pp. 13-15. Continued pressure influenced a later decision not to effect an increase in the rates: Pottinger to Schreiber, 22 November, 3 December, 1888, vol. 12302, RG30, PAC.

36 Pottinger to Schreiber, 2, 19, 29 April 1884, vol. 12296. See also letters of 22 July 1881, vol. 12202, 25 October, 7 December 1880, vol. 12200, 30 May, 5 July 1883, vol. 12294, RG30, PAC.

"The Intercolonial Railway is looking after its own interests and has no desire to work against or for any particular place, but merely to take care of itself to the best advantage".[37]

Pottinger's attempt to increase the rate on coal in the late 1880s revealed the serious difficulties the railway faced in establishing a remunerative rate schedule. After recording a healthy surplus from 1880 to 1884, the Intercolonial suffered an increasing deficit, which reached $385,000 in 1886-87. In rêsponse to this situation, Pottinger prepared a lengthy memo on the coal trade, which by 1886-87 represented 37.9 per cent of all through freight as compared to 7.5 per cent in the final year of a surplus in 1884. He estimated that the railway lost $260 on each train of coal it carried. The special rate on coal originally had been granted to provide return freight in empty grain cars, he explained to Schreiber, but the grain trade had failed to develop. Noting 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...", Pottinger recommended an immediate 100 per cent increase in the rate to 0.6 cents per ton-mile.[38] Through extensive lobbying, the collieries had already succeeded in delaying an 1886 proposal to increase the rate to 0.5 cents until the end of 1888. The government then increased the rate to 0.4 cents per ton per mile. By March 1889, Schreiber ordered the rate returned to its original level of 0.3 cents per ton per mile.[39] This attempt to effect an increase in coal rates was part of a broader effort to increase rates in the late 1880s.[40] But in 1894 Pottinger pointed out that despite his efforts, there had been no significant change in local class rates, or in the through and local commodity rates on coal, grain or lumber. The freight tariff on grain for export had been increased, but went largely unnoticed because a fire had destroyed the elevator facilities in Halifax.[41]

The experience of the government and the railway's administrators revealed the difficulties in establishing a remunerative rate schedule. The stated intention of responsible ministers was that freight should not be carried at a rate significantly lower than that which the private railways had established. The low level of rates was not, as the Royal Commission on Maritime Claims would later romantically conclude, "to be interpreted as the fulfillment by successive governments of the policy and pledges that surrounded the railway from its in-

37 Pottinger to Schreiber, 10 May 1900, vol. 12137, RG30, PAC.

38 Pottinger to Schreiber, 27 March 1888, vol. 12301, RG30, PAC.

39 Clipping from *Canadian Mining Review* (February 1889), Macdonald Papers, PAC; Pottinger to Schreiber, 22 January 1889, vol. 12303, RG30, PAC; *Morning Herald* (Halifax), 5, 7, 16, 26, February 1889; Schreiber to Macdonald, 11 March 1889, Macdonald Papers, PAC.

40 Pottinger to Schreiber, 16 January 1889, vol. 12303, 25 February, 13 June 1890, vol. 12305, 23 August, 16 October 1890, vol. 12306, RG30, PAC; Saint John Board of Trade to Macdonald, 14 March 1890, Macdonald Papers, PAC.

41 Pottinger to Schreiber, 5 November 1894, vol. 12132, RG30, PAC.

ception".[42] Low "developmental" rates, if that is what one chooses to call them, were in part an unintended consequence of the railway's accountability. Direct political control made its management susceptible to the influence of powerful Maritime shippers. Ministers found that, unlike changes to personnel and other internal policies, changes to the rate structure created political difficulties greater than the risks of incurring operating deficits. Indeed, the emphasis on reducing the costs of patronage in the expenditures of the railway resulted from the difficulty in improving its earnings.

The significant increases in the costs of operating railways in the early 20th century placed politicians in a difficult position between those seeking rate concessions and those demanding that the Intercolonial meet its operating expenses. In 1903-04 and 1904-05 the Intercolonial experienced the worst deficits in its years of operation. H.R. Emmerson, a former New Brunswick premier who became Minister of Railways in 1904, initially indicated a stronger commitment than any of his predecessors to the notion that rates on the Intercolonial should never be increased. Yet within two years, Emmerson announced a 10 per cent increase on all freight rates and a substantial increase in passenger fares. The rate increase was routinely condemned by the Maritime Board of Trade, but the even distribution of the increase, Emmerson's prior consultation with industrial interests, and the extraordinary deficits of the previous two years muted opposition to the increase. Still, political pressure resulted in the partial exemption of the major cities on the Intercolonial from the increased rates.[43] Both Emmerson and his successor, George P. Graham, made use of an array of statistics and statements to overcome this kind of resistance to rate increases. They sought to

42 Royal Commission on Maritime Claims, *Report* (Ottawa, 1926). The historian of the Maritime Rights Movement, E.R. Forbes, does not accept this view either, but he does argue that the railway's self-interest and Maritime commercial aspirations converged in the creation of low rates. Such a view is difficult to accept, unless one believes there was a single Maritime interest, instead of several metropolitan and hundreds of individual industrial competitors within the region. For example, Cape Breton collieries and the Saint John *Telegraph* both supported the proposed increase on coal rates in the late 1880s: "Royal Commission on Railways, 1886-87, Evidence", vol. 46, series 3, RG2, PAC; "Advocating Sectional Interests", *Halifax Herald*, 12 February 1889. And Pottinger was concerned that the low rate structure was being maintained irrespective of the railway's traffic needs: Pottinger to Schreiber, 5 November 1894, vol. 12132, RG30, PAC. Leaning on the testimony of later generations, Forbes also emphasizes the importance of the management change in 1893 in giving local management greater autonomy in ratemaking, when Pottinger's title was changed to General Manager. My own reading of his letterbooks does not suggest that he gained any greater autonomy with the title. Before and after that date, Ottawa continued to be involved in the ratemaking process because shippers tried to bargain through all possible sources, including Ottawa, Moncton and the railway's freight agent. See 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, 1980), p. 61.

43 See H.R. Emmerson's speeches in *Debates, 1904*, 4 July 1904, *Debates, 1905*, 14 June, 9 March 1905, *Debates, 1906*, 11 June 1906; E. Tiffin to A.W. Campbell, 30 August 1910, vol. 62, G.P. Graham Papers, PAC; *Canadian Annual Review, 1906*, pp. 595, 110-13.

illustrate that the poor financial record of the Intercolonial was attributable, in part, to what had become an inadvertent policy choice of maintaining a low rate structure. Their statements countered the general insistence of shippers and communities that the rates were not low in relation to the costs of operating the railway.

The Intercolonial's political and bureaucratic administrators, concerned with the financial health of the railway, thus struggled to broaden support for necessary changes in the rates. Emmerson had attempted to make the railway's users aware of the need to balance their interest in low rates with their interest in the continued well-being of the railway. Graham was engaged in a similar process, although his intention to advance the rates was interrupted by the election of 1911.[44] These activities represented a recognition that the making of rates on the public railway was somewhat different than on private railways. Because rates were so important to the communities served by the railways, the process of ratemaking could not be removed from the political realm. While accountability created unique difficulties for the administrators of the public railway, they did succeed in making progress towards the establishment of an economic rate structure. As ministers and managers were coming to terms with the difficulties posed by direct political accountability, a broader debate on government management of the Intercolonial was also taking place. Ultimately, this debate produced a solution which significantly altered the terms of the railway's political accountability.

Ontario MPs and newspaper editors provided a traditional source of criticism of the Intercolonial. Often focusing on its growing capital account, these men protested that the people of Ontario and the people of Canada would not tolerate such an enormous annual government expenditure in the Maritime Provinces. They argued that the deficits resulted from the low productivity, overstaffing and disorganization of the government railway and these problems were attributed to the fact that "the dominant idea in the management is not business, but politics".[45] Samuel Barker, a Hamilton politician and experienced railway manager, accurately summarized the solution offered by Ontario critics: "We say: give the staff of the Intercolonial the same freedom, the same opportunities that are enjoyed by the staffs of the GTR and the CPR and under proper management freed from political interference and officialism the results would be very different from what they are and what they have been".[46]

44 *Debates, 1906*, 11 June 1906 (H.R.Emmerson); for G.P. Graham, see: *Debates, 1909*, 16 March 1909, *Debates, 1910*, 1 February 1910, *Debates, 1911*, 20 March 1911.

45 Editorial in Toronto *Globe*, cited in *Canadian Annual Review, 1905*, p. 192.

46 *Debates, 1905*, 2 March 1905 (Samuel Barker). For other examples of Ontario critics see: *Debates, 1905*, 11 July 1905 (E. Blake); *Debates, 1891*, 12 August 1891, *Debates, 1892*, 12 May 1892 (David Mills); *Debates, 1900*, 16 July 1900, *Debates, 1903*, 1, 16 October 1903 (T. Sproule); *Debates, 1902*, 25 April 1902, *Debates, 1904*, 6 July 1904, *Debates, 1905*, 2 March 1905 (A.B. Ingram).

Montreal and western interests joined Ontario in their jealousy of the privileges afforded to Maritime shippers by the Intercolonial. The low rate structure was said to benefit sectional interests at the expense of the entire community. In 1909 the Montreal Board of Trade actively took up the idea that the government railway should be subject to the decisions of the Board of Railway Commissioners. Its members argued that such an action would end discrimination favouring the Maritimes over Montreal shippers, as well as the railway's practice of setting undisclosed secret rates and the injustice of having the regulated Canadian Pacific competing with the unregulated Intercolonial Railway to Saint John. In 1917 they were joined by a western MP and CPR lawyer, R.B. Bennett, who argued that because political considerations governed ratemaking on the public railway, passenger and freight rates were 25 to 78 per cent lower than western rates.[47]

In 1902 Minister of Railways A.G. Blair pointed out to his cabinet colleagues that Ontario remained the "storm centre" of all opposition to the Intercolonial. He recommended that the government railway system be extended through Ontario by the acquisition of the Canada Atlantic Railway. Such an action, he argued, would stop the Intercolonial from being a subject of partisan controversy in Ontario, in the same way as it had ceased to be an issue in Maritime politics.[48] Yet Blair underestimated, or preferred to overlook, the degree of controversy which existed in the Maritimes concerning the Intercolonial's operations. The first extensive parliamentary debate concerning the management of the government railway was initiated in 1891 by Charles W. Weldon, a Liberal, from Saint John. He agreed with the general view that direct political management was inherently wasteful and inefficient. Weldon argued that Canada should follow the example of the British colony of Victoria in Australia, which seemed to have corrected the abuses of government management by the appointment of three non-political commissioners. This proposition was supported by a number of Maritime politicians from both political parties. As an alternative, Josiah Wood, a one-time railway promoter with extensive manufacturing interests in Moncton, suggested that the railway from Lévis to Moncton be leased to the Grand Trunk and the remaining section of the railway be shared by that railway and the Canadian Pacific.[49]

47 Montreal Board of Trade to G.P. Graham, 27 February 1909, Vol. III, G.P. Graham Papers, PAC; Montreal Board of Trade, *Annual Report, 1909*, pp. 21-22, *Annual Report 1911*, pp. 21-2; E.R Forbes, "Never the Twain did Meet: Prairie-Maritime Relations, 1910-27", *Canadian Historical Review*, LIX, 1 (March 1978), pp. 23-4. Samuel Barker had suggested that the Intercolonial be placed under the jurisdiction of the BRC at the time of the commission's creation: *Debates, 1903*, 27, 28 May 1903.

48 "Memorandum from Blair", 10 December 1902, *Laurier Papers*, PAC.

49 See C.W. Weldon (Liberal), J.D. Hazen (Conservative), D.C. Fraser (Liberal), E. McLeod (Conservative), J. Wood (Conservative) in *Debates, 1891*, 12 August 1891. For Wood's railway promotion and business interests, see Dean Jobb, "The Politics of the New Brunswick and Prince Edward Railway Company", *Acadiensis*, XIII, 2 (Spring 1984), pp. 69-90.

Variations of these two proposals circulated in the Maritimes for the next 25 years. Anti-Intercolonial sentiment was particularly strong among the business community in Halifax, jealous of the advantages they felt were enjoyed in Saint John which was served by both the Intercolonial and Canadian Pacific. Despite the substantial economic and industrial growth enjoyed by their city, the Halifax Board of Trade pressed the government to alter the management of the public railway in reaction to their city's relative decline in both the Maritime and national economies.[50] By 1908, the board had convinced three-quarters of the membership of the Maritime Board of Trade to adopt a proposal recommending the leasing of the government railway to the CPR. Saint John, Moncton and Prince Edward Island delegates were the notable dissenters.[51]

The debate over these proposals often focused on the failure of the Intercolonial to fulfill the promise of development associated with railways. An unsigned memo to Prime Minister Wilfrid Laurier on the subject pointed out that in casting about for the causes of the Maritimes' failure to share in the economic boom, "leading men" looked to the fact that the region had never enjoyed fair play in the matter of railway transportation. The memo noted that the Canadian Pacific Railway had the advantage of steamers operating on both oceans, and rails penetrating into the heart of Canada. In 1910 J. Burpee Black, the Liberal MP for Hants, supported his motion that the Intercolonial should be controlled by one of the private transcontinental railways, by arguing that the public railway was unable to engage in the industrial promotion and hotel construction policies of commercial railways such as the CPR. None of the Maritime supporters of these proposals seemed concerned about freight rates; some thought rates would actually be reduced because the railway would be less costly to operate.[52]

Proposals to change the management of the public railway united a diverse group of interests. Critics of government management were motivated by jealousy of the benefits enjoyed by Maritime shippers, by concern over increasing public expenditures on the railway, by partisan desires to highlight an administration's overall incompetence, by disillusionment with the Intercolonial's ability to transform the Maritime economy, or by a sincere belief in the need to rid politics of the "spoils system". Whatever the motive, all the proposals shared the conviction that there was an inherent conflict between business practices and politics. In this view, efficient operation of the railway, whether it

50 L.D. McCann, "Staples and the New Industrialism in the Growth of Post-Confederation Halifax", *Acadiensis*, VIII, 2 (Spring 1979), pp. 60-61; D.A. Sutherland, "The Personnel and Policies of the Halifax Board of Trade, 1890-1914", Lewis R. Fischer and Eric W. Sager, eds., *The Enterprising Canadians* (St. John's, 1974), pp. 205, 210-11, 215.

51 *Canadian Annual Review, 1901*, p. 420; *Canadian Annual Review, 1902*, p. 215; *Canadian Annual Review, 1908*, p. 141.

52 "Unsigned Memorandum re: Intercolonial, No Date", Laurier Papers, PAC; *Debates, 1910*, 24 January 1910 (J.B. Black, S.W. Pickup).

meant changes to the rate structure, the elimination of patronage, or the building of hotels, required that the management be freed from the constraints of direct political accountability. As the editor of *Railway and Marine World* noted, "Many think that the divorcement of the Government Railways from politics and the millenium will be contemporaneous".[53] Such an outlook saw accountability not so much as a necessary evil but as the source of all the railway's difficulties. Thus, political responsibility would have to be restricted or eliminated to ensure the Intercolonial's success. In order to give the public railway a business administration, Conservative leader Robert Borden explained to CPR President Thomas Shaughnessy in 1905, "There may be some departure from what is called the principles of responsible government".[54]

Disturbed by the various criticisms of the railway which were emerging, the Laurier administration made a genuine effort to alter the management structure of the Intercolonial. The new Minister of Railways after the 1908 election, George P. Graham, was overwhelmed and disturbed by the multitude of administrative detail which was routinely referred to his office. Matthew J. Butler, who since his appointment as deputy minister in 1905 had earned the respect of the prime minister and members of the Opposition, wanted to reduce expenditure and alter traditional management policies. At the same time as members of the Laurier government appear to have been negotiating the sale of the Intercolonial to the Canadian Northern, Graham and Butler devised another solution.[55] They created a "Board of Management" to replace the General Manager in Moncton. The four-member managing board included the deputy minister, Pottinger, the Intercolonial's traffic manager and a former superintendent on the CPR. The board was responsible for such matters as organizing the staff, setting the conditions of employment, purchasing supplies and establishing appropriate rate schedules. The deputy minister would attend monthly meetings in order to receive reports and relay questions of policy to the minister.[56] This new structure was designed to free the management from undue political influence, while maintaining supervision and ultimate control over the railway for Ottawa.

Butler quickly set out to prove the value of this new system. In the seven months after its creation, the board dismissed 503 employees, one-fifth of them from the Halifax shops, which the board had decided to close. Pottinger later questioned whether the centralization of the mechanical shops which led to the

53 *Railway and Marine World* (June 1909), p. 405.

54 Borden to T. Shaughnessy, 18 December 1905, Robert Borden Papers, PAC.

55 J.P. Whitney to E.C. Whitney, 14 January 1909, J.P. Whitney Papers, Public Archives of Ontario; *Railway and Marine World* (February 1909), p. 92.

56 M.J. Butler to Graham, 2 May 1908, vol. 9; November 1908, vol. 11, Graham Papers, PAC; Butler to Laurier, 25 November 1908, Graham to Laurier, 9 January 1909, Laurier Papers, PAC; P.C. 825, 20 April 1909, vol. 721, Series 1, Orders in Council, RG2, Privy Council Office Records [RG2], PAC.

closure in Halifax, resulted in any real savings. Work which otherwise might have been done at various points along the line, now had to be carried to a central shop. The board also encouraged the application of scientific management techniques in the shops.[57] Graham defended the activities of the board both publicly and privately. He admonished the prime minister on one occasion for taking an action he feared would undermine the board's authority. The board, he explained, had rid him of many of the troubles of the railway, such as labour difficulties, appointments, salaries and patronage.[58]

Graham's management "experiment", as he liked to call it, restricted political influence over some of the detailed operations of the public railway but left ultimate control and policy with the government. However, the "experiment" did not survive the defeat of the Laurier administration in 1911. Prime Minister Robert Borden combined Haligonian discontent over the operation of the Intercolonial with a broader interest in the public ownership movement. As early as 1904, Borden had proposed that the railway be operated by a non-partisan commission.[59] Before implementing such a reform, however, the new Conservative government attempted a "purge" of the railway. Even more than the Liberals in 1896, the Conservatives found their patronage opportunities circumscribed by the regulations and agreements governing the Intercolonial's employees. Ironically, an administration which publicly condemned the spoils system as evil, found its own partisan designs restricted by practices which had been developed to prevent excessive patronage.[60] Then in 1913, the new Minister of Railways, Frank Cochrane, announced that the Board of Management was to be replaced not by a non-partisan commission but by a single new General Manager. The government apparently felt that a commission would too closely resemble the existing board and preferred to be seen as reverting to the traditional management structure of the railway.[61] Frederick Passmore Gutelius, a Pennsylvania engineer who had served on the CPR since 1898, was to be appointed for a minimum of two years at an annual salary of $20,000, three times what Pottinger had received. Gutelius was given all the powers which had been vested in the Board of Management. However, except for an annual report, he was not re-

57 Butler to Graham, 4 September 1909, 30 October 1909, 27 January 1910, vol. 13, Graham Papers, PAC; Pottinger to L.K. Jones, 15, 16 November 1909, vol. 12160, Pottinger to Frank Cochrane, 21 February 1912, vol. 12163, RG30, PAC.

58 Graham to Laurier, 23 May 1910, Laurier Papers, PAC; see Graham in *Debates, 1910*, 1 February 1910, *Debates, 1911*, 10 March 1911.

59 John English, *The Decline of Politics* (Toronto, 1977), pp. 34-5.

60 Robert Craig Brown, *Robert Laird Borden, vol. 1* (Toronto, 1975), pp. 209-10; Pottinger to L.K. Jones, 26 December 1911, vol. 12163, RG30, PAC.

61 J.D. Reid (Acting Minister of Railways and Canals) indicated that the government was reverting to the traditional management structure of the Intercolonial: *Debates, 1914*, 24 March 1914.

quired to provide regular information or reports to Ottawa.[62]

The autonomy enjoyed by Gutelius extended beyond the operational details of the government railway. Shortly after his appointment, the CPR announced that it would be making Halifax its winter port, having reached an agreement concerning running rights over the Intercolonial. When the Saint John Board of Trade protested to the government, it was told that such an arrangement was the result of discussions between officials of the two railways. Gutelius had made the arrangement, which had always been controversial in the past, without consulting anyone.[63] The arrangement with the CPR had important implications for the communities served by the Intercolonial, yet the government had played no role in the negotiations and simply expressed its confidence that Gutelius was acting in the best interests of the railway. This new form of managerial autonomy, intended to ensure "businesslike management", limited the ability of the communities served by the railway to hold the government accountable for critical policy decisions.

The government was unable to protect Gutelius from political interference when he announced increases in the Intercolonial's rates. The furore over the rate increases exacerbated the controversy surrounding the government's new approach to management. As a result, the government requested that the Intercolonial's new General Manager negotiate with the aggrieved shippers. Over the following months, a number of concessions were granted, particularly the postponement of various increases.[64] To insulate the government and the public railway's administrators against this kind of controversy, it was announced in 1917 that the Intercolonial would in the future be subject to the regulatory decisions of the Board of Railway Commissioners. Cochrane emphasized that this would free the management from political interference. He also hoped that the board would approve a rate structure which would meet the spiralling wartime operating costs. Although not yet formally sanctioned by legislation, in March 1918 the Intercolonial adopted the 15 per cent increase that the Board of Railway Commissioners had awarded the private railways.[65] The problems created by direct accountability for the most fundamental policy of the government railway, its rates, were thus resolved by the elimination of that accountability.

62 *Debates, 1915*, 25 March 1915 (F. Cochrane); *Railway and Marine World* (April 1913), p. 162; *ibid.* (June 1913), p. 272; P.C. 1031, 5 May 1913, vol. 810, Series 1, RG2, PAC.

63 *Canadian Annual Review, 1913*, pp. 230, 512, 693; Cowan, "A History of the Intercolonial", pp. 130-1. For previous negotiations with the CPR, see Pottinger to Schreiber, 7 October, 20 November, 9 December 1889, vol. 12304, RG30, PAC; Blair to Laurier, 5 June 1901, Laurier Papers, PAC.

64 *Canadian Annual Review* (Toronto, 1913), pp. 230, 693; *Railway and Marine World* (July 1913), p. 316; Maritime Board of Trade to Borden, 2 September 1913, Borden Papers, PAC.

65 *Debates, 1917*, 10 June, 9 August 1917 (F. Cochrane); *Debates, 1917*, 10, 11 August 1917 (Debate on Government Railways Amendment Act 1917); *Debates, 1918*, 17 May 1918 (J.D. Reid).

In the same year as the government relinquished direct responsibility for the rate structure of the Intercolonial, Henry Drayton and W.M. Acworth offered their solution to the general railway problem in Canada. Their views on the Intercolonial converged with those ideas which had been circulating among critics of the railway for decades. Without studying the specific problems of the Intercolonial and its particular experience, the commissioners concluded that the public railway had been mismanaged, that it was a sinkhole of public funds, and that it had contributed to the slow growth of the Maritimes. They regarded all of these failures as the result of one cause — direct parliamentary control. The cure was to entrust the railway to a board of trustees who would not be accountable to the railway's political owners.[66]

The spirit of these recommendations guided the Borden administration in its subsequent actions. In November 1918 responsibility for the Intercolonial and other government railways was transferred to the board of prominent businessmen and financiers who had been appointed by the government to supervise the Canadian Northern's operations. The management structure of what became Canadian National Railways reflected what Borden had felt was the necessary departure from "the principles of responsible government". Although the cabinet retained a far greater degree of power than the Royal Commission had recommended, Parliament no longer had as much access to detailed information concerning the railway's operation, nor did it have an opportunity to scrutinize the railway's financial practices during the annual presentation of the estimates. Those who were dissatisfied with the management's corporate policies and strategies no longer enjoyed direct access to its management through politicians.[67] All of those characteristics which had made the Intercolonial a distinctive public enterprise had been sacrificed in the belief that they were obstacles to its efficient operation.

The ultimate fate of the Intercolonial Railway cannot be understood, as Canadian National Railways historian G.R. Stevens would have it, as an inevitable reaction to a "horrible example" of public ownership and a long history of political patronage and corruption.[68] During its 40-year history, administrators had struggled with the unique managerial challenges posed by direct parliamentary accountability. By the early 20th century, the railway's managers had made considerable breakthroughs in restricting political interference in the internal policies of the railway. They were operating a comparatively efficient railway and were continuing to adjust to the problems posed by direct political accountability. They could look to support from governments wishing to ensure an adequate performance by the railway and wishing to rid themselves of petty

66 Royal Commission on Railways and Transportation, *Report* (Ottawa, 1917), pp. liv-lxix.

67 Eagle, "Sir Robert Borden and the Railway Problem", pp. 513-529; P.C. 2854, 20 November 1918, vol. 959, series 1, RG2, PAC.

68 G.R.Stevens, *Canadian National Railways, Volume One* (Toronto, 1960), chapter VI.

demands for patronage. The challenge posed by the establishment of a remunerative rate structure had not been resolved, for administrators had learned that this issue was so fundamental to the communities served by the railway that it could not be treated as anything less than a government policy. The Maritime Rights movement would later demonstrate to the government, with a vengeance, that freight rates never could be removed completely from politics. Indeed, frustration with the lack of accountability of the Board of Railway Commissioners provoked the development of a rigid attitude towards freight rates among Maritime businessmen during the 1920s.[69]

Nor can the ultimate fate of the Intercolonial be understood as simply the result of the dominance of any regional interest in federal politics, despite what Maritime leaders would claim in the 1920s and despite what their historian has accepted in the 1970s.[70] Such an interpretation suggests a degree of unanimity and cohesion in the attitudes of Maritime leaders over the issue of the Intercolonial which hardly existed prior to the 1920s. Indeed, as has been demonstrated, some significant Maritime politicians and businessmen supported a greater degree of business management in the operation of the Intercolonial, whether through the leasing of the government railway to a private corporation or through the establishment of an independent commission. Robert Borden was not an anomaly in the Maritimes.[71] These leaders believed business management would enable the railway to fulfill its developmental promise, without disrupting its level of service. Those who supported leasing the railway to the CPR or GTR were confident that they would gain, not lose, from integration into a larger national railway, and that their rate structure would survive intact. Giving the Intercolonial a "businesslike management" became a panacea to resolve their more fundamental disillusionment with the pace of Maritime development.

Any understanding of the ultimate fate of the Intercolonial must acknowledge the significance of the conviction shared by diverse interests that business management could not be reconciled with political responsibility. Because the Intercolonial began operating as a thoroughly accountable public institution, it created peculiar and complex problems for its political and bureaucratic administrators. To improve the efficiency of the railway, they sought to restrict some of those elements of responsibility. Their frustration in having to cope with these problems, and the impatience of other interests concerned with the performance of the railway, led to the extreme conclusion that accountability was an intractable problem. The solution arrived at was to severely restrict the responsibility of the railway through the creation of an autonomous government agency. "Businesslike management" was achieved by sacrificing political account-

69 Darling, *The Politics of Freight Rates*, pp. 92-114. For a broad discussion of the issue see E.R. Forbes, *The Maritime Rights Movement, 1919-27* (Montreal, 1979).

70 E.R.Forbes, "Misguided Symmetry", pp. 60-86.

71 *Ibid.*, p. 83, n.18.

ability.

In the end, the "People's Railway" was transformed into something very closely resembling Drayton and Acworth's "trustees' railway". This transformation turned the challenge of public enterprise upside down. A public railway, which initially was hampered by too much accountability, became an enterprise over which governments lost control. The ideology which pitted business management against political accountability postponed the necessary reconciliation of the two and inhibited the evolution of a more responsible public enterprise structure in Canada.