

## A Defensive Alliance: The Maritime Provinces and the Turgeon Commission on Transportation, 1948-1951

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### Article abstract

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# A Defensive Alliance: The Maritime Provinces and the Turgeon Commission on Transportation, 1948-1951

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*Les tarifs de transport des marchandises par chemin de fer amorcèrent une montée en flèche en 1948, alors que la Commission des transports du Canada approuva une série de hausses demandées par les sociétés ferroviaires canadiennes. Les hausses de tarifs ébranlèrent le système de subventions régionales, vieux de 20 ans, qui avait pour but de compenser les inconvénients que leur éloignement représentait pour les expéditeurs de l'extérieur du Canada central. Les premiers ministres des provinces éloignées s'unirent pour protester, réclamant une solution politique à un problème économique structurel. Ottawa nomma une commission royale pour étudier la question, mais celle-ci s'avéra sans effet. L'unité des provinces était superficielle, et les dirigeants des Maritimes ne purent s'entendre sur un seul plan global. La commission recommanda qu'il n'y ait aucune intervention substantielle de l'État dans le système canadien des transports et permit aux forces du marché d'accélérer la centralisation de cette industrie au Canada.*

*Railway freight rates began a sharp upward spiral in 1948 as the Board of Transport Commissioners of Canada approved a series of applications for increases made by Canada's railway companies. The increases undermined the 20-year-old system of regional subsidies, intended to offset the disadvantages faced by long-distance shippers outside Central Canada. The premiers of the outlying provinces united in protest, calling for a political solution to a structural economic problem. Ottawa appointed a royal commission to investigate transportation, but the commission proved ineffectual. The unity of the provinces was superficial, and Maritime leaders could not agree on a single, comprehensive plan. The commission recommended no substantial state intervention in Canada's transportation system and allowed market forces to accelerate the centralization of industry in Canada.*

IN 1948, JUST AS THE ECONOMY of the Maritime Provinces was making an uncertain transition from wartime to peacetime production following the Second World War, the Board of Transport Commissioners increased freight rates sharply. Shippers had anticipated an increase, but the abrupt hike threatened to put the region's standard of living, already well below the national average, even farther behind the rest of the country. The national railway regulatory board seemed indifferent to the economic consequences to the outlying regions of the sudden jump in rates; the federal government called the increases appropriate and was reluctant to provide relief either by statute or by subsidy from the federal treasury. Maritime provincial

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governments joined with their Western counterparts to lobby Ottawa for a reduction of the freight rate increase and poured resources into the Transportation Commission of the Maritime Board of Trade to make a case for a regionally sensitive transportation policy. There were even hints of a political rebellion over the issue, but to little avail.

This article offers a sequel to E.R. Forbes's analysis of the Maritime Rights Movement of the 1920s.<sup>1</sup> While the earlier protest movement had secured some concessions to regional concerns, there was always the threat that those concessions could be eroded or swept away. This was the situation that faced the Maritime premiers as they tried to mobilize their scarce resources to address the needs of their lagging economies in the post-war period.

Much had changed in the more than 20 years since Maritime voters had responded to the calls of their business and political leaders to unite in protest of national policies – most notably centrally determined freight rates – that seemed to doom the region to perpetual underdevelopment. During the Depression and the Second World War, the powers and resources of the federal government had been dramatically expanded and its senior bureaucrats had accepted some of the principles of Keynesian economic management.<sup>2</sup> Newfoundland and Labrador joined Confederation in 1949, adding another voice to the regional perspective.<sup>3</sup> In this period, too, regional identities seemed to have weakened, as the war and the spread of mass communication had helped to foster a stronger sense of nationalism. Perhaps most importantly, motor trucks traveling on paved highways were challenging the monopoly of rail. At least one observer has argued that the political response to post-war freight rate increases was a reflexive “ideology” out of sync with the new realities of transportation.<sup>4</sup>

There were, of course, similarities in the political campaigns against higher freight rates. As in the 1920s, the region's political leaders and the Maritime Board of Trade

1 E.R. Forbes, *The Maritime Rights Movement, 1919-1927: A Study in Canadian Regionalism* (Montreal, 1979). See also Forbes, “Misguided Symmetry: The Destruction of Regional Transportation Policy for the Maritimes,” in David Jay Bercuson, ed., *Canada and the Burden of Unity* (Toronto, 1977), pp. 60-86. This paper is drawn from research conducted for a post-doctoral fellowship funded by Dr. Margaret Conrad's Canada Research Chair in Atlantic Canada Studies at the University of New Brunswick (Fredericton). A version of this paper was presented at the Atlantic Canada Studies Conference in Fredericton in May 2005. I would very much like to thank those present and especially Professor Conrad and the three anonymous readers for *Acadiensis* for their insightful comments.

2 Ottawa's mandarins had embraced some of J.M. Keynes' theories, but economist J.A. Corry argued that they failed to adapt these principles to a regionally diversified Canadian economy. See T. Stephen Henderson, *Angus L. Macdonald: A Provincial Liberal* (University of Toronto Press, forthcoming). Instead, Janine Brodie writes, Ottawa focused “on promoting aggregate economic growth”, trusting that a rising tide would raise all boats. See Janine Brodie, *The Political Economy of Canadian Regionalism* (Toronto, 1990), pp. 155-6.

3 This paper does not discuss Newfoundland and Labrador, as the transportation concerns of Canada's newest province differed substantially from those of the Maritime Provinces. For Newfoundland and Labrador's position before the Royal Commission on Transportation, see P. J. Lewis to Frank Covert, 13 August 1949, Papers of the Royal Commission on Transportation (Turgeon Papers), RG 33, series 27, vol. 64, Library and Archives of Canada (LAC). Lewis was lead counsel for Newfoundland and Covert was counsel for the commission.

4 Howard Darling, *The Politics of Freight Rates* (Toronto, 1979). Darling views existing market forces as “natural” and is quite critical of attempts to promote “artificial” regional development.

spoke on behalf of manufacturers and primary producers, rarely mentioning workers or consumers. They again sought redress of regional disparity by citing Ottawa's contractual obligations to fund subsidized freight rates for the region. And, once more, the Maritime provincial governments were moved to cooperate closely, albeit imperfectly. They had not coordinated their positions in constitutional talks in the 1930s, in their presentations to the Royal Commission on Dominion-Provincial Relations or in negotiations with Ottawa on the post-war tax rental agreements.<sup>5</sup> Traditionally, each province jealously guarded its right of independent action and intraregional rivalry coloured local political rhetoric.<sup>6</sup> Nevertheless, the three governments had long seen freight rates as a regional issue and worthy of a collaborative approach.

In their efforts to persuade the federal government to change its views on post-war transportation policy, the three Maritime governments were prepared to sing from the same hymnbook but not always from the same page. The provinces took different and sometimes contradictory positions on transportation, at least once with embarrassing results when one of New Brunswick's proposals was rejected publicly by Nova Scotia, Prince Edward Island and several of its own manufacturers. Only Prince Edward Island's representatives allowed themselves to imagine a solution outside the bounds of a liberal economic order. By the late 1940s, liberals generally accepted that the state should influence the economy indirectly, attempting to foster equal economic opportunities for its citizens. Prince Edward Island's proposal to nationalize Canada's railways for use as instruments of regional economic development went beyond good liberal theory as it undermined "natural" market forces, even though H.A. Innis – one of Canada's most respected scholars and a member of the inquiry into transportation – believed that those forces were threatening the economic and political health of the Canadian federation.

### Background

A cursory glance at the literature on freight rates indicates the overwhelming complexity of railway transportation in Canada.<sup>7</sup> Rates were based on the "value of service" principle – what the market would bear to ship a certain commodity – rather than a "cost of service" principle. Indeed, a multitude of factors made it almost impossible to calculate how much it cost a railway company to ship a ton of flour 100 miles. Freight rates had been a concern since the dawn of the railway era, and their seeming arbitrariness contributed to the image of railways as dangerous monopolies

5 T. Stephen Henderson, "A New Federal Vision: Nova Scotia and the Rowell-Sirois Report, 1938-1948", in Dimitry Anastakis and Penny Bryden, eds., *People, Provinces, and Power: Federalism in Canada: Essays in Honour of John T. Saywell* (forthcoming).

6 Forbes, *Maritime Rights*, pp. 1-12.

7 See, for example, G.P. de T. Glazebrook, *A History of Transportation in Canada, Vol. II* (1938; Toronto, 1964); Darling, *Politics of Freight Rates*; Ken Cruikshank, *Close Ties: Railways, Government, and the Board of Railway Commissioners, 1851-1933* (Montreal, 1991); Ken Cruikshank, "The People's Railway: The Intercolonial Railway and the Canadian Public Enterprise", *Acadiensis*, XVI, 1 (Autumn 1986), pp. 78-100; Forbes, "Misguided Symmetry"; E.R. Forbes, "The Intercolonial Railway and the Decline of the Maritime Provinces Revisited", *Acadiensis*, XXIV, 1 (Autumn 1994), pp. 3-26 and Ken Cruikshank, "With Apologies to James: A Response to E.R. Forbes", *Acadiensis*, XXIV, 1 (Autumn 1994), pp. 26-34.

that, by the 20th century, made regulation a politically palatable option.<sup>8</sup> In 1903 the Laurier Liberals created the Board of Railway Commissioners – renamed the Board of Transport Commissioners in 1937 – to oversee the rate structure and conditions of service for Canada’s railways. As Ken Cruikshank writes, the board soon came to resemble a “board of arbitration”; rather than investigating the fairness of the rate structure, the board simply set rate increases between what the railways and shippers were asking.<sup>9</sup>

There were three main types of freight rates. The freight rate structure rested on the base of “class rates”, a set of price ceilings closely regulated by the board since 1903. Freight was divided into ten separate classes based on its value and density; first-class rates were roughly double fifth-class rates, which, in turn, were roughly double tenth-class rates.<sup>10</sup> To enable railways to meet the competition offered, or potentially offered, by water and motor carriers, the board allowed them to charge “competitive rates” below the ceiling of class rates. Competitive rates were published only occasionally and were set at the discretion of the railways without board input. The board required only that competitive rates not be “discriminatory” or “unjust” and that they cover the cost of shipping but, since costs were never finally determined, this stipulation had little meaning. Finally, “commodity rates” were applied to some bulky and commonly shipped goods, such as grain, coal and steel, allowing shippers to transport these goods well below class rates.<sup>11</sup> This article will focus on class and competitive rates.

Canada’s railways tracked a great many statistics before 1951, but little of this information could be used to determine the actual costs of shipping freight, the profit ratios earned in the several regions or the exact quantity of each type of freight shipped. In an era before microprocessors, such data collection would have been difficult, but not impossible; the railways were able to amass some of this information when ordered to do so by the board in 1949. Several “waybill analyses” – comparing the bills of lading of all rail traffic for a few select days – indicated that central Canadian freight benefited much more from competitive rates over relatively short distances than Maritime traffic, which tended to travel under class or commodity rates over long distances.<sup>12</sup>

The last significant increases in freight rates in Canada had been horizontal hikes

8 Cruikshank, *Close Ties*, pp. 13, 17, 65-75. Cruikshank notes that in addition to distance, volume and density of freight shipped, costs included debt servicing, depreciation, maintenance and return on investment.

9 Cruikshank, *Close Ties*, pp. 81-102.

10 Transportation Commission of the Maritime Board of Trade, “Statement of Freight Rates, 1951”, Atlantic Provinces Transportation Commission Papers (APTC Papers), MC 204, MS5, A1 (P1), Provincial Archives of New Brunswick (PANB). Class rates included everything from appliances to textiles to livestock.

11 In testimony before the Turgeon Commission, Rand Matheson illustrated the difference between class and commodity rates using the example of sugar, which in 1918 was moved from a commodity rate of 30 cents per hundredweight to a class rate of 50.5 cents per hundredweight. See Royal Commission on Transportation (Turgeon Commission), *Hearings*, 13 July 1949, Halifax, vol. 19, pp. 3483-4.

12 One waybill analysis for 1949 is mentioned in *Report of the Royal Commission on Transportation* (Ottawa, 1951), p. 28. This showed that 93 per cent of traffic originating in the Maritimes traveled under “commodity rates” – presumably class and commodity – for an average distance of 319 miles; of traffic originating in Central Canada, 80 per cent moved under “commodity rates” for an average

in the class rates of 30 per cent to 40 per cent, approved by the board in 1920. The economic chaos of the early 1920s generated politically inspired rate adjustments, the most important of which were the revival of the Crow's Nest Pass rates in 1924-25 and the passage of the Maritime Freight Rates Act in 1927. The Crow's Nest Pass agreement of 1897 between Ottawa and the Canadian Pacific Railway had reduced the rate on eastbound, unprocessed grain from the Prairies, and the 1924-25 legislation entrenched these 1897 rates.<sup>13</sup>

The Maritime Freight Rates Act (MFRA) grew from the recommendations of the 1926 Royal Commission on Maritime Claims. This inquiry, chaired by Sir Andrew Duncan, accepted the argument that freight rates on the Intercolonial Railway affording Maritime producers competitive access to central Canadian markets had been a condition of Confederation. The commission found that the rate increases between 1912 and 1926 had eliminated this competitive access and thus it recommended a rate reduction of 20 per cent on Maritime freight. The MFRA established the reduction, funded from the federal treasury, in westbound class rates on freight originating in the "select territory" of the Maritime Provinces west to Lévis, Quebec.<sup>14</sup> Canadian newspapers and politicians accepted these closely defined, discriminatory rates as compensation to the region for the territory, public works and subsidies granted to other provinces.<sup>15</sup>

Class rates remained relatively stable for the next two decades; many rates dropped slightly during the Depression, and Ottawa imposed a general freeze on wages and prices during the Second World War. Nevertheless, criticism of the freight rate structure persisted. The four Western provinces continued to claim that the per-ton-mile freight rates they paid were higher than those paid in Central Canada, and called for the equalization of rates. In the Maritime Provinces, the rapid rise of motor truck competition in Central Canada after 1930 emerged as a cause of concern. Railways met the competition provided by trucks – which could carry high-value freight more flexibly – by substantially lowering their freight rates; the Maritime Board of Trade

distance of 234 miles. A more extensive waybill analysis from 1952 showed that just 11 per cent of Maritime freight moved under competitive rates, compared with 30 per cent for Central Canada and 6 per cent for Western Canada. See Maritime Transportation Commission, "Statement #15A", 1 September 1953, APTC Papers, MC 204, MS12, G3, PANB.

13 The Crow's Nest Pass Agreement fixed the price on these commodities at 3 cents per hundredweight less than they had been on the Canadian Pacific in September 1897. See Turgeon Commission, *Report*, pp. 238-43 as well as T.D. Regehr, "Western Canada and the Burden of National Transportation Policies", in Bercuson, *Burden of Unity*, pp. 115-41.

14 Forbes, *Maritime Rights*, pp. 162-70. During the Turgeon hearings, counsel for the railways disputed the reasons for Duncan's recommendation of a 20 per cent reduction on westbound rates from the select territory. K.M. Spence, representing Canadian Pacific, argued that the 20 per cent reduction was intended to compensate for the excessive length of the Intercolonial – which Spence also argued ought to be calculated at 100 miles, rather than 250. Rand Matheson, representing the Maritime Board of Trade, maintained that Duncan estimated the increase in Maritime rates between 1912 and 1926 at 92 per cent compared with 55 per cent for the rest of Canada. According to Matheson, the 20 per cent reduction was intended to reduce 192 – the average Maritime rate in 1926 compared to 1912 – to 155, the average national rate. See Turgeon Commission, *Hearings*: 12 July 1949, Halifax, vol. 18, pp. 3431, 3431A; 22 May 1950, Ottawa, vol. 131, pp. 23393-436; and 31 May 1950, Ottawa, vol. 138, pp. 22542-9.

15 Forbes, *Maritime Rights*, pp. 170-8.



argued that competitive rates in Central Canada undercut its members' ability to compete in this essential market and contravened the intention of the MFRA.<sup>16</sup> Because the cost of service has never been calculated, it was impossible to say whether the competitive rates were actually remunerative.

### **The 21 Per Cent Case**

As the Wartime Prices and Trade Board handed regulatory control of the railways back to the Board of Transport Commissioners in the autumn of 1946, the Railway Association of Canada (RAC) – representing Canadian National (CN), Canadian Pacific (CP) and 18 other small lines – applied for a 30 per cent horizontal increase in class rates. Although prices and wages had been frozen since 1941, and although the railways enjoyed a considerable boost in traffic density and profitability during the war, the RAC argued that its members would undoubtedly face increased costs of operations in the post-war period. Maintenance had been deferred, materiel costs were expected to rise and organized labour was preparing to win a much better standard of living for workers.<sup>17</sup>

Although provinces and shippers had anticipated the request for higher freight rates, the amount must have surprised a few. Ontario and Quebec paid little attention to freight rate battles given their advantageous location, but the governments of the other seven provinces moved hastily to contest the RAC's application before the board, although few still had faith in that body's inclination to consider regional economies. In late 1946 Sir Andrew Duncan suggested that Nova Scotia premier Angus L. Macdonald press Ottawa for a new commission on transportation problems in Canada.<sup>18</sup> Macdonald, then busy battling the federal government over a tax rental agreement, took the advice to heart but did not act on it until after the board brought down its decision in 1948.

Hearings on the 30 per cent application began early in 1947 and at times descended to the level of "police court rows", as railway and provincial counsel disputed almost every point.<sup>19</sup> While the two sides agreed to use CP's financial position as the yardstick for the 20 members of the RAC, there were serious disagreements about CP's accounting procedures.<sup>20</sup> The provinces were reluctant to accept CP's depreciation formula and argued that the company never clearly distinguished between its rail and non-rail liabilities and assets.<sup>21</sup> As a result of the many challenges to the evidence presented by the railway companies, a ruling by the board was delayed until 30 March 1948. The ruling confirmed suspicions that the

16 Forbes, "Misguided Symmetry", p. 129.

17 Judy Fudge and Eric Tucker, *Labour before the Law: The Regulation of Workers' Collective Action in Canada, 1900-1948* (Toronto, 2001), pp. 265-94.

18 C.J. Burchell to Angus L. Macdonald, 18 November 1946, Angus L. Macdonald Papers (ALM Papers), MG 2, vol. 906, file 29A, Nova Scotia Archives and Records Management (NSARM).

19 C.J. Burchell to Angus L. Macdonald, 19 June 1948, ALM Papers, vol. 935, file 32-2; see also Board of Transport Commissioners (BTC), *Proceedings*, 1947 (53 vols.), APTC Papers, MC 204, MS5, A1(a), PANB.

20 See, for example, BTC, *Proceedings*, 3 January 1947, vol. 737.

21 J.C. Gilmer, general auditor for CP, later explained that since at least 1888 the company had charged all of its funded debt to its rail operations, while some of the credits – for example, the liquidation of surplus land – were assigned to non-rail operations. See BTC, *Proceedings*, January 1949, vol. 809.

board had become merely a board of arbitration, unable or unwilling to investigate seriously the merits and consequences of applications for significant freight rate increases.<sup>22</sup> It granted the railways a 21 per cent horizontal increase in class rates, effective within three days.<sup>23</sup>

Response to the decision was swift. When Parliament resumed after the Easter break, members from both sides of the House of Commons demanded that the federal government intervene to alter or stay the board's ruling. Halifax Liberal MP Gordon Isnor and Cumberland Conservative Percy Black joined M.J. Coldwell, leader of the Cooperative Commonwealth Federation, in calling the board's ruling "a regional injustice".<sup>24</sup> Within days, Transportation Minister Lionel Chevrier introduced two orders-in-council. The first upheld the 21 per cent increase in freight rates and the second instructed the board to conduct a "general freight rate investigation".<sup>25</sup>

Led by Macdonald in Nova Scotia and Stuart Garson in Manitoba, the seven outlying provinces quickly formed a bloc to lobby the federal government for freight rate relief.<sup>26</sup> The Western provincial governments previously had cooperated amongst themselves on some matters of transportation, although they often took different positions on the freight rate structure.<sup>27</sup> For their part, the Maritime Provinces relied on the Transportation Commission of the Maritime Board of Trade to represent their common interests before the Board of Transport Commissioners, but they had no formal method to coordinate high-level provincial actions. The ad hoc cooperation of the next few years, though, laid the basis for a more structured and mutually beneficial relationship among the Atlantic Provinces.

The "Seven Premiers", as they soon became known, met with the federal cabinet in late April 1948 to voice their concerns with the board's recent decision and transportation policy generally in Canada. They argued that the board's ruling was flawed on three grounds: 1) the board's investigation into "need" relied on CP's convoluted accounting, which lumped together non-rail and rail liabilities but ignored non-rail assets; 2) the amount of the increase was excessive – almost certainly inflationary – and was not supported by the evidence supplied by the railway companies; and 3) the horizontal nature of the increase landed most heavily on the extremities of the country, already disadvantaged by their distance from the large central Canadian market.<sup>28</sup> The premiers asked Ottawa to set aside the ruling until a

22 See Maritime Transportation Commission, "Memorandum", 17 April 1948, ALM Papers, MG 2, vol. 935, file 32, NSARM.

23 Section 331 of the Railway Act stipulated that new rates must be published for 30 days before they could take effect. See Maritime Transportation Commission, "Memorandum", 17 April 1948, ALM Papers, MG 2, vol. 935, file 32, NSARM.

24 Harvey Hickey, "MPs Demand Government Conduct Thorough Inquiry Before New Tariff Applied", *Toronto Globe and Mail*, 6 April 1948; see also Darling, *Politics of Freight Rates*, pp. 134-53.

25 Privy Council (PC) orders 1486 and 1487.

26 See various telegrams in ALM Papers, MG 2, vol. 935, file 32-2, NSARM.

27 The four Western provinces coordinated their regulation of commercial vehicle traffic. See Turgeon Commission, *Hearings*, 22 June 1949, Victoria, vol. 13, pp. 2432-41. One divisive point was British Columbia's long-standing goal to terminate the mountain differential – essentially a surcharge on freight passing through the Rockies. Manitoba, however, quietly favoured the differential, which benefited Winnipeg shippers. See Darling, *Politics of Freight Rates*, p. 141.

28 Angus L. Macdonald, "Rough draft of arguments presented by Seven Premiers", 26 April 1948, ALM Papers, MG 2, vol. 935, file 32, NSARM.



royal commission could investigate the nation's transportation problems.<sup>29</sup>

Five weeks later, Prime Minister W.L. Mackenzie King responded by letter to the premiers. After announcing a few minor concessions in rates – the railways agreed to lower the minimum rate on eggs from 75 to 50 cents per hundredweight and the increase on Nova Scotian coal from 25 cents per ton to 20 – King rejected the premiers' call to suspend the board's ruling. He recognized their right to a full appeal to cabinet, which he argued would be "in effect . . . a request that the government substitute its judgment, in regard to the technical problems involved, for the judgment of the Board".<sup>30</sup> King also rejected the request for a royal commission of inquiry, arguing that the board was working toward "a substantially improved freight rate structure". For King, a tweak here and there would ensure that rates across Canada would be roughly equal and equitable. The rates were an end in themselves, in his view, and not the means to an end as the Maritime premiers viewed them.

Later that month, the railways applied for a further 20 per cent increase in rates and asked the board to approve immediately a 15 per cent increase while it conducted its general investigation. This move placed the Seven Premiers in a difficult position. They had 30 days to respond to the RAC's application before the Board of Transport Commissioners, which they had just criticized severely. British Columbia had already broken ranks by applying to the board to remove the mountain differential, which increased the cost of shipping freight through the Rockies. Should the Seven Premiers defend their constituents against another spike in rates or ignore the railways' application and gamble on a royal commission? Choosing not to participate in the hearings they also petitioned the board not to take any action until cabinet decided on a royal commission.<sup>31</sup> In the meantime, they answered King's letter by formally appealing the board's ruling to cabinet. The letter also signaled that they would drop the appeal if a royal commission were appointed.<sup>32</sup>

Political pressure increased when the two major parties held leadership conventions in the summer and autumn of 1948. In an effort to draw attention to their concerns about freight rates, Maritime Liberals plotted to disrupt the party's leadership convention. The plan had been that New Brunswick premier J.B. McNair would nominate Angus L. Macdonald for the leadership, with Prince Edward Island's Walter Jones seconding that nomination. McNair, Jones and Macdonald – who was expected to decline the nomination – would each take the stage to denounce Ottawa's indifference to the needs of the Maritimes and to call for a royal commission on transportation. In the end Macdonald refused to participate, but the threat of rebellion was enough to convince the party to include in its platform a call for a royal commission on transportation. Predictably the Progressive Conservatives, while

29 Macdonald noted that Ottawa agreed that an inquiry was needed – hence PC 1487 – and the only thing to determine was which body would conduct it. See Macdonald, "Rough draft of arguments", 26 April 1948.

30 W.L.M. King to Angus L. Macdonald, 1 July 1948, ALM Papers, MG 2, vol. 935, file 32, NSARM. King also announced that Macdonald's former legal colleague, Justice M.B. Archibald, was taking over the chair of the board.

31 C.J. Burchell to Angus L. Macdonald, 30 July 1948, ALM Papers, MG 2, vol. 935, file 32, NSARM.

32 "Brief of Provincial Premiers, Submitted to the Federal Cabinet", 20 July 1948, ALM Papers, MG 2, vol. 935, file 32(A), NSARM.

selecting George Drew as party leader that autumn, took the opportunity to pass a resolution calling for an investigation of transportation problems.<sup>33</sup>

On 10 August 1948, two days after the Liberal convention selected Louis St. Laurent as leader, Transport Minister Chevrier hinted in a speech in Winnipeg that a royal commission might be in the offing. The premiers kept up the pressure, assembling their lawyers and traffic advisors in preparation for the appeal to cabinet.<sup>34</sup> Finally on 17 September, ten days before cabinet was to hear the premiers' appeal, Ottawa announced that it would appoint a royal commission.<sup>35</sup> Cabinet dealt with the premiers' appeal by passing another order-in-council on 12 October requiring the board to distinguish between rail and non-rail assets and liabilities so that the financial need of the railways might more accurately be determined.<sup>36</sup>

At Ottawa's request, the premiers put together a list of potential commissioners, including several international experts, but the federal government preferred to go with three Canadians.<sup>37</sup> Justice W.F.A. Turgeon was named chair. Saskatchewan's Attorney-General before moving to the bench, he had sat on numerous royal commissions and later served as Canada's ambassador to Argentina, Chile, Mexico, Belgium and Ireland. No grand ideas were expected of Turgeon; rather, he was seen as a disinterested conciliator who was adept at putting out fires.<sup>38</sup> Any vision on transportation issues would come from the two professors, H.A. Innis and H.F. Angus. University of Toronto political economist Harold Innis was perhaps Canada's most acclaimed academic; he had written his doctoral dissertation on the Canadian Pacific Railway and had experience on provincial royal commissions.<sup>39</sup> Henry Angus, an economist from the University of British Columbia, specialized in matters of trade and had served on the much-vaunted Rowell-Sirois Commission on Dominion-Provincial Relations.

33 See *Report of the Royal Commission on Transportation*, pp. 13-14 for an account of the political pressure to appoint a royal commission. For a description of the Liberal convention, see Dalton Camp, *Gentlemen, Players and Politicians* (Toronto, 1970), pp. 3-7.

34 See Ernest C. Manning to Angus L. Macdonald, 3 August; Macdonald to Manning, 12 August; and Macdonald, "Memorandum", 12 August 1948, ALM Papers, MG 2, vol. 935, file 32-2, NSARM. Macdonald also wrote to St. Laurent, the "acting" prime minister, on 21 August, pressing for an inquiry "into the whole problem of transportation in Canada".

35 Rand Matheson to Angus L. Macdonald, 18 September 1948, ALM Papers, MG 2, vol. 935, file 32-2(2), NSARM.

36 Canada, PC 4678.

37 See Angus L. Macdonald to Louis St. Laurent, 22 October; St. Laurent to Macdonald, 27 October; Walter Jones to Macdonald, 29 October; Ernest Manning to Macdonald, 5 November; J.B. McNair to Macdonald, 5 November; and T.C. Douglas to Macdonald, 26 November 1948, ALM Papers, MG 2, vol. 935, file 32-2(2), NSARM. The names offered ranged from the venerable Andrew Duncan to justices Ivan Rand and Thane Campbell to economists Ralph Dewey of the University of Ohio and G.E. Britnell of the University of Saskatchewan.

38 See Turgeon Commission, *Hearings*, 1 June 1949, Winnipeg, vol. 2, pp. 46-7. Frank Covert, counsel to the commission, later wrote to Harold Innis: "Judge Turgeon was a liberal in politics and had been appointed again and again by the Government to head Royal Commissions and to settle questions in a manner which would ease pressure on the Government". See Covert to Innis, 25 July 1952, H.A. Innis Papers, B1972-003, box 005, file 16, University of Toronto Archives (UTA).

39 H.A. Innis, *A History of the Canadian Pacific Railway* (London, 1923). Innis sat on Nova Scotia's 1934 Royal Commission of Provincial Economic Inquiry and Manitoba's 1946 Royal Commission on Adult Education.

For the next two years all sides were faced with the confusion of overlapping investigations. The Board of Transport Commissioners inched along with its general freight rates inquiry, although most of its time was taken up with applications from the railways for further increases.<sup>40</sup> Ottawa had been leaning toward a royal commission since August and had declared its intention to form one in September, but the Turgeon Commission's formal appointment did not come until late December 1948.<sup>41</sup> Turgeon optimistically hoped to complete the inquiry within a year, but the hearings dragged on for 13 months and the final report was not released until February 1951.<sup>42</sup>

### **The Turgeon Commission**

Serving on railway commissions can be a tiresome experience. Within days of being appointed in 1886 as chair of a royal commission on railways, Alexander Galt bemoaned his fate and wrote to his wife that "if he could devise an excuse, he would resign" from the commission.<sup>43</sup> Sixty years later Harold Innis wrote to his wife in the same spirit, after only seven days of testimony: "I am afraid I am getting more and more disgusted and that my character is slowly deteriorating through not having enough courage to resign. I go on saying that things will improve and find them getting worse. But I doubt whether I can stand it very much longer".<sup>44</sup> The tedium of testimony and cross-examination about the rates charged to ship wheat, mules, eggs, lumber, suits, refrigerators and thousands of other goods made it almost impossible to develop and maintain a broad perspective. In addition, the lawyers for the railways, provinces and boards of trade sparred constantly, providing, Innis wrote to his daughter, "about the only entertainment we have".<sup>45</sup>

The itinerant commission made its way through the West, stopping at the four provincial capitals as well as Calgary and Vancouver during the month of June. Manitoba's new premier, Douglas Campbell, and Alberta's Ernest Manning made presentations to the commission and took some questions from railway counsel, but the bulk of the provincial arguments were assigned to ministers, economists and traffic advisors. There were some differences among the Western briefs: British Columbia, for example, emphasized the wickedness of the mountain differential – even though it was about to expire<sup>46</sup> – and argued in favour of using the "cost of

40 Following the board's ruling in the 21 per cent case in March 1948, it granted the following increases: an 8 per cent "interim" increase in September 1949, later extended to 16 per cent and then 20 per cent in early 1950; a 12 per cent increase in July 1951, and a further 5 per cent in January 1952; a 9 per cent increase in December 1952; and a 7 per cent increase in March 1953. See Board of Transport Commissioners, "Judgment in re Equalization Case, P.C. 1487", 1 March 1954, APTC Papers, MC 204, MS12, E1, PANB.

41 Canada, PC 6033.

42 *Report of the Royal Commission on Transportation*.

43 Cruikshank, *Close Ties*, p. 54.

44 H.A. Innis to Mary Quayle Innis, 10[?] June 1949, Innis Papers, B1972-003, box 005, file 13, UTA.

45 H.A. Innis to Mary Innis, 9 June 1949 and Innis to Mary Quayle Innis, 9 June 1949, Innis Papers, B1972-003, box 005, file 13, UTA.

46 The board had ruled in British Columbia's favour and ordered an end to the mountain differential as of 1 July 1949. See Turgeon Commission, *Hearings*, 22 June 1949, Victoria, vol. 13, pp. 2295-96.

service” principle in setting freight rates rather than the “value of service.”<sup>47</sup> Saskatchewan urged the commission at least to consider the benefits of nationalizing Canadian Pacific and it proposed a Western equivalent of the Maritime Freight Rates Act – a 20 per cent reduction on goods being shipped in or out of the three Prairie Provinces – funded by a federal government subsidy.<sup>48</sup> For the most part, however, the Western provinces voiced the same basic suggestions: 1) that the Board of Transport Commissioners be strengthened and freed from following its precedent on the issue of rate increases; 2) that class and commodity rates between Eastern and Western Canada be equalized, preferably by lowering Western rates; and 3) that the Board be directed to set rates according to the principles of the general welfare and an industry’s ability to bear the cost.<sup>49</sup>

The commission arrived in Halifax on 12 July 1949, as the city was marking its bicentennial. A busy Premier Macdonald welcomed the commissioners and encouraged them to look beyond the reasoning and precedents of the board to help shape transportation policy for Canada. Macdonald approvingly cited Ernest Manning’s testimony, arguing that transportation policy “should not necessarily accept conditions as they are, but should be designed to ensure an essential equality of conditions for economic enterprises in so far as man-made conditions are concerned”.<sup>50</sup> Macdonald found in Manning’s words an articulation of the new liberalism that he preached in Nova Scotia, wherein the state should promote equality of opportunity but not involve itself directly in the economy.

Macdonald then ceded the floor to Nova Scotia’s counsel Frank Smith, who requested that the MFRA reductions be applied to raw materials shipped eastward to manufacturers in the select territory, and argued that the select territory ought to be extended from Lévis to Montreal or Toronto on westbound freight.<sup>51</sup> Smith was careful to distinguish between the presentations of Nova Scotia and the Transportation Commission of the Maritime Board of Trade, although the province’s case did not vary significantly from that of the latter. Macdonald had reasoned that since the political pressure of the Seven Premiers had given life to the Turgeon Commission, the provinces ought to make their own presentations.<sup>52</sup> This separate approach probably weakened the Maritimes’ case, but for Macdonald provincial autonomy was the paramount concern.

47 Alberta’s counsel J.J. Frawley challenged British Columbia’s J.E. Brown, assistant director of the Bureau of Economics and Statistics, on the “cost of service” question. See Turgeon Commission, *Hearings*, 22 June 1949, Victoria, vol. 13, pp. 2341-91.

48 See Turgeon Commission, *Hearings*, 4 May 1950, Ottawa, vol. 120, pp. 21725, 21733-5. Saskatchewan estimated that its proposal would cost \$40 million annually, but argued that it would compensate the Prairies for bearing the burden of the National Policy and allay the need for further rate increases on long-haul traffic.

49 Turgeon Commission, *Hearings*: 1 June 1949, Winnipeg, vol. 2, pp. 67-80; 7 June 1949, Regina, vol. 5, pp. 724-5, 730; 16 June 1949, Edmonton, vol. 11, pp. 1927-8; and 22 June 1949, Victoria, vol. 13, pp. 2341-2, 2353.

50 Turgeon Commission, *Hearings*, Ernest Manning, 16 June 1949, Edmonton, vol. 11, p. 1930 and Angus L. Macdonald, 12 July 1949, Halifax, vol. 18, pp. 3276-7.

51 Turgeon Commission, *Hearings*, 12 July 1949, Halifax, vol. 18, pp. 3292-8.

52 See C.J. Burchell to Angus L. Macdonald, 23 April 1949, ALM Papers, MG 2, vol. 946, file 32-1, NSARM. In a meeting with Rand Matheson and D.R. Turnbull, chair of the Maritime Board of Trade’s Transportation Commission, Burchell had won them over to the premier’s thinking.

The Maritime Board of Trade's railway expert Rand Matheson made a detailed presentation spread over five days in Halifax and Fredericton.<sup>53</sup> Matheson, who had been advising the board on railway freight rates for almost 20 years, first covered very familiar territory: expounding upon the intent and early operation of the Intercolonial Railway, reviewing the first period of sharp freight rate increases between 1912 and 1925, and presenting an account of the Duncan Commission's reasoning and recommendations. Matheson then argued that the effective results of the 20 per cent reduction in westbound rates embodied in the Maritime Freight Rates Act were made null and void by the prevalence of competitive rates in Central Canada. He presented the results of a Transportation Commission study that showed that competitive rates had dropped between 18 per cent and 32 per cent in the previous two years.<sup>54</sup> Furthermore, Matheson argued, the application of horizontal rate increases aggravated the regional disparity in transportation costs by placing a greater burden on the outlying regions.

The Transportation Commission made six key recommendations: 1) the MFRA should be amended to allow increases in the rate of reduction where competitive rates offered in Central Canada threatened to undermine the intent of the act; 2) horizontal increases should be prohibited; 3) Ottawa should enhance the power of the Board of Transport Commissioners to allow it to consider geographic and economic conditions when fixing rates; 4) Maritime port rates should be adjusted between April and November to allow them to compete with St. Lawrence ports; 5) coal subventions should be continued; and 6) the board should compel CN and CP to cooperate to lower operating costs as required by a 1933 statute.<sup>55</sup> The three Maritime provinces relied heavily on the Transportation Commission's research and arguments, and varied their cases only slightly, although in notable ways.

New Brunswick left its case to its counsel, J. Paul Barry, and its advisor, Professor R.J. Love of the University of New Brunswick's Department of Economics. After opening with the now-obligatory request for serious reconsideration of the Chignecto Canal scheme,<sup>56</sup> Barry introduced two significant proposals for amending the MFRA. The first was to increase the reduction from 20 per cent to 30 per cent, an amount that appears not to have been based directly on calculations of damages caused by competitive rates or horizontal increases but merely an attempt to improve the relative

53 Turgeon Commission, *Hearings*, 12-14 and 20-21 July 1949, Halifax and Fredericton, vols. 18, 19, 20, 23 and 24. Matheson also testified for three days in Ottawa in November 1949; see *Hearings*, 2, 4 and 7 November 1949, vols. 36, 38 and 39.

54 Turgeon Commission, *Hearings*, 13 July 1949, Halifax, vol. 19, pp. 3509-13.

55 Turgeon Commission, *Hearings*, 14 July 1949, Halifax, vol. 20, pp. 3762-8 and Rand Matheson to Angus L. Macdonald, 8 July 1949, ALM Papers, MG 2, vol. 946, file 32-1, NSARM. The Canadian Pacific-Canadian National Railways Act (1933) directed the companies to seek ways to cooperate and reduce operating costs.

56 Turgeon Commission, *Hearings*, 18 July 1949, Fredericton, vol. 21, p. 3924. The Saint John Board of Trade kept this project alive long after the heyday of canal construction. Although governments were not yet in the habit of seriously considering the environmental impacts of such projects – see, for example, the Canso Causeway – the steady improvement in roads made it unlikely that the federal government would invest in a canal of a zero-sum gain nature; any benefit accruing to Saint John would come at the expense of Halifax.

position of Maritime shippers.<sup>57</sup> The second and most contentious proposal was to apply the MFRA reductions on all eastbound traffic coming into the select territory; this would benefit consumers, but weaken the ability of local manufacturers to compete with central Canadian producers.<sup>58</sup> Nova Scotia and the Transportation Commission were on record as favouring the application of MFRA reductions to certain raw materials imported by Maritime manufacturers, but New Brunswick was promoting something wholly new.<sup>59</sup> During final arguments in Ottawa on 23 May 1950, Turgeon Commission counsel Frank Covert twice interrupted proceedings to read telegrams from New Brunswick manufacturers opposed to their province's idea of extending the MFRA rates to all eastbound traffic.<sup>60</sup> The province's counsel was humiliated as New Brunswick could not expect the Turgeon Commission to contemplate seriously a proposal that did not have the full support of its respective region.

Like his Nova Scotian counterpart, Premier Walter Jones welcomed the commission to Charlottetown in late July 1949 before stepping aside for his province's transportation advisor, Graham Rogers. Together with Prince Edward Island's counsel, J.O.C. Campbell, Rogers laid out a brief that endorsed the position of the Transportation Commission of the Maritime Board of Trade, but with two remarkable differences. Rogers had strayed slightly from the path of free-market orthodoxy by floating the idea that the Island's ferry service might be operated free of charge, on the same principle as had governed the canals of Central Canada since 1903.<sup>61</sup> Campbell, however, transgressed all bounds of liberal propriety by arguing that CP ought to be nationalized and merged with CN.<sup>62</sup>

It is not clear what inspired this suggestion, but Campbell had done some research and was able to cite American transportation authorities, Saskatchewan's F.C. Cronkite and even Sir Edward Beatty, president of CP throughout the 1920s and 30s, as supporting the idea of nationalization.<sup>63</sup> After pointing out that very little of CP's stock

57 The 20 per cent reduction was increased to 30 per cent on 1 July 1957, following the recommendation of the Gordon Commission on Canada's Economic Prospects. See New Brunswick, "Submission to the Royal Commission on Transportation", 9-10 November 1959, Hugh John Flemming Papers, RS 415, M2, C2(a), PANB.

58 Turgeon Commission, *Hearings*, 18 July 1949, Fredericton, vol. 21, pp. 3926-8, 4017-18.

59 See Matheson's testimony in Turgeon Commission, *Hearings*, 20 July 1949, Fredericton, vol. 23, pp. 4516-18.

60 J.W. Stewart, managing director of the Maritime Division of the Canadian Manufacturers Association, sent the first telegram on 22 May 1950; the second telegram, sent on 23 May, was signed by 16 manufacturers, including Moosehead Breweries, the Ganong candy company and the makers of Sussex Ginger Ale. See Turgeon Commission, *Hearings*, 23 May 1950, Ottawa, vol. 132, pp. 23623, 23765.

61 Turgeon Commission, *Hearings*, 27 July 1949, Charlottetown, vol. 27, pp. 5024-8.

62 See Turgeon Commission, *Hearings*, 25 July 1949, Charlottetown, and 27 May 1950, Ottawa, vols. 25 and 127 (pp. 22858-68). Campbell began his final arguments by saying "In Prince Edward Island, we are not socialists, we are not communists, and we do not believe in State control for the sake of State control".

63 In 1933 Beatty commissioned a study that showed an annual savings of at least \$75 million if the railways of Canada were brought under amalgamated control, although Beatty was, of course, assuming that the private Canadian Pacific would manage the railway. See Turgeon Commission, *Hearings*, 13 December 1949, 17 March and 16 May 1950, Ottawa, vol. 65 (pp. 13595-9), vol. 98 (pp. 18421-30) and vol. 127 (pp. 22860-8).



was owned in Canada, Campbell argued that the corporation continually required new capital and that capital could come only from investors or the federal government. To attract private capital, CP would have to improve its profit margin, presumably by raising freight rates again and again. Surely public ownership of railways was inevitable, Campbell reasoned, so why not push for it now?<sup>64</sup> Although the recommendation resembled in some ways the earlier movement for public ownership of utility companies, the province clearly intended that a nationalized rail system would be an instrument of economic development controlled by the federal government.<sup>65</sup>

When the provinces had finished their presentations, the railways took over. The executives and counsel of CN welcomed the Turgeon Commission as an opportunity to get the federal government to recapitalize the massive corporation and lower its debt load.<sup>66</sup> Canadian Pacific, on the other hand, felt put upon and found little to like about the commission. Its lawyers were occasionally hostile to witnesses and generally dismissive of provincial arguments. On one occasion, K.M. Spence noted that New Brunswick's Liquor Commission had declared revenues of more than \$12 million for 1948, implying that if people could spend that much money on booze, they had no reason to gripe about a few extra dollars in freight rates.<sup>67</sup> C.F.H. Carson, CP's lead counsel, maintained that the railways required "speedy relief" when they brought applications to the board; provincial obstruction, as in the 21 per cent case, delayed rulings and required the railways to ask for a few sharp increases instead of a series of gradual ones. "One can scarcely believe that any thinking Canadian . . . would question the need of the railways for a substantial rate increase in 1948", Carson declared during closing arguments. The best solution to freight rate problems would be to develop a formula calculated to give the railways a guaranteed rate of return on capital invested. To avoid lengthy appeals, Carson suggested abolishing the provinces' right to appeal board decisions to cabinet.<sup>68</sup>

### **The Turgeon Report**

The commissioners took the last half of 1950 to digest the testimony and prepare their reports. Angus and Innis worked together in Ottawa during the summer while Turgeon went abroad on diplomatic business.<sup>69</sup> Turgeon then spent the fall editing the

64 Just over 14 per cent of CP's common stock and less than 0.5 per cent of its preferred stock was owned in Canada. See Turgeon Commission, *Hearings*, 13 December 1949, Ottawa, vol. 65, p. 13582.

65 On public ownership of utilities, see Christopher Armstrong and H.V. Nelles, *Monopoly's Moment: The Organization and Regulation of Canadian Utilities, 1830-1930* (Toronto, 1988).

66 By the 1940s, CN's operating deficits resulted almost entirely from fixed charges to cover the interest on its \$1.5 billion debt. Its plan for recapitalization involved Ottawa's forgiving \$760 million in loans and giving the railway a further \$300 million in credit to cover the costs of its remaining debt. See Turgeon Commission, *Hearings*, 24 May 1950, Ottawa, vol. 133. The commission recommended that the loans be converted to "three per cent income debentures", but that CN pay the interest only if earnings allowed it. See *Report of the Royal Commission on Transportation*, pp. 198-9.

67 Turgeon Commission, *Hearings*, 18 July 1949, Fredericton, vol. 21, p. 4145.

68 Turgeon Commission, *Hearings*, 27 April 1950, Ottawa, vol. 115, p. 20559; 16 May 1950, Ottawa, vol. 127, pp. 22895-902; and 17 May 1950, Ottawa, vol. 128, p. 23079. Allen Northey Jones, an investment banker with Morgan Stanley, argued that CP stock should be returning about 10 per cent, with half being paid in dividends and half being reinvested in the company.

69 Innis fell ill in July 1950 and was hospitalized in September with cancer. See Donald Creighton, *Harold Adams Innis: Portrait of a Scholar* (Toronto, 1957), pp. 139-40 as well as W.F.A. Turgeon to H.A. Innis, 14 September 1950 and Innis to Frank Covert, 28 September 1950, Turgeon Papers, RG 33, series 27, vol. 61, file 2150-3, LAC.

several studies to bring consistency to the piece.<sup>70</sup> The final version represented compromises on most of the central issues and made no substantial recommendations. The two academics insisted on including separate memoranda in the *Report* to distinguish their respective thinking on the subject of transportation.

Henry Angus brought to his work a neo-classical liberalism that made him rather insensitive to the political pressures that had led to the commission's appointment. In his working notes, Angus "condemn[ed] any transportation policies which tend to promote the settlement of the less favoured sections . . . or to retain population in sections which no longer enjoy the relative advantages which led to their settlement".<sup>71</sup> The essence of his "Reservations and Observations" in the final *Report* was that he disagreed with his fellow commissioners' thinking but not their conclusions. He dismissed the basis of the provinces' claims as illusory: "Side by side with fear [of inflation and recession] as a psychological factor in the problem of railway transportation, should be placed the well established myth of regional injustice which flourishes in some regions and which can be at times the root of disheartened self-pity". He argued that the board should, in future, create a "rate of return" formula, guaranteeing the railways a certain return on their investment. He noted, however, that this formula would be difficult to devise and so did not recommend it at that moment.<sup>72</sup>

Innis and Turgeon did not get on with Angus. Frank Covert later wrote to Innis: "If I may say so, you and the Judge worked under extreme difficulties and would have done a much better job without the third member of the tribunal. Anyone they could have provided might have helped. I personally think he did more to hinder and delay than anyone else would have".<sup>73</sup> This animosity may have prompted Innis to write his "Memorandum on Transportation", but it is probable that he would have laid out his historical argument anyway, as he had done in Nova Scotia's Economic Inquiry of 1934.

The Board of Transport Commissioners, in Innis's opinion, was badly understaffed and negligent in its regulatory role; it acted only when appealed to and relied almost exclusively on data provided by the railways. Innis noted that there had been an "[o]minous lack of informed material in the 30% case". Its precedents bound it to reject as "unjust discrimination" ideas that might ease the burdens on some regions. To remedy the board's bureaucratic inertia, Innis argued that it must be strengthened, expanded and reinvigorated.<sup>74</sup>

In his memorandum, Innis wrote that competitive rates in Central Canada created an imbalance that threatened Confederation. The railways could meet motor and water

70 One of the commission's secretaries wrote: "The Chairman has been working like a fiend all this week – in fact Thursday night he was here until 11 p.m.". See Miss Hunt to G.R. Hunter, 6 October 1950, Turgeon Papers, RG 33, series 27, vol. 65, LAC.

71 Turgeon Papers, RG 33, series 27, vol. 70, LAC.

72 *Report of the Royal Commission on Transportation*, pp. 285-93. Howard Darling, who testified before the commission on Alberta's behalf but whose book embraces the most reactionary ideas of CP, praises Angus' indifference to the provinces' pleas: "The clarity and detachment exhibited by Angus as he observed the events taking place before the Commission is in marked contrast to the rather uncritical enthusiasm and confidence with which Innis plunged into the melee to extract, as he saw it, an economic solution to an economic problem". See Darling, *Politics of Freight Rates*, pp. 177-8, 180.

73 Frank Covert to H.A. Innis, 25 July 1952, H.A. Innis Papers, B1972-003, box 005, file 16, UTA.

74 Innis's notes can be found in the Turgeon Papers, RG 33, series 27, vol. 72, files 1-4, LAC.

competition only by acquiring the bulk of their revenues in non-competitive areas, where they held a virtual monopoly on long-haul shipping.<sup>75</sup> Horizontal rate increases aggravated the imbalance because they weighed heavier on long-haul shippers and were often not applied in competitive areas.<sup>76</sup> Innis called this “the burden of obsolescence” – the cost of enabling the outdated technology of rail to compete with the internal combustion engine. When rail had replaced canals in the late-19th century, the burden of obsolescence had been borne by the federal government, as it lowered and finally canceled canal tolls in 1903. Increasingly, he warned, the burden of the railways was being shifted to the weaker regions of the country.<sup>77</sup>

Innis’s work in political economy attuned him to the dangers of liberal economics within the Canadian federation, but he could not bring himself to recommend policies that would contravene the liberal order.<sup>78</sup> He sympathized with Saskatchewan’s suggestion of a federally subsidized freight rate reduction for the Prairie Provinces based on the MFRA, but noted that it would be difficult to arrange with the existing Crow rates.<sup>79</sup> Instead, Innis supported the idea of a general subsidy to cover maintenance costs for the “bridge” from Sudbury to Fort William, an unproductive stretch of rail necessitated only by national policy. The commission put the cost of this federal subsidy – the only one it recommended – at not more than \$7 million annually, which the railways were to pass on to shippers through lower rates.

Innis held that no one policy, not even the West’s long-sought equalization, could restrain the centralizing economic forces of the previous two decades:

No scheme of equalization can be devised which will overcome the effects of competition in the St. Lawrence region as reflected particularly in competitive rates. An obsession with equalization will obscure the handicaps of the Maritimes and of Western Canada and perpetuate their paralyzing effects. A reorganization of the regulatory bodies concerned with transportation will facilitate collection of vital statistical facts and offset the most serious effects of a duopoly in its control of information. In this way more precise methods can be devised to meet the problems of transportation in Canada.<sup>80</sup>

Innis clearly saw the Turgeon Commission merely as the first step in a long process of careful study.

The Turgeon *Report* was submitted on 9 February 1951 and probably disappointed

75 F.A. Gaffney, a traffic manager with CN, estimated that trucking took between \$70 and \$80 million in business annually from the railways, which lost another \$50 million in profits due to competitive rates. See Turgeon Commission, *Hearings*, 18 November 1949, Ottawa, vol. 48, pp. 9121-7.

76 *Report of the Royal Commission on Transportation*, p. 299-301. The railways, for example, did not apply a four per cent increase to competitive rates granted by the board in September 1950.

77 *Report of the Royal Commission on Transportation*, pp. 300-2.

78 See T. Stephen Henderson, “Harold Innis and Canadian Federalism,” paper presented at the 2005 Canadian Historical Association meetings, University of Western Ontario.

79 *Report of the Royal Commission on Transportation*, pp. 253-4.

80 *Report of the Royal Commission on Transportation*, pp. 297, 307. Innis argued that the railways formed a duopoly – a monopoly in all but form – whose dissimilarities were exaggerated to mask their cooperation in the matter of freight rates.

everyone except the Board of Transport Commissioners. On every significant question submitted to it, the royal commission advised cautious adjustment or the continuance of existing practice. The *Report* declined to recommend prohibiting horizontal increases by statute, giving more power and direction to the board to consider geographic and economic factors in its deliberations, or extending the territory or the reductions under the MFRA.<sup>81</sup> The *Report* refused to consider both Prince Edward Island's suggestion of nationalizing the railways – arguing that this fell outside of its terms of reference – and Saskatchewan's plea for a Western version of the MFRA.<sup>82</sup> The commissioners even refrained from concluding “who bears the increases in railway freight rates”, although the evidence presented by the seven provinces that their constituents paid the lion's share was voluminous and convincing.<sup>83</sup> Beyond endorsing the principle of rate equalization and proposing the Western “bridge” subsidy, the Turgeon Commission made no significant recommendations.

### Conclusion

The two-year inquiry into transportation in Canada led to very few pieces of legislation, none of it substantive. The Railway Act was amended in the autumn of 1951 to explicitly instruct the board to oversee the equalization of class rates, something which arguably lay within the board's power already. For its part, the Transportation Commission of the Maritime Board of Trade launched a lobbying effort to ensure that Parliament followed Turgeon's recommendation and spared the MFRA from the ravages of equalization. Hours of testimony before Commons and Senate committees by Rand Matheson and Frank Smith and direct lobbying of key members of Parliament preserved the 20 per cent reduction below the forthcoming schedule of equalized class rates, to the elation of the Maritimers.<sup>84</sup> But that was the end of the concessions. In 1948, the Maritime premiers had pleaded with Ottawa for a royal commission hoping that it would provide greater relief for their constituents from rapidly rising costs of transportation; three years later, they believed themselves fortunate to have dodged the commission's key recommendation.

The Turgeon Commission failed to deliver what the Seven Premiers hoped of it and what Ottawa expected. The commission's counsel, Frank Covert, assumed that it

81 *Report of the Royal Commission on Transportation*, pp. 44-5, 61, 231, 234, 272-3. In the provinces' favour, the *Report* also rejected CP's proposals to implement a “rate of return” formula for calculating rate increases and to abolish the right of provinces to appeal board decisions to cabinet; see *Report*, pp. 70, 80.

82 *Report of the Royal Commission on Transportation*, pp. 128-30, 158. The fourth term of reference instructed the commission “to include in its examination and to report upon all matters which the Members of the Commission may consider pertinent or relevant to the general scope of the inquiry”. See *Report*, p. 6.

83 *Report of the Royal Commission on Transportation*, p. 42.

84 On the negotiations and lobbying relating to Bill 12, *An Act to Amend the Railway Act*, see Rand Matheson, “Confidential Memorandum RE: Equalization”, 31 August 1951, APTC Papers, MC 204, MS12/F/1, PANB as well as A. Murray MacKay to Angus L. Macdonald, 24 October 1951 and Macdonald to MacKay, 3 November 1951, ALM Papers, MG2, vol. 965, file 32-2, NSARM. For evidence that the Maritime representatives viewed this as a victory, see Matheson to Macdonald, 12 December 1951, ALM Papers, MG2, vol. 965, file 32-1, NSARM.

had been established to deliver “political peace” while leaving “the vital problems of transportation” to the Board of Transport Commissioners. Within two years the Seven Premiers, now joined by Newfoundland’s Joey Smallwood, were before cabinet again, appealing a board decision.<sup>85</sup> The Turgeon Commission’s recommendations did lead to an equalized rate schedule, as the Western provinces had requested, but this did nothing to stem the tide of economic centralization in Canada. If the nation still had a transportation policy – and it was not clear that it had<sup>86</sup> – it presumably would prescribe some balance among the regions. As Innis recognized, the equalization scheme was merely tinkering with numbers and could not effect serious change in trading patterns. The commissioners, railway executives and counsel, and the political leaders, however, were not able to entertain seriously the ideas of nationalization of the railways or dramatically increased subsidies to balance more evenly the burden of transportation.

The unhappy experience of the Turgeon Commission inspired greater cooperation and coordination among the Atlantic Provinces. In 1954, they established the Atlantic Provinces Economic Council to gather data on regional economic problems and opportunities. The Conference of Atlantic Premiers commenced regular meetings in 1956 as a vehicle to harmonize the region’s approach in future talks with Ottawa.<sup>87</sup> Yet the language of the Maritime Rights Movement lingered, with claims based on the contractual obligations of Confederation rather than social justice. Henry Angus, no friend of the Maritime region, noted the flaw in the arguments being put forward:

The Maritime Provinces go so far as to claim a right to enjoy equal prosperity with other parts of Canada, in spite of inferior resources and inferior location. In no other country than Canada, whether unitary or federal, do the economically less favoured regions enjoy any analogous right. . . . P.E.I. actually bases its claims on its lack of diversified resources. . . . The basis for these claims is contractual. Its weakness is exposed by contrasting the position of Provinces which may stand in equal need but which have no corresponding contractual claims.<sup>88</sup>

So long as the region’s leaders remained bound by respectable liberal thinking, they could not fashion an effective argument for special treatment. They had to accept that unequal things should be treated unequally.

85 The premiers were appealing a 6 March 1953 board decision awarding the railways a seven per cent horizontal rate increase. By PC 1457, dated 17 September 1953, cabinet rejected the appeal. See ALM Papers, MG 2, vol. 978, file 32-1, NSARM.

86 See the concluding chapter of the Turgeon Report, “National Transportation Policy”, pp. 274-80.

87 Margaret Conrad, *Beyond Anger and Longing: Community and Development in Atlantic Canada* (Fredericton, 1988), pp. 55-96.

88 Turgeon Papers, RG 33, series 27, vol. 70, LAC.