

The Transportation Revolution and its Consequences: The Railway Freight Rate Controversy of the Late Nineteenth Century

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Article abstract

By the turn of the century, a growing coalition of business and political leaders came to share a common goal — the creation of a national regulatory commission to control railway freight rates. The development of a coordinated railway network and advances in locomotive technology made possible a general decline in transportation costs. Business leaders consequently became concerned with the uneven way in which the private rate-making process distributed the benefits of the transportation revolution, particularly declining freight rates. In eastern Canada, they blamed railway rate-making policies for disrupting established patterns of trade. In western Canada, they castigated railway officials for failing to adjust the rate structure in response to the rapid development of new centres of economic activity. At the same time as it made possible the development of large-scale mercantile and industrial enterprise, then, the transportation revolution also created demands for a significant expansion of the state's authority over the largest of all nineteenth-century industries, the railway.

The Transportation Revolution and its Consequences: The Railway Freight Rate Controversy of the Late Nineteenth Century

KEN CRUIKSHANK

Résumé

By the turn of the century, a growing coalition of business and political leaders came to share a common goal — the creation of a national regulatory commission to control railway freight rates. The development of a coordinated railway network and advances in locomotive technology made possible a general decline in transportation costs. Business leaders consequently became concerned with the uneven way in which the private rate-making process distributed the benefits of the transportation revolution, particularly declining freight rates. In eastern Canada, they blamed railway rate-making policies for disrupting established patterns of trade. In western Canada, they castigated railway officials for failing to adjust the rate structure in response to the rapid development of new centres of economic activity. At the same time as it made possible the development of large-scale mercantile and industrial enterprise, then, the transportation revolution also created demands for a significant expansion of the state's authority over the largest of all nineteenth-century industries, the railway.



Au tournant du siècle, les hommes d'affaires et les chefs politiques en vinrent à partager le même objectif: créer une commission nationale pour régler les tarifs du transport des marchandises par chemin de fer. Le développement d'un réseau coordonné de chemins de fer et les progrès technologiques concernant la locomotive permettaient une diminution générale des coûts de transport. En conséquence, les hommes d'affaires se mirent à éprouver des inquiétudes devant le fait que les régimes tarifaires donnaient lieu à une répartition inégale des profits à tirer de la révolution des transports, notamment en ce qui a trait à une réduction des tarifs de fret. Dans l'est du Canada, c'est aux dispositions tarifaires des chemins de fer qu'ils ont attribué l'interruption des réseaux d'échanges commerciaux établis de longue date. Dans l'ouest du pays, ils ont reproché aux responsables du chemin de fer de n'avoir pas su ajuster la tarification au développement rapide des nouveaux centres d'activité économique. Certes, la révolution des

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transports permettait une expansion du commerce et de l'industrie sur une large échelle, mais en même temps, elle requérait de l'État une autorité d'autant plus ferme sur la plus importante de toutes les industries du XIXe siècle, celle des chemins de fer.

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Beginning in 1880, Dalton McCarthy spearheaded a parliamentary effort to create a "Court of Railway Commissioners" which would resolve disputes over freight rates and other matters between railways and shippers. In response, the government of Sir John A. Macdonald appointed a royal commission in 1886 "to consider the advisability of creating a Commission to . . . regulate the system of railway management in its relation to the commerce of the country."¹ Throughout the decade, the Macdonald government also grappled with the attempts of the government of Manitoba to subvert the monopoly of the Canadian Pacific Railway. In the 1890s, the Laurier administration found that its desire to subsidize the Canadian Pacific's construction of the Crow's Nest Pass Railway became entangled in a dispute over freight rates to and from western Canada. The exposure of a secret rebate arrangement between Canada's two largest railways and the Standard Oil Company in 1900 prompted members of Laurier's cabinet to intervene in the matter. The following year, the Dominion government sponsored its third investigation into the Canadian rate structure since 1886. The controversy surrounding railway freight tariffs in the late nineteenth century culminated in 1904 with the creation of the Board of Railway Commissioners. The establishment of this independent regulatory tribunal, forerunner of the Canadian Transport Commission and administrative model for a number of other government agencies, represents one of the most significant landmarks in the emergence of the modern Canadian state.

While Canadian historians have acknowledged and stressed the role played by the state in the promotion, financing, and construction of the nation's railways, they have largely ignored the regulatory aspects of government policy. In contrast, American scholars have engaged in a lively debate over the creation of the Interstate Commerce Commission, and what it signifies about the origins of regulation in general. In a brilliant survey of this literature, Stephen Skowronek has shown that various historians credit the adoption of the Interstate Commerce Act in 1887 to the influence of western farmers, midwestern merchants, Pennsylvania oil producers, New York businessmen, and even to the railway industry itself. Skowronek concludes that "no single interest can account for the first national regulatory initiative, and all the interests together can only account for the fact that there was an initiative."² While arguing for the limits

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1. Canada. Parliament, *Sessional Papers* [hereafter *Sessional Papers*] (1888) #8a, "Report of the Royal Commission on Railways," 1.
 2. Stephen Skowronek, *Building A New Administrative State* (Cambridge, 1982), 121-31 contains an excellent survey of the literature, and his bibliography is equally useful. For an analysis of the origins of the Hepburn Act which is somewhat similar to my analysis of railway regulation in this chapter, see Richard H.K. Vietor, "Businessmen and the Political Economy: The Railroad Rate Controversy of 1905," *Journal of American History*, 14 (1977): 47-66.

of interest group analysis and in support of his own state-centred approach to public policy, Skowronek's study builds on, and would make little sense without, the "rich composite portrait of the contending interests" created by previous historians of the Interstate Commerce Act. What the scholarly debate in America makes clear is that one should not expect the support for government intervention to come from a single segment of the community but from a broad and diverse set of interests.

An analysis of the evidence presented to three government investigations into the freight rate structure undertaken in 1886, 1894, and 1901 provides some insight into the complex and loose coalition of merchants, manufacturers, and farmers who challenged the private rate-making prerogative of the railways in late nineteenth-century Canada. It becomes clear that, in all parts of the nation, a growing number of business leaders shared the experience of economic dislocation and increasing competition generated, in part, by changes in the transportation system. The expansion of the railway network and the continual advances in locomotive technology between 1870 and 1900 disturbed many established patterns of economic activity. This disruption created specific groups of business leaders anxious to use the power of government to defend or advance their local and national competitive positions. The freight rate controversy of the late nineteenth century, and the growing demand for railway regulation, originated with those economic interests dissatisfied with the consequences of the transportation revolution.

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The basic factor underlying the revolution in overland transportation during the nineteenth century was the emergence of an extensive and coordinated railway system. The sheer expansion of the network from 66 to 14,000 miles between 1850 and 1890 brought hundreds of communities within reach of the railway. By 1890, two companies, the Grand Trunk and Canadian Pacific railways, effectively controlled over 80 per cent of this mileage. Each company had actively sought to lease or buy many smaller railway lines, particularly in Ontario, to prevent the expansion and control of its competitor.³ While defensive in intent, the strategy resulted in increased coordination of the unwieldy network and the smoother interchange of traffic from one line to another. Shippers were able to send goods by rail for longer distances, with less handling and fewer interruptions.

The trains travelling over the expanding railway network underwent a significant change in the late nineteenth century. With little change in their actual weight, the cargo capacity of freight cars trebled to thirty tons between 1875 and 1905, and by 1900 fifty tons of freight could be loaded on platform cars. The addition of a third and then a fourth pair of the large driving wheels on locomotives constructed between 1880 and

3. Statistics calculated from *Sessional Papers*, 1876-1900, Railway Statistics. For the defensive expansion of the two railways, see A. W. Currie, *The Grand Trunk Railway of Canada* (Toronto, 1957), 294-98, 314-24; Harold Innis, *A History of the Canadian Pacific Railway* (Toronto, 1971), 134-38.

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1900 provided the power necessary to haul the new freight cars.⁴ Although the initial cost of providing the heavier rails and strengthened roadbed and bridges required by the longer and larger trains was high, these technological changes produced impressive results, as the figures in Table 1 reveal. In the 1860s, and again in the 1870s, the average amount of freight carried on each Grand Trunk train nearly doubled. Larger train loads allowed the railway to expand the total amount of goods it carried significantly without a corresponding increase in the overall mileage travelled by its freight trains. For example, in 1885 the Grand Trunk carried three times more freight over its system than in 1875, yet the amount of mileage covered by its trains increased by only one third. Because railway managers were able to maintain the expenses associated with moving its trains relatively constant, increases in the volume of freight carried resulted in significant reductions in the cost of transporting each ton of freight.

The growing efficiency of nineteenth-century railway operations produced, and was made necessary by, the third and most important dimension of the transportation revolution, a general reduction in freight rates throughout the nineteenth century, most dramatically in the 1870s. As Table 2 demonstrates, the Grand Trunk received an average of 1.2 cents for carrying a ton of freight one mile in the early 1870s. After 1875, the earnings for the same shipment declined dramatically, averaging .72 cents during the 1880s and .65 cents in the final decade of the century. Freight earnings per ton mile on the Canadian Pacific Railway also declined, from 1.1 cents in 1886 to .75 cents in 1900. The overall reduction in revenue per ton mile, which is generally accepted by railway economists as a rough estimate of the overall rate level, exceeded the general downward trend in the wholesale price index.

Revenue per ton mile figures can be somewhat misleading, for they conceal the specific distribution of the overall decline in rates. While for the most part confirming the importance of declining rates in eastern Canada between 1875 and 1900, the series of specific rates contained in Tables 3 to 7 reveal the considerable variation in freight rate reductions, both between commodities and between locations. Between 1860 and 1900, the earnings per ton mile on the Grand Trunk declined 68 per cent. The charge for carrying building, roofing, and hanging paper from Montreal to Toronto was reduced by over 50 per cent, while the freight tariff on leather carried from Toronto to Montreal declined only 8 per cent. The price of shipping sugar and hardware from Montreal to points in Ontario generally declined more sharply for longer distances. Yet distance did not always account for variations in changes. Oil produced in the Sarnia-Petrolia area was carried by rail to Toronto and Montreal for about 30 per cent less by the end of the century than it had been in the 1860s; the rate to the intermediate point of Kingston, however, showed a sharper reduction of 36 per cent while the cost for carrying it the furthest, to Quebec City, fell by only 17 per cent.

4. National Archives of Canada [hereafter NA], Canadian Pacific Railway Records, MG 28 II 20, Shaughnessy Letterbook #76, pp. 59-65, Shaughnessy to Lord Strathcona, 16 November 1901, discusses technological changes on railways. On the adoption of the larger locomotives on the CPR, see W.K. Lamb, *A History of the Canadian Pacific Railway* (New York, 1977), and for a fine discussion of technological developments on North American railways, see Albro Martin's *Enterprise Denied* (New York, 1971), 55-71.

Table 1
Grand Trunk Railway Statistics
(Index 1860 = 100)

Year	Average Train Load*		Tons Of Freight Carried		Miles Travelled By Freight Trains		Expenses Per Train Mile** all services
	tons	index	tons	index	miles	index	
1860	54	100	685,624	100	1,804,347	100	0.85***
1870	—	—	—	—	—	—	—
1872	103	190	1,535,296	224	4,197,050	233	1.05
1873	—	—	1,608,584	235	—	—	1.14
1874	—	—	1,920,722	280	—	—	1.10
1875	118	217	1,951,151	285	5,272,557	292	0.92
1876	130	240	2,172,030	317	5,631,179	312	0.84
1877	138	254	2,284,770	333	5,643,509	313	
1878	132	242	2,302,432	336	5,944,365	329	
1879	161	296	2,532,396	369	5,492,792	304	0.78
1880	172	317	3,057,138	446	5,912,364	328	0.81
1881	176	324	3,516,062	513	6,036,762	335	0.82
1882	255	470	5,986,584	873	5,495,742	305	1.26
1883	202	373	5,510,794	804	6,714,603	372	1.01
1884	212	390	6,114,548	892	6,774,133	375	
1885	202	372	6,157,151	898	7,066,363	392	0.85
1886	223	411	6,609,969	964	7,009,589	388	0.90
1887	215	397	6,990,701	1020	7,510,338	416	0.90
1888	215	396	7,330,559	1069	7,365,623	408	0.92
1889	212	391	7,955,965	1160	8,166,160	453	0.89
1890	193	356	8,399,524	1225	9,331,703	517	0.83
1891	200	368	8,274,009	1207	8,790,688	487	0.85
1892	218	401	9,023,278	1316	8,988,806	498	0.85
1893	202	371	8,667,933	1264	9,291,593	515	0.83
1894	195	359	8,115,095	1184	8,946,684	496	0.73
1895	224	412	8,394,104	1224	7,851,463	435	0.83
1896	226	416	8,787,293	1282	8,520,970	472	0.80
1897	223	411	9,186,206	1340	9,000,545	499	0.76
1898	—	—	9,193,654	1341	9,337,678	518	0.80
1899	236	435	10,300,793	1502	9,885,528	548	0.82
1900	237	436	10,393,986	1516	9,649,082	535	0.89

* Average train load = ton miles/freight train mileage

** Expenses are not divided between passenger and freight services, so the figure here represents total expenses/total train miles

*** Based on 1861 train miles

Sources: Canada. National Archives (NA), RG 30, "History of the Grand Trunk Railway of Canada," Vol. 10394, Appendix "Statistics"; RG 2, Series 3, "Evidence, Royal Commission on Railways," testimony of Lewis J. Seargeant, Montreal, 16 December 1887; Province of Canada, *Sessional Papers* (1862), #13, Grand Trunk Railway Statistics; *Poor's Railroad Manual of the United States, 1872-77*; Canada, *Sessional Papers, 1875-1901, Railway Statistics*.

Table 2
General Rate Level Estimate Freight Earnings Per Ton Mile
Grand Trunk and Canadian Pacific Railways
(Index 1900 = 100)

	Grand Trunk Railway				Canadian Pacific Railway			
	Earnings		Real Earnings		Earnings		Real Earnings	
	Per Ton	Per Ton	Per Ton	Per Ton	Per Ton	Per Ton	Per Ton	
	Mile		Mile*		Mile		Mile	
	cents	index	cents	index	cents	index	cents	index
1860	1.99	316	n.a.	n.a.				
1872	1.36	216	1.03	164				
1873	1.42	225	1.09	173				
1874	1.15	183	0.88	140				
1875	0.99	157	0.79	125				
1876	0.81	129	0.69	110				
1877	0.80	127	0.70	111				
1878	0.74	117	0.71	113				
1879	0.67	106	0.63	100				
1880	0.71	113	0.62	98				
1881	0.67	106	0.58	92				
1882	0.73	116	0.61	97				
1883	0.80	127	0.70	111				
1884	0.73	116	0.66	105				
1885	0.66	105	0.65	103				
1886	0.71	113	0.73	116	1.10	139	1.13	143
1887	0.71	113	0.69	110	1.01	128	0.99	125
1888	0.73	116	0.69	110	1.02	129	0.96	122
1889	0.74	117	0.70	111	0.92	117	0.88	111
1890	0.71	113	0.68	108	0.84	106	0.81	103
1891	0.70	111	0.67	106	0.91	115	0.87	110
1892	0.65	103	0.68	108	0.84	106	0.87	110
1893	0.64	102	0.65	103	0.87	110	0.88	111
1894	0.65	103	0.70	111	0.87	110	0.95	120
1895	0.64	102	0.73	116	0.80	101	0.91	115
1896	0.63	100	0.76	121	0.75	95	0.90	114
1897	0.64	102	0.75	119	0.78	99	0.91	115
1898	—	—	—	—	0.76	96	0.83	105
1899	0.60	95	0.66	105	0.74	94	0.81	103
1900	0.63	100	0.63	100	0.79	100	0.79	100

NOTE:

Freight earnings/ton miles is only a rough estimate of the general rate level and, as the additional material included in this paper suggests, should be interpreted as providing an indication of the general trend rather than as a guide to specific rate changes. It should be noted that at least two other factors aside from rates can affect revenues per ton mile, a change in the composition of freight taking high or low rates, and a change in the length of haul. Statistics on freight composition for the Grand Trunk prior to 1885 are not available but after 1885, the proportions of low-grade and higher-grade freight remain fairly constant. Because rates on longer hauls tended to be lower, one would expect an advance in the average length of haul to reduce the overall rate level. While the average haul on the Grand Trunk increased somewhat in the late 1870s, over the entire period 1872-1900, it actually declined.

*Michell's general wholesale price index is utilized.

Sources: See Table 1; M.C. Urquhart and K.A.H. Buckley, eds. *Historical Statistics of Canada* (Toronto, 1965), Series J1 and S149.

Table 3
Examples of Freight Rates Toronto to Montreal
(\$/100 lbs. Index, 1900 = 100)

	GTR Earnings Per Ton Mile Index	Grain Spring	Hardware Fall	Paper Fall	Packing House Products Fall	Leather Fall					
1860	316	0.200	160								
1865	n.a.		0.300	167	0.360	211	0.300	130	0.250	108	
1872	216	0.180	144								
1874	183		0.225	125							
1876	129	0.150	120								
1887	112	0.150	120								
1896	100	0.100	80	0.180	100	0.180	105	0.240	104	0.230	100
1900	100	0.125	100	0.180	100	0.170	100	0.230	100	0.230	100

Table 4
Examples of Freight Rates Montreal to Toronto
(\$/100 lbs. Index, 1900 = 100)

	GTR Earnings Per Ton Mile Index	Hardware Spring	Paper Spring	Sugar Fall			
1864	n.a.	0.200	125	0.400	267	0.20	142
1874	183	0.225	141			0.30	200
1887	112	0.120	75			0.10	66
1896	100	0.140	88	0.180	120	0.15	100
1900	100	0.160	100	0.150	100	0.15	100

Table 5
Oil Rates From Sarnia/Petrolia
(\$/100 lbs. Index, 1900 = 100)

	GTR Earnings Per Ton Mile Index	To Toronto	To Kingston	To Montreal	To Quebec				
1865	n.a.	0.20	143	0.33	157	0.35	140	0.35	120
1891	111	0.12	86	0.22	105	0.21	84		
1898	(100)	0.15	107	0.22	105	0.25	100	0.30	103
1900	100	0.14	100	0.21	100	0.25	100	0.29	100

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Table 6
Sugar Rates From Montreal
(Fall)
(\$/100 lbs. Index, 1900 = 100)

	GTR Earnings Per Ton Mile Index	To London	To Hamilton	To Toronto	To Kingston	To Quebec					
1858	(316)	0.50	294	0.34	213	0.30	200	0.20	154		
1864	n.a.	0.25	147	0.26	163	0.25	167	0.24	185		
1874	183	0.40	235			0.30	200	0.23	177	0.25	208
1887	113	0.19	112			0.12	80	0.10	77	0.18	150
1892	103	0.18	106	0.16	100	0.15	100	0.14	108		
1898	(100)	0.16	94	0.14	88	0.13	87	0.13	100		
1900	100	0.17	100	0.16	100	0.15	100	0.13	100	0.12	100

Table 7
Hardware Rates From Montreal
(Spring)
(\$/100 lbs. Index, 1900 = 100)

	GTR Earnings Per Ton Mile Index	To London	To Stratford	To Toronto	To Kingston				
1865	n.a.	0.25	132	0.31	163	0.20	125	0.16	114
1874	183	0.375	197			0.225	141	0.15	107
1887	113	0.19	100			0.120	75	0.10	71
1893	102	0.18	95	0.21	110	0.14	88	0.12	86
1900	100	0.19	100	0.19	100	0.16	100	0.14	100

Sources: All tables except Table 5: NA, RG 2, Series 3, "Evidence, Royal Commission on Railways," testimony of John Earls, Montreal, 15 December 1887; NA, RG 30, vol. 8546, Grand Trunk Railway, *History of Freight Rates in the Provinces of Ontario and Quebec* (Montreal, 10 January 1912). Table 3: NA, RG 30, vol. 2001, pp. 251-61; vol. 10817, minute 389, 13 October 1896. Table 4: NA, RG 30, vol. 2001, pp. 132-43. Table 5: NA, RG 30, vol. 2001, pp. 300-4; vol. 8146, tariff GS6. Table 6: NA, RG 30, vol. 2001, pp. 76-85, 132-43, 351. Table 7: NA, RG 30, vol. 2001, pp. 132-43, 388-518.

These variations demonstrate that the distribution of the benefits which the expansion of the railway network and technological advances made possible were affected by, and cannot be understood apart from, the rate-making practices of the railways. Those business and political leaders who tried to fathom the complex structure of tariffs created by railway managers were frustrated to discover that the price of transportation

often bore no relation to cost. In fact, since the typical train carried a variety of commodities, each having its own particular handling requirements, it was almost impossible to establish the cost of moving any one commodity on that train. In addition, there were a large number of general costs associated with railway company operations which could only be allotted arbitrarily to specific freight movements. George Olds, a Canadian Pacific freight agent for over a quarter of a century, explained that it was "troublesome" to calculate the cost of carrying any particular item, and described his own rather crude system of "cost accounting":

All you know is that at the end of the year you carried so many passengers and have so much money for them, and so many tons of freight over a certain mileage, and you have so much money for them, and you have paid so much interest charges and wages, and what have you left? And that is all you know, and you have not time to consider much else.⁵

With one eye on regular year-over-year comparisons of revenues and expenses, freight agents and traffic officials relied on instinct, precedent, and experience in setting rates, responding as best they could to commercial and competitive pressures.

The commercial considerations facing railway managers reflected their industry's peculiar combination of both monopolistic and competitive characteristics. For some communities in the nineteenth century, one railway company provided the only transportation link with markets and suppliers. Others watched as once-competitive lines amalgamated or entered into various types of cooperative arrangements. There is little doubt that increased railway self-regulation in the 1880s and the amalgamation of smaller lines into larger systems expanded the opportunities for collusion between companies. Although shippers might experience the railway as a monopoly, however, many forms of competition continued to govern the industry.

The expansion of the rail system and the steady technological developments which improved railway performance involved a heavy investment of capital. Both these capital costs and a number of operating expenses did not vary with the amount of business performed. It is estimated that in the late nineteenth century these costs amounted to around two-thirds of the total expenses of most railways. To cover these costs, railway managers were constantly tempted to attract any freight available, even at low prices. At many points, traffic had to be attracted away from other railways or from water carriers. Even in the absence of this kind of competition, freight agents had to make sure that the rates they were charging would allow the products of their customers to compete in their destined market.⁶

5. NA, Records of Canadian Transport Commission, RG 46, BRC Transcripts, vol. 13, file "volume 31," p. 3088.
6. Throughout the discussion of rate-making, I have relied on D. Philip Locklin, "The Literature on Railway Rate Theory," *Quarterly Journal of Economics* (February 1933): 167-230; John Maurice Clark, *Standards of Reasonableness in Local Freight Discriminations* (1910, rep. New York, 1968); William Z. Ripley, *Railroads: Rates and Regulations* (1912, rep. New York, 1973); T.D. Heaver and James C. Nelson, *Railway Pricing Under Commercial Freedom* (Vancouver, 1977), particularly 157-84.

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In spite of some cooperative efforts, interrailway competition continued to play a role in determining the level of rates. As the Canadian Pacific expanded into Ontario in the 1880s, it battled the Grand Trunk for local traffic. One Canadian Pacific executive admonished local freight managers to counter the special rates he suspected the Grand Trunk was offering to the livestock trade at Toronto and other major centres. Although by the mid-1890s the two railways pooled their revenues from the Toronto livestock trade, all such arrangements remained fragile. Railway competition could thrive in the most unlikely places. Although the Canadian Pacific appeared to enjoy a complete monopoly in Manitoba during the 1880s, eastbound livestock rates on the Canadian Pacific were adjusted to meet those of the Northern Pacific Railway. Otherwise, ranchers and other producers would simply drive their cattle to the stations where rates were lowest, regardless of the international border. The freight rate on other key commodities from Manitoba such as grain responded to changes south of the border, if only because railway managers sought to avoid provoking or inflaming rate controversies which might affect their stock and bond sales overseas.⁷

Competition between railways was strongest on through traffic to the eastern seaboard. The Grand Trunk was constructed in order to capture a share of the lucrative traffic of the American midwest from railways south of the border. It continued to struggle against those railways, which were in many ways better situated to carry that traffic. During the 1870s and 1880s, the Grand Trunk engaged in a series of rate wars which saw through rates on grain and meat drop precipitously. In 1885 the rate on grain from Chicago to New York fell to seven cents per hundred pounds, a figure which included three cents in terminal charges at New York. Evidence submitted and then withdrawn from the Royal Commission on Railways by the Grand Trunk suggested that the revenue per ton mile on through American traffic had been as low as .38 cents in the second half of 1885, compared to a figure of one cent per ton mile on the Grand Trunk's local Canadian traffic.⁸ These rate wars also affected the rate structure of goods moving from Ontario to the Atlantic seaboard and from the midwest to Canadian ports. In 1885, for example, a Canadian miller complained that shippers in Chicago

7. NA, MG 28 III 20, Shaughnessy Letterbook #3, pp. 808-09, Shaughnessy to E. Tiffin, 20 January 1885; *ibid.*, #4, pp. 229-30, Shaughnessy to E. Tiffin, 6 March 1885; *ibid.*, #5, p. 183, Shaughnessy to J.M. Bosworth, 12 July 1885; *ibid.*, Van Horne Letterbook #39, pp. 735-34, Van Horne to L.J. Seargeant, 24 April 1894; *ibid.*, #2, pp. 633-34, Van Horne to William Harder, 11 October 1883; *ibid.*, #3, p. 757, Van Horne to Harder, 1 December 1883.

8. Currie, *Grand Trunk Railway*, 336-41; NA, Privy Council Records, RG 2, Series 3, Dormants, vol. 46, "Evidence, Royal Commission on Railways," testimony of Lewis J. Seargeant, Montreal, 16 December 1887. The statistics and his testimony based on them have been crossed out, although they do not seem that unreasonable. Perhaps they were felt to be too much of an estimate and politically explosive. Thomas Ulen provides useful evidence on grain rates from Chicago during the 1880s in his "Railroad Cartels Before 1887," *Research in Economic History*, 8: 125-44.

paid only twenty-two cents to send a barrel of flour to Montreal, whereas millers in Brantford and Guelph were paying thirty-five cents per barrel.⁹

Water carriers generated a different but equally potent source of competition. A complete system of navigation linked Chicago, Duluth, Port Arthur, and numerous ports on the Great Lakes to Montreal and beyond to the Maritime provinces. For seven or eight months of the year, one traffic manager lamented, "railways could be dispensed with altogether."¹⁰ The transportation revolution was not confined to the land; lake and ocean freighters improved their carrying capacity and speed with the introduction of steam and iron. Ocean rates both east- and westbound declined dramatically in the 1870s and 1880s.¹¹ Although both the Grand Trunk and Canadian Pacific acted to gain some control of the steamers on the Great Lakes, tramps calling between various ports there and between Montreal and the Atlantic seaboard maintained competitive conditions.

Many of the largest shippers, such as the milling firm W.W. Ogilvie Company, admitted that they rarely used the railways when the alternative of water carriers was available.¹² The railway companies could offer some advantages in speed and handling, particularly to smaller shippers, and did succeed in increasing their share of the grain trade to Montreal during the 1880s. In order to attract traffic, however, the railways had to reduce their prices within range of (though rarely as low as) the steamer rates. During December and January, Toronto grain merchants might pay as much as twenty-five cents per hundred pounds to ship wheat to Montreal, but this rate gradually declined as the season of navigation approached, falling as low as 12.5 cents during the summer months. These seasonal rate variations applied on most goods throughout the nineteenth century.¹³ Well into the 1880s the Grand Trunk also tried to counter the

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9. "Local and Through Freights," *Monetary Times*, 12 June 1885, 1393-94. For a discussion of the grain rate structure which had evolved by 1905 as a result of US rates, see NA, RG 46, BRC, vol. 8, file "volume 10", pp. 2851-71.
 10. NA, RG 2, Series 3, vol. 46, "Evidence, Royal Commission on Railways," testimony of Lewis J. Seargeant, Montreal, 16 December 1887.
 11. Kris Inwood, "Effective Transportation and Tariff Protection," Working paper #85-24, Department of Economics, Saint Mary's University, Halifax, 1985; D.C. North, "Ocean Freight Rates and Economic Development," *Journal of Economic History*, 18 (1958): 537-55.
 12. NA, RG 2, Series 3, vol. 46, "Evidence, Royal Commission on Railways," testimony of Wm. Ogilvie, Montreal, 21 January 1887; cf. James Norris, Montreal, 13 January 1887; Hugh McLennan, Montreal, 17 January 1887; and Alexander Mitchell, Montreal, 24 January 1887.
 13. See, for example, the railway and steamer rates published in "Commercial," *Monetary Times*, 19 August 1870, 11 August 1871, 3 May 1872, 28 June 1872, and 9 July 1876. For an example of other seasonal rates, see NA, RG 30, vol. 8546, "History of Freight Rates in the Provinces of Ontario and Quebec."

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attractiveness of inexpensive water carriage by offering rebates to those shippers who agreed to ship their goods by rail all year round.¹⁴

It was not always easy to predict, however, where water or rail competition would be effective. In the case of freight between Montreal and Toronto, for example, west-bound steamships were more likely to have excess capacity and therefore provide real competition in carrying cargo. As a result, throughout much of the nineteenth century, it cost less to ship freight by rail from Montreal to Toronto than to send it the other direction. However, exceptions to this rule abounded, and various Toronto manufacturers were granted the lower westbound rates on eastbound traffic so that they could compete on even terms with their Montreal counterparts.¹⁵

Some Toronto manufacturers were granted lower eastbound rates because the railway companies had a direct interest in ensuring that the goods produced on their line and offering potential traffic could successfully compete in their ultimate markets. While merchants usually paid freight charges, manufacturers often absorbed the proportion of any price differences between their product and a competitor's which was attributable to the rates. In the late 1870s, for example, a Toronto oil distributor paid the same amount of freight on oil brought from refineries in London and Petrolia, Home Oil of Petrolia having to pay the difference itself. Manufacturers, of course, sought as much as possible to have the railways absorb these kind of differences and equalize freight conditions. The Canada Southern Railway, which could only benefit from any oil trade which developed between Petrolia and Toronto rather than between London and Toronto, assisted Home Oil with a system of rebates.¹⁶ In the late 1890s, the Grand Trunk became alarmed at the number of flour mills in western Ontario which were closing due to competition from millers in the northwest. A small number of "reliable" millers were granted a rebate on both Manitoba wheat shipped into their mills and the flour they shipped out.¹⁷ Such special arrangements allowed the railways to encourage valuable sources of traffic while ensuring that the freight was not carried by competing carriers.

14. NA, RG 2, Series 3, vol. 46, "Evidence, Royal Commission on Railways," testimony of John Earls, Montreal, 15 December 1887. The CPR followed a similar practice: see *ibid.*, testimony of George Olds, 9 December 1887.

15. NA, BRC Transcripts, volume 13, file "volume 31", pp. 3030, 3442-48, 3224-38.

16. Ontario Archives, John Fiskens Papers, MU 1040, file "Business Correspondence, 1878," Star Oil Company to Fiskens, 9 October 1878; MU 1041, file "Business Correspondence, 1878," Home Oil Works to Fiskens, 18 March and 17 April 1878, and R.B. Moodie, Grand Trunk Freight Department to Shedden & Company, 14 March 1878; MU 1042, file "Business Correspondence, 1878," Home Oil to Fiskens and Co., 26 June 1878. I am indebted to Hugh Grant for directing me to this collection.

17. This arrangement is described by David Pottinger of the Intercolonial Railway, in NA, Department of Railways and Canals Records, RG43, vol. 867, file 87173, Pottinger to A.G. Blair, 15 February 1900. The Intercolonial manager was reluctant to join in this rebating system.

Market competition created a web of agreements between the railways and various shippers, a web which became increasingly tangled as Canada became more industrialized. The brewing industry provides an interesting example of the complications which could arise. By the 1890s, advances in refrigeration and the production process made important economies of scale possible. Breweries in London and Toronto produced far more beer than their local populations could consume and adopted various strategies to expand their markets. The railways sought to capitalize on this new traffic and the Grand Trunk appears to have granted Carling of London rate concessions to other major consumption points. In 1895, the Canadian Brewers' Association convinced the Canadian Freight Association to offer similar lower rates on ale and beer from most manufacturing points to major centres. There was some suspicion that Carling continued to enjoy special concessions from the Grand Trunk. When all the concessions were cancelled by 1900, officials from Carling complained bitterly, while their counterparts at Labatt's in Montreal continued to argue that the new rates allowed too much competition in Labatt's Montreal market.¹⁸ At the turn of the century, Canadian railways became concerned with the kinds of complications created by similar special rate agreements which had developed haphazardly to transport the products of industries such as stove, paper, and textile manufacturers. Through greater industry self-regulation, railway managers sought to bring some order to the chaos of rates enjoyed by competing manufacturers.¹⁹

Railway officials denied that the special rate arrangements they entered into favoured individual manufacturers. Nevertheless, the ability of relatively centralized, stable industries to offer reliable and more easily served traffic made such arrangements highly attractive. In the highly decentralized and unstable milling business, W. W. Ogilvie's large milling operations allowed him to bargain for special favours from the railway industry. In the 1860s Ogilvie paid less than his competitors to bring wheat from points on the Grand Trunk west of Stratford to Montreal.²⁰ In the 1880s, Canadian Pacific

18. On the brewing industry, see James M. Gilmour, *Spatial Evolution of Manufacturing in Southern Ontario, 1851-91* (Toronto, 1972), 153-67. On the rates, see NA, Canadian National Railways Records, RG 30, Canadian Freight Association/Association of General Freight Agents, Minutes, vol. 10830, minute 95 (18 March 1896); vol. 10817, minute 356 (13 October 1896), 697 (20 May 1897), 810 (7 October 1897), 1125 (15 March 1898), 1287 (28 September 1899), 1908 (13 November 1899). *Ibid.*, vol. 10831, minutes 2109 (21 February 1900), and 2228 (25 September 1900). Cf. NA, RG 43, vol. 200, file 238, "Evidence, Commission on Railway Rate Grievances," testimony of H. Carling, London, 22 July 1901, and Mr. Labatt, Montreal, 25 September 1901.

19. For stoves, see NA, RG 30, vol. 10817, minutes 317 (29 September 1896), 512 (1 December 1896), 963 (15 September 1897), 1147 (15 March 1898), 1452 (20 October 1898), 1575 (8 March 1899), and 2062 (13 November 1899); vol. 10831, minutes 2152 (21 February 1900), and 2372 (25 September 1900). For textiles, see *ibid.*, vol. 10817, minutes 541 (26 January 1897), 600 (23 February 1897), 816 (15 September 1897), and 1198 (28 April 1898); vol. 10830, minute 2204 (7 March 1900). For paper, see *ibid.*, vol. 10817, minute 316 (29 September 1896), 389 (13 October 1896), 406 and 566 (26 January 1897), 941 (15 September 1897), 1144 (15 March 1898), and 2021 (13 November 1899).

20. *Ibid.*, vol. 2001, Grand Trunk Traffic Rates, 1858-65, pp. 251-61, 281-82, and 365-66.

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officials allowed the Ogilvie firm to pay a lower eastbound rate for grain reshipped from his western mills. Other grain merchants paid a higher rate and other millers could only obtain the lower rate on grain actually milled in western Canada. In 1884, Ogilvie also received a special all-rail winter rate via the United States in exchange for agreeing to have 250,000 sacks of flour ready to move at Port Arthur upon the opening of navigation. Canadian Pacific officials entered into this arrangement in an attempt to provide its new steamer service with eastbound freight when the shipping season began, and to demonstrate to other millers and grain merchants in the west that flour and wheat could be held through the winter for shipment in the spring.²¹

Other large manufacturing concerns offered attractive sources of traffic. For the Massey-Harris Company, which dominated the agricultural implement industry in Canada, all railways agreed to lower the cost of transporting machine parts and castings shipped between the company's various Ontario factories, as well as iron products shipped from its suppliers in Guelph. The Canadian General Electric Company enjoyed its own special rate for all the raw materials it shipped from Montreal, and a low commodity rate on copper wire.²² The William Davies Company bargained with both the Grand Trunk and the Canadian Pacific for the exclusive right to carry its traffic. The Grand Trunk won the contract by offering a preferential export rate on the packer's products.²³ The large, regular business which these firms and others such as E.B. Eddy and Imperial Oil could offer the railways gave them significant leverage in rate negotiations.²⁴

21. NA, MG 28 III 20, CPR Records, Van Horne Letterbooks #2, pp. 636-38, Van Horne to W. Harder, 11 August 1883; *ibid.*, #3, pp. 507-10, Van Horne to Harder, 12 November 1883; *ibid.*, #3, pp. 552-54, Van Horne to Harder, 16 November 1883; *ibid.*, #4, pp. 614-16, Van Horne to Harder, 31 January 1884; *ibid.*, #5, pp. 592-95, Van Horne to W.A. Hastings, 15 April 1884.
22. For Massey-Harris Company arrangements, see NA, RG 30, vol. 10817, minutes 308 (29 September 1896), 561 (26 January 1897), 610 (23 February 1897), 651 (10 March 1897), and 2005 (13 November 1899). For CGE arrangements, see *ibid.*, minutes 372 (13 October 1896), 871 (15 September 1897), and 1966 (13 November 1899); vol. 10830, minute 2284 (25 September 1900).
23. NA, RG 46, BRC Transcripts, vol. 12, file "volume 29," pp. 1732-39. It was thought that the rate had been first granted in 1893 or 1894; this suggests acquiring rate concessions may have been part of a broader policy of "conservative aggression" adopted by Joseph Flavelle upon joining William Davies Co.: see Michael Bliss, *A Canadian Millionaire* (Toronto, 1978), 37-52.
24. For E.B. Eddy arrangements see NA, RG 30, vol. 10817, minute "Ottawa Business," 1 October 1896. For Imperial Oil arrangements to the west, see MG 28 III 20, Van Horne Letterbook #3, pp. 960-61, 13 December 1883; *ibid.*, #7, p. 25, Van Horne to Col. Walker, 17 July 1884; *ibid.*, p. 540, Van Horne to Robert Kerr, 12 September 1884; *ibid.*, #8, pp. 223-24, Van Horne to Kerr, 20 October 1884; *ibid.*, #13, p. 404, Van Horne to John Egan, 15 September 1885. See Ken Cruikshank, "The Limits of Regulation: Freight Rate Regulation and the Board of Railway Commissioners, 1850-1930." Ph.D dissertation in progress, York University, for a discussion of the special rebate offered the oil company in the late 1890s.

Ogilvie and other large merchants and manufacturers also frequently received special contract rates because they could provide large quantities of goods on short notice to fill cargo space on ocean vessels. Railway officials were anxious to attract oceanbound freight in order to make their ports attractive to ocean freighters. Smaller grain merchants, in particular, often found that their larger competitors received a variety of lower rates, amounting to several cents a bushel, owing to the latter's ability to fill cargo space.²⁵ The system of contracting for special shipments represented one more factor in the rate-making process which rewarded large and frequent users of the railways.

Special rate arrangements were not limited to the manufacturing and grain sectors. The railways sought to channel mercantile trade through established communities to encourage business stability and ease of handling. The lower rates on groceries and hardware offered to leading merchants in major centres in Ontario in the 1860s developed by the end of the nineteenth century into a special tariff available to all shippers in large population centres.²⁶ The Canadian Pacific adopted a variation on the older eastern policy in the west during the 1880s and 1890s, under considerable pressure from Winnipeg merchants. By the close of the century, Winnipeg wholesalers who shipped to an approved list of retailers in other western centres received a rate equal to the balance of the low through rate from eastern Canada plus a small handling charge.²⁷ Initially, this arrangement allowed Winnipeg merchants to compete with their eastern counterparts for the trade of the west, provided the Canadian Pacific with a convenient distribution centre, and ensured some stability in the trading networks of the developing west by favouring established merchants.

Railway freight agents implied that their skill lay not in fixing rates but in understanding how competitive forces fixed the rates for them. They were probably right in thinking that the ways in which railway, water, and market competition affected the overall rate structure were little understood by shippers, who only saw that some communities, some routes, and some competitors benefited from lower rates. However, dissatisfied shippers were not wrong in wanting to gain some control over the rate-making process. Railway officials did enjoy a considerable margin of discretion. They could decide to offer lower rates to particular economic sectors in order to develop that type of traffic. They could also decide whether it was in their better interest to favour a small number of shippers or particular communities, or to equalize conditions between them.²⁸

25. NA, RG 2, Series 3, vol. 46, "Evidence, Royal Commission on Railways," testimony of John Earls, Montreal, 14 December 1887, and William Van Horne, Montreal, 20 December 1887.

26. See, for example, NA, RG 30, vol. 2001, Grand Trunk Traffic Rates, 1858-65, for early rates; *ibid.*, vol. 8546, "History of Schedule A," 10 January 1930.

27. Ruben Bellan, *Winnipeg First Century* (Winnipeg, 1978), 73.

28. This aspect was recognized by contemporary railway economists; see Ripley, 186-90; Clark, 74-87.

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In a revealing analogy, William Van Horne, president of the CPR, described the difficult decisions constantly facing railway managers in setting rates:

Our problem is very similar to that which a Finance Minister has to solve in providing the necessary revenues to meet the country's expenditures. A railway tariff, like a customs tariff, can never be satisfactory to everybody, however just it may be. Each individual or community looks to the effect upon himself or itself. The farmers in the Northwest think they should have the most favourable consideration. The ranchmen think the development of the cattle interest should be stimulated by very low rates; the lumbermen think the same of their particular industry, and so with the miners and everybody else. The argument is the same in every case. "Give us low rates in order that the business may be developed." But all of our business has to be developed and the Company has to live at the same time.²⁹

Van Horne's comparison was apt. Neither the gap between the cost and price of the service which railways sold nor the use of differential pricing was unique to the railway industry. But the choices railway officials made, like those concerning the National Policy tariff, were bound to be controversial because of their larger consequences for the industrial and mercantile development of the community. What Van Horne and other railway officials were reluctant to recognize was that the choices railway officials made were as political as those of a finance minister. Like the nation's tariffs, railway rate structures emerged from a process of conflict and compromise which could be criticized for favouring large, powerful, and established merchants, manufacturers, sectors, and communities. Unlike the informal and formal bargaining surrounding the revision of trade tariffs, however, the final decision over freight rates rested with a private interest, the railway corporation. Those shippers who believed that the system of rate-making placed them at a disadvantage or did not adequately respond to their changing economic situation increasingly challenged the final authority of the railways within that process.

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Competition and bargaining among shippers, communities, and railway managers created a freight tariff structure which contributed to and reinforced the industrial and mercantile centralization of the late nineteenth century. As Alfred Chandler has argued convincingly, modern mass production and mass distribution depended on the speed, volume, and regularity in the movement of goods that the coming of the railway and steamship made possible.³⁰ The declining cost of moving freight allowed the railways to offer rates low enough to assist those merchants and manufacturers with sufficient capital to produce for larger markets. The railways had an interest in encouraging, and subsequently became vulnerable to demands for, lower rates on the large amounts of freight offered by major shippers and central shipping centres. Whether correctly or not, those who felt themselves to be disadvantaged by the economic developments of the late nineteenth century could point to freight rates as one of the sources of their misfortunes.

29. NA, MG 28 III 20, CPR Records, Van Horne Letterbook #53, pp. 214-17, Van Horne to John J. Young, 23 April 1897.

30. Alfred Chandler, *The Visible Hand* (Cambridge, 1977), 207-08.

Partly as a result of changes in the transportation system, a number of merchant communities in Canada experienced a real decline in their fortunes in the nineteenth century. In his fine study of the Hamilton wholesale trade of the Buchanans, Douglas McCalla has demonstrated that the construction of the railway network in western Ontario during the 1860s and 1870s gave the Buchanans' customers improved access to the merchants of Toronto and led to the general decline of Hamilton as a wholesale centre. In 1865, Hamilton merchants imported sixty-six dollars for every one hundred dollars worth of goods brought in by their competitors in Toronto. By 1874, the gap was widening, so that for each one hundred dollars in goods shipped into Toronto, Hamilton imported forty-two dollars worth. While the Buchanan's business, and hence McCalla's story, concludes here, the decline of Hamilton as a wholesale centre continued. By 1885 and throughout much of the rest of the nineteenth century, for every one hundred dollars value of shipments received at Toronto, Hamilton merchants imported only twenty-two dollars in freight.³¹ Unlike Hamilton, another western Ontario city, London, actually improved its share of Ontario's import trade. In spite of its inland position, rail connections to the surrounding regions, and the presence of competing railways ensured that London's traditional role as a distribution centre would be recognized. It was granted the same kinds of seasonal rates granted to points where water competition was effective and import rates to the city were often equal to or only slightly greater than the rates enjoyed by Hamilton.

Toronto's central position in Ontario's railway network and a rate structure which supported the development of large distribution centres assisted that city's growing importance to Canada's mercantile trade. Toronto's share of the total import trade of Ontario grew from 30 per cent to 45 per cent between 1875 and 1885, remaining relatively stable thereafter. As Table 8 demonstrates, the merchants of Toronto and Montreal increasingly dominated Canada's import trade, at the expense of most other cities. Halifax, Saint John, Hamilton, Kingston, and Quebec City all experienced a relative decline in their positions as importing and distributing centres.

Although changes in the patterns of mercantile trade cannot be attributed solely to the coming of the railway, their freight rate policies represented a relatively visible target for criticism. Not surprisingly, business leaders in those communities which did not share in the benefits of the transportation revolution were apt to be critical of railway management. Support for a railway commission during the hearings of the Royal Commission on Railways in 1886 offers a crude measure of shipper dissatisfaction. As Table 9 indicates, business leaders in declining trading centres generally favoured a railway commission with control over the rate-making process. For example, whereas twenty-one of the twenty-five London witnesses expressed satisfaction with railway management, fifteen of the twenty-two Hamilton merchants and manufacturers argued for greater government control. A Hamilton merchant whose firm had been in operation since 1843, John Tilden, explained Hamilton's dilemma. The rate structure allowed Montreal

31. Douglas McCalla, *The Upper Canadian Trade, 1834-72* (Toronto, 1979), 109-13 and 179; Douglas McCalla, "The Decline of Hamilton as a Wholesale Centre," *Ontario History* 65 (1973): 247-54; *Sessional Papers*, 1876, 1886, 1901, Trade and Navigation Returns.

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Table 8
Mercantile Trade In Nine Citites

City	Percentage Share Value of Imports to Canada in Nine Cities		
	1875	1885	1900
Hamilton	4.55	3.88	4.10
Kingston	4.84	1.25	0.77
London	1.77	2.13	2.33
Ottawa	1.44	1.52	2.09
Toronto	12.62	17.86	18.91
Montreal	36.80	40.10	40.78
Quebec	4.84	3.80	3.24
Saint John	7.08	4.02	2.81
Halifax	7.23	6.10	3.77

Source: *Sessional Papers*, 1876, 1886, 1901, Trade and Navigation Returns

Table 9
Views of Business Leaders on Railway Commission by City
Royal Commission on Railways, 1886

City	Support	Oppose	No Opinion
Hamilton	15	5	2
Kingston	3	11	3
London	3	21	1
Ottawa	11	2	3
Toronto	20	16	6
Montreal	22	33	6
Quebec	14	1	0
Saint John	10	4	1
Halifax	6	2	2

Source: NA, RG 2, Series 3, vol. 46, "Evidence, Royal Commission on Railways."

and Toronto merchants to ship their goods to points nearer Hamilton such as London, Ingersoll, Woodstock, and Windsor for the same price as local businessmen. Shut out of what the merchants regarded as their natural market, they found that the advantages of these preferential rates were not reciprocal. Rail costs to Montreal and points east were higher than those from the same points, and this made expansion into those markets more difficult. Hamilton merchants and small manufacturers looked to government to help them defend their traditional economic position.³²

32. NA, RG 2, Series 3, vol. 46, "Evidence, Royal Commission on Railways," testimony of John Tilden, Hamilton, 19 April 1887, William Dixon and Jacob Zingsheim, Hamilton, 20 April 1887, and T.H. Macpherson, Hamilton, 18 April 1887.

Merchants and small manufacturers in other declining trading centres expressed support for a railway commission because they believed the existing tariff structure prevented them from distributing within their own territory. In Quebec City, where the construction of the North Shore Railway failed to reverse the city's diminishing economic importance, the business elite condemned railway management. A number of merchants who had once profited by reshipping iron, sugar, and oil to the north shore of New Brunswick complained that their customers now were better served by Saint John to the east and Montreal and Toronto to the west. Not only was it impossible to reship barrels of oil, one angry Quebec City shipper pointed out, but the through rate from Petrolia was actually lower to the Maritimes than it was to his city.³³ Merchants in Halifax and Saint John were equally dissatisfied with some of the trading patterns being encouraged by the railways. Only in Kingston, whose declining position in the national economy could be more clearly attributed to changes in water transportation, and which was home to a major locomotive manufacturer, were businessmen generally satisfied with railway management.

Even in two cities which advanced or maintained their position within the distribution network, Ottawa and Toronto, the suspicion lingered that the freight rate structure continued to favour the traditional centre of that network, the city of Montreal. Because of their proximity to the trading giant, Ottawa merchants were particularly disturbed by Montreal's rate advantages. One merchant testified that Montreal merchants could reship goods from Chicago to Ottawa for less than he could directly. Moreover, high local rates out of Ottawa to the smaller communities in the surrounding area gave merchants in the capital only a slight margin over their Montreal competitors. In Toronto, a number of small- and medium-sized merchants provided the support for greater government control of freight rates. Hugh Blain provided one of a number of examples of the problems faced by these merchants in distributing goods to nearby Ontario centres. On one recorded shipment, a Montreal competitor enjoyed a six cent a barrel advantage over his Toronto counterpart in shipping twenty-five barrels of sugar to Seaforth, even though the goods were carried three hundred miles further.³⁴

The belief that the rate structure produced by private railways deprived certain communities of their natural geographic advantages lay behind many of the rate grievances of the late nineteenth century. Merchants and small manufacturers were motivated to support or reject the existing railway rate-making process more by their location than by their specific occupation. However, in the case of those involved in the traditional flour and grain trade between western Ontario and the Maritimes, geographical location and occupation coincided.

33. *Ibid.*, "Evidence, Royal Commission on Railway," testimony of Elisee Beaudet, Richard Turner, and Andrew E. Vallerand, all of Quebec City, 9 December 1886; William G. Wurtele, Quebec City, 10 December 1886.

34. *Ibid.*, testimony of John Charles Brennan, Ottawa, 6 December 1886; Alexander J. Russell and George Howe, Ottawa, 7 December 1886; Alexander G. McCormick, Ottawa, 4 December 1886; Hugh Blain, Toronto, 23 October 1886; H. Darling, Toronto, 21 October 1886; M. McLaughlin and William Galbraith, Toronto, 28 October 1886; H.S. Howland, Toronto, 29 October 1886; and Cephas Goode, Toronto, 14 April 1887.

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The publication of low through rates to the Maritimes in the 1870s and 1880s played a role in undermining the business of those who had been involved in reshipping flour and grain from western Ontario to the Atlantic provinces. As Thomas Brodie explained, merchants in Quebec City once had thrived on the reshipment of small lots of from ten to forty barrels of flour. By 1886, however, the rates on grain from Toronto to Saint John reshipped through Quebec City were as high as eighty-two cents, compared to a through rate of fifty-two to sixty-two cents. As a result of these low through tariffs, Saint John merchants could compete for the local trade in Quebec City's traditional market in northeastern New Brunswick.³⁵

"I have had the misfortune to be brought up as a flour and grain merchant," lamented Henry W. Raphael of Montreal. Although most shippers in Montreal expressed strong support for railway management in 1886, fourteen of the twenty grain merchants wanted more government control of rates. Raphael and a number of other small- and medium-sized traders in Montreal relied on the reshipment of western Ontario's flour and grain to the Maritimes for a substantial portion of their business. As in Quebec City, declining through rates between those points squeezed out these enterprising middlemen. The through rate from a miller in Galt to Halifax, for example, was fifty cents per barrel by 1885, whereas a barrel shipped via Montreal took two higher local rates totaling seventy-three cents. John Lyman Smith, anxious for allies in support of his cause, argued that it was the Ontario millers who would eventually face insolvency. In order to keep their mills running at capacity and to maintain their farmer suppliers, the millers continued to consign flour to the saturated Montreal market. Smith assumed that without the Maritime reshipment trade, the flour would lie idle.³⁶ In fact, however, receipts and shipments of flour at Montreal had remained stable through most of the previous decade. What affected Smith and his colleagues was the fact that by 1886 only 46 per cent of that flour was being reshipped to the Maritimes compared to a figure of 83 per cent ten years previously. Montreal remained an important point of reshipment, but for grain and flour destined for Europe. It had ceased to be a significant entrepot for the flour trade bound east for the rest of Quebec and the Maritimes. Not surprisingly, those larger shippers involved in the export trade in Montreal did not share their counterparts' concern with the rate structure.³⁷

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35. Ibid., testimony of Hon. James G. Ross, Francis Kirouack, and Thomas Brodie, all of Quebec City, 9 December 1886; Victor Chateauvert, Quebec City, 10 December 1886.
 36. Ibid., testimony of John Lyman Smith, Montreal, 18 January 1887; Henry W. Raphael, Montreal, 17 January 1887; cf. John E. Kirkpatrick, Alphonse E. Gagnon, and Peter White, Montreal, 25 January 1887; Jacob E. Hunsicker and Robert S. Oliver, Montreal, 21 January 1887. "The Grain Trade," *Gazette* (Montreal), 13 January 1883 provides a perspective on the problems facing Montreal grain merchants.
 37. Statistics on Montreal grain trade drawn from *ibid.*, 1 January 1880, 5 January 1882, 6 January 1885, 7 January 1887, 5 January 1888, and 4 January 1890. NA, RG 2, Series 3, vol. 46, "Evidence, Royal Commission on Railways," testimony of William Ogilvie, James Norris, and Adam G. Thomson, all of Montreal, 13 January 1887; Hugh McLennan, Montreal, 17 January 1887; and Alexander Mitchell, Montreal, 24 January 1887.

Grain merchants in a number of cities also objected to the common use of special rates in the grain trade. The maxim that "one man's dollar ought to be as good as another's" did not seem to hold true for the grain trade, according to Alexander Tough of Montreal's George McBean and Company. Tough and his senior partner McBean testified that the railways offered rates three to seven cents below the regular grain tariff to a syndicate of Toronto firms who agreed to fill certain oceanbound vessels. These special rates were made available to other firms only after the syndicate failed to provide the required quantity of grain. James Carruthers confirmed the advantages his and other larger firms enjoyed by defending this kind of contract. The lower rates, he explained, represented a legitimate reward for the risk the grain merchants took in agreeing to ship large quantities of grain.³⁸ Alexander McBean, George's brother, who worked for another firm, was one of a number of shippers who warned of the consequences of this policy:

I look upon the small shippers as being just as essential to the welfare of the country as the large shipper, and I say more, that if the policy is persisted in, and the large shipper continually gets an advantage over the smaller one, the result will be that the large shipper will do all the trade — virtually he kills off the smaller ones.³⁹

Small- and medium-sized grain merchants hoped that a railway commission would counter the growing domination of their trade by large interests.

While some Toronto grain merchants shared similar concerns about special rates and their city's participation in the through trade between western Ontario and the Maritimes, those more closely associated with the millers faced other problems. George Chapman, a larger Toronto dealer and miller, complained that flour mills in Montreal did not pay any more for wheat shipped from Manitoba than did the nearer points in Ontario. Of more concern, low through rates gave midwestern American millers undue advantages in potential Canadian and export markets. The direct rate on flour to points in the Eastern Townships of Quebec from Chicago was about thirty-nine cents a barrel whereas the combined rate on wheat brought to a Toronto mill and reshipped out as

38. *Ibid.*, testimony of Alexander Tough and George McBean, Montreal, 15 January 1887; cf. Edgar Judge, Montreal, 13 January 1887; David Robertson, Montreal, 15 January 1887; Angus and James Clark, Toronto, 26 October 1886; Alexander G. McCormick and Richard P. Blake, Ottawa, 6 December 1886; and Thomas Brodie, Quebec City, 9 December 1886. For the arguments defending special rates, see, for example, James Carruthers, Toronto, 25 October 1886; Kenneth Chisholm, Toronto, 25 October 1886; and John H. Sproule, Toronto, 19 May 1887. There was more support for special rates in the Maritimes from both large and small shippers since a graduated rebate on grain had recently been introduced to meet American competition: see *ibid.*, testimony of James Chipman and Arthur F. Curren, Halifax, 15 November 1886.

39. *Ibid.*, testimony of Alexander McBean, Montreal, 13 January 1887; cf. William H. Knowlton, Toronto, 27 October 1886; Daniel Rourk, Toronto, 29 October 1886; George Laidlaw, Toronto, 13 April 1887; James Pringle, London, 23 May 1887; and George E. Forsyth, Halifax, 15 November 1886 for comments on the impact of special rates on smaller dealers.

flour to the same destinations was burdened with a freight charge of seventy cents.⁴⁰ During the 1890s, the millers of Ontario became increasingly concerned with the question of American and then western Canadian competition in the trade, leading a number of them to look for special advantages from the railways and for greater governmental control of rates.⁴¹

By the turn of the century, other merchants and manufacturers in southwestern Ontario were complaining to the government about low through American rates. These rates were the source of the most frequently heard grievance in the 1901 rate investigation. The problem was particularly galling for several manufacturers in the Windsor—Walkerville area who found that the rates enjoyed by competitors across the river in Detroit often were lower than theirs. The manager of the Kerr Engine Company and the maker of turned goods in Windsor both complained that they had to absorb the difference in freight charges to customers in various markets in Canada against their American competitors. A London wire and nail manufacturer provided evidence that the rates a major competitor in Cleveland paid only exceeded his rates by one cent per hundredweight, and were actually lower at a number of Ontario points west of London. “In reality,” remarked a London hardware merchant who confirmed that he often received American goods at lower rates, “a part of the subsidies granted to the railways have been given away to the United States distributor to enable people in foreign countries to cut us out.”⁴² The revitalized Canadian Manufacturers’ Association championed the cause of these small Ontario manufacturers in its brief before the rate investigation, arguing that the rate structure was counteracting the benefits of the National Policy tariff.⁴³ Like many merchants, a number of small- and medium-sized manufacturers in Ontario sought to defend and even enhance their markets against the encroachments of larger competitors, many of them located south of the border, made possible by the freight rate structure.

40. Ibid., testimony of George Chapman, Toronto, 22 October 1886.

41. NA, RG 43, vol. 200, file 238, “Evidence, Commission on Railway Rate Grievances,” John Campbell, St. Thomas, 17 July 1901; N.H. Stevens, Chatham, 18 July 1901; J.G. Clark, Sandwich, 20 July 1901; James Pringle, Stratford, 23 July 1901. See also *Daily Planet* (Chatham), 17 July 1901 for Stevens’ comments to a Board of Trade meeting and cf. “Railroad Discrimination,” *Monetary Times*, 21 December 1900.

42. NA, RG 43, vol. 200, file 238, “Evidence, Commission on Railway Rate Grievances,” R. Kerr and W.C. Duffy, Windsor, 19 July 1901; John Bowman, London, 22 July 1901; cf. F.W. Macpherson, Windsor, 19 July 1901; *Evening Record* (Windsor), 19 July 1901. NA, RG 46, BRC Transcripts, vol. 12, file “volume 30,” pp. 2605–11, 2657–59 contains similar complaints and a more detailed explanation of the Kerr Engine Company’s difficulties under the rate structure. See also “Discrimination in Railway Freights,” *Canadian Manufacturer*, 15 March 1895, and “They Want Fair Play,” *ibid.*, 21 June 1895.

43. NA, Canadian Manufacturers Association, MG 28 I 230, CMA Railway and Transportation Committee, vol. 67, minutes, meeting with SJM, 12 July 1901; *Evening Record* (Windsor), 15 July 1901; see also MG 28 I 230, vol. 67, report of committee to annual meeting, 5 and 6 November 1901. S.D. Clark, “The Canadian Manufacturers’ Association: A Political Pressure Group,” *Canadian Journal of Economics and Political Science* 4 (1983): 505–23 describes the reorganization of the CMA at the turn of the century.

In eastern Canada, a growing coalition of business interests challenged the rate-making authority of the railways. Merchants and small manufacturers in a number of centres sought to defend their established markets and trading relationships from the economic dislocation they associated with the railway rate structure. The flour and grain trade provides a useful illustration of the broader pattern. In that particular sector, smaller merchants in Quebec City, Montreal, and to a lesser extent Toronto, watched the decline of their important local trade with the Maritimes in the 1870s and 1880s. They found it difficult to reorient their activities, especially as their larger competitors appeared to enjoy special rates on their business. In the 1890s, these dissatisfied members of the business community were joined by a number of Ontario grain millers and merchants whose business was declining in the face of competition from points further west. They, too, complained that the freight rate structure favoured larger interests and offered superior rates to their new competitors. In a number of communities in eastern Canada, changes in the competitive situation of different members of the shipping community increasingly generated demands for greater government control of the railway industry.

In western Canada, the development of the railway network disrupted fewer established markets and trading relationships. Still, the Canadian Pacific's early tariff structure represented a threat to the preeminence of the Winnipeg firms who controlled trade in the northwest. The railway established through rates from eastern Canada to points west of Winnipeg which were lower than the rate on goods reshipped through Winnipeg. The through rate from Montreal to Regina was \$2.27 on first-class goods, compared to a combined rate for the same goods reshipped at Winnipeg of \$2.69. Winnipeg merchants aggressively and successfully sought to maintain the position of their firms and their city in the western distribution network. In 1886, the tariff on goods shipped out of Winnipeg was reduced by 15 per cent and over the next few years they won other concessions on such items as dry goods and agricultural implements from the east to the city.⁴⁴

The 1886 agitation marked the beginning of a long crusade led by James Ashdown and other prominent Winnipeg merchants for lower rates, purportedly on behalf of all the west. Reductions in the local general merchandise rates, which were substantially higher than similar rates in eastern Canada, would have further enhanced Winnipeg's competitive position against eastern wholesale houses trying to ship into the west. Lower eastbound grain rates would strengthen grain merchants in Winnipeg, who had already succeeded in making their city a centre for grading and labeling wheat. Canadian Pacific officials were not wrong to see a certain amount of Winnipeg self-interest in western rate grievances, but they gravely underestimated the appeal of

44. NA, MG 28 III 20, Van Horne Letterbook #15, pp. 581-83, Van Horne to Acton Burrows, 5 March 1886; *ibid.*, pp. 807-08, Van Horne to Edwin R. Rogers, 19 March 1886; *ibid.*, pp. 902-03, Van Horne to John Egan, 25 March 1886; #16, pp. 580-83, Van Horne to Acton Burrows, 10 May 1886; Donald Kerr, "Wholesale Trade on the Canadian Plains in the late Nineteenth Century: Winnipeg and its Competitors," in *Settlement of the West*, ed. Howard Palmer (Calgary, 1977), 145; Bellan, *Winnipeg*, 49 and 52-53.

those grievances. Low grain prices throughout the 1880s and the early 1890s made the freight rates charged by the railway prohibitory to many western farmers and grain merchants, who joined with Winnipeg in protesting the discrepancies between eastern and western as well as grain freight rates.⁴⁵

At the same time as Winnipeg merchants attempted to enhance their competitive position against eastern shippers, business leaders in the rapidly developing centres further west increasingly attacked Winnipeg's favoured position in the distribution network. In 1894, the commission appointed to study western rate grievances heard from a number of merchants dissatisfied with the advantages the rate structure gave to Winnipeg firms. Brandon merchants complained that the high local rates made it impossible for them to compete in the wholesale trade. The Calgary Board of Trade complained that it cost ninety-five cents more to reship a barrel of sugar from Montreal to Revelstoke through Calgary rather than through Winnipeg.⁴⁶ It is little wonder that when the Winnipeg merchant James Ashdown was asked by the Edmonton Board of Trade to give his views on the presentation which they had prepared for the commission, he told them "It would be well to keep in mind that Edmonton was a part of the whole country and comparisons made should be with eastern rather than Winnipeg rates."⁴⁷ However, merchants did not stop making comparisons with Winnipeg. During the rate investigation of 1901, businessmen in Regina, Victoria, and Vancouver complained of the way in which the rate structure favoured their Winnipeg competitors. An agent for McCormick Harvester explained that his company set up an office in Regina to be closer to its market only to find that it was better off distributing its product from Winnipeg. The Canadian Pacific Railway, several Pacific Coast businessmen complained, had built up a rate structure which created clients for Winnipeg in the British Columbia interior. In competing for business in Rossland, the British American Paint Company of Victoria found that it paid twenty-one and thirteen cents more than its Winnipeg and Montreal competitors respectively.⁴⁸

45. For the rate investigation of 1894, in which Winnipeg and the province of Manitoba outlined their case, see "Freight Rates Commission," *Daily Tribune* (Winnipeg), 13 and 14 December 1894, and 21 January 1895. The brief was resubmitted to the 1901 investigation; "Freight Rate Enquiry," *Tribune* (Winnipeg), 12 September 1901. The response which this kind of protest evoked can best be seen in the voluminous set of petitions, about 125 in all with twenty to twenty-two names on each, signed by local merchants and farmers throughout the west which helped to prompt the 1894 investigation in the first place; see NA, RG 2, Series 3, Dormants, vol. 105, file 1894, #1500.

46. "The High Freight Rates," *Daily Tribune* (Winnipeg), 10 December 1894; for a review of the evidence heard at Brandon by the investigation, see "The Commission," *Mail* (Brandon), 13 December 1894; "The Rates Commission," *Herald* (Calgary), 18 and 19 February 1895. The presentations also supported Winnipeg's comparison of western and eastern rates.

47. "A Talk on Freight Rates," *Bulletin* (Edmonton), 31 January 1895.

48. NA, RG 43, vol. 200, file 238, "Evidence, Commission on Railway Rate Grievances," W.J. Cummings (McCormick Harvesting Co.) and J.M. Young, Regina, 15 August 1901; Mr. Munroe (British America Paint Co.), Victoria, 28 August 1901; F. Boscombe and W.H. Malkins, Vancouver, 30 August 1901.

In the east freight rate complaints of merchants and manufacturers often represented a defence of established patterns of trade. In the west businessmen castigated railway officials for failing to adjust the rate structure in response to the rapid development of new centres of economic activity. In both regions throughout the late nineteenth century a growing number of Canadian businessmen shared the experience of economic dislocation, increasing competition, and industrial concentration generated by the revolution in transportation technology. They gradually challenged the ultimate authority of the railways, through their rate-making practices, to determine the pattern of economic development in Canada. This broad and diverse coalition of dissatisfied shippers eventually came to share a common goal — the creation of a railway commission. Whereas in 1883, a House of Commons committee soundly defeated a proposal to create a railway regulatory agency 147 to 12, in 1901, a motion demanding that railway companies be brought under the control of a Board of Railway Commissioners with full power to enforce the Railway Act received the unanimous support of the House. The change reflected the growing number of business and political leaders who had become dissatisfied with the outcome of the transportation revolution.

iv

One industry remained opposed to the creation of greater regulatory control over the railways. In the 1880s, the Grand Trunk, Canadian Pacific, and other smaller railway lines publicly and privately opposed any such proposal. Joseph Hickson, the general manager of the Grand Trunk, argued that the common law afforded ample protection to shippers and that a commission would be an “irresponsible body of men dealing with very serious questions affecting large interests.”⁴⁹ The unqualified hostility of the railways and their orchestration of shipper opposition to proposals to create a regulatory tribunal delayed the adoption of such an innovation until the early twentieth century. After 1900, railway officials dropped their formal opposition to the railway commission, but sought to restrict the powers of the new regulatory authority severely. Even in these efforts they failed, for in spite of vigorous railway industry opposition, the government granted the Board of Railway Commissioners almost unlimited power over freight rates. Whatever theoretical advantages state regulation might have offered

49. NA, RG 2, Series 3, vol. 46, “Evidence, Royal Commission on Railways,” testimony of Joseph Hickson, Montreal, 20 December 1887; cf. testimony of William Van Horne, Montreal, 20 December 1887.

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to the industry, it is clear that the railway corporations carefully followed rather than led the drive to create a railway commission.⁵⁰

By the turn of the century, however, neither the railways nor the government could ignore the growing coalition of business interests which supported more effective government control of freight rates. What united this diverse group was a concern with the uneven way in which the private rate-making process distributed the benefits of the transportation revolution. The general decline in transportation costs resulting from the expansion of the railway network and advances in locomotive technology contributed to the greater integration of the Canadian economy and the emergence of modern production and distribution techniques. Business and political leaders in various metropolitan centres hoped to use the power of the government to shape this economic transformation so as to advance their local and national competitive positions. At the same time as it made possible the development of large-scale mercantile and industrial enterprise, then, the transportation revolution also created the conditions for a significant expansion of the state's authority over the largest of all nineteenth-century industries — the railways.

50. For further details on railway opposition and an elaboration of this argument, see Ken Cruikshank "The Limits of Regulations." Ph.D dissertation in progress, York University, ch. 3 and 4. The notion that the railway industry opposed rather than supported regulation only became controversial after the publication of Gabriel Kolko's *Railroads and Regulation*, and that work's uncritical acceptance by a wide spectrum of scholars. Yet Kolko's own detailed arguments are more vague and ambiguous than his overall interpretation. For example, he admits that the 1906 Hepburn Act, which granted the Interstate Commerce Commission extensive rate regulatory powers, was extremely advantageous to shippers. He rather lamely criticizes the bill for failing to provide the nonshipping public with access to the commission. This may confirm Kolko's New-Left argument that the fight over regulation represented "an internal class affair" but hardly demonstrates that the regulatory initiative was supported by, or even favoured, one particular sector of that "class," the railway industry.