

ACNT

HE2807

.C3

1917

C. 1 aa

REPORT  
OF THE  
ROYAL COMMISSION  
TO INQUIRE INTO  
RAILWAYS AND TRANSPORTATION  
IN  
CANADA

PRINTED BY ORDER OF PARLIAMENT.



OTTAWA  
PRINTED BY J. DE L. TACHÉ,  
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY.  
1917.

[20g—1917.]

## CONTENTS.

	PAGE
Commission .....	v
Report of Mr. A. H. Smith, Sir H. L. Drayton and Mr. W. M. Acworth.....	vii
Report of Sir Henry L. Drayton and Mr. W. M. Acworth:—	
INTRODUCTORY.....	ix
Part I.—Canadian Railways—	
Mileage, Capital, and State Aid.....	ix
Apportionment of Mileage.....	x
Revenue, gross and net.....	xi
Investment in road and equipment.....	xii
Return on Capital.....	xiii
Government Aid in general.....	xiv
“ “ to Canadian Northern.....	xiv
“ “ to Canadian Pacific.....	xvi
“ “ to Grand Trunk.....	xvii
“ “ to Grand Trunk Pacific.....	xviii
Total Public Investment.....	xix
Proportion of Public Investment.....	xix
Historical Development.....	xx
Growth of Canadian Railways.....	xxi
Part II.—The Grand Trunk System—	
Grand Trunk Pacific Finance.....	xxiii
Grand Trunk liability for Grand Trunk Pacific.....	xxv
Grand Trunk Company's Proposal.....	xxvi
The Grand Trunk Case.....	xxvi
Inception of the National Transcontinental.....	xxvii
Letter from the President of the Grand Trunk.....	xxix
Hearing of Grand Trunk Officials at Montreal.....	xxx
Grand Trunk Pacific Case.....	xxxi
Commission's Conclusions.....	xxxii
The Parent Grand Trunk Company.....	xxxiii
Grand Trunk Maintenance Expenditure.....	xxxiii
Grand Trunk Capital Expenditure required.....	xxxiv
Effect on Canadian business.....	xxxiv
Commissioner's Recommendation.....	xxxv
Part III.—The Canadian Northern System—	
Canadian Northern Position in 1914.....	xxxvi
Canadian Northern Annual Report for 1916.....	xxxvii
Canadian Northern Estimate for 1914.....	xxxviii
Canadian Northern Estimate for 1917.....	xxxix
Comparison with Canadian Pacific.....	xl
Prospective Requirements of Canadian Northern.....	xl
Value of Canadian Northern undertaking.....	xli
1. Cash investment.....	xli
2. Physical basis.....	xlii
3. Going concern.....	xliii
Conclusion as to Canadian Northern.....	xliv
Part IV.—Possible Methods of Public Control—	
Government operation discussed and rejected.....	xliv
The Canadian Pacific position one obstacle.....	xlvi
Further Reasons against Government operation.....	xlvi
Receivership discussed and rejected.....	xlvii
Transfer to a new body recommended.....	xlviii
Suggested Transfer of all the Railways to the Canadian Pacific discussed.....	xlviii
Suggested transfer of the whole or a portion of Canadian Northern to Canadian Pacific discussed.....	xlviii
Possibility of forming a commercial company discussed.....	xliv
The Mexican precedent.....	xliv
The New York Subway precedent.....	1
Canadian Railways should be under Canadian control.....	1
Part V.—The Dominion Railway Company—	
Government operation not recommended.....	li
Recommendation of Independent Board of Trustees.....	lii
Constitution of Board, and tenure of office.....	lii
Board to be non-political.....	liii
Board to be permanent and self-perpetuating—Australian experience.....	liii
Railways not a proper subject for direct parliamentary control.....	liv
Growth of extra-parliamentary functions of the State.....	liv

	PAGE
<b>Part V.—The Dominion Railway Company.—Con.</b>	
Private Interests and Public Interest .....	lv
Control of Dominion Railway by Railway Commission .....	lvi
Relation between Trustees and their Employees .....	lvi
Incorporation of the Dominion Railway Company .....	lvii
Transfer of Stocks to Trustees .....	lviii
Transfer of Railways to Trustees .....	lviii
The Canadian Northern Shareholders .....	lviii
Charges of Misappropriation unfounded .....	lviii
Canadian Northern Successes and Failures .....	lxii
Arbitration recommended .....	lxii
<b>The Grand Trunk Shareholders</b> .....	lxiii
Terms of Purchase recommended .....	lxv
Real Value of Grand Trunk Property .....	lxv
<b>The Intercolonial and National Transcontinental</b> .....	lxvi
Transfer of National Transcontinental recommended .....	lxvi
Transfer of Intercolonial recommended .....	lxvi
In the local interest .....	lxvi
In the general interest .....	lxvii
In the interest of good management .....	lxix
Minor recommendations .....	lxix
Legal position of Trustees .....	lxx
<b>Operation of Dominion Railway Company</b> .....	lxxi
Finance of Dominion Railway Company .....	lxxi
Operation to be on a commercial basis .....	lxxii
Wide powers to be given to Trustees .....	lxxii
Financial Responsibility of Government .....	lxxiii
Prospects of Dominion Railway .....	lxxv
Specimen Economics resulting from combination .....	lxxvi
<b>Part VI.—The Dominion and the Provinces—Publicity—General:—</b>	
Railway Commission control .....	lxxvi
Commission to report on charters .....	lxxvii
And on Subsidies and Guarantees .....	lxxvii
Overlapping of Dominion and Provincial control .....	lxxviii
Audit and Publication of Accounts .....	lxxix
Railway Councils .....	lxxx
Railways in excess of existing requirements .....	lxxx
Highway improvement .....	lxxxii
The Hudson Bay Railway .....	lxxxii
Steamship connections .....	lxxxiii
Tendency of Railway Rates to rise .....	lxxxiii
Necessity for Immediate Action .....	lxxxiii
<b>Part VII.—Summary of Conclusions and Recommendations</b> .....	lxxxv
<b>Report of Mr. A. H. Smith</b> .....	xc
The general problem of transportation in Canada .....	xc
Status and usefulness of the three Transcontinental Railway Systems .....	xcv
The Grand Trunk System .....	xcv
The Canadian Northern System .....	xcvi
Reorganization .....	xcviii
The obvious remedy .....	cii
<b>Appendix A—Report on appraisal of the Canadian Northern Railway System and The Grand Trunk Pacific Railway</b> .....	1
<b>Appendix B—Examination of Mr. E. J. Chamberlin at Montreal, February 24, 1917.</b>	75

## RAILWAY INQUIRY COMMISSION

SESSIONAL PAPER No. 20g

### COMMISSION.

P.C. 1680.

*CERTIFIED COPY of a Report of the Committee of the Privy Council, approved by the Deputy of His Royal Highness the Governor General on the 18th July, 1916.*

The Committee of the Privy Council have had before them a report, dated 12th June, 1916, from the Right Honourable the Prime Minister, submitting that it became necessary at the recent session of Parliament to make provision for assistance by loan to the Grand Trunk Pacific Railway Company and to the Canadian Northern Railway Company in order that such companies might be enabled to meet current obligations and to provide for payment of interest on outstanding securities.

Having regard to the conditions and necessities of railway development in Canada the Prime Minister is of opinion that the situation should be considered in a comprehensive way and that a thorough inquiry should be made by a Board of the highest ability and experience.

The Prime Minister further submits that the inquiry should have reference to the following matters:—

1. The general problem of transportation in Canada.
2. The status of each of the three transcontinental railway systems, that is to say, the Canadian Pacific Railway System, the Grand Trunk Railway System (including the Grand Trunk Pacific Railway and the Grand Trunk Railway and their several branches) and the Canadian Northern Railway System, having special reference to the following considerations:—
  - (a) The territories served by each system and the service which it is capable of performing in the general scheme of transportation;
  - (b) Physical conditions, equipment and capacity for handling business;
  - (c) Methods of operation;
  - (d) Branch lines, feeders and connections in Canada;
  - (e) Connections in the United States;
  - (f) Steamship connections on both oceans;
  - (g) Capitalization, fixed charges and net earnings having regard to (i) present conditions, and (ii) probable future development with increase of population.
3. The reorganization of any of the said railway systems, or the acquisition thereof by the State; and in the latter case the most effective system of operation, whether in connection with the Intercolonial Railway or otherwise.
4. Generally speaking, all matters which the members of the Board may consider pertinent or relevant to the general scope of the inquiry.

The Prime Minister therefore recommends as follows:—

That Alfred Holland Smith, of the city of New York, in the United States of America; Sir Henry Lumley Drayton, of the city of Ottawa; and Sir George Paish, of London, England, be the members of the said Board, of whom the said Alfred Holland Smith shall be chairman;



7 GEORGE V, A. 1917

That the Board be constituted under part 1 of the Inquiries Act, and that it shall have all powers and authorities which could be conferred under the authority of that Act as amended by chapter 28 of the Statutes of 1912, intituled an Act to amend the Inquiries Act;

That the Provincial Governments be respectfully requested to afford to the Board any necessary information and co-operation in the inquiry;

That all the departments of the Government shall afford to the Board and to all persons acting under its authority and by its direction all such assistance and co-operation in the inquiry as the Board may desire;

That the Board of Railway Commissioners for Canada, the Commission of Conservation, and all other bodies of a like character under the jurisdiction of the Parliament of Canada, shall co-operate with and assist the Board in the proposed inquiry;

That the Board shall report its findings and conclusions with the least possible delay;

That a commission for the purposes aforesaid shall issue to the members of the Board above designated.

The Committee concur in the foregoing and submit the same for approval.

RODOLPHE BOUDREAU,

*Clerk of the Privy Council.*

P.C. 2567.

*CERTIFIED COPY of a Report of the Committee of the Privy Council, approved by His Excellency the Administrator on the 21st October, 1916.*

The Committee of the Privy Council have had before them a report, dated 19th October, 1916, from the Right Honourable the Prime Minister, submitting that Sir George Paish has resigned his position as a member of the Board, appointed by Order in Council of the 13th July, 1916, to inquire into and report upon the general problem of transportation in Canada, etc.

The Prime Minister further recommends that William Mitchell Acworth, Esquire, Gentleman, of London, England, be appointed a member of the said Board of Inquiry in place of Sir George Paish, resigned.

The Committee concur in the foregoing recommendation and submit the same for approval.

RODOLPHE BOUDREAU,

*Clerk of the Privy Council.*

SESSIONAL PAPER No. 20g

*To His Excellency the Governor in Council*

The Report of the Royal Commission appointed to consider the general problem of transportation in Canada.

MAY IT PLEASE YOUR EXCELLENCY:

We, the Commissioners appointed by Order in Council dated July 13, 1916, to inquire and report on the railways of Canada, have the honour to present our report to Your Excellency.

The subject matter of the reference to us is as follows:—

1. The general problem of transportation in Canada.
2. The status of each of the three transcontinental railway systems, that is to say, the Canadian Pacific Railway System the Grand Trunk Railway System (including the Grand Trunk Pacific Railway and the Grand Trunk Railway and their several branches) and the Canadian Northern Railway System, having special reference to the following considerations:—
  - (a) The territories served by each system and the service which it is capable of performing in the general scheme of transportation;
  - (b) Physical conditions, equipment and capacity for handling business;
  - (c) Methods of operation;
  - (d) Branch lines, feeders and connections in Canada;
  - (e) Connections in the United States;
  - (f) Steamship connections on both oceans;
  - (g) Capitalization, fixed charges and net earnings having regard to (1) present conditions, and (2) probable future development with increase of population.
3. The reorganization of any of the said railway systems, or the acquisition thereof by the State; and in the latter case the most effective system of operation, whether in connection with the Intercolonial Railway or otherwise.
4. Generally speaking, all matters which the members of the Board may consider pertinent or relevant to the general scope of the Inquiry.

Sir George Paish, one of the original commissioners, was, owing to ill-health, unable to serve on the Commission, and on October 31, 1916, his formal resignation was received and Mr. William Mitchell Acworth was appointed in his place. Mr. Acworth landed in America early in December and joined in our work.

In September and October two of the commissioners, the Chairman Mr. Alfred H. Smith, and Sir Henry Drayton, spent some weeks inspecting the railways, travelling upwards of 10,000 miles, visiting all important points from Halifax to Vancouver and

## RAILWAY INQUIRY COMMISSION

7 GEORGE V, A. 1917

Prince Rupert, and taking the opportunity of meeting and conferring with many representative citizens. We desire to express our appreciation of the manner in which the officers of the various companies facilitated our journey and assisted us to obtain a knowledge of local conditions.

We have had a physical examination made, in such detail as circumstances have permitted, of the railways of the Canadian Northern and the Grand Trunk Pacific, by a corps of engineers under the supervision of Professor Swain of Harvard University and the Massachusetts Institute of Technology. His report is given in Appendix A.

In addition to the information which we have obtained from our own inquiries and inspections and those of our staff, we have received voluminous reports and statistics from the different companies in reply to our inquiries on specific points. Two of our number have held formal hearings in Toronto into the affairs of the Canadian Northern Railway Company, and in Montreal into the affairs of the Grand Trunk and Grand Trunk Pacific Companies.

Since Mr. Acworth's arrival we have frequently met in Ottawa and in New York for discussion of the remaining matters referred to us. We have taken the situation as it is, and find ourselves in agreement as to the necessity for constructive aid to bring the railways through the present crisis. We differ, however, as to the extent and method of Government help desirable, and as to the increase and character of Government liability and interest now and for the future. It has, therefore, been found necessary to submit a report of the two concurring commissioners, with a brief statement of the minority recommendation. They will be found herewith.

Respectfully submitted,

A. H. SMITH,

H. L. DRAYTON,

W. M. ACWORTH.

## Report of Sir Henry L. Drayton and Mr. W. M. Acworth.

### Introductory.

This Commission is instructed by the Government to report on the "general problem of transportation in Canada, with the least possible delay." Under these conditions it has been clearly impossible for us to set on foot and await the result of exhaustive inquiries, and to elaborate in full detail a scheme based thereon. We believe that we shall best carry out the purpose which the Government had in mind in appointing us, if, after setting out the general situation as we see it, and the general conclusions at which we have arrived, we sketch in broad outline the scheme of readjustment which we recommend for adoption, and then indicate the manner in which, if and when our recommendations are approved by the Government and Parliament, those recommendations should be brought into practical operation.

## PART I.

### CANADIAN RAILWAYS.

#### Mileage, Capital and State Aid.

On June 30, 1916, the operating mileage of railways in Canada was officially reported to be as follows:—

	Miles.
In operation, miles of first main track (less duplications through trackage rights) . . . . .	37,434
Under construction, according to official reports and estimates . . . . .	3,150
	<hr/> 40,584

This mileage, which we take in round figures as 40,000 miles, is very great as compared to the population of Canada, assumed to be something like 7,500,000 at the present time. It far exceeds that of the United Kingdom or France, with populations, respectively, of 46,000,000 and 40,000,000. It is roughly equal to that of the German Empire, with 67,000,000 inhabitants, and of India, with more than 300,000,000 people.

It is only slightly behind Russia, with a very rapidly growing population of 170,000,000. Putting Canada alongside countries more nearly comparable, we find that Australia, with an area roughly corresponding to that of Canada, has 18,290 miles of line for 5,000,000 inhabitants. Argentina has 20,290 miles for the same population. To take yet another comparison, Canada has nearly one-sixth of the railway mileage of the United States; it has less than one-fourteenth of the population. Evidently, judged by the standards of other countries, the railway mileage of Canada bears a very high ratio to the population.

We may put the same thing in another way. The growth of the mileage has far outstripped the growth of the population. In 1901, with a population of 5,371,315, Canada had 18,140 miles of railway in operation; roughly, a mile of railway for every 300 inhabitants. In 1911, the population had increased 34 per cent to 7,206,643, while the mileage had increased by 40 per cent to 25,400 miles; a mile of railway to every 284 inhabitants. Since 1911, the population has, it is understood, not much increased, but the railway mileage open and under construction has grown to 40,584 miles. In other words, Canada has to-day, taking the present population as 7,500,000, only 185 inhabitants to support each mile of railway. Taking the four Western Provinces by themselves, there are only two-thirds of this number for each mile of railway. The United States have 400 inhabitants per mile of line; the United Kingdom, 2,000; Russia, 4,000. Even Australia has 274 inhabitants for each mile of railway; Argentina, 238. And Canada has, what none of these other countries have to a comparable degree, a magnificent internal system of natural waterways, which must always, so far as can now be foreseen, carry a very large proportion of the total traffic. Of course, if mileage be taken in relation not to population but to area, Canada, so far from being at the top, comes far down in the scale. But area means potentialities, not actualities. Population alone can supply traffic. That the railway mileage already built will be insufficient for the Canada of the future, we doubt not. The question which concerns to-day is the relation of existing mileage to the circumstances of the present and the proximate future.

These facts are fundamental, and must be steadily borne in mind in any consideration of the future of Canadian railways.

#### Apportionment of Mileage.

Of the mileage owned and in operation on June 30, 1916: (1) There were in the hands of the Dominion Government:—

	Miles.
Intercolonial. . . . .	1,514
Prince Edward Island. . . . .	275
Transcontinental. . . . .	1,810

---

3,599

## SESSIONAL PAPER No. 20g

(2) The mileage (excluding trackage rights) of the four large private operating systems was:—

	Miles.
Canadian Pacific.....	12,900
Canadian Northern.....	9,648
Grand Trunk.....	3,556
Grand Trunk Pacific (excluding Branch Lines Co.).....	1,964
	<hr/> 28,068

(3) There were operated by other companies and Provincial Governments.....	6,366
	<hr/> 37,434

Included in the mileage of "Other Companies" is the following mileage operated or controlled by United States corporations.<sup>1</sup>

	Miles.
Great Northern.....	575
Michigan Central.....	381
New York Central.....	103
Boston and Maine (including Maine Central).....	41
Pere Marquette.....	199
	<hr/> 1,299

This is more than counterbalanced by Canadian companies' mileage in the United States, as follows:—

	Proprietary <sup>2</sup>	Leased. <sup>2</sup>	Controlled.	Total.
Canadian Pacific.....	145	32	4,771	4,948
Grand Trunk.....	44	181	1,863	1,868
Canadian Northern.....			—	225
	<hr/> 189	<hr/> 213	<hr/> 6,639	<hr/> 7,041

## Revenue, Gross and Net.

For the year ending June 30, 1916, the gross earnings of the railways reporting to the Department of Railways and Canals, which include, in addition to Canadian mileage, the proprietary and leased, but not the controlled, mileage of Canadian companies in the United States, were \$261,888,654, or practically \$7,000 (\$6,997) per mile of road operated otherwise than under trackage rights.

<sup>1</sup> This list is not exhaustive and only gives important companies.

<sup>2</sup> These lines are essential parts of the parent systems, but organized separately for international reasons.

7 GEORGE V, A. 1917

For the principal systems, which together are responsible for 87 per cent of the total earnings, the gross operating revenues per mile operated during the year were as follows:—

Road.	Operating Revenue.	Average mileage (including trackage) operated during the year.	Per mile of average mileage operated during year.
	\$		\$
Canadian Pacific.....	121,654,571	12,994	9,593
Canadian Northern.....	35,476,275	9,702	3,637
Grand Trunk.....	39,155,040	3,565	10,933
Grand Trunk Pacific (excluding B. L. Co.).....	6,963,188	1,963	3,533
Transcontinental.....	5,798,516	2,002	2,896
Intercolonial.....	15,686,662	1,553	10,101

The net operating revenues and the average per mile operated during the year were as follows:—

Road.	Net operating Revenue.	Per mile of average mileage operated during year.
	\$	\$
Canadian Pacific.....	46,416,743	3,572
Canadian Northern.....	10,232,083	1,031
Grand Trunk.....	10,373,027	2,909
Grand Trunk Pacific (excluding B. L. Co.).....	1,060,346	539
Transcontinental.....	429,455	214
Intercolonial.....	2,363,478	1,522

In addition to the revenues from rail transportation and services incidental thereto, the Canadian Pacific reported revenues from boat lines, commercial telegraphs, hotels, and news departments of \$22,834,095 gross and \$0,034,340 net.

#### Investment in Road and Equipment.

At the close of the year ended June 30, 1916, the investment in road and equipment as carried on the books of the companies or the Government was as follows:—

	Book value of road and equipment.	Miles owned	Per mile.
	\$		\$
Canadian Pacific.....	530,783,978	7,779	68,233
Canadian Northern.....	491,762,489	9,002	54,661
Grand Trunk.....	424,169,310	3,531	127,310
Grand Trunk Pacific (excluding B. L. Co.).....	192,312,218	1,963	98,018
Transcontinental.....	159,851,891	1,810	88,332
Intercolonial.....	116,234,291	1,514	76,773
	1,918,142,003	23,594	75,521

## SESSIONAL PAPER No. 20g

The book value of road and equipment is not to be regarded as accurately representing the actual cost of the property. "Cost of road and equipment," as set up on the books of a company, frequently represents not the actual cash outlay but the par value of the bonds and shares which have been issued to obtain cash or property. "Cost of road and equipment" may therefore include the par value of securities issued to obtain money for interest during construction, discounts on securities sold, and other items not strictly construction cost. And it may include sums to offset the par value of securities which have been issued for other than a cash consideration. For example, the Grand Trunk Pacific has \$25,000,000, and the Canadian Northern has \$100,000,000 of ordinary stock outstanding, neither of which issues represents more than a nominal sum of actual cash paid in. On the other hand, the Canadian Pacific Railway accounts shows that this company has received premiums of \$45,000,000 upon the \$260,000,000 of ordinary stock sold. These premiums are invested in the general assets of the company in the same manner as the proceeds of the stock itself. —

If the sums mentioned for the Grand Trunk Pacific and Canadian Northern be deducted from the book account "cost of road and equipment," the statement becomes:—

	Cost of road and equipment.	Miles owned	Average per mile.
	\$		\$
Canadian Northern.....	394,162,130	9,002	43,786
Grand Trunk Pacific.....	167,312,218	1,962	85,276

## Return on Capital.

The net operating revenues have already been stated. Taking in taxes, rents, and similar items, which relate to operation, the relation of the net operating income to cost of road and equipment comes out as follows:—

Road.	Net operating revenue.	Net rents, hire of equipment, taxes, etc.	Total.	Per cent on property investment.
	\$	\$	\$	%
Canadian Pacific Railway.....	46,416,743	2,109,477 Dr.	44,307,266	8.34
Canadian Northern.....	10,232,083	1,241,463 Dr.	8,990,623	2.28
Grand Trunk.....	10,373,027	469,926 Dr.	9,903,101	2.33
Grand Trunk Pacific (excluding branch lines)	1,060,346	1,153,283 Cr. (Estimated)	2,213,629	1.15
Transcontinental.....	429,455	1,371,070 Dr.	941,615 Dr.	Deficit.
Intercolonial .....	2,363,478	167,214	2,196,264	1.88

With the exception of the first-named railroad, the return is so low as to afford further support for the view which we have suggested, that the country has built more railroads than can be justified on commercial grounds.



### Government Aid in General.

The geographical location and climate of Canada are such that easy communication with the settled districts had to be established before any large permanent population could find means of support in the newer country. Without railways the rich grain-growing provinces of the West would have remained a hunting and trapping district, or at best a grazing section, because it would have been impossible to get out the grain which constitutes the chief product of those provinces. The people have been liberal in promoting railway building in advance of their profitable operation on a commercial basis. Great grants of land have been given to the two principal systems in the West. But without these railways the land would have been practically valueless. Cash aid has also been voted liberally. The total for this purpose up to June 30, 1916, is reported as \$116,000,000 by the Dominion Government, about \$30,000,000 by the provinces, and \$12,000,000 by municipalities. The Governments, both National and Provincial, have frequently entered directly upon construction projects when private capital could not be found; as for instance the Dominion Government in the case of the Hudson Bay Railway, and the Ontario Government in the case of the Temiskaming and Northern Ontario. They have also often extended large assistance to private companies by direct loans, by purchase of their securities, and by guarantees. These have grown to large sums. By far the largest part, though not all, of the aid of this kind is to be found in the principal systems. We give the detail as follows:—

### Government Aid to Canadian Northern.

According to the reports of the Statistical Bureau of the Department of Railways and Canals, the roads composing the Canadian Northern System had received assistance up to June 30, 1916, as follows:—

#### (1) *Subsidies:*

Paid by Dominion Government.. . . .	\$31,236,720
“ Provinces.. . . .	6,821,724
“ Municipalities.. . . .	765,704
	<hr/>
	\$38,874,148

The total amount reported by the Canadian Northern Company, as received upon the foregoing account, is \$33,917,175. The difference is explained by the fact that the Government reports comprise aid granted to companies now included in the Canadian Northern System prior to their inclusion.

SESSIONAL PAPER No. 20g

(2) *Land Grants:*

Location:	Received.	Of which sold.
	Acres.	Acres.
Nova Scotia.....	150,000	150,000
Quebec.....	402,860	
Ontario.....	2,000,000	
Manitoba, Saskatchewan, Alberta.....	4,002,848	3,159,720
	6,555,708	3,309,720

Amount realized from land sales, \$16,603,295.

The company appraises its unsold lands at \$19,885,485, present value.

(3) *Guarantees.*—As at June 30, 1916, the company had outstanding securities bearing the guarantee of the Dominion or Provincial Governments as follows:—

Guaranteed by	Par value.
	\$
Dominion of Canada.....	104,613,247
Province of Alberta.....	18,950,361
" Saskatchewan.....	14,762,516
" Manitoba.....	25,601,865
" Ontario.....	7,859,997
" British Columbia.....	39,953,124
	211,641,140

The foregoing represents the bonds reported by the company as guaranteed and outstanding. Provincial reports indicate that additional guarantees have been made, especially by Alberta and Saskatchewan. These presumably are related to mileage on which the guarantees have not yet been earned. Some of these projects are apparently in abeyance, and may perhaps be abandoned.

(4) *Loans.*—The Canadian Northern has had direct loans from the Dominion Government:—

July, 1914, secured by mortgage.....	\$ 858,166
October, 1914, secured by deposit of \$12,500,000 of 4 per cent Government guaranteed debentures, in- cluded in above mortgage.....	10,000,000
June, 1916, secured by mortgage.....	15,000,000
	<hr/> \$ 25,858,166

## Summary:

Subsidies.....	\$ 38,874,148
Land grants (sold, \$16,603,295; realized on mortgage \$17,776,514).....	34,379,809
Cash loans (interest not being paid).....	25,858,166
Securities guaranteed.....	\$211,641,140
Less Government guaranteed debentures held as collateral.....	12,500,000
	<hr/> 199,141,140
Total public assistance, direct and indirect....	\$298,253,263

The company has not realized par value for all the securities guaranteed; \$60,292,700 par value are pledged as collateral security for loans, of which \$10,000,000 have been, as stated above, lent by the Government; the balance has been lent by private investors.

## Government Aid to Canadian Pacific.

Some time prior to 1880, the Dominion Government undertook the construction of a road that was designed to be a link in a transcontinental line. In that year the Canadian Pacific Railway Company was organized for the purpose of completing the line. The assistance given to the company by the Government comprises the following:—

(1) *Railroad handed over.*—The cost of road and surveys made by the Government, and turned over to the company free of cost, was \$37,785,320.

(2) *Cash aid:*

By Dominion Government to Canadian Pacific Railway Company.....	\$30,259,343
By Dominion Government to subsidiary companies....	13,129,873
By Provincial Governments to Canadian Pacific Rail- way Company.....	412,878
By Provincial Governments to subsidiary companies..	12,016,257
By municipalities to Canadian Pacific Railway Com- pany.....	461,761
By municipalities to subsidiary companies.....	4,632,422
By Dominion Government (by purchase back of land previously granted).....	10,189,521
	<hr/> \$71,135,055
Deduct loans since repaid.....	4,229,574
	<hr/>
Total cash aid.....	\$66,905,481

SESSIONAL PAPER No. 20g

(3) *Land grants:*

	Acres.
By Dominion (excluding land repurchased) . . . . .	21,634,190
By British Columbia . . . . .	6,388,998

	28,023,188
Land sales to June 30, 1916 . . . . .	16,541,056

Land still in hand, acres . . . . .	11,482,132
-------------------------------------	------------

Proceeds of lands and townsites to June 30, 1916, \$123,810,124.

The company's report for June 30, 1916, shows net proceeds from land sales as \$68,255,803. The difference, it is understood, represents expenditure by the company for development projects, irrigation, hotels, etc., and, in some cases, dividends.

The unsold lands of the company are carried in its accounts at \$119,250,000.

## Summary:—

Completed road and surveys, cost Government . . . . .	\$ 37,785,320
Cash subsidies . . . . .	66,905,481
Lands sold . . . . .	123,810,124

Total public assistance, direct and indirect . . . . .	\$228,500,925 <sup>1</sup>
--	----------------------------

Further, indirectly, the Canadian Pacific has had Government aid the value of which cannot be determined, such as right to take public land free for railway purposes; various loans (since repaid); certain exemptions from taxes; admission of original construction material free of duty; and other concessions.

## Government Aid to Grand Trunk.

According to Government reports, the roads now comprised in the Grand Trunk Railway Company's undertaking have received aid as follows:—

(1) *Subsidies:*

Dominion Government . . . . .	\$ 3,423,699
Provinces . . . . .	4,077,233
Municipalities . . . . .	5,502,128
	<hr/>
	\$13,003,060

(2) *Loan:*

The Dominion Government made to the Grand Trunk Railway Company, many years ago, a loan, (interest on which has never been asked for or paid), amounting to . . . . .

\$15,142,633

Total . . . . .	\$28,145,693
-----------------	--------------

<sup>1</sup> It must be noted that this sum is not net to the company, as it represents the gross receipts, while the company has expended large sums of money in irrigating a portion of the lands sold. As pointed out, however, the company values its unsold lands at \$119,250,000.

## Government Aid to Grand Trunk Pacific.

(1) *Subsidies*.—

Provincial.. . . .	\$376,320
Municipal.. . . .	350,000
Total.. . . .	<u>\$726,320</u>

(2) *Other Cash Aid*.—

Under the "implementing clause" the Dominion Government has paid to the Grand Trunk Pacific..	\$ 6,263,716
It has also lent upon or bought securities as follows:	
May, 1909, 4 per cent Prairie Section bonds bought at par.. . . .	\$10,000,000 <sup>1</sup>
August, 1913, 4 per cent debentures due in 1923, bought at par.. . . .	15,000,000 <sup>1</sup>
Loan of 1914, secured by pledge of \$7,500,000 of 4 per cent bonds.. . . .	6,000,000
1913-14, 3 per cent first mortgage bonds (bought from company).. . . .	<u>33,048,000</u>

Direct investment of Dominion Government.. . . \$70,311,716

Loans to the amount of \$8,000,000 were authorized by Parliament in 1916. Advances under this authority are not here included, but are referred to subsequently.

(3) *Guarantees*.—The Dominion Government has also guaranteed outstanding bonds of the Grand Trunk Pacific in addition to those actually held by the Government:—

First mortgage, 3 per cent bonds.. . . .	\$34,992,000
4 per cent sterling bonds of 1962.. . . .	<u>8,440,848</u>
	\$43,432,848

*Summary*.—

Subsidies and other cash aid.. . . .	\$ 6,990,036
Dominion Government investment in securities.. . .	64,048,000
Dominion Government guarantees.. . . .	<u>43,432,848</u>
Total.. . . .	\$114,470,884
The Grand Trunk Pacific Branch Lines Company has also Provincial guarantees on bonds outstanding to the amount of.. . . .	\$ 13,469,004

<sup>1</sup> These securities are guaranteed by the Grand Trunk Railway Company of Canada.

SESSIONAL PAPER No. 20g

## Total Public Investment.

We tabulate the above figures for all the companies together and add to them the capital of the Government railways as shown in the Government account.

	Subsidies.	Proceeds of lands sold.	Loans out- standing or investment.	Guarantees outstanding.	Total.
	\$	\$	\$	\$	\$
Canadian Northern.....	38,874,148	34,379,809	25,858,166	199,141,140	298,253,263
Canadian Pacific.....	104,690,801	123,810,124	.....	.....	228,500,925
Grand Trunk Railway.....	13,003,060	.....	15,142,633	.....	28,145,693
Grand Trunk Pacific.....	726,320	.....	70,311,716	43,432,848	114,470,884
Grand Trunk Pacific Branch Lines.....	.....	.....	.....	13,469,004	13,469,004
National Transcontinental....	.....	.....	159,881,197	.....	159,881,197
Intercolonial.....	.....	.....	116,234,204	.....	116,234,204
Prince Edward Island..	.....	.....	9,496,567	.....	9,496,567
Total.....	157,294,329	158,189,933	396,924,483	256,042,992	968,451,737

Not counting the loss of interest for many years upon the investment in roads operated by the Government, it appears that for the eight systems, in which the public is most interested, the people of Canada, through their Governments have provided, or guaranteed the payment of, sums totalling \$968,451,737. This works out at over \$30,000 per mile of road. But even this is not all. In addition, they have granted great areas of land as yet unsold and unpledged. They have undertaken the construction of other lines whose cost will be an important addition to this large outlay. Further, in the case of some of the companies included above, to which they have given or lent large sums of money to meet pressing needs, unlike private lenders, who would naturally have demanded a security charged in front of all previous investment, they have voluntarily accepted a charge ranking after the bulk of the private capital already put into the undertaking.

## Proportion of Public Investment.

We pause at this point in the history to interpose some remarks on a subject to which we shall have to revert more at length hereafter. The above figures show that the Grand Trunk Pacific system, including its "branch lines" has obtained from the public authorities in cash or in guarantees of bonds, \$127,939,892, out of \$197,129,391<sup>1</sup> which is given as the total cost of the property; and the Canadian Northern has similarly obtained \$298,253,263 out of \$370,302,451, which is the maximum possible cash cost of the property as far as we have been able to ascertain it. On the other hand, the history shows that the Grand Trunk Railway proper has received much less assistance than either of the other two great companies with which it is in competition. The Grand Trunk began as long ago as 1851, before the Dominion of Canada came into existence, and before the modern policies of subsidies and guarantee had been

<sup>1</sup> Includes railroad turned over to company.

<sup>2</sup> As reported to Parliament, February 29, 1916. This figure includes \$26,938,139 interest during construction.



7 GEORGE V, A. 1917

introduced. In the main it has had to rely throughout its history on its own resources, and it has had for many years to compete with heavily subsidized rivals. While it was the pioneer in giving to Canada railway service, its shareholders have never had but very moderate dividends. We have felt this should be borne in mind when dealing with the question of the Grand Trunk Pacific, and it has had some influence on the recommendations which we make later on this subject.

### Historical Development.

The railway history of Canada has gone through three distinct phases. In the first period, the Grand Trunk came into existence almost entirely as the result of the investment of private capital. It is comparable in this respect with the private railway companies of England and the United States.

In the second period, the Canadian Pacific was brought into existence and carried through its early difficulties by direct Government support and large financial assistance from public funds. As a result of this support and assistance, coupled with the rapid growth of Canadian population and wealth, and its own wise and prudent management, the Canadian Pacific has "made good." It has raised, without further Government help, hundreds of millions of new capital. Its common stock, which carries control of the property, represents an average of \$112.50 of actual cash put into the property for every \$100 of nominal face value. The shareholders have for years received handsome dividends; they have, out of operating surplus, invested \$100,000,000 in subsidiary undertakings; they have realized \$68,000,000 net from land sales, and they still possess land conservatively valued at \$119,000,000. Against no part of this total value has any capital been issued. To-day the Canadian Pacific stands as one of the wealthiest and financially strongest railway companies in the world; fully able to raise, on its own credit and on the most favourable terms, all the new capital which will be required to meet the demands for new development that the future will bring.

The Canadian Northern and Grand Trunk Pacific belong to the third period. Though the outward form of these two undertakings is that of a private company substantially they both rest on the responsibility of the Governments, National and Provincial. Their common stocks, which carry with them control of the respective properties, represent no practical cash investment, and both companies have failed to "make good." They are kept going at present only through large advances of public money.

We think the success of the Canadian Pacific Railway, as contrasted with the fact that the Grand Trunk Pacific and Canadian Northern have had to come back to the Government for help far beyond that originally contemplated, points a distinct moral. There was given to the Canadian Pacific at the outset, direct aid with a generous hand, and the aid was continued up to the point when the company could stand alone. The country knew what it was paying. Had it known how splendid a property it was building up, it would no doubt have stipulated for some share in the reversion. But even as it is, the people of Canada, in our view, have had good value

## SESSIONAL PAPER No. 209

for their money. In the early days of the Canadian Northern no direct aid was given other than a comparatively small grant of land, at the time almost valueless. Since then the company has received \$38,874,000 in subsidies; but this is very small in proportion to the direct aid given to the Canadian Pacific. Great sums of money were indeed guaranteed by the Dominion and the Provinces, but up to 1914 the company apparently met its obligations from its own resources. To the Grand Trunk Pacific, direct aid was indeed given to a considerable extent, but the financial scheme mainly relied on guarantees, first by the Governments, and secondly by the Grand Trunk Company. We do not think the Governments, either of the Dominion or of the Provinces, fully realized how serious was the liability which they were assuming. We do not think the companies realized how serious the position would be, if recourse had to be had to the guarantees. While we are not prepared to say that in no circumstances should guarantees be given, we do feel that a policy of guarantees on a large scale is a dangerous policy. It is evident that guarantees have been given in the past without adequate appreciation of the fact that they might fall due, and that, if they did, the burden would be grave. We recommend that in future no guarantees be given without being taken up into the books of the guarantor as a continuing liability, and without some financial provision being made against the possibility of their falling due.

### Growth of Canadian Railways.

Till within the last decade, Canada, was (omitting the Intercolonial Railway, and other smaller undertakings of only local interest) served by two main systems. They were:—

(1) The Canadian Pacific, stretching right across the continent, and having access to all important points both in the East and in the West, with control also of a considerable mileage in the United States, and in a very prosperous financial position.

(2) The Grand Trunk, whose original charter dates from 1851, with a strong hold on Eastern Canada, and also with important United States connections. The Grand Trunk had always met its obligations, though over a series of years the return to its shareholders had been but small. Westward the Grand Trunk only extended, in Canada, as far as lake Huron.

(3) But even ten years ago, the Canadian Northern, which had started as a local line in Manitoba in 1896, was beginning to build up in the Prairie Provinces a system which, in 1906, comprised more than 2,400 miles, and which now contains over 5,000 miles in these provinces. The Canadian Northern had grown rapidly with the growth of the Western country, but had always earned sufficient net revenue to take care of its obligations.

The Canadian Pacific had, it will be seen, the advantage of gathering its own traffic for itself and of keeping it in its own hand throughout. The other two companies were in a different position. The Canadian Northern had to depend for west-bound rail traffic on what the companies in the East, one of which was a rival, handed to it. On the traffic which it collected in the West, it lost the long haul to



the East. It was not unnatural that the company should reach out to the East. For the same reason it was equally natural that the Grand Trunk Company should reach out to the West. And public sentiment which felt that the growth of the country justified and required more than one transcontinental line, undoubtedly sympathized with the companies' ambitions.

The natural solution of the question undoubtedly was that the Canadian Northern and the Grand Trunk should join forces and construct a line from North Bay, or its neighbourhood, to Port Arthur. Negotiations for the amalgamation of the two companies were, we understand, actually set on foot in 1903. Unfortunately they came to nothing; and each company set out independently to construct into the territory of the other. And a very large measure of Government help was given to them both, with the result—hardly, we think, with the deliberately contemplated object—of obtaining not merely two but three transcontinental routes. An uninformed and unreasonably optimistic public opinion undoubtedly supported this action at the time. We cannot, however, but feel that those responsible for the policy of the Grand Trunk and Canadian Northern Companies should have been wiser than the public.

## PART II.

### THE GRAND TRUNK SYSTEM.

The Grand Trunk scheme, first put forward in 1903 under two Acts of Parliament, both dated October 24, 1903, was for a main line right across the continent from Moncton to Prince Rupert. The portion of the line east of Winnipeg was to be built by the Government and leased to the Grand Trunk Pacific company for fifty years certain, with a possibility of renewal. The portion west of Winnipeg was to be built by the Grand Trunk Pacific Company, with large Government assistance. The Grand Trunk Pacific was to build any necessary branches of the system both East and West, and was to operate the whole. The Grand Trunk was to hold, and in fact always has held, the entire share capital of the Grand Trunk Pacific. And the Grand Trunk has had full control of the undertaking throughout.

In fairness to the Grand Trunk it should be observed that the responsibility for the construction of the line from Moncton to Winnipeg, now known as the National Transcontinental, does not primarily rest on them. The proposal of the company, as originally formulated and submitted to the Government, was for a line from the Pacific through Winnipeg as far as North Bay. Government action was responsible for the line being carried eastward all the way to Quebec. And the further prolongation from Quebec to Moncton was added during the passage of the Bill through Parliament.

But though the Grand Trunk did not originate the National Transcontinental, it accepted full liability for it. The agreement between the Grand Trunk Pacific and the Dominion Government provided as follows: "In order to insure, for the pro-

## SESSIONAL PAPER No. 20g

tection of the company as lessees of the Eastern Division of the said railway, the economical construction thereof in such a manner that it can be operated to the best advantage, it is hereby agreed that the specifications for the construction of the Eastern Division shall be submitted to and approved of by the company before the commencement of the work, and the said work shall be done according to the said specifications, and shall be subject to the joint supervision, inspection, and acceptance of the chief engineer of the company."

Upon this provision the Grand Trunk Pacific Company, in an official publication "The Grand Trunk Pacific; Canada's National Transcontinental Railway; 10th edition, January, 1912," comments as follows:—

"Since the rental payable by the company to the Government for the use of the Eastern Division is a percentage on the cost of construction, it will be observed that it is a matter of great importance to the company that this item 'cost of construction' shall be determined on the most economical basis consistent with a well-built railway, in which respect the foregoing provision contained in the agreement fully protects the company."

The company, then, appreciated that "cost of construction" was to it a matter of great importance, and considered that it was fully protected by the terms of the agreement. But as, in spite of the right of the company to approve specifications and the right of the company's chief engineer to supervise and inspect the work, the cost of construction of the National Transcontinental, which had been estimated at \$61,415,000 was permitted to reach \$159,881,197, the company objected to carrying out their bargain. And the Government, by accepting the company's refusal and commencing to work the line themselves, have in effect released the company unconditionally. The National Transcontinental is now part of the Government Railways. We make at this stage only two comments on what is past history: The one that the people of Canada have been generous to the shareholders of the Grand Trunk Pacific; the other that the Grand Trunk Pacific shareholders, in other words the Grand Trunk Company, have not shown such prudence and business foresight as would naturally encourage the Government to have confidence in their future management.

The refusal of the Grand Trunk Pacific to take over the operation of the line from Winnipeg to Moncton, with the result that the eastern half of the intended through route is being operated by the Government, has implied the temporary failure of the complete scheme as approved by Parliament. The line west of Winnipeg is at present being operated under the control of the Grand Trunk, the nearest point of whose rails is at North Bay, a thousand miles away. It would clearly be impossible for the Government to permit this as a permanent policy.

### Grand Trunk Pacific Finance.

The original scheme for financing what was then known as the Western Division of the Grand Trunk Pacific, that is, the entire line as now left after the Government has assumed the responsibility for the Eastern Division, was as follows: The

7 GEORGE V, A. 1917

line was divided into two sections, the Prairie Section (914 miles) from Winnipeg via Edmonton to Wolf Creek, Alberta; and the Mountain Section (832 miles) from Wolf Creek to Prince Rupert. On the Prairie Section the Government guaranteed 50-year first mortgage 3 per cent bonds of the Grand Trunk Pacific, to the amount of \$13,000 per mile. On the Mountain Section, it guaranteed similar bonds to the extent of 75 per cent of the total cost, whatever that might thereafter be ascertained to be. The balance of the cost of both sections was to be found by the issue of 4 per cent mortgage bonds of the Grand Trunk Pacific guaranteed by the Grand Trunk Company. These latter were, in effect, second mortgage bonds though not so called. The Lake Superior Branch was built by the company from the proceeds of its own bonds, with the help of subsidies both from the Dominion Government and from the province of Ontario.

First mortgage bonds were issued to the amount of \$68,040,000, and owing to subsequent arrangements with the Government which it is not necessary here to describe, the company obtained their full par value in cash. There were also issued \$20,169,000 of second mortgage bonds, \$7,583,000 Lake Superior Branch bonds, which together produced \$25,734,915.81 in cash. The \$93,774,915.81 proved entirely inadequate to complete the system. By an Act of 1906, as amended in 1913, the Grand Trunk Pacific was empowered to create 4 per cent Perpetual Debentures to the amount of \$50,000,000 for the purchase of rolling stock and the acquisition of branch lines. These debentures are guaranteed by the Grand Trunk Company and various amounts have been issued from time to time. On January 1, 1917, \$34,879,252.86 of them had been sold to the public, and had produced \$31,411,985.96 in cash. In May, 1909, the Government lent to the Grand Trunk Pacific Company \$10,000,000 at 4 per cent, charged by way of further mortgage upon the Prairie Division, and also guaranteed by the Grand Trunk Company. In June, 1913, the Government lent to the Grand Trunk Pacific Company a further sum of \$15,000,000, charged upon an equal amount of 4 per cent Prairie Debentures, guaranteed by the Grand Trunk Company, and issued to the Government. In June, 1914, the Government guaranteed a further issue of not exceeding \$16,000,000 4 per cent Grand Trunk Pacific Bonds. Part of these were sold; another portion was issued and pledged to the Government as security for a cash loan of \$6,000,000. The company has also raised \$9,095,512.05 by the issue of \$9,720,000 Notes guaranteed by the Grand Trunk and further secured by the deposit of \$14,580,000 of debenture stock. In all the Grand Trunk Pacific Company had, up to the end of February, 1916, issued securities to the amount of \$179,782,100.86 and obtained therefor \$172,009,663.62 cash. Since that date the company has obtained from the Government further advances of \$4,397,741.43 and the Government auditor has passed for payment another advance of \$940,585.

The Grand Trunk Pacific Branch Lines Company has outstanding bonds for \$9,879,408, guaranteed by the province of Saskatchewan, and \$3,589,596 guaranteed by the province of Alberta; a total of \$13,469,004. For these bonds, \$12,688,544 in cash has been received.

The three railway companies composing the Grand Trunk Pacific Railway system (that is the Grand Trunk Pacific, the Grand Trunk Pacific Branch Lines Company, and the Grand Trunk Pacific Saskatchewan Railway Company), repre-

## SESSIONAL PAPER No. 20g

sent construction expenditure, according to the report to the Government in February, 1916, of \$197,129,591. Owing to the long time during which the roads were treated as "under construction," no less than \$26,938,139 of this outlay is for interest. Since January 1, 1916, the line is officially in operation. It was open for traffic throughout sixteen months earlier and considerable sections were in operation at a much earlier period.

The interest charges on the funded obligations and Government loans of these companies are approximately \$7,200,000 a year. There are further debts of the Grand Trunk Pacific and subsidiary companies to the Grand Trunk for advances amounting to \$26,341,040.53 and for interest thereon; 6 per cent on which, added to the other liabilities, brings the total interest charges of the undertaking to \$8,846,544.20 a year. As a partial offset, the Dominion Government is under an obligation to pay, without recourse for seven years after completion, the interest on the Government guaranteed first mortgage bonds of the Mountain Section, amounting to \$1,655,121.60 a year. Further, the system has a certain amount of net income. For the year ending December, 1916, the Grand Trunk Pacific proper showed net income of \$1,899,052. This figure, however, included \$600,000, rent of the Lake Superior branch leased to the National Transcontinental, and \$1,305,741, hire of equipment. There was an operating loss of \$922,398 on the Branch Lines. All together, in spite of losses on operation, the system had a net income before charges of \$326,653.

**Grand Trunk Liability for Grand Trunk Pacific.**

The Grand Trunk Railway Company stands as guarantor of the following outstanding debentures and bonds issued and loans made to the Grand Trunk Pacific Railway Company:—

4 per cent Series A Prairie Division .. . . .	\$10,206,000	
4 " " B Mountain Division .. . . .	9,963,000	
4 " Lake Superior Division .. . . .	7,533,000	
4 " Perpetual Debentures .. . . .	34,879,252	
5 " Secured Notes (secured by pledges of 4 per cent debentures) .. . . .	9,720,000	
Canadian Government Loan of 1913 .. . . .	15,000,000	
" " " 1909 .. . . .	10,000,000	
Total guarantees .. . . .		\$97,301,252

In addition, the Grand Trunk Railway Company had at February 29, 1916, advanced to the several companies the following sums:—

Grand Trunk Pacific Railway Company .. . . .	\$ 801,783 54	
" " Branch Lines Company .. . . .	13,369,537 83	
" " Saskatchewan Railway Co. .. . . .	214,500 00	
" " Development Company, Ltd. .. . . .	11,793,907 46	
Total advances .. . . .		26,179,728
Total commitment of Grand Trunk Railway Company .. . . .		\$123,280,980

In respect of these advances they hold the companies' notes to the amount of \$24,334,016.55.

We estimate the present annual liability of the Grand Trunk in connection with the Grand Trunk Pacific system to be considerably over \$5,000,000 per annum; and after January, 1923, it will increase to over \$7,000,000.

**Grand Trunk Company's Proposal.**

The Grand Trunk Company have, in the letter of their President, addressed to the Prime Minister and dated December 10, 1915, officially acknowledged that they cannot fulfil their obligations in reference to the Grand Trunk Pacific. The Grand Trunk Company have already obtained a tacit release from their contract in reference to the Transcontinental half of the original Grand Trunk Pacific undertaking. They have now, by their chairman's letter, put it on record that they are "at the end of their tether." They say that it is "quite impossible for them to meet the extra liabilities arising from the Grand Trunk Pacific Company." They propose to retire altogether from the concern; that in return for their handing over to Government the \$25,000,000 common stock of the Grand Trunk Pacific Railway, which is in their possession, but for which they only paid a nominal amount of actual cash, the Government shall not only relieve them of all liability for the interest on the securities of the Grand Trunk Pacific and subsidiary companies, and for any deficiencies of operating expenses of the Grand Trunk Pacific System, but shall "repay the Grand Trunk Railway Company any money advanced to the Grand Trunk Pacific or its Branch Lines and Development Company and other subsidiary companies."

We cannot think that this is a reasonable proposition, or one that we could advise the Government to accept. What would be thought if one partner in a business were to say to the other: "We entered jointly on an enterprise which we thought would be profitable. It has turned out the reverse. I propose that you settle with the creditors, pay out to me the whole of the capital I put in, and let me retire. Provided I go free, I am content that you make what you can of the business." We think the Grand Trunk Company cannot thus escape the consequence of its own action. We quite agree that the Grand Trunk Company cannot meet its Grand Trunk Pacific liabilities. But, if the Government is to relieve the Grand Trunk Company of liabilities which it voluntarily incurred, but which it now finds it impossible to meet, it is for the Government, not for the company, to fix the terms.

**The Grand Trunk Case.**

Having regard to the great importance of this question, not only to the Grand Trunk and Grand Trunk Pacific Companies, but also to the people of Canada, before deciding what to report in reference to the present position, and what to recommend for the future, we gave to the management of these companies full opportunity to state their case. We invited them to put forward every ground on which they based their application that the Grand Trunk Company should be relieved by the Government of their obligations in respect to the Grand Trunk Pacific, and have repaid to them by the Government their advances to the Grand Trunk Pacific Company and its subsidiaries, which otherwise would be uncollectable. And we also investigated the physical and financial position of the companies.

## SESSIONAL PAPER No. 20g

In a letter addressed to Mr. Chamberlin, President of both companies, dated November 30, 1916, we wrote as follows:—

"Before looking into the Grand Trunk Pacific history from a parliamentary standpoint, I would like to have the company's own statement so as to make sure that no injustice will be done it.

"Will you please write, or have Mr. Biggar write, giving the history of the project, and the underlying motives and objects to be served, as the company understood them, and say to what, if to any extent, the company was prevented or hindered in carrying out its programme. If Mr. Biggar has a series of draft Acts showing changes from time to time made before the adoption of the final Act that probably would be helpful."

To this letter Mr. W. H. Biggar, K.C., General Solicitor for both Systems, in a letter received by us on December 12, replied as follows:—

### Inception of the National Transcontinental.

"The construction by the Grand Trunk interests of a line into the Western Provinces appears to have been first suggested by Mr. Hays to the late Sir Charles Rivers Wilson, then president of the Grand Trunk, early in 1902. The correspondence between these two officials clearly shows that the chief purpose was the construction of a line to connect the Ontario lines of the Grand Trunk with the Western Provinces. The general outline of the scheme having received the approval of the directors of the Grand Trunk in London, Mr. Hays, on October 23, 1902, submitted it to Sir Wilfrid Laurier, then Prime Minister. On November 3, 1902, probably at the suggestion of Sir Wilfrid Laurier, a memorial was addressed to him signed by the late Mr. Hays and the late Mr. Wainwright. The following extracts from that memorial show what was contemplated:—

"Your petitioners desire to memorialize your Government in regard to the construction of a first-class line of railway from the northern terminus of the Grand Trunk Railway at, or near, North Bay, Ont., through to the Pacific coast, for the reasons and upon the conditions herein set forth:—

"First: That it is considered very desirable and in the public interest that there should be, without any unnecessary delay, a second transcontinental railway reaching from the Atlantic ocean to the Pacific ocean, in order that additional facilities may be provided for the large and growing business of the Northwest, which might otherwise find its outlet through American channels.

"Second: That your petitioners propose, as soon as authorized by your Government, to undertake the construction of such a line from North Bay, Ont., or some other point north thereof, to be defined, to the Pacific coast, the terminus to be at or near Port Simpson; with all necessary branches along the route, to be designated.

"Third: That your petitioners therefore ask that their application for authority to construct such a line of railway to be called the *Grand Trunk Pacific Railway* shall be granted.

"Eighth: That in order to provide for connection with the Atlantic seaboard, all the year round and through an all-British territory route, your petitioners will be prepared to enter into an arrangement with the Government for an interchange of traffic or other satisfactory agreement with the Intercolonial Railway at Montreal, or such other proposal as the Government may submit.

7 GEORGE V, A. 1917

"Ninth: That your petitioners would have the advantage of all the eastern connections, in Ontario and Quebec, of the Grand Trunk Railway, and by this means (on the completion of the transcontinental line) there would be established and opened up a complete system from ocean to ocean."

"Shortly after this memorial was presented, Mr. Hays instructed that notice of an application to Parliament for an Act to incorporate 'The Grand Trunk Pacific Railway Company' be prepared and published. I inclose a copy of the notice marked 'A.' In accordance with an apparent understanding between Sir Wilfrid Laurier and Mr. Hays that notice was, before publication, submitted to and approved by the then Minister of Justice, now Chief Justice of the Supreme Court of Canada. Subsequently the Bill, a copy of which marked 'B' is also inclosed, was prepared and forwarded to the Clerk of the House. In the early months of 1903, conferences were from time to time held between Mr. Hays and Mr. Wainwright on behalf of the company and Sir Wilfrid Laurier and members of his Cabinet, as a result of which Mr. Hays was asked to have the Bill amended to provide for the construction of a line from North Bay to Quebec. Not only do I personally know this to be the fact, but it is corroborated by a letter written to Sir Charles Rivers Wilson by Mr. Hays on March 16, 1903, in which he stated that 'at the request of the Government we have amended our Grand Trunk Pacific charter taking powers to build a line from Quebec to North Bay.' I inclose a copy marked 'C' of the notice published in accordance with that undertaking. When the Bill first came up for discussion before the Railway Committee of the House of Commons, such strong opposition developed that practically no progress was made at that meeting nor, in fact, at several subsequent meetings of the committee. While the Bill was thus under consideration, several Members from the Maritime Provinces insisted that the eastern terminus of the line should not be Quebec but a point in the Maritime Provinces. So strongly was this view pressed that in the end the Government acquiesced and directed that the Bill be further amended to include the construction of a line from Quebec to Moncton. I attach, marked 'D,' a copy of clause 13 of the Bill reprinted by direction of the committee to give effect to this. Moncton was decided upon as a compromise, regard being had to the fact that both Halifax and St. John could be reached from there by the Intercolonial. As you will see, this clause as reprinted authorized the construction of branch lines to Fort William or Port Arthur and to North Bay. During all this time negotiations were still being carried on between the Government and the representatives of the company regarding the extent of and the terms upon which the Government should aid in the construction of the line. These resulted in the agreement of July 29, 1903, a copy of which forms the Schedule to Chapter 71 of the Statutes of 1903. The facts herein stated, and the enclosures, show how the scheme as first outlined by Mr. Hays came to be so materially changed. That his original intention was not carried out was, to my personal knowledge, not due to a change of view on his part but because he came to the conclusion that the Government aid essential to the construction of any Grand Trunk Pacific line could only be secured upon the terms set forth in the agreement of July 29, 1903."

It is not necessary to reprint the exhibits referred to in Mr. Biggar's letter. They fully establish his statement that the original advertisement, the draft Bill, and the notice of intention to apply for the Act, were all merely for the construction of a line from a point at or near North Bay, in the province of Ontario, and thence westerly. But Mr. Biggar's own letter shows also that the Grand Trunk Company, however reluctantly, did accept, as the only consideration on which they could get authority

## SESSIONAL PAPER No. 20g

and assistance to construct and operate the Grand Trunk Pacific line from Winnipeg westward, the obligation to operate also the line from Winnipeg eastward. But this point is not of importance, as the company has, in effect, been released from the obligation that it assumed.

Mr. Biggar, however, confined himself to the Transcontinental section of the original scheme; and his letter contained no reply to our request for a more general statement as to the whole project, its motives and objects, and the manner in which the company might have suffered hindrance in carrying out its programme. We accordingly addressed a further communication to Mr. Chamberlin.

In a letter to us dated January 30, 1917, he wrote as follows:—

**Letter from the President of the Grand Trunk.**

"In replying to the first question asked in your letter 'as to the effect on the Grand Trunk proper of the loss of the \$25,000,000 investment,' it is perhaps necessary to repeat to some extent what has already been said from time to time on the subject.

"The advance to the Branch Lines Company—every dollar of it—represents money paid by the Grand Trunk in order to complete the lines, the bond issues having been found insufficient for the purpose, together with interest accruing. These branch lines were intended to be, and have been, important feeders to the parent company, the present financial position of which would have been much worse than it is had they not been constructed.

"The Grand Trunk Railway Company having furnished the money necessary to complete these lines would naturally look upon the confiscation of its investment as a crime. The money was put into it in good faith, in the belief that the Grand Trunk Pacific was largely a national undertaking. That the railway has turned out so far not to be a success is no fault of theirs, but can be attributed directly to the action of the Government in subsidizing competing lines and in many ways enormously adding to the cost of construction. There is not a shadow of doubt that had the course subsequently followed by the Government been known when application for the Grand Trunk Pacific charter was made, that road would never have been built.

"These are the facts as understood by the Grand Trunk directors and shareholders.

"The repudiation of this legitimate indebtedness in any arrangement made with the Government would not only injure the Grand Trunk Company's credit, but might induce a spirit of hostile criticism on the part of investors in Grand Trunk securities in London and New York that might easily react upon the credit of the country.

"The foregoing remarks apply also to the advances to the Saskatchewan Railway.

"The Grand Trunk Pacific Development Company was organized with a view to obtaining, for the Grand Trunk Pacific Railway, terminals and town-sites, in order to induce settlers to take up land on the line of the railway. The whole of the common stock was owned by the Grand Trunk Pacific Railway Company. The enterprise was an endeavour to do at our own expense exactly what in the case of the Canadian Pacific and Canadian Northern Companies had been provided by the Government by giving land subsidies. The money advanced by the Grand Trunk Railway Company would have been repaid had it not been for the collapse of land values in the west, owing to the cul-



7 GEORGE V, A. 1917

mination of the boom in real estate. The assets of the company are owned by the Grand Trunk Pacific Railway Company, and the operations of the Development Company accrue entirely to its benefit.

"To the second question asked as to the effect on the Grand Trunk proper should the operation of the Grand Trunk Pacific be left as it is and the former not be relieved from its guarantees, there can be only one answer: it would mean a receivership for the Grand Trunk Company, carrying with it the destruction of its credit for some time to come and the impairment of the credit of the whole Dominion."

"I can hardly add anything to lend additional force to the remarks already made in order to indicate the justice of our claim. If we have been guilty of too much optimism in the inception of the scheme, does not the same criticism apply to the Government which subsidized a railway system to compete with us, its success being dependent entirely upon a large influx of settlers in the west? While this expectation has not yet been fulfilled, it is not unreasonable to hope that it has only been deferred, and that eventually the Grand Trunk Pacific Railway system will prove an excellent national asset."

Mr. Chamberlin's letter in effect charges bad faith, unless the demands made by his company are acceded to by the country. "Confiscation," "crime," "repudiation of legitimate indebtedness," are grave words to be used by the president of a great company in an official communication referring to the action of the Government. The matter could not rest there. A serious situation was created, and one which in our view could not rest on mere affirmation or unsupported opinion.

If the company has been taken advantage of, or in any way deluded or defrauded by the Government, the fair name of Canada requires immediate redress. On the other hand, the country ought not to be called upon to accept, on the ground of good faith, a large loss and responsibility, unless this ground is well established. We accordingly arranged to hold a  *viva voce*  examination.

### Hearing of Grand Trunk Officials at Montreal.

On this occasion, Mr. Chamberlin was given every opportunity to disclose all the grounds on which, as a matter of fairness, the Grand Trunk ought to be relieved of its obligations. No such case has been made out. Still less a case of "repudiation of legitimate obligations."

We have reprinted in full in Appendix "B" to this report, Mr. Chamberlin's evidence. In reference to the National Transcontinental, two new points were raised: (1) That the statutory obligation to route ocean traffic from and to the West *via* Canadian ports rather than *via* Portland is injurious to the Grand Trunk, and, (2) that the delay in the completion of the western portion of the Transcontinental and the absence of a connection *via* North Bay caused the Grand Trunk to lose valuable traffic which they might have had in the years of heavy business before 1914. The answer as to (1) is that the company accepted the obligation when it took its Act, and that they have never so far asked to be relieved of it. In respect of (2) there is no ground for holding that the Government undertook any obligation to the company which it failed to carry out. There was indeed a provision in the National Transcontinental Act of 1904 that the Government should so construct the railway that the

## SESSIONAL PAPER No. 20g

section between Winnipeg and Quebec and that between Quebec and Moncton should be completed as nearly as practicable at the same time. But this was a statutory public obligation and confers no contractual right on the Grand Trunk Pacific Company. It may well be that in this and in other respects the Grand Trunk failed to procure the insertion in its agreement with the Government of stipulations which prudence would have recommended.

**Grand Trunk Pacific Case.**

In respect to the Grand Trunk Pacific proper, Mr. Chamberlin rested his case on the following main grounds: (1) That the Government had, in effect, gone into partnership with the Grand Trunk Pacific and that subsequently it had by subsidies and guarantees enabled a rival (the Canadian Northern) to come into existence; and that this action of the Government was, in view of its position as partner with the Grand Trunk Pacific, tantamount to bad faith. (2) That the simultaneous construction of the Canadian Northern in the same territory greatly enhanced the difficulty of obtaining labour, doubled its price, and also prolonged the period of construction; (3) That a new duty on steel rails was imposed after the Grand Trunk Pacific Act was passed, and that this added \$5,000,000 to the cost of construction. Mr. Chamberlin reiterated his strong belief, that his predecessors would never have gone into the scheme, had they known that they would be exposed to Canadian Northern competition.

As to (1) we cannot for a moment accept Mr. Chamberlin's contention. The Government was and is a government, not a mere private partner; and it retained and retains all the attributes of a government, including the power to charter new railways. We cannot suppose that the management of the Grand Trunk were ignorant of this fact when they took the Act constituting the Grand Trunk Pacific Company. Seeing, moreover, that the Canadian Pacific Railway Company had obtained special statutory protection against certain competition, we can hardly believe that their attention was not directed to the matter. Whether they applied for a similar protection and failed to obtain it, or whether they determined that it was useless to apply, we know not. But the point is not important. It is clear that the Government was entirely entitled to do what it did. (2) This no doubt was a fact, which was disadvantageous to the Grand Trunk Pacific; but the company took this risk, as it took other business risks, when it promoted its enterprise. (3) In this case also it is clear from the correspondence between the company and the then Prime Minister, exchanged in the autumn of 1905, that the Government in no way broke faith with the company. The Bill for the Act imposing the duty was introduced three months before the agreement between the Government and the company was signed. The company must therefore have been aware of the Government's intention, and it must be held to have taken its agreement, containing no provision for exemption, with full knowledge of this intention. According to the correspondence, the Prime Minister believed in 1905 that the question of a duty on rails had been more than once discussed at the time of the inception of the scheme; Mr. Hays, for the Grand Trunk Pacific, believed it had never been discussed at all.

7 GEORGE V, A. 1917

**The Commission's Conclusions.**

Our inquiry has fully satisfied us that the Grand Trunk management was content at the time with the arrangement made; that it deliberately took its business chances, and proceeded with the undertaking. On the evidence there is nothing whatever to justify any charge of lack of fairness or good faith on the part of the Government in its dealings with the company. We have no hesitation in saying that, neither legally nor morally, have the promoters or shareholders of the Grand Trunk Pacific Company any basis for a claim that the country shall make good the Grand Trunk's mistaken investment in the Grand Trunk Pacific. Any aid given to them must be looked upon not as a matter of obligation but as spontaneous bounty.

The question is really so left by the Grand Trunk officials themselves. The record reads (page 176), as follows:—

"Sir HENRY DRAYTON: Doesn't it really come down to this, that the statements in your letter mean that in your view, in order to protect the finances of the Grand Trunk, and as a corollary to protect the finances of the country, the Government ought to relieve the Grand Trunk in regard to its investment; isn't that the whole thing?"

"Mr. CHAMBERLIN: That is the whole thing?"

"Sir HENRY DRAYTON: There is nothing else to it?"

"Mr. CHAMBERLIN: Nothing else."

**The Parent Grand Trunk Company.**

We turn to the position of the parent Grand Trunk Company. The proposal of its chairman is that, after they have been permitted to wash their hands of their Grand Trunk Pacific venture, they shall revert to their old position of a local road in Eastern Canada. We cannot think that this is in the interest of the country. We cannot accept the chairman's view that on these terms the company would be "able to fulfil the ever increasing demands of the public bodies." We do not think that "the credit of the Grand Trunk Company," weakened as it must be by its Grand Trunk Pacific failure, could be "so maintained as to render possible the raising of fresh capital as required." The financial management of the company is not such as to inspire confidence. A few weeks after the chairman's letter acknowledging that the company could not meet their Grand Trunk Pacific liabilities—with short term notes, issued to make advances to Grand Trunk Pacific companies, which those companies evidently cannot meet at maturity, outstanding to the amount of \$25,000,000—the Grand Trunk Company paid away \$2,500,000 in dividends. And the accounts for the same year, 1915, contain under the head of "capital expenditure" this entry:—

"Discount and commission:—

	£	s.	d.
On sale of 3-year 5 per cent notes . . . . .	22,438	5	3
On sale of 5-year 5½ per cent notes . . . . .	104,371	11	7
	<hr/>		
	126,809	16	10"
	(Say \$608,604)		

SESSIONAL PAPER No. 20g

**Grand Trunk Maintenance Expenditure.**

Further, the Grand Trunk railway has not been and is not being adequately maintained. No depreciation fund has been created for equipment. Mr. Chamberlin's view, as shown by his evidence, is that 5 per cent on the cost of the equipment ought to be annually charged under this head. He says:—

"Take engines and cars, they are either worn out or out of date in twenty years."

This item, according to his evidence, would have required an annual sum of \$2,750,000. He also states:—

"If we had \$25,000,000 now, it would put us in fine shape."

The Vice-President in charge of operation, Mr. Kelley, has direct responsibility for the plant. On Mr. Chamberlin's evidence being put to him, he agreed with it. He has since submitted to us a full report on the question of deferred expenditure. "Deferred expenditure" means, in plain English, expenditure which has not been made, but which, in the view of those charged with the duty of maintaining the plant, ought to have been made.

We give below Mr. Kelley's summary in tabular form, but we do not think it necessary to reproduce all the supporting tables.

**GRAND TRUNK RAILWAY SYSTEM—SUMMARY OF DEFERRED EXPENDITURES.**

Rebuilding and reinforcing freight car equipment.....	\$ 8,943,971 14
Equipping freight and passenger cars with safety appliances—	
Original estimate.....	\$850,722 50
Already expended.....	392,220 89
Balance to be expended.....	\$ 458,501 61
Equipping engines with safety appliances—	
Original estimate.....	\$ 17,828 00
Already expended.....	553 68
Balance to be expended.....	\$ 17,274 32
Deferred renewals in Maintenance of Way Department—	
In Canada.....	\$ 6,182,672
In United States.....	5,578,926
	\$ 11,761,598 00
Total.....	\$ 21,181,345 07

MONTREAL, March 5, 1917.

On the single item of "rails" the "cash expenditure required to restore normal conditions" is reported as \$5,312,142. The cost of restoring ballast to normal conditions is reported as \$2,434,000.

With reference to the deferred renewals in Canada amounting to over \$6,000,000, it appears that they have accumulated during eleven years, 1906-16. During this period, in spite of the requirements of the property, and the claims of public safety, \$36,000,000 were paid out in dividends.

7 GEORGE V, A. 1917

**Grand Trunk Capital Expenditure Required.**

The \$21,000,000 dealt with above represent the money which the responsible officers of the company estimate to be required to put the existing plant into good normal condition. This is a revenue liability. But the existing plant is quite inadequate for existing traffic and requires large additions, for which new capital must be raised. The estimates of necessary capital expenditure submitted to us are as follows:—

Requirements for rolling stock, shops and machinery . . . . .	\$ 26,150,000
“ automatic block signals (main line in Canada only) . . . . .	3,533,000
“ installing rock ballast crushing plant . . . . .	467,500
Total . . . . .	<hr/> \$ 30,150,500

Putting together revenue and capital expenditure, we find that the Grand Trunk Railway, in the opinion of its own officers, requires over \$51,000,000 spent upon it to put it in a position to meet the requirements of its to-day's business. We see no reason to expect that under existing conditions this necessary money will be provided.

**Effect on Canadian Business.**

The effect on the country's business of deficient railway facilities is very serious. It is best shown in a period of stress, whether this stress is due to traffic congestion or is the result of bad weather conditions. February last gives a good example. The traffic was very heavy; embargoes were the rule and not the exception; weather conditions were worse than usual even in winter. The Grand Trunk had handled over the lines in its Ontario district in February, 1916, 318,532 cars. Last February it handled only 195,120. In its Eastern district in February, 1916, the company handled 210,914 cars; and in February of this year only 109,567 cars. This failure has occurred at a period when the demands on the country for food supplies, munitions of war and other articles used by the Allied Armies, are extremely heavy. The situation is one which calls loudly and insistently for an immediate remedy.

In fairness to the Grand Trunk, it should be pointed out that congestion inevitably causes a falling off in the volume of traffic handled. Cars which are insistently required for the necessities of life, such as coal, perishable foods, live stock—and under present circumstances munitions—have at all hazards to be got forward. This necessitates greatly increased yard-work and switching. Preferential treatment of any one class of traffic always retards the general movement, and so adds further to congestion.

The Canadian Pacific is a well organized line. Its movement also fell off in Eastern Canada. Its two districts probably most nearly comparable to the Grand Trunk's Eastern and Ontario Lines are its Ontario and Quebec Districts. In February, 1916, the Canadian Pacific handled in its Ontario district, 92,255 cars, and in 1917 only 80,414 cars. In its Quebec district it handled, in February, 1916, 130,045 cars, and in February, 1917, only 96,464 cars. The resultant percentage decreases are for the Grand Trunk in its Ontario division 39.37 per cent, and for the

## SESSIONAL PAPER No. 20g

Canadian Pacific Railway in its Ontario district 15.58 per cent. For the Grand Trunk in its Eastern Division, and for the Canadian Pacific in its Quebec district, the percentage decreases are 48.5 per cent and 25.82 per cent respectively.

At a later page of this report we refer in another connection to the fact that the Intercolonial has no terminals of its own at Montreal, but uses those of the Grand Trunk. The congestion of February was more a terminal congestion than a rail congestion, and the Intercolonial business out of Montreal was directly affected by the congestion of the Grand Trunk terminals. The Intercolonial movement in the First Division out of Montreal in February, 1916, amounted to 25,446 cars, and for the same month in 1917, to 15,628 cars, a percentage decrease of 38.58 per cent. The Intercolonial system, however, as a whole, had a movement, in February, 1917, of 51,311 cars, as compared with 66,510 cars in February, 1916, a percentage decrease of only 22.85 per cent, while the Grand Trunk for its entire system handled, in February, 1916, 652,358 cars, and in the same period in 1917, 402,133 cars, a percentage decrease of 38.35 per cent.

**Commissioners' Recommendation.**

The Grand Trunk Company's Board of Directors is 3,000 miles away. We cannot think that the state of affairs which our investigation has disclosed could have arisen, had the Board been on the spot. We are forced to the conclusion that the control of an important Canadian company should be in Canada. But this cannot be secured as long as the Grand Trunk Railway is owned by shareholders in England. We have come to the conclusion, therefore, that the control, not only of the Grand Trunk Pacific Company, but also of the Grand Trunk Company of Canada should be surrendered into the hands of the people of Canada. We recommend that the Chairman of the Grand Trunk Company be informed, that it is only on this condition that the Government is prepared to relieve his company of the obligations which it has incurred in respect to the Grand Trunk Pacific. We recur later on in this report to these two companies, in order to set out our recommendations as to their ownership and management in the future, and as to the terms to be offered to the Grand Trunk shareholders.

**PART III.****THE CANADIAN NORTHERN SYSTEM.**

The system now known as the Canadian Northern began with the acquisition by Messrs. Mackenzie and Mann, in the year 1896, of a charter which had been granted in 1889 by the province of Manitoba to the Lake Manitoba Railway and Canal Company. The charter was for a line, 123 miles in length, from Gladstone on the Canadian Pacific to Winnipegosis. Construction was promptly begun, and

7 GEORGE V, A. 1917

the line was opened in January, 1897. In the same year, 1897, Messrs. Mackenzie and Mann began to construct a line from Winnipeg to Port Arthur, known as the Manitoba and South-Eastern. Shortly after they constructed also the Winnipeg and Great Northern.

These three companies among them received land grants of 4,000,000 acres, and their bonds were largely guaranteed by the province of Manitoba.

In 1899, the Lake Manitoba Railway and Canal Company and the Winnipeg and Great Northern Company were amalgamated as the Canadian Northern Railway Company.

Thereafter, by leases, by absorptions, and by new construction, the Canadian Northern system grew fast in both directions, eastward and westward. As a system it never has had, nor has it to-day, any corporate existence. It was held together by stock ownership. The whole of the common stock of the Canadian Northern Railway Company itself was held by Messrs. Mackenzie and Mann. In the case of the affiliated companies the stock was held sometimes by the parent company; sometimes by Messrs. Mackenzie and Mann in their own names.

Throughout the history of the Canadian Northern construction, the company has depended on public aid, direct or indirect. The development in the twenty years since 1896 has gone through four distinct stages, though chronologically the stages overlap to a considerable extent. In the first stage, the company relied on Provincial guarantees. As it grew larger and more ambitious, it invoked and obtained aid from the Dominion. This was the second stage. In the third stage, the company, having become better known, raised large amounts, by the issue of Perpetual Debenture Stock, and later of Convertible Income Debenture Stock, on its own credit. At no period, as far as we have been able to ascertain, has any actual cash been obtained from the sale of the common stock, either of the parent company or of the constituent or subsidiary companies. With the exception of a French issue of \$4,000,000 in December, 1911, practically all the Canadian Northern money obtained by public subscription has been raised in London.

#### Canadian Northern Position in 1914.

In the fourth and last stage, in 1914, with heavy interest payments to be made and large construction contracts still open, the company found its own resources insufficient. It reported that it required \$100,000,000 to complete and equip its system; that it could raise on its own account \$58,000,000; and it appealed to the Government to find the balance.

The Government thereupon guaranteed an issue of \$45,000,000 of 4 per cent First Mortgage Debenture Stock. Of this issue, \$14,600,000 was sold in London at 91½ in July, 1914; and \$2,433,333 at 91 in February, 1915. There have been handed back to the Dominion Government \$12,500,000 as security for a cash loan of \$10,000,000. The remainder (except \$133,333 unissued) has been pledged as security for loans in New York. The total proceeds in cash from those sales and pledges were \$36,759,265. This sum having proved insufficient, in May, 1916, the Canadian Northern obtained from the Government a further loan of \$15,000,000 at the rate of 6 per cent repay-

## SESSIONAL PAPER No. 20g

able on demand, to be used either for construction or to meet interest obligations. In addition, the Government undertook in September, 1915, to lend to the company the money necessary to pay interest either to the Government itself or to the public on the \$45,000,000 debentures. And to date, \$1,756,000 have been advanced for this purpose.

It will be observed that the first appeal to the Government was some months before the war. No doubt the stringency of the money markets of the world at the time made it more difficult than it otherwise would have been for the company to sell its securities. But that was not all. There was a further cause intrinsic to the company itself. It had gone ahead too fast and had undertaken various expensive schemes, which could not possibly carry themselves from the outset. The Canadian Northern Pacific, the Canadian Northern Ontario, and the Montreal Terminal especially implied very serious commitments. And the Prairie system, which was self-supporting and yielded a profit, was not sufficiently developed to carry this weight.

The war, which at the outset paralyzed the business of the country, and which has practically closed the markets of the world to the issue of permanent securities, other than Government loans, for an indefinite time to come, further aggravated the situation. The company, when it applied to the Government early in 1914, reckoned on selling its \$45,000,000 guaranteed debentures for \$42,000,000. In fact it has only obtained from them \$36,759,265 in cash. It reckoned that other securities which it had to sell would bring in \$58,000,000; but many of them it has not been able to sell. At present the company is living from hand to mouth, and is nominally borrowing from the Government to pay interest on the Government's own loans.

**Canadian Northern Annual Report for 1916.**

The report to shareholders for the year ending June 30, 1916, appears to show that, after paying working expenses and fixed charges, the company has a deficit of only \$248,127. But this report does not disclose the fact that more than \$5,400,000 were paid for interest and charged to capital as part of the construction cost of a system which was all but completed.

According to an estimate submitted to us by the company the fixed charges for the year ending June 30, 1917, will be \$16,539,638. Of this the Dominion and British Columbia Governments have undertaken to pay \$4,514,507 under certain agreements. This leaves the company to find out of net revenue about \$2,500,000 more than it had available this year. An income of \$2,500,000 net implies an increase of at least \$9,000,000 gross. The company itself does not venture to expect a greater increase of gross than \$7,000,000.

The above agreements to pay interest are only for two and three years respectively. In the year ending June 30, 1920, the Government contributions will have fallen to \$627,000 and the following year they will have ceased entirely. The company's estimate for the year ending June 30, 1921, is that they will then have fixed charges amounting to \$18,300,00.<sup>1</sup> And this burden they will have to bear unaided. To carry it they would

<sup>1</sup> This includes the interest amounting to \$2,250,000 on the new capital estimated by the company as necessary to be spent in the five years. This estimate we regard as quite inadequate. If so, the fixed charges will be correspondingly increased.



7 GEORGE V, A. 1917

need (assuming working expenses at the very moderate ratio of 70 per cent), a gross revenue of \$61,000,000. We cannot think it safe to assume that any such result will actually be attained.

#### Canadian Northern Estimate in 1914.

Without desiring to cast any reflection on the Canadian Northern Company, we think that those responsible for its management have taken, and still continue to take, an unjustifiably sanguine view of its possibilities. In 1914, when the company was applying to the Dominion Parliament for the guarantee of \$45,000,000 debentures to complete the undertaking, it submitted an estimate for the three years, 1916 to 1918, by Mr. Hanna, vice-president of the company, on what was described as "the very conservative basis of the percentage increase for the past five years." The company added that "inasmuch as a part of the mileage has been disconnected and confined to a local short-haul business, operation as a united trunk line system should result in a much greater per mile revenue."

We reproduce this estimate below:—

	For the year ending June 30,		
	1916.	1917.	1918.
	\$	\$	\$
Gross earnings .....	54,000,000	61,000,000	67,000,000
Operating expenses .....	38,880,000	43,300,000	46,900,000
Net earnings .....	15,120,000	17,700,000	20,100,000
Fixed charges, including interest on securities at present applied for .....	12,607,115	14,019,615	14,807,115
Surplus .....	2,512,885	3,680,385	5,292,885
Less interest on 5 per cent income debenture stock .....	1,250,000	1,250,000	1,250,000
	1,262,885	2,430,385	4,042,885

This estimate showed a margin, after paying \$1,250,000 per annum on the 5 per cent Income Debenture Stock, of \$1,262,000 in 1916.

The estimate was:—

Gross earnings .....	\$54,000,000
Net earnings .....	15,120,000

The facts have been:—

Gross earnings .....	\$35,476,000
Net earnings .....	9,373,000

And there has been a bumper harvest and it is acknowledged that the war has increased rather than diminished traffic. A further fact has been that for the year ending June 30, 1916, after passing the interest of \$1,250,000 upon the \$25,000,000 Income Debenture Stock, and after charging against capital interest to the amount of

## SESSIONAL PAPER No. 20g

\$5,445,389 (less \$878,166 paid by the Government under its guarantee) in respect of "lines under construction," the company was still \$248,000 short of the money required to meet its bonded indebtedness.

We appreciate that circumstances which could not have been foreseen in the spring of 1914 have arisen to upset the estimates then made. The money was not immediately forthcoming. The full amount estimated as necessary was not obtained, and the terms were more onerous. Prices have gone up. Labour has been scarce and dear. The expected immigrants have not come. The company has sold its ocean steamers. The system, even to-day, is not in the condition that was in the minds of the company's officers when the estimates were made.

But making all possible allowances, we think that those responsible for the estimates of 1914, upon which Parliament acted, have incurred very serious responsibility.

## Canadian Northern Estimate in 1917.

In January last the company submitted to us an estimate for the five years, 1917-21. This was as follows:—

	Year ending June 30, 1917.	Year ending June 30, 1918.	Year ending June 30, 1919.	Year ending June 30, 1920.	Year ending June 30, 1921.
	\$	\$	\$	\$	\$
Gross earnings.....	42,590,000	48,185,000	55,410,000	62,300,000	68,460,000
Operating expenses.....	31,090,000	34,790,000	39,895,000	44,200,000	47,920,000
	11,500,000	13,395,000	15,515,000	18,100,000	20,540,000

The estimate submitted to Parliament by the company for the year to June 30, 1917, was:—

Gross.....	\$61,000,000
Net.....	17,700,000

The revised estimate now submitted to us by the company is:—

Gross.....	42,590,000
Net.....	11,500,000

The estimate submitted to Parliament by the company for the year to June 30, 1918, was:—

Gross.....	\$67,000,000
Net.....	20,100,000

The revised estimate now submitted to us by the company is:—

Gross.....	\$48,185,000
Net.....	13,395,000

7 GEORGE V, A. 1917

We think the new estimate made for us, even though more conservative than the old, is still too sanguine. We see no reason to think that the traffic will increase at any such rate as that indicated. To assume a growth each year of about 11 per cent over the previous year, and simultaneously an operating ratio falling steadily from 73 per cent to 70 per cent, is only once more to invite disillusionment.

#### Comparison with Canadian Pacific.

We think the following statement of the facts of the last eleven years of Canadian Pacific history is instructive. The table shows for each year gross and net earnings per mile, and also the percentage of operating ratio.

	Gross earnings.	Net earnings.	Operating ratio.
	\$	\$	
1906.....	7,026	2,617	62.7
1907.....	7,890	2,765	64.9
1908.....	7,573	2,312	69.4
1909.....	7,726	2,324	69.9
1910.....	9,425	3,353	64.4
1911.....	10,072	3,548	64.8
1912.....	11,453	3,614	64.9
1913.....	12,263	4,068	66.8
1914.....	10,977	3,587	67.3
1915.....	7,993	2,714	66.0
1916.....	10,024	3,810	67.0

It will be seen that the gross earnings of the Canadian Pacific Railway by no means show a steady growth. There can be no doubt that the drop of the last three years reflects, in part at least, the effect of the new competition of the Canadian Northern and the Grand Trunk Pacific. And the Canadian Northern growth must equally be conditioned by the competition of the Canadian Pacific and the Grand Trunk. It will be seen further from the table that there is by no means a steady growth of net earnings. Nor can we, in face of the constant increase of the operating ratio through a long series of years all over the American continent, in view of the great rise in the cost of materials, especially coal and steel rails, and the insistent demands for increases of wages, think it safe to assume that the operating ratio of the Canadian Northern will show a consistently steady decline in each succeeding year.

#### Prospective Requirements of Canadian Northern.

The Canadian Northern estimate submitted to us further calculated that, in the course of the next five years, the company will need to spend \$12,500,000 of new capital for additions and betterments, and \$25,000,000 for new equipment. We consider these estimates entirely inadequate, and especially so in relation to the estimate of 90 per

\*Gross earnings include receipts from steamships, telegraphs and other sources not properly attributable to railway mileage.

## SESSIONAL PAPER No. 20g

cent increase in gross receipts. The company has acknowledged that its equipment is inadequate to take care of its existing business. That equipment stands in the company's books at \$59,000,000. If the business were to increase 90 per cent, it would seem to need not \$25,000,000 but over \$50,000,000 spent on new equipment to handle it. Again we refer to Canadian Pacific Railway figures. That company has seven freight cars per mile of line. The Canadian Northern has three. We think it will need five; and this implies an addition of 20,000 cars to the existing stock. This alone would imply, even if prices dropped to those current a year ago, an additional expenditure of something like \$30,000,000. And the same thing is true in respect of locomotives. Nor can the estimate of \$12,500,000 for additions and betterments, spread over a system of 10,000 miles during five years, be sustained, more especially in the case of a system that is only just emerging from the construction stage. It works out at \$250 per mile per annum. It is impossible that the needs of a rapidly growing property can be adequately provided for at any such figure.

We think that \$40,000,000 for equipment, and perhaps \$30,000,000 for additions and betterments, would be a moderate estimate of the System's needs in the next five years, assuming that the Canadian Northern remains separate and independent.

We sum up the Canadian Northern situation as follows: The company is not at present able, and will not for some years to come be able, to meet its fixed charges. It will, we doubt not, increase its net earnings as the years go by. But the increased net earnings will be fully absorbed for some years to come by the interest on new capital, which must be put in, if the system is to render efficient service. The company has not now, and as far as we can see will not have in the near future, such credit as to enable it to raise the necessary capital. As we have already shown, the public investment, direct and indirect, in the Canadian Northern system amounts to \$298,000,000. We do not recommend further public investment in the system, as at present constituted.

### Value of Canadian Northern Undertaking.

#### 1. CASH INVESTMENT.

The property investment of the Canadian Northern Railway system is stated in the balance sheet of June 30, 1916, at \$194,112,489.34. This figure admittedly has been written up to include \$100,000,000 of capital stock. And this stock, as we have already said, was issued without any cash consideration. We have endeavoured to ascertain the actual cost of the system. From the company's official reports and special statements supplied to us, we have ascertained that the maximum cash investment that can have been made in the property is \$383,302,451.63.

The following tables, which have been accepted by the company as accurate, show:—

- (i) The source of money or credit.
- (ii) The disposition of money or debit items.
- (iii) A list of bonds of constituent companies assumed.

## I. SOURCE OF MONEY OR CREDIT.

Cash realized from securities sold and from collateral loans (pp 205-7 record).	\$302,713,872 69
Dominion Government loans of 1914 and 1916..	15,878,166 67
Subsidies (not including subsidies of prior organizations) (Q. 4).....	28,000,222 50
Land sales (Q. 4).....	16,603,295 62
Sales of acquired bonds and stock (Q. 8).....	618,606 45
From Equipment Trust Securities (Q. 4).....	\$ 37,233,871 13
Par value Equipment Trusts issued....	\$ 39,836,458 20
Now outstanding.....	16,862,500 00
Paid from proceeds of other securities, p. 94.....	\$ 22,973,958 20
Net amount from equipment trusts.....	14,259,912 93
Due on construction.....	16,666,957 26
Audited vouchers and accounts.....	11,161,443 88
Wages and salaries.....	1,832,708 23
Matured interest coupons unpaid.....	2,166,597 75
Accrued interest not yet payable.....	2,412,673 30
Accrued taxes.....	250,000 00
Insurance fund account.....	616,847 53
Railway surplus.....	2,776,711 03
Bonds assumed in the acquisition of constituent companies.....	20,215,746 03
	<u>\$436,173,761 87</u>

## II. DISPOSITION OF MONEY OR DEBIT ITEMS.

Cash in hand and at bank.....	\$ 25,414,408 50
Materials and supplies.....	3,368,924 82
Due from companies and individuals.....	7,276,429 01
Due from agents.....	1,446,010 67
Deferred land payments.....	7,140,996 59
Insurance paid in advance.....	682,906 11
Unadjusted debit items.....	246,545 00
Securities (dock, lands, and stock yard companies).....	1,123,393 55
Sinking funds.....	248,750 66
Terminal properties and miscellaneous investments.....	5,922,945 63
	<u>\$ 52,871,310 54</u>
Total available for road and equipment.....	\$363,086,705 30
Bonds assumed in part payment of lines purchased (See list in table 3 following).....	20,215,746 03
	<u>383,302,451 33</u>
	<u>\$436,173,761 87</u>

## III. BONDS SHOWN AS OUTSTANDING, BUT FOR WHICH NO PROCEEDS ARE REPORTED AS RECEIVED—PAYMENT ASSUMED BY CANADIAN NORTHERN RAILWAY AS PART OF PURCHASE.

Qu'A.L.L. & S. Ry. & S.B. Co., 4 per cent 1st Mtg. Debenture	
Stock.....	\$ 5,051,462 90
Less in Treasury.....	31,781 80
	<u>\$ 5,019,681 10</u>
Central Ontario Railway, 5 per cent 1st Mtg. Bonds.....	956,300 00
Bay of Quinte Railway, 5 per cent 1st Mtg. Bonds.....	830,000 00
Gt. No. Railway of Canada, 4 per cent 1st Mtg. Bonds.....	3,505,750 00
Quebec & Lake St. John Railway, 4 per cent Mtg. Deb. Stock.....	4,359,014 93
*Duluth, Rainy Lk. & W. Railway, 5 per cent 1st Mtg. Bonds.....	2,000,000 00
Hallifax & Southwestern, 3½ per cent 1st Mtg. Bonds.....	4,447,000 00
*Minnesota & Manitoba Railway, 4 per cent 1st Mtg. Bonds.....	349,000 00
Niagara St. C. & T. Railway, 5 per cent 1st Mtg. Bonds.....	1,098,000 00
	<u>\$ 22,564,746 03</u>
*Less bonds on leased lines not included in Funded Debt—	
Duluth, Rainy Lake and Winnipeg Railway.....	\$ 2,000,000 00
Minnesota and Manitoba Railway.....	349,000 00
	<u>2,349,000 00</u>
	<u>\$ 20,215,746 03</u>

## SESSIONAL PAPER No. 20g

From this total maximum of \$383,302,451 we deduct the following items, which the company has included in cost of road and equipment, but which do not represent investment in property:—

1. Advances to controlled companies to pay indebtedness for interest subsequent to construction and operating deficits which were capitalized when the system was put together, not less than..	\$10,000,000
2. Interest during 1916 overcharged to construction, not less than..	3,000,000
	<hr/>
	\$13,000,000

Leaving for investment in road and equipment and in securities of constituent and subsidiary companies.. . . . \$370,302,451

We find then \$370,000,000 to be the maximum possible cost of the Canadian Northern system as at present existing. In other words, as indeed is frankly admitted by Canadian Northern witnesses, the Canadian Northern shares represent no cash investment.

## 2. PHYSICAL BASIS.

But money cost is not all. We decided also to ascertain the approximate value, on the basis of reproduction cost, of the property as it exists to-day. And we rely on Professor Swain's valuation for this purpose. This valuation is, in his opinion, a liberal estimate of the fair cost of reproducing new, at pre-war prices of labour and material, the system at present existing. It includes property belonging to the system at its estimated cost, if it had to be acquired or constructed to-day. And therefore it not only gives the company credit for lands which it in fact owns, even though it obtained them as a grant; but it also credits the company with the increment of land values since the date of the original acquisition. And these two items are quite large.

Professor Swain's method of arriving at his results are fully explained in his report, which is printed as an appendix hereto. He makes the total cost of reproduction new, \$397,441,567. From this he deducts for depreciation \$40,031,889, making the cost of reproduction of the property in its present condition \$357,409,678. This, however, does not include equipment. The equipment was inspected by Mr. Buchanan and, on the basis of his report as to quantities and condition, a valuation has been made by Mr. W. H. Chadbourn, C.E., chief engineer of our valuation staff. He finds the cost of reproduction new at pre-war prices to be \$56,590,418, and the depreciation to be \$11,250,433, making the present value \$45,339,985. Putting the two valuations together, we have \$402,749,663 as the fair cost of reproducing the entire physical Canadian Northern system in its present condition. Now the outstanding liabilities (bonds, debentures, notes, and bank and other loans) of the company exceed \$400,000,000.

Reckoning on this basis, it appears that the liabilities are practically equal to the reproduction cost of the physical property. But the physical property does not all belong to the Canadian Northern shareholders. There are minority holdings in several

of the subsidiary undertakings. And the Canadian Northern interest in these undertakings only corresponds to its percentage proportion of their respective share capitals. This implies a reduction of more than \$10,000,000 in the estimate of the assets belonging to the Canadian Northern shareholders.

We find then that, on the physical basis, the value of the property of the Canadian Northern shareholders is distinctly less than the amount of the liabilities against it. On this basis the equity of the shareholders must be regarded as non-existent.

### 3. GOING CONCERN.

A third basis of estimate is the value of the property for sale as a going concern. A purchaser would not consider either original cost or reproduction cost as of much importance. The price he would pay would be based on earning power, present and potential. On this basis he would consider how far the Canadian Northern is at present short of covering its fixed charges, how long it will take to reach equilibrium, how much new capital will have to be spent, how soon a dividend may be expected and at what rate. Calculating on this basis, in the light of the figures set out above, it is evident that no purchaser would offer for the property a sum amounting to the total of its liabilities.

### Conclusion as to Canadian Northern.

We conclude, therefore, that the shareholders of the company have no equity either on the ground of cash put in, or on the ground of physical reproduction cost, or on the ground of the saleable value of their property as a going concern. If, then, the people of Canada have already found, or assumed responsibility for, the bulk of the capital; if they must needs find what further capital is required; and if they must make up for some years to come considerable deficits in net earnings, it seems logically to follow that the people of Canada should assume control of the property. We return later to the Canadian Northern Company in order to set out our recommendations as to its ownership and management in the future and as to the terms to be offered to the existing shareholders.

## PART IV.

### POSSIBLE METHODS OF PUBLIC CONTROL.

We recommend that the control of the three companies, Grand Trunk, Grand Trunk Pacific and the Canadian Northern be assumed by the people of Canada. We have therefore now to consider how this control should be exercised.

### Government Operation Discussed and Rejected.

We are instructed to consider the acquisition of the Canadian railways by the State, and the possibility of their operation in connection with the Intercolonial.



SESSIONAL PAPER No. 20g

We do not recommend this course. In our judgment it is not in the interests of Canada that the operation of its railways should be in the hands of the Government. We know no country in the world, where a democratic State owns and operates its railways, in which politics have not injuriously affected the management of the railways and the railways have not had an injurious influence on politics. We do not think Government ownership of the Canadian railways would tend to reduction of rates, but rather in the contrary direction. For the carriage of one ton of freight one mile the Canadian shipper pays at present on the average three-fourths of one cent. On the railways of New South Wales, the oldest and most important Australian State, where the railways have been in Government hands from the outset, the shipper pays well over two cents. But we see no cause to enlarge here on such general considerations. There are several reasons peculiar to Canadian conditions why State ownership and operation should be avoided.

#### The Canadian Pacific Position.

We think that, if the State took over and undertook to operate the Grand Trunk, the Grand Trunk Pacific and the Canadian Northern, it would be morally bound to offer to purchase the Canadian Pacific also. This company is in a strong financial position; it has assets of great present and even greater potential value, largely exceeding its liabilities; its \$260,000,000 of common stock stand at a high premium, and have been very much higher; it pays a steady dividend of 10 per cent; its purchase would be a costly matter; and it does not ask to be purchased or to be helped in any other way. The company is admittedly progressive and gives a good public service. Moreover, it has a large investment in ocean steamships, irrigation, land and coal development schemes, and other enterprises quite unsuited for Government management. But the Canadian Pacific Railway is exposed throughout its whole territory to the competition of either one or both of the other systems. So long as that competition is in the hands of other organizations, also having to earn the interest on their bonds and striving to earn a dividend on their stocks, the Canadian Pacific Railway has no cause for complaint. But competition with railways operated by the Government stands on an entirely different footing. It would be at any time possible for the Government deliberately to adopt a policy of lowering rates, in some part or throughout the territory involved, below a commercial basis, and making up the deficiency out of general taxation. It might be argued that such a policy was justifiable on the ground that the general prosperity and development of the country would be thereby promoted. But while conceivably it might be proper to tax the public to develop the country, though in fact it would not be the whole public but only certain portions of it that would benefit, it could not possibly be fair to impose a special tax upon the Canadian Pacific Railway shareholders for the purpose. And yet it is evident that this would in fact happen. The Canadian Pacific Railway would be absolutely forced to follow any rate reduction made by the Government railways, on pain of losing the business entirely.



### Further Reasons against Government Operation.

Another strong argument against Government operation is to be found in the fact that the three great Canadian companies amongst them either own, lease, or control no less than 7,000 miles of railway situated in the United States. And some at least of these lines are necessary economic complements of the Canadian systems. It is clearly impossible that the Dominion Government should be subjected, not only to the regulating authority of the Interstate Commerce Commission and the several State Railway Commissions of the United States, but also to the police regulations of all the States which these lines enter. Technically, no doubt the difficulty could be got over by vesting the legal ownership in Government officials under their own names as trustees for the Government. But the practical fact would remain. It would in effect be the Canadian Government which would be ordered by the United States Interstate and State Commissions to alter its rates, and Canadian Government officials who would be required by United States law courts to explain their actions and justify their conduct. We cannot think that such a situation would conduce to international harmony.

A yet more important consideration remains. Canada is at war, and Canadian resources are deeply pledged for war purposes. If the Government takes over the railways, not only does it assume the direct responsibility for the whole existing debt; but all the new money that has to be raised (and as will be shown in a later portion of this report, the amount of this new money must necessarily be considerable within the next few years) will become a direct obligation of the Canadian Government. It is a matter of common knowledge that railway bonds and Government loans appeal to different classes. And we are persuaded that it is desirable that Canada should retain both strings to her bow.

For all these reasons our recommendation is that the idea of Government ownership and operation be not entertained.

### Receivership Discussed and Rejected.

Starting then from this position, we have to consider what alternative course is to be adopted. It is clear that neither the Canadian Northern nor the Grand Trunk can at the present moment meet its liabilities. In the United States when a company is in this position it is placed in the hands of a receiver. And at this moment upwards of 40,000 miles of line are in that situation. Under a receivership the holders of the junior securities have to submit to compound their claim, and the fixed charges are reduced to an amount that the net revenue from operation suffices to meet. Ought this drastic course to be adopted here? We think not. We think the security holders of the companies have to some extent a moral claim on the Government. Their schemes of extension have been matters of public knowledge for many years. So far from discouraging them, the Governments, both of the Dominion and of the Provinces, have by subsidy and by guarantee, by loans and cash advances, encouraged them to go on.

But there is more than this. The bonds and debentures of the Grand Trunk Pacific and Canadian Northern have been placed in the main through London with non-

SESSIONAL PAPER No. 20g

Canadian holders. And these holders in subscribing have unquestionably been influenced by the fact that the companies were backed by the Canadian Government. Technically, of course, the Government has no responsibility beyond that of meeting its own guarantees. But if the two companies went into the hands of receivers, we cannot doubt that investors outside Canada would believe, however erroneously, that the Dominion Government had treated them badly, and that the result would be serious injury to the credit of the Canadian Government, and indeed of all Canadian enterprises. And this result is one that, putting it on pecuniary grounds alone, the Canadian people should in their own interest spend a good deal of money to avoid. We therefore consider that Canada should assume the responsibility of seeing that the interest on these securities is met.

This responsibility is in our opinion unavoidable. But we recognize that it is serious. It will involve considerable financial aid for some years. How many we will not estimate, as it depends in the main on the rate at which Canada develops. And that rate no one can venture to foretell. We ought to point out, however, that the rate at which the Canadian Pacific progressed, when it was the only transcontinental line, cannot reasonably be taken as a standard of the probable rate of progress of two new transcontinental systems, competing, not only with each other, but with the rich and firmly established Canadian Pacific itself.

#### Transfer to a New Body, Recommended.

We have recommended then that the control of the three companies, Canadian Northern, Grand Trunk, and Grand Trunk Pacific pass into other hands; that the rights of the creditors of all three companies be preserved intact; but that the railways of the three companies be not handed over to, or operated by, the Government. It is necessary, therefore, to find some new body or bodies to whom they can be transferred. We think the question, whether there should be one body or more, is answered by the facts that we have already recited. The Canadian Northern is weak in the East. The Grand Trunk, with the inadequate Prairie branches of the Grand Trunk Pacific, would be almost powerless to compete in the West with the Canadian Northern and the Canadian Pacific. The natural tendency of the Grand Trunk and Canadian Northern organizations, if left separate, would be for each to invade the territory of the other. Remaining separate, the Canadian Northern system would need to spend many millions of dollars to obtain an adequate hold on the East in competition with the Canadian Pacific and Grand Trunk. Remaining separate, the Grand Trunk and Grand Trunk Pacific system would need to spend many millions of dollars on new branches in the West, in order to hold its own with the Canadian Pacific and the Canadian Northern. And this money would be needed at once, for till it was spent neither organization would possess a complete system. Canada cannot afford all these new railways, and does not need three competitive systems. We recommend therefore that the three undertakings, the Canadian Northern, the Grand Trunk, and the Grand Trunk Pacific be united in one system. To whom then should its management be entrusted?

7 GEORGE V, A. 1917

**Suggested Transfer of all the Railways to Canadian Pacific Discussed.**

One possible solution which has been submitted to us we will deal with at the outset. For, though we are unable to recommend its adoption, it has very influential support. This suggestion takes two forms. The one is that the Canadian Pacific Company should, by lease or purchase, obtain control of the other roads and operate the whole Canadian railway system as partner with the Government, on terms to be arranged. The other is that the Government should itself acquire all the roads, including the Canadian Pacific Railway, and employ the organization of that company as a basis on which to build up the organization of the greater system. The first alternative is specially supported from the financial side. And indeed, were financial considerations controlling in this matter, we do not deny that a very strong case could be made for it. The second alternative commends itself more especially to those who feel that the Government is already involved so deeply in railway enterprise that it cannot call a halt, and must go the whole length. We are not prepared to agree with either party. We do not think that a railway monopoly is desirable, either in the hands of a company, or in the hands of the State. We are convinced that the people of Canada who have spent or guaranteed—whether wisely or not, is not now the question—hundreds of millions of dollars, largely with the object of breaking a private monopoly, would never consent to the re-establishment of a still greater monopoly, even if the Government were a partner in the concern. We do not think that there is any necessity for the State to go further than it has already gone in the direction of Government operation. We recognize that the Government occupies in respect of the Canadian Northern and Grand Trunk Pacific roads, very much the position of a mortgagee whose mortgagor is in default. But we do not think that the Government, as a Government, need enter into possession. We think a scheme may be worked out whereby Canada will have two great systems, both with substantially similar management, operating alongside in healthy rivalry from ocean to ocean.

**Suggested Transfer of the Whole or a Portion of Canadian Northern to Canadian Pacific Discussed.**

Another suggestion has been made which we will deal with here. In our judgment it has even less to recommend it. It is suggested that the lines of the Canadian Northern should be handed over to the Canadian Pacific Railway, on terms to be arranged. We can see no possible advantage to the country in this proposal. It would hand over the lines with the best prospect of development to the Canadian Pacific Railway. It would re-establish what would be a practical monopoly in the Prairie Provinces. It would leave the country to carry the burden, for an indefinite time to come, of the Grand Trunk Pacific, which in its present isolated position has little hope of prosperous development. And it would lead before long to an inevitable result. For the sake both of giving the Grand Trunk Pacific system a fair chance to develop, and in order to break down once more the re-established monopoly of the Canadian Pacific Railway, pressure would be put on the Government to obtain a wholesale extension of the Grand

## SESSIONAL PAPER No. 20g

Trunk Pacific branch lines, for which there is no commercial justification. Capital would be wasted, operating expenses would be duplicated, and the ultimate solvency of the publicly owned lines would be indefinitely postponed.

For the suggestion which has also been made, that the Canadian Pacific Railway be invited to take over the western portion of the Canadian Northern only, there is in our judgment still less, if that be possible, to be said than for the suggestion that the Canadian Pacific Railway take over the whole. It has all the disadvantages of the former proposal. And it has this further disadvantage. The eastern lines of the Canadian Northern have not any very hopeful outlook even under present conditions. If they cease to be the complement of the Canadian Northern prairie lines, they have no justification for existence whatever. And yet it is proposed to leave the country to carry the burden of them.

### Possibility of Forming a Commercial Company Discussed.

Assuming, then, that the Canadian Northern, Grand Trunk, and Grand Trunk Pacific must be united into one system, and that this system must remain entirely separate from the Canadian Pacific Railway, we have considered the possibility of forming a new company on a commercial basis, to which the operation of these three undertakings might be transferred. We have come to the conclusion that this course is not feasible under the circumstances, as they at present exist.

### THE MEXICAN PRECEDENT.

We have considered what is commonly known as the Mexican scheme. Under this scheme, which was originated by Señor Limantour, the very able Finance Minister of the Diaz Government, the Government, in return for the guarantee of certain bonds and the payment of a nominal amount of cash, acquired possession of a sufficient amount of deferred ordinary stock of the principal railway companies, on which no dividend was likely to be earned in the immediate future, to give them control of the election of the Boards of Directors, and therefore indirectly control of the policy of the companies. Similar partnerships between the public authorities and private companies have in recent years become common in the great German cities for the establishment and operation of gas, electric, and street railway undertakings. The Mexican scheme is understood to have worked very successfully, so long as Mexico remained an organized community. We do not think it applicable to Canada, where the conditions are entirely different. In Mexico the bulk of the money had been raised by the companies on their own responsibility; there was no question of defaulting on fixed charges; the systems were practically complete; and no large amounts of new capital were required. In Canada the bulk of the money has been raised on the responsibility of the Government; the companies cannot meet their fixed charges; the systems are far from complete; and much new capital will have to be provided, which can not be raised by the companies on their own credit. We cannot therefore recommend that the Mexican precedent be followed.

0

1

RAILWAY INQUIRY COMMISSION

7 GEORGE V, A. 1917

THE NEW YORK SUBWAY PRECEDENT.

There is a precedent in the New York Subways for a scheme under which the railway is constructed and owned by the public authority, and its operation is entrusted to a company, which finds capital to an amount representing the value of the equipment, and takes a lease for a period of years, upon terms that the company receives a return of five or six per cent, as a first charge on the profits, while profits beyond that figure are divided in agreed proportions between the company and the public authority. The New York partnership scheme, however, has reference to an undertaking with every prospect of making a substantial return on the capital involved from the outset. There is no such prospect here. We have to contemplate a condition of affairs in which, for a good many years to come, the operation will not yield a commercial return on the capital already invested. A promise of the whole return, therefore, would not tempt the outside capitalist; still less would the offer of a portion of it. To induce outside capital to come in and share the risk; it would be necessary for the Government to guarantee a return upon it of not less than  $4\frac{1}{2}$  per cent or 5 per cent forthwith, and to offer a prospect of partnership in the valuable reversion later on. And seeing that, with the guarantee of the Government of Canada behind it, all the money requisite could be borrowed at 5 per cent without any reversion, the offer of a reversion would be, in effect, to deprive the people of Canada of a portion of the return when they have earned the right to receive the whole.

Further, we have no reason to think that such an offer, even if made, would attract the necessary capital. The speculative investor likes to see his profit in the near future. In this case he would have to wait a good many years before he could expect any return on his money beyond his fixed  $4\frac{1}{2}$  or 5 per cent. Under present market conditions, an investor, prepared to take some risk, can do much better for himself than this.

Canadian Railways should be under Canadian Control.

There is yet another reason, why we do not think that, even if it were possible, any attempt should be made to form a new company, either on the Mexican or on the New York Subway model. Such a company could not be Canadian. The capital would have to be found elsewhere. And the control would follow the capital. We think Canadian railways should be under Canadian management.