PART V.

THE DOMINION RAILWAY COMPANY.

Government Operation not Recommended.

Having then arrived at the conclusion that the transfer of the three undertakings to a commercial company is not feasible, we recommend that they be handed over to a board of trustees to control and manage on behalf of, and on account of, the people of Canada. The trustees should be organized as a company with a nominal capital. But in effect they would be a public authority.

Before going further we desire to make a fundamental point clear. We express the conclusion to which we have come both in negative and positive forms. We recommend:—

1. That the Government do not acquire or undertake to operate any further railways, but:

2. That these three railways, Canadian Northern, Grand Trunk, and Grand Trunk Pacific, be transferred by Act of Parliament to an independent Board of Trustees (incorporated as a company), constituted as we shall hereafter describe.

These recommendations, from our point of view, hang together and must be regarded as inseparable. We do not recommend the transfer of the three companies at all, unless our recommendations as to the method to be followed are also substantially accepted. That the Government should itself take over the railways, and they should then be operated under the control of a Parliamentary Minister of Railways, is a policy which in our judgment would not be in the best interest of Canada.

Our personal belief is strong that, in normal circumstances, railway enterprise is a matter best left in private hands, subject to proper regulation by the Government. Were we asked to advise in the case of the railways of the United Kingdom or the United States, which have been constructed by private companies, with money found by private investors, we should give effect to this belief. We go further and consider that, in the case of the Canadian Pacific Railway, as to which the Government does instruct us to advise, the fact that it received large help from public sources in its early days, is not any reason why the existing status of the company should now be disturbed. This company has carried out its bargain. It has repaid to the Government large advances made in earlier years. We believe that Canada has had good value for what it has given. We think that it is in the interest of the country that this company should be rich and prosperous, for such companies can be expected, not only to give the best service, but to be best able to provide in time to meet new developments as they arise. We have had no hesitation, therefore, in coming to the conclusion that the status of the Canadian Pacific Railway should be left undisturbed.

But in the case of the Canadian Northern, the Grand Trunk and the Grand Trunk Pacific the circumstances are not normal. These companies have broken down. We see no way to organize new companies to take their place. Their only possible successor is in our view a public authority. We are confronted with a condition and not a theory.

Recommendation of Independent Board of Trustees.

Our formal recommendations are:—

I. That a Board of Trustees be constituted by Act of Parliament and incorporated as "The Dominion Railway Company."

II. That the ownership of the Canadian Northern, Grand Trunk, and Grand Trunk Pacific Railways be vested in this Company.

III. That the Government assume responsibility to the Company for the interest on the existing securities of these undertakings:

IV. That the Intercolonial (including the Prince Edward Island) and National Transcontinental Railways be also handed over by the Government to the Company.

V. That the whole of these railways, the Canadian Northern, the Grand Trunk, the Grand Trunk Pacific, the Intercolonial, and the National Transcontinental, be operated by the Company as one united system.

Constitution of Board, and Tenure of Office.

We now proceed to set out these recommendations in more detail.

The Trustees should be five in number. The first Trustees should be named in the Act of Parliament constituting the Board.

The tenure of office should be the same as that of judges of the Supreme Court, with the exceptions hereafter noted. Three Trustees, one of whom should be the chairman, should, if possible, be men of railway experience. They should be required to give their whole time to their duties, and salaries should be fixed adequate to command the services of the best men. Of the two remaining Trustees, we think it would be desirable that one should be selected on the ground of business and financial experience, and the other as specially possessing the confidence of railway employees. They should not be expected to give their whole time. Their maximum salary might be laid down in the Act, to be adjusted later when the requirements of the position became evident. Every Trustee on appointment should be required to divest himself of all interest in Canadian railway bonds or stock, and should further satisfy the appointing authority that he has no other interest that conflicts with his duties as Trustee.

All appointments other than those of the original Trustees should be for a fixed period of seven years, except that in the case of a casual vacancy, owing to death or disability or resignation, the appointee should hold office only for the remainder of the term for which the Trustee whom he replaces was appointed.

Every Trustee should be eligible for renomination and reappointment.

Vacancies should be filled, in the case of a railway member, by appointment by the Governor General in Council, on the nomination of a majority of the remaining

Trustees; and in the case of other members, by appointment from a list of three names, similarly nominated. Should the Government refuse to approve a nomination, it should devolve upon the Trustees to submit a new name.

The original Trustees should vacate their positions according to the following scheme: The three railway Trustees should retire after three, five, and seven years, respectively; the order of retirement amongst the three being determined at the date of the Trustees' assumption of office. The two remaining Trustees should retire after four and six years, respectively; their relative position between themselves being similarly determined.

Every Trustee should retire on attaining the age of seventy years.

Board to be Non-political.

We desire to call attention to the extreme importance that the Board should not assume, or even be suspected of assuming, a political complexion. In the United States an attempt has been made to guard against this danger by statutory provision that not more than four out of the seven members of the Interstate Commerce Commission shall belong to the same political party. We do not recommend that this precedent be followed, as we think politics have nothing to do with the matter; and any such restriction might hamper the Government in their choice of best men. But should it be desirable in the public interest to select Trustees of recognized political affiliations, we think it most important that the spirit of the United States legislation should be borne in mind, both by the Government in making the original selections, and by the Trustees themselves in recommending names to fill any subsequent vacancies.

Board to be Permanent and Self-perpetuating—Australian Experience.

We recommend that, subject to the power of the Government to refuse to confirm a nomination, the Board of Trustees should be a permanent self-perpetuating body, and we attach very great importance to this point. The four older States of Australia, New South Wales, Victoria, South Australia, and Queensland have had a long experience of public ownership. In each State the history has been very similar. Originally, the railways were managed under the direct control of a Minister of Railways, responsible to Parliament. In each State, the system was found unsatisfactory. In each State, commissions were appointed, with functions substantially similar to those which we are recommending to be conferred upon the board of trustees. In each State, the result was improvement. But the Australian commissioners were only appointed for five year terms. And the lack of permanence in the commissioner's tenure of office prevented a permanent success. The first years of the commission's term were usually the most successful, for then the commissioners had the freest hand to manage their undertaking on commercial lines. Some of the States have gone through a checkered history. The commission has been abolished; and the management has been transferred back to a political minister. Once more the result has been unsatisfactory; and a new commission has been appointed, only, in turn, to fail of success. The main cause, as we read the story, has been the lack of permanence of the commission and the short tenure of office of the individual commissioners. We, therefore, think it esential that the Board of Trustees shall be permanent, non-political and, subject to Government approval of each new nomination, self-perpetuating.

Railways not a Proper Subject for Direct Parliamentary Control.

We have given expression to a strong view that the operation of the railways of the country by a department of the Executive Government directly responsible to Parliament would be against the interest of Canada. Lest it should appear that this view implies a reflection on the honesty and ability of ministers and members of Parliament, we desire to explain why we entertain it. Our reason is, not that Government by a Cabinet responsible to a popularly elected Parliament is a bad Government for the ordinary purposes of Government, but that it is not a form of Government suitable for the management of a railway undertaking.

In primitive times all Government was concentrated in a single hand. The king or chief was at once the law-giver, the administrator and the judge. The king as law-giver prescribed duties and established rights; as judge he decided on the interpretation of those rights and duties between the nation, represented by himself, and the individual; and finally as executive authority he enforced his own judicial decisions with respect to the rights which he had himself established as legislator. Centuries ago, the progressive nations of Western Europe had outgrown this primitive idea. They had learnt to differentiate functions to the extent of making the judge entirely independent both of the legislature and of the executive government. Even under the absolute despotism of Frederick the Great of Prussia a judge could decide a quarrel between the King and a humble subject in favour of the subject. To say now-a-days that the administration of justice is not a matter to be left to a minister responsible to Parliament, would be to say a thing so obvious as to seem a preposterous truism.

Growth of Extra-Parliamentary Functions of the State.

But the process has gone further. We are learning that there are other matters which it is well to withdraw from the political arena. It has become a commonplace in England within the last generation to say that foreign policy has been "withdrawn from the sphere of party politics." The same thing had in great measure happened before the war in the case of naval administration; it was more and more becoming the rule in the case of army administration also. In other words, in respect of these three vitally important spheres of national activity, though the form of direct parliamentary control was retained, it had come to be recognized, that the affairs were very complicated, that the reasons for action might be good without being such as could publicly be avowed, and that therefore they were best left to experts, carefully selected and then given a mainly free hand. Since the war, public opinion on this question has ripened fast. England and France are countries just as democratically governed as Canada. And in England and France, the fact that prompt and decisive executive action is inconsistent with detailed Parliamentary control, is being more and more recognized, not only by the public but by Parliament itself. Numerous boards of experts, with an almost entirely free hand, have been set up in England to take charge of different branches of public activity. It cannot be supposed that the lesson learnt in war will be wholly unlearnt when peace returns. It is hardly likely that countries whose constitutions are based on the English model will go as far as the United States, where the Executive and the Legislature are almost entirely independent of each other, where the House of Representatives has no direct control of the Executive Government at all, and where even the Senate can only confirm or refuse to confirm certain appointments, but has no power to secure either the nomination or the dismissal of a single official. But there can be no doubt things are moving in that direction. It is because we think that the management of a railway undertaking, like the control of shipping or of enemy trade, or the work of the Imperial Munitions Board, is a matter that in the public interest is best left to experts, that we desire to avoid direct Parliamentary control.

In this connection it seems desirable to point out that the Prussian railways, certainly the most successful State-operated railways in the world, are not subject to Parliamentary control. The Prussian Parliament has not much control over any department of the Government, but over the railways, owing to the fact that, so far from requiring votes of money, they yearly contribute a considerable net revenue for general State purposes, it has even less control than over other departments. The only check on the action of the Minister of Railways is that afforded by the Railways Councils, to which we refer hereafter, and whose powers are merely advisory and in no way compulsory. In Canada we are recommending, not only that similar Railway Councils should be established, but that the Trustees should also be subject to the orders of the Railway Commission, a body to which Prussia furnishes no analogy.

Private Interests and Public Interest.

The railway touches the life of the country at innumerable points. It can almost make one city and unmake another. It vitally affects the question whether an industry in one place is more or less profitable than in another. Every city wants to become a railway centre, to have railway works located within its limits. And the local member invariably wants it too. Every citizen wants the railway station placed where it best suits his own personal convenience, and wants that every express train shall stop at it. He naturally strives to secure these benefits for himself, and his local member naturally desires to help him in their attainment. The individual citizen, the local member, cannot be expected to see the railway situation as a whole; to appreciate, for instance, that an express which stops at every man's local station ceases to be an express at all. Even if he does appreciate it—human nature being what it is—he will probably be quite content if, by bringing political pressure to bear, he can gain an advantage in which his neighbour at the next station does not participate. It is too much to expect of the average merchant, the average manufacturer, that if he finds that by pressure he can obtain for himself an exceptionally low rate, he will refrain from asking for it, because it gives him an unjustifiable advantage over a rival, or because he knows that the balance of net revenue must be made up by unreasonably higher rates paid by other people's traffic.

It is only when the management is protected from the pressure of special interests that a railway can be managed in the interest of the public as a whole; that it can be expected that improvements and alterations will be made, even though they injuriously affect certain individuals, because they are justified by greater benefits to the people at large. To take one example. We are satisfied that there are many cases where in the interest of economy, duplicate services should be abolished, and duplicate stations closed. Any such change must injure somebody. Supposing that it results in a saving of $1,000 a year to the taxpayer, while the injury can be measured by a loss of $25 a head to three or four people, clearly the change ought to be made. But if the three or four men can get their grievances voiced in Parliament, while the taxpayer is an abstract entity with no one to speak for him, probably the change will never be made. There is no need to multiply instances. We believe that the history of railways all over the world, where the management is directly under a minister responsible to a democratic Parliament, confirms our position that under such a system the public suffer because special interests obtain concessions at the expense of the community as a whole. It is for this reason that we have emphasized our recommendation that the management of the railways be entrusted to a body independent of politics.

Control of Dominion Railway by Railway Commission.

At the same time we recognize that the non-political body, which we propose to establish, will neither be infallible nor impeccable. We therefore propose to give to the Board of Railway Commissioners the same full judicial authority over all its actions and refusals to act which the Board at present has over the private railway companies. With a board of management appointed on the sole ground of competence, controlled by a commission with power of impartial review, we believe the rights of every citizen to receive fair and equal treatment—and no citizen ought to desire to receive more—will be amply protected. And at the same time the dangers of political influence will be avoided.

Relation between Trustees and their Employees.

It has been a common experience in all democratic countries that, where undertakings are in the hands of public authorities, either national or local, the employees are tempted to use political methods to improve their personal position. We think it important that the Trustees should be protected against pressure of this kind, which would be entirely without justification, if our proposal, that one of the Trustees shall be specially charged to watch over the interest of the employees, is adopted. To obviate the evil, it has often been proposed that employees of the Government shall be deprived of their national vote and employees of a municipality be deprived of their municipal vote. We cannot accept this idea. A State servant does not cease to be a citizen, and he has as good a right to exercise his vote as his neighbour, provided he does not use it to obtain for himself an unfair advantage at his neighbours' expense. In this matter the Australian experience is of interest. In the State of Victoria there was in 1903 a fierce strike on the State railways. The men by their conduct alienated all public sympathy and were badly beaten. The Victorian Parliament thereupon passed an Act, not indeed disfranchising the railway employees altogether, but depriving them of their votes in their own local constituency; placing them on a separate register, and giving them power to elect, as their special representatives, one member to the Council and two to the Assembly. In 1906 this Act was repealed and superseded by "An Act to abolish separate representation in Parliament of Public Officers and Railway Officers." Section 4, of this Act, which is still in force, is as follows:—

(1) "In order that all officers may be enabled to render loyal and efficient service to the State, it is hereby enacted that no person or class of persons employed in any capacity (whether permanently or temporarily) in the Public Service (including the Railway Service, the Police Force, the State Rivers and Water Supply Department, and the Lunacy Department) shall either directly or indirectly take any part whatsoever in or in relation to election of members to the Legislative Council or the Legislative Assembly, or directly or indirectly in any way take part in the political affairs of the State of Victoria, otherwise than by recording a vote at a Parliamentary election; and no person or class of persons so employed shall directly or indirectly use or attempt to use any influence in respect to any matter affecting the remuneration or position in the Public Service of either himself or any other person.

(2) "If any person so employed is guilty of any contravention of this section, then on proof thereof to the satisfaction of the Public Service Commissioner, the Commissioner of Railways, the Chief Commissioner of Police, or the State Commissioners and Water Supply Commissioners, or the Inspector General of the Insane (as the case may be) such person may by the said authority be fined any sum not exceeding £10 and may be reduced in class, subdivision, grade or status, and salary, or he may be dismissed or his services may be dispensed with, provided that such person shall not be dismissed or have his services dispensed with for any contravention of this section without the consent of the Governor in Council."

We should hope that the employees on the Trustees' railways will be content to make any necessary representations as to remuneration or conditions of service through the member of the Board specially charged to watch over their interests, and will not attempt to exercise political influence. But should this hope ever be disappointed, we feel confident that public opinion would fully support any Government which introduced and passed a law based on the Victorian precedent.

Incorporation of the Dominion Railway Company.

The Board of Trustees should be incorporated, either directly by Act of Parliament, or by Royal Charter under the authority of the Act, as the Dominion Railway Company with a nominal capital. We assume a capital of $50,000, divided into 500 shares of $100 each. Each trustee would hold 100 shares. These shares would be entered in the register as held in the joint names of each particular Trustee and the Minister of Finance for the time being. The Trustee, being named first, would be entitled to the vote; but he could not transfer his shares without the signature of the Finance Minister. The charter would provide that no share could be transferred except to a duly appointed Trustee, and that the shares were held in trust for the Dominion.

Transfer of Stocks to Trustees.

In order to give to the Board of Trustees control of the railways mentioned, the following stocks should be transferred to them:—

1. *Canadian Northern.*—The $40,000,000 common stock vested in the Canadian Government should be assigned by the Government to the Trustees, and also (subject to what we report below as to compensation for existing equities) the $60,000,000 still remaining in the hands of private persons.

2. *Grand Trunk Pacific.*—The whole of the common stock should be transferred without payment, except that the actual cash paid for the shares other than those held by the Grand Trunk Company should be refunded.

3. *Grand Trunk Company.*—The whole of the stock, guaranteed, first, second and third preference, and ordinary, should be transferred. We deal later with the question of the claims of the existing holders.

Transfer of Railways to Trustees.

Intercolonial and National Transcontinental.—We recommend that these railways be handed over by the Government to the Trustees. There would be no securities to be transferred, and no money to be paid. The authority of Parliament for the transfer would suffice. We give at a later stage our reasons for this recommendation.

THE CANADIAN NORTHERN SHAREHOLDERS.

We return to the question what, having regard to all the circumstances of a very difficult case, is fair as between the Government and the Canadian Northern shareholders. One point must be dealt with at the outset. Assertions and insinuations have been widely made that public money received by the firm of Mackenzie and Mann have been appropriated by Sir William Mackenzie and Sir Donald Mann to their own use. And these gentlemen are understood to be the holders of the bulk of the Canadian Northern stock. If this charge were true it is evident that they would have no equitable claims.

Charges of Misappropriation Unfounded.

We are satisfied that the charge is unfounded. During our inquiry at Toronto on February 26 and 27, we inquired fully into the matter, and examined on oath Mr. Hanna, Vice-President, and Mr. A. J. Mitchell, Comptroller, of the Canadian

Northern system. Both these gentlemen are intimately acquainted with its complicated finances. They gave their evidence fairly and frankly, and in our judgment with an honest desire to make full disclosure on every point on which we sought information. They called our attention to the report of the Government Auditors made to the Solicitor General of Canada on April 22, 1914, which is printed in the Sessional Papers of that year (Nos. 269*b*, *i*, *j*, *l*, *m*). The relevant passage is as follows:—

> "We would particularly draw attention to statement No. 2, being a declaration from the Comptroller of the Contractors, Messrs. Mackenzie, Mann and Company, Limited, that the contractors have made no profit on their work for the Canadian Northern Railway, other than certain fully paid common stock which is set out in a statement in our previous report. This declaration is borne out to our satisfaction, from our investigation of the books of said contractors, and also of those of the company."

The *viva voce* evidence which we reproduce amplifies and entirely confirms the report of the Government auditors.

> "Mr. Mitchell: In addition to that, Sir Henry, in connection with construction, there are no contractor's commissions on any of the actual construction. The work was turned in to the railway company at cost.
>
> "For instance, there is actual construction representing something like $204,000,000, in which there is no percentage whatever to the contractors. It was turned in at actual cost.
>
> "Sir Henry Drayton: How would that be done, what machinery would apply to that work? How did you do it?
>
> "Mr. Mitchell: The work was done by the contractors, Messrs. Mackenzie, Mann and Company, Limited, and it was billed to the company at actual expenditure. The vouchers were all turned in.
>
> "Sir Henry Drayton: Was there no allowance for the Force Work Account?
>
> "Mr. Mitchell: Actual expenditure only, as far as Mackenzie, Mann and Company, Limited, were concerned. They were reimbursed for what they had paid out on pay-rolls.
>
> "Sir Henry Drayton: Generally those pay-rolls and that sort of thing cover the usual and proper charges. You were doing it, in effect, under "force" work?
>
> "Mr. Mitchell: Yes, sir, but instead of getting a 10 per cent commission they got the stock of the Canadian Northern Railway. That was the payment the contractors received instead of a cash consideration.
>
> "Sir Henry Drayton: The contractors themselves, some of them at any rate, would be acting as superintendents in charge of the work, carrying it on, besides which there would be all the overhead expenses?
>
> "Mr. Mitchell: Yes.
>
> "Sir Henry Drayton: Those expenditures would be included?
>
> "Mr. Mitchell: For instance, the Canadian Pacific Railway, we will say lets a contract to Foley and Company to do certain work. They in turn let the work to some one else, who in turn will probably let it to station men. Foley

and Company would get their commission. On a large contract they would perhaps work on a 5 per cent or an 8 per cent basis.

"In place of that 5 per cent or 8 per cent basis which the Canadian Pacific Railway would pay to Foley and Company in cash, the Canadian Northern paid Mackenzie, Mann and Company, Limited, in stock.

"Sir Henry Drayton: You say there was no allowance at all for superintendence and that sort of thing in these accounts, which is generally covered by the 5 per cent or 8 per cent?

"Mr. Mitchell: Not any for the main contractors; there was nothing allowed for them.

"Sir Henry Drayton: Sir Donald Mann gave a great deal of his own time. Do you mean to say he was not paid for that?

"Mr. Mitchell: That was all gone into by the Government in 1914, Sir Henry.

"Sir Henry Drayton: We have it in connection with that large item of $200,000,000—or that sum is near enough. Your idea is that all that large item (it is a large sum, of course) so far as the $200,000,000 for the construction of the road is concerned, as a matter of fact no profits were obtained by the main contractors, Messrs. Mackenzie and Mann Company, Limited, and that the only profits taken out were the profits of the sub-contractors?

"Mr. Mitchell: That is it.

"Sir Henry Drayton: Who were the sub-contractors?

"Mr. Mitchell: There were many of them, I guess all the big contractors in Canada and the United States.

"Sir Henry Drayton: Your own affiliated interests, were they sub-contractors?

"Mr. Mitchell: No, sir, not as far as I know.

"Commissioner Acworth: You say this was all gone into by the Government. I am a stranger to it, of course. Was it a preliminary inquiry?

"Mr. Mitchell: Yes, sir.

"Sir Henry Drayton: In connection with loans in 1914.

"Commissioner Acworth: But was this question of the contractors gone into?

"Mr. Mitchell: The Government appointed three auditors, who came to Toronto and went through the books of the Canadian Northern from the beginning. Those auditors made a full report to the Government, which is covered by the contents of the Government blue-book.

* * * * *

"Sir Henry Drayton: To complete the evidence in connection with the construction of lines, there is one question I should ask you. The Canadian Northern itself is a constructing company practically, is it not?

"Mr. Hanna: Yes. We are doing all our construction work.

"Sir Henry Drayton: Most of the construction is being done through Messrs. Mackenzie, Mann and Company, Limited, on the basis Mr. Mitchell spoke of?

"Mr. Hanna: Yes.

"Sir HENRY DRAYTON: Most of the activities of the officers would be concerned, outside of purely operating branches, with construction work.

"Mr. HANNA: We had other officers, whose main duties were to attend to construction only.

"Sir HENRY DRAYTON: I suppose Sir Donald Mann, the Vice-President, was in charge of construction?

"Mr. HANNA: He charges himself with that work.

"Sir HENRY DRAYTON: Sir William Mackenzie himself did a great deal of it too?

"Mr. HANNA: He did, and did the financing.

"Sir HENRY DRAYTON: While they may not have taken profits as contractors, didn't the company properly remunerate them for their services?

"Mr. HANNA: Not to the extent of one dollar.

"Sir HENRY DRAYTON: So that they worked without salary?

"Mr. HANNA: Absolutely so.

"Sir HENRY DRAYTON: That is a case of being too modest, because it is not business.

"Mr. HANNA: That has been the experience of those two gentlemen. Neither one of them was ever on a Canadian Northern Voucher List to the extent of a dollar.

"Sir HENRY DRAYTON: Nor of any of their subsidiaries?

"Mr. HANNA: Not one.

"Sir HENRY DRAYTON: So that while they were working on construction work, neither the company nor anybody else paid them any profits at all.

"Mr. HANNA: That is right."

The result of our inquiries leads us to the conviction that both Sir William Mackenzie and Sir Donald Mann had a firm belief in the ultimate success of their undertaking, and in their own ability to carry it to a successful conclusion.

It was therefore obviously in their interest, as owners of all the common stock, that the road should be as well located and as economically constructed as possible. And they did their utmost to attain this end. The success of their endeavours may be judged from the fact that Canadian Northern construction from Tollerton (120 miles west of Edmonton) to Vancouver cost $88,629 per mile, while the construction of the Grand Trunk Pacific from Wolf Creek (on the opposite side of the Athabaska river from Tollerton) to Prince Rupert cost $112,000 per mile. It is true that the Canadian Northern had the benefit of the "tote" roads built by the Grand Trunk Pacific between Pembina river and Resplendent, as the Grand Trunk Pacific was first in the field; but as against that it had to face higher costs of labour and material. We believe that, speaking generally, one consideration may be set off against the other. Again, the cost of construction of the Canadian Northern from Port Arthur east to Montreal can be compared fairly to the cost of the construction of the National Transcontinental from Winnipeg to Quebec. The cost of the Canadian Northern was $52,602 per mile, including in this amount interest at 5 per cent during the construction period, but excluding the Montreal passenger terminal. The cost of the National Transcontinental was $93,735 per mile, including interest at 3 per cent down to December 31, 1914, but excluding the cost of the Quebec bridge.

Canadian Northern Successes and Failures.

The mistakes that have been made by the proprietors of the Canadian Northern lie in unnecessary duplication of lines and in reaching out into territories offering but a poor traffic return, rather than in errors or extravagances in actual construction.

Our conclusion of the whole matter is that the moneys required for Canadian Northern construction have been raised with considerable financial skill at very moderate rates of interest, that the construction has been economical, but that the completion of the system as a separate system would involve a very large capital expenditure on branch lines and terminals in eastern territory, and a large duplication of existing facilities; that it is impossible for the company, unaided, to complete its venture; and that it is absolutely vital to the interest of the country that further duplication should cease.

Under these circumstances, have the Canadian Northern shareholders any claim to compensation? Not, we think, as of right. But Governments in the past have not taken a stand on strictly legal grounds in their dealings with other companies. There are grounds on which similar action could be justified in this case. The company has done much to develop the Prairie Provinces. Its lines there are well located, economically constructed, and valuable for public service. Of the later constructed lines also we can say that they have been well located from the engineering, if not from the traffic standpoint, and economically constructed. And if in recent years the Canadian Northern shareholders were carried away by a wave of unreasoning optimism, at least it may be said for them that almost the whole population of Canada shared their expectations. We think that, on the whole, the equity of the case would be met, if the Canadian Northern shareholders were permitted to retain a moderate portion of the $60,000,000 of shares which they now hold.

Arbitration Recommended.

But under the scheme we propose, the Trustees will operate the Canadian Northern lines as part of a combined system. It will be impossible, therefore, for the Canadian Northern Company, as such, ever to earn a dividend on its separate stock. We suggest that, if it is decided to permit the present shareholders to retain a portion of their holding, the Act of Parliament constituting the Board of Trustees shall contain a provision for arbitration between the Trustees and the Canadian Northern Company and establishing an arbitration board to act forthwith. The Trustees should appoint one arbitrator and the Canadian Northern shareholders the other, and the two arbitrators should agree on the appointment of an umpire; failing agreement, an umpire should be appointed by the Chief Justice of the Exchequer Court; and the decision of the board should be final.

The arbitrators should be empowered to decide two questions:—

(1) What proportion of the Canadian Northern common stock may fairly remain the property of the present holders:

(2) What proportion of the earnings of the Dominion Railway Company may fairly be regarded as attributable to the Canadian Northern lines.

To illustrate our meaning, we will assume that the arbitrators decide that 5 per cent of the Canadian Northern shares shall remain the property of the existing holders, and further decide that one-half of the total earnings of the Dominion Railway Company will be fairly attributable to the Canadian Northern lines. Then their decision will mean that, out of any dividend declared in future by the Dominion Railway Company, 2½ per cent (one-half of 5 per cent) will be payable to the existing Canadian Northern shareholders or their transferees. We think the arbitrators should fix this resulting percentage once for all. It should be made a condition of the settlement that the minority shareholders of the Canadian Northern should by deed irrevocable appoint the trustees as their proxy to vote their shares. Care will of course be taken to provide that the Arbitration Board shall have regard only to the Canadian Northern lines, as they exist at the date of the passing of the Act, and that any subsequent increase of revenue due to the expenditure of additional public money shall be excluded from consideration.

THE GRAND TRUNK SHAREHOLDERS.

The position of the Grand Trunk Company is entirely different from that of the Canadian Northern Company. The Grand Trunk Company has five different classes of shareholders; the Canadian Northern has only common stock. The Grand Trunk shares represent—to what extent it is now almost impossible and quite useless to ascertain, for the company is over sixty years old—actual cash paid; the Canadian Northern shares represent no cash, only a possible reversion. The Grand Trunk Company has always paid dividends on some classes of stock; the Canadian Northern common stock has never even had the prospect of an immediate dividend. The Canadian Northern has been economically constructed and is moderately capitalized. The same cannot be said either of the Grand Trunk or Grand Trunk Pacific. The Canadian Northern has a capital of $54,961 per mile; the Grand Trunk of $127,340; the Grand Trunk Pacific of $98,018. Evidently the two companies cannot be treated alike. Evidently also the rights of the five classes of Grand Trunk shareholders differ widely as between themselves. We have come to the conclusion that it is impossible for us to determine these respective rights; that any compensation made to the shareholders for the surrender of their shares must be made, not to them, but to the company as a whole; and that the directors of the company must assume the responsibility of preparing a scheme of equitable apportionment between the different classes, and procuring the assents and the legal authority necessary for bringing the scheme into force.

Dealing with the matter on this basis, we have to consider how the fair compensation to the company is to be arrived at. The report of the company for the year ending December 31, 1915, contains a statement of the share capital as follows:—

STATEMENT of Stock and Share Capital Created Showing the Proportion Issued 31st December, 1915.

Description.	Amount Created or Sanctioned.			Amount Issued.			Amount Unissued.		
	£	s.	d.	£	s.	d.	£	s.	d.
Four per cent guaranteed stock	12,500,000	0	0	12,500,000	0	0	....		
First preference stock, 5 p.c.	3,420,000	0	0	3,420,000	0	0	....		
Second preference stock, 5 p.c.	2,530,000	0	0	2,530,000	0	0	....		
Third preference stock, 4 p.c.	7,168,055	4	6	7,168,055	4	6	....		
Total, Preference Stocks	25,618,055	4	6	25,618,055	4	6	....		
Ordinary Stock	24,797,761	2	7	23,955,436	17	3	842,324	5	4
Grand total	50,415,816	7	1	49,573,492	1	9	£842,324	5	4

The total issued may be taken in round figures as $240,000,000. It will be seen that roughly one-half is preference and one-half ordinary stock. The London Stock Exchange valuation of this nominal $240,000,000 is at the present time something like $70,000,000 or $75,000,000—ranging from about 56 for the 4 per cent guaranteed stock, which for ten years has received its dividend in full, (except in one year when it went one-half per cent short), down to about 10 for the ordinary stock, which has never received a dividend. The table below shows the dividend history of the last ten years:—

GRAND TRUNK RAILWAY of Canada.—Dividends Paid.

Year.	Guaranteed.		5% First Preference.		5% Second Preference.		4% Third Preference.		Total.
	%	$ cts.	%	$ cts.	%	$ cts.	%	$ cts.	$ cts.
1906	4	1,520,404 60	5	831,428 64	5	615,244 16	3	1,046,036 84	4,013,114 24
1907	4	1,638,952 95	5	831,428 64	5	615,244 16	3	1,046,036 84	4,131,662 59
1908	4	1,861,121 49	5	831,428 64	2½	307,622 08		....	3,000,172 21
1909	4	1,915,522 07	5	831,428 64	5	615,244 16		....	3,362,194 87
1910	4	1,960,171 50	5	831,428 64	5	615,244 16	½	174,339 47	3,581,183 77
1911	4	2,080,161 11	5	831,428 64	5	615,244 16	1½	523,018 42	4,049,852 33
1912	4	2,351,148 07	5	831,428 64	5	615,244 16	2½	871,697 36	4,669,518 23
1913	4	2,417,871 06	5	831,428 64	5	615,244 16	2½	871,697 36	4,736 241 22
1914	3½	2,129,166 67		....		....		....	2,129,166 67
1915	4	2,433,333 33		....		....		....	2,433,333 33
		20,307,852 85		6,651,429 12		4,614,331 20		4,532,826 29	36,106,439 46
10-year average	....	2,030,785 28		655,142 91		461,433 12		453,282 63	3,610,643 94

It will be seen that the average amount paid in dividends has been $3,600,000 per annum. So the Stock Exchange valuation practically capitalizes the dividends on 5 per cent basis. And this, in a rapidly developing country, might be reasonable, if the dividends had been earned and could be maintained. But in view of the statement of the company's own officers that $21,000,000, which ought to have been spent out of revenue for maintenance has not been so spent, it cannot be contended that the dividends have been earned. In view of the further fact that the company has to face immediate liabilities of over $5,000,000 per annum in connection with the Grand Trunk Pacific, and of the statement of its own officers that a capital expenditure of $30,000,000 is immediately required on its own lines to put the company in proper condition to do its existing business, it can still less be contended that the dividends are maintainable. It cannot therefore be expected that the Trustees should acquire the stock from the shareholders on the basis of past dividends. Even if the Government were to relieve them entirely, as suggested by their president, of their unfortunate Grand Trunk Pacific venture—and as we have already said, we cannot think that this request can be reasonably justified—it is evident that the Grand Trunk Company is not, and will not be for some time to come, in a position entitling it to pay out any money at all in dividends. We regard the entire share capital of the company as being intrinsically of but small value at the present time. On the basis of present value of maintainable income the fair compensation would be very small.

Terms of Purchase Recommended.

But we do not think that this is the only basis on which the people of Canada should proceed. We think this is a case for generosity rather than strict justice. Canada is under obligations to the Grand Trunk shareholders, who, in the early days, with but small Government assistance, and in competition with the railways of the United States with their vastly greater resources, built up the first Canadian railway system. In later times the company has had further to meet the competition of heavily subsidized Canadian rivals. And it cannot be said that at any stage of its history the shareholders have obtained excessive profits on their enterprise. On the whole we recommend that, on condition of the surrender by the Grand Trunk Company of their entire share capital, guaranteed, preferred, and ordinary, the Trustees grant a certain annuity, charged as a working expense on the whole undertaking of the Dominion Railway Company, for the first seven years, increasing at the termination of that period by something like 40 or 50 per cent. We have left the figures blank as there will be questions of cash in hand, value of stores, etc., which must make the precise figure subject to negotiation. But our meaning is that the first figure should be a moderate but substantial percentage of $3,600,000 (the average dividend payment for the last ten years).

Real Value of Grand Trunk Property.

We appreciate that shareholders outside Canada, who can hardly be expected to be fully conversant with the management of their property, will not only fail to see any generosity in this proposal, when it is first made to them, but will believe they are being treated with less than justice. We think it therefore well to set out here in summary form the result of what has been set out at length in previous pages of this report.

1. The revenue of the Grand Trunk applied to dividend has been, on the average of the last ten years, $3,600,000.

2. To catch up arrears of maintenance, $21,000,000 must be spent immediately. This sum is nearly equal to six years' dividend payments.

3. To prevent arrears again accumulating, future maintenance charges must be much heavier than in the past; not less than $2,500,000, according to the President's judgment, on equipment alone.

4. To put the property in proper condition to deal with existing business, $30,000,000 of new capital needs to be spent at once. Even supposing the company could raise this capital, and only had to pay 5 per cent for it, it would cost an additional $1,500,000 per annum.

And this is on the Grand Trunk lines alone, independently of the company's liabilities in respect of the Grand Trunk Pacific. These further liabilities, amounting to over $5,000,000 a year at the present time, and increasing in the near future to over $7,000,000, need not be again detailed. The chairman of the Grand Trunk in his letter to the Prime Minister of Canada, dated December 10, 1915, has stated: "Under present circumstances it is quite impossible for the Grand Trunk Railway Company to meet the extra liabilities arising from the Grand Trunk Pacific Railway." And in his evidence at our inquiry in Montreal on February 24, 1917, the president of the Grand Trunk stated, not only that it was an impossibility for his company to carry out their contract, but that it always had been impossible. And yet there is no question of the company's legal liability on the contract. And it is the Grand Trunk Company that is primarily responsible for the initiation of the Grand Trunk Pacific enterprise.

THE INTERCOLONIAL AND NATIONAL TRANSCONTINENTAL.

We have recommended that the Intercolonial and National Transcontinental Railways be handed over to the Trustees. And this recommendation we make for various reasons. We are opposed, as we have already said, in principle, to Government operation, and this principle applies to these railways just as much as to the Canadian Northern, Grand Trunk, and Grand Trunk Pacific. But, apart from general principles, there are many strong arguments for the transfer in the special circumstances of the case.

Transfer of National Transcontinental Recommended.

Dealing first with the National Transcontinental it is evident the line cannot be left as it is. Its very name implies that it was built as a National Highway from ocean to ocean. It cannot be left to terminate in a dead end at Winnipeg. Its prospects of becoming a paying concern, and making to the people of Canada an adequately financial return for the $160,000,000 they have invested in it, are not very good in any case, but its prospects are hopeless if it terminates at Winnipeg. Winnipeg is primarily a collecting and distributing, rather than a producing centre. What it does produce, goes mainly westward. The Canadian Pacific Railway can collect and distribute in the West; it can collect and distribute in the East; it has its own ocean ports and cross-Atlantic connections; and the whole of its traffic between East and West it will carry over its own road, between Winnipeg on the one hand, and Toronto, Montreal and the ocean ports on the other. Exactly the same thing must happen in the case of the Dominion Railway Company, once the Canadian Northern, Grand Trunk, and Grand Trunk Pacific companies are combined into one system. If the National Transcontinental Government Railway is left out of this system, it will starve.

Transfer of Intercolonial Recommended.

IN THE LOCAL INTEREST.

We recommend the transfer of the Intercolonial on three practical grounds: the interest of the Maritime Provinces; the interest of the Canadian taxpayer; and the interest of the railway undertaking itself.

Speaking generally, the growth of the Maritime Provinces in the last twenty years has been slower than that of the rest of Canada. And yet raw materials are readily accessible, and wages are certainly as low as elsewhere. Now a large and important part of these provinces is served only by the Intercolonial; the Intercolonial is merely a local line, terminating at Montreal, and with no direct connection with the markets of Ontario and the West; and the Maritime Provinces have suffered from this isolation.

The recent congestion on the Intercolonial has clearly demonstrated the inadequacy of its facilities to cope with its business. Either it must construct its own terminals at Montreal, which would cost not less than $10,000,000 to $15,000,000, and would be a further instance of unnecessary and wasteful duplication of facilities at the public expense, or it must have access as of right to the Grand Trunk terminals, where at present it comes in only subject to the primary regard of the Grand Trunk for its own business. That it is in the interest of the inhabitants of the Maritime Provinces to be served, not by what is after all only a glorified branch, but by a great through system opening up to them all the markets of the country on an equality with Montreal, Toronto, and the other manufacturing centres, admits of no doubt. And it is in the interest of Canada also, for if one member of the body gains all the members gain.

The absorption of the Intercolonial in the Dominion Railway Company would further afford the opportunity for redressing a hardship from which the Maritime Provinces at present suffer. The Intercolonial pays no local taxes, and this exemption should cease. It never, in our opinion, had any justification. A municipality, whose streets are subject to the burden of Intercolonial railway crossings, has precisely the same claim to treat the railway as a ratepayer and assess it for local taxes, as if the crossings belonged to the Canadian Pacific Railway. Exemption of public institutions used for purely public purposes may perhaps be justified; but in the case of a railway, local taxes are as much a part of operating expenses as transportation or maintenance charges; and they ought to be paid, whoever may be in control of the railway operation.

We are aware that there is a widespread impression in the Maritime Provinces that the Dominion Government is implicitly pledged to give them low rates. Lest there should be any fear that these alleged rights might be interfered with, we think the Act of Parliament should provide that no general increase of the local rates at present in force on the Intercolonial shall be made by the Trustees without the previous assent of the Railway Commission.

IN THE GENERAL INTEREST.

Secondly, we recommend the transfer of the Intercolonial in the interest of the Canadian taxpayers. The capital cost of this railway, according to the returns of the Department of Railways and Canals for 1916, is $106,312,705.25. To pay interest on this investment the railway ought to earn a net revenue of, say, $5,000,000. It has indeed recently been ingeniously argued that it ought to have earned interest at a commercial rate from its first inception, and that all the interest that it has not earned during its whole existence ought to be capitalized and compounded to ascertain the real cost of the railway to the people of Canada.

We cannot accept this somewhat fantastic argument. If this theory were accepted, it is manifest that a similar course ought to be followed in the case of ordinary railway companies. Interest which, of course, has never been paid, ought to be calculated in the same way, on all the cash subsidies which private lines have received and on the value of all the land grants which they have obtained, and all this ought to be carried into an imaginary account on which imaginary earnings ought to be obtained. Further, the capital account of every railway company ought to be recast in the same way, so as to carry forward into the account the money that ought to have been paid for dividends on the share capital, in years when either no dividends or only insufficient dividends were in fact paid.

Whatever question there may be as to the propriety of endeavouring to earn interest on capital, it will hardly be questioned that the line ought to be so managed as at least to earn operating expenses, including therein a proper allowance for taxes. And even ignoring the early history of the undertaking, and considering merely the years from 1889-1916, during which the greatest advance has taken place in Canada, and the traffic of Canadian railways has shown the greatest increase, the Intercolonial has paid no taxes and still not earned operating expenses. During this period the total operating deficits reported amounted to $11,188,885.50. The total operating surpluses amounted to $1,651,239.73. In addition, however, there was, in the years 1912-16, an amount of $3,046,406.86, charged to working expenses and devoted to renewals, which under the accounting methods in force before that date would have been credited to surplus. Adding together these two latter figures, and deducting them from the deficit, we find that in the twenty-eight years from 1889-1916 there was an accumulated deficit on operation of $6,491,232.91.

And this is not all. Down to the year 1908 no charges were made against revenue for necessary renewals and replacements. Now, when the plant is added to and improved, it may be right to charge to capital the excess cost of the addition. But charging to capital the cost of mere renewals and replacements cannot be justified. From 1908 till 1911 there was charged to operating expenses, under the head of renewals of rolling stock, rails, and ties, the sum of $510,000 per annum. But this was quite an inadequate allowance, as is shown by the fact that since then, in addition to the annual $510,000, the further sum of $3,046,406.86, already mentioned, has also been charged to renewals.

The result of charging such items as renewals to capital account is clearly shown by the growth of the cost of the railway per mile of line. In the case of a new line, with constant extension of territory and the necessity for new terminals and increase of equipment, such a figure may not prove much. But in the case of an old-established property like the Intercolonial, it certainly, in part, indicates operating losses and improper capital inflation. The return of mileage for the year 1899 shows 1,315 miles, with a cost per mile of $37,957.36. For 1911, the mileage is shown to be 1,455, and the cost per mile is returned as $57,419.87. In thirteen years, therefore, the capital cost of the system per mile had been increased on the system's books no less than 51·27 per cent. During the same thirteen years, surpluses of $1,594,954.64 and deficits of $3,915,193.39 were reported. It is obvious that the surpluses were illusory and the deficits much greater than returned.

Since 1911 the cost per mile has further increased, but this is largely due to expenditure in connection with the new Halifax Terminals, legitimately charged to capital.

And since 1912 that the proper practice of charging renewals to working expenses has been adopted.

IN THE INTEREST OF GOOD MANAGEMENT.

Lastly, we recommend the transfer of the Intercolonial in the interest of the undertaking itself. We have no doubt that it will be better operated as part of a great system than it ever can be as an independent property. It is not to be expected that able and ambitious men will do as good work on a mere local railway, with scant opportunities of advancement or distinction, as when they have the chances of promotion which a great system affords. If their prospects are bounded by the horizon of the Intercolonial, they will either grow slack or carry their services elsewhere. We have already referred to the economy which can be effected by the establishment of joint terminals in Montreal. And the same thing is true in the matter of equipment. A nation-wide system can average its provision of rolling stock, and meet temporary shortages in one place from temporary surpluses in another. A small concern can only provide rolling stock to meet maximum requirements, on condition of having a surplus standing idle for the greater part of the year.

Minor Recommendations.

We think the Trustees should not be required to accept the responsibility for various undertakings connected with the railway lines transferred to them, such as, for example, the Grand Trunk Pacific Dry Dock at Prince Rupert, and the proposed harbour improvements at Halifax. We would leave the Trustees to settle by agreement with the Government the list of property not to be transferred to them.

In the case of some of the constituent companies[1] of the Canadian Northern, of which the Canadian Northern Quebec is the most important, the parent company, though in every case it has a controlling interest, does not own all the shares. We think the Trustees should at an early date, by agreement or by legal procedure, take steps to acquire the outstanding shares. This is desirable, not only to avoid possible conflict of interest hereafter, but also to avoid any necessity for keeping separate accounts.

We find that the title to certain property which is used for railway purposes has not yet been vested in the Canadian Northern. It was among the conditions on

[1] The list is as follows:—

Railway.	Total Share Capital.	Held by or on behalf of Canadian Northern.	Held Outside of Canadian Northern.	Percentage.
	$	$	$	
Canadian Northern Quebec Railway Co	9,550,000	{ 2,000,000 / 5,144,600 }	2,405,400	a74·7
Quebec and Lake St. John Railway Co.......	4,524,000	4,002,800	521,200	88·46
Duluth, Winnipeg and Pacific Railway Co	6,000,000	3,060,000	2,940,000	51·

There are also outstanding small amounts of from 500 to 3,000 shares in other companies. But these are presumably only directors' qualifications.

a The Canadian Northern Railway Company owns $2,000,000 stock of the Canadian Northern Quebec directly; it also owns 71·9 per cent of the stock of the Northern Consolidated Holding Company, Limited, which owns $5,144,600 stock of the Canadian Northern Quebec.

which the Government loan of $45,000,000 was granted in 1914, that this should be done. We pointed the omission out to Mr. MacLeod, the company's general manager, who stated that it was merely an oversight, and that the intention was that all titles should be got in.

In cases where the title has not been got in, it is, we understand, in the hands of affiliated interests. We say "we understand" because in the limited time at our disposal we have not attempted to have search made of all the different titles involved. It is clear, however, that all lands on which there are Canadian Northern rails, whether main or siding tracks, or switches leading to its elevators, or team tracks, ought to be vested in the company, and not left in the hands of any affiliated interest or constituent or a subsidiary company, even although the Canadian Northern Company may have a stock control of the company.

We think that the Act should vest in the Canadian Northern Railway Company all lands which have actually been put to the purposes of the railway system, subject to all equities (other than those of any of the affiliated companies, or of Messrs. Mackenzie & Mann, Limited, or of those gentlemen in their personal capacities) outstanding at the date of the publication of this report.

We think that the Act should also refer to the Exchequer Court for arbitration the question of all other outstanding equities, if any. It is of course manifest that, to the extent to which outstanding claims may be found to exist, reductions would have to be made in the valuations which we have placed upon the assets of the Canadian Northern Railway Company.

The Trustees will also have to consider at an early date the position of the holders of the Canadian Northern 5 per cent Convertible Income Debentures. These debentures to the amount of $25,000,000 were placed in London, in the years 1911 and 1912, some of them at a considerable premium, and the company obtained more than $24,000,000 in cash for them. The trust deed under which they were issued charges them upon the assets of the company subject to existing charges, but entitles the holders to receive interest only from income if earned. Since June, 1915, no interest has been paid. The Dominion Government in 1914 recognized that in respect of capital these Income Debentures rank in front of the Government's own loans. But the income on them is not being earned. Nor is it likely to be earned, at any rate in full, in the proximate future. The fact, however, that they are a charge upon the assets, or rather upon certain assets, and upon the income, if earned, of the Canadian Northern or some portions thereof, might cause complications in the operations and accounts of the unified system. And we think that on its own merits their case is entitled to sympathetic consideration. We think that, the Trustees should negotiate a settlement with the holders, on the basis of substituting for their right to 5 per cent in the indefinite future a right to receive either a lower rate of interest, say, perhaps 3 per cent, from the date of vesting the Canadian Northern in the Trustees; or in the alternative, say, 1 per cent at once, 3 per cent after a certain date, and 5 per cent from and after a date still further postponed.

Legal Position of Trustees.

The Trustees would hold the Intercolonial and Transcontinental lines as legal owners of the physical property, and they would hold the Canadian Northern, Grand

Trunk, and Grand Trunk Pacific through their ownership of the capital stock. The existence of these three companies, and also of their various subordinate companies, would nominally continue unchanged, and there could consequently be no question of the disturbance of the rights of the bond and debenture holders.

OPERATION OF DOMINION RAILWAY COMPANY.

So soon as the railways above specified have been transferred to the Trustees, we recommend that they should proceed to operate them under their own control. Some time must necessarily elapse before all the transfers are made. But we see no reason why the Trustees should not take charge of each railway as soon as the arrangements for its transfer are completed. The ultimate purpose, to be kept in mind from the beginning should be that all the railways should be operated as one system. For purposes of day to day management there should, we think, be established an Operating Committee, as members of which the Trustees should have power to add to themselves not more than four officers having the rank of vice-presidents. Sitting in this committee, these officers should have votes equally with the Trustees. But all matters of policy and finance should be reserved for the Trustees alone. We would leave it to the future discretion of the Trustees whether they would operate the railways as a single system from one centre, or whether they would constitute two, or it may be more, grand divisions.[1]

Finance of Dominion Railway Company.

Under the scheme which we recommend the Trustees will enter into possession of a complete and self-contained system of 20,000 miles. The present fixed charges amount to about $34,000,000 per annum, or $1,700 per mile. If we allow another $6,000,000 for anuuity to Grand Trunk shareholders, for composition with Canadian Northern Income Debenture holders, and for interest on new capital required immediately, there will be at the outset fixed charges of roughly $40,000,000 or $2,000 per mile. In respect of the 3,777 miles of this system which are comprised in the present Government Railways there will not be a single dollar of bonded indebtedness. And this fact will be of considerable help to the Trustees in their necessary financing. We assume that, in addition to the purchase of equipment by means of equipment trusts, it will be necessary to raise a good many million dollars for improvements and betterments, some of which, such as a new Grand Trunk yard at Niagara Falls, are very urgently needed at the present moment. We suggest that a General and Refunding Mortgage be created, charged first upon the Intercolonial and Transcontinental lines, and secondly upon all the remaining lines of the system, subject to the existing mortgages. The amount of the mortgage should be unlimited. The rate of interest on each issue should be determined at the time the issue is made. We do not think that an express guarantee of the Government would be required. For the Intercolonial, which has no bonded indebtedness is now

[1]We understand that the Canadian Pacific Railway had at one time independent operating and traffic vice presidents, for the lines East and West respectively; but that of recent years this has been changed; and that now the whole system is controlled from one centre, and that the Canadian Pacific Railway Board are satisfied that the change has been an improvement.

earning a substantial net income, and when it becomes part of a great system we cannot doubt that this net income will increase. In any case the guarantee should be unnecessary in a comparatively short time. For a system of 20,000 miles in a rapidly developing country should be able, before many years are out, to carry unaided bonded indebtedness, which would not, we estimate, need much to exceed $2,000 per mile.

Operation to be on a Commercial Basis.

We have recommended that the Intercolonial and the Transcontinental lines should be handed over free of cost for the reasons which we have given above. But we think it should always be borne in mind, both by the Trustees and by the public, that the real capital of the new system includes the cost of these lines. In other words the Trustees are responsible for a return, not merely on the capital of the companies' railways acquired, but also on the capital invested in the Government railways. For though the Government railways have no separate capital account, properly so called, their construction has cost the people of Canada $276,000,000, and the people of Canada are paying interest on this amount every year out of the general taxation of the country.

We would go further and lay it down in terms in the Act of Parliament creating the Board of Trustees that it was the duty of the Trustees to operate their system as a commercial concern, and to make no general reduction in rates, unless ordered so to do by the Railway Commission, until interest at a reasonable rate was earned on the whole capital value of the undertaking. And this for two reasons. We believe that the obligation to work the system as a commercial concern in competition with a well established and well equipped rival will be a stimulus to efficient and economical management. And further we think that reductions, in favour of certain classes of business and certain commodities, which bring the railway rates below a reasonably remunerative basis, are wrong in principle. Their effect is to conceal the fact that a bounty is being given to certain persons and certain places at the expense of the community at large. If bounties are to be given, as to which it is not for us to express an opinion, we think they should be openly voted by Parliament, and not given under the disguise of a railway rate reduced to an unremunerative basis.

Wide Powers to be Given to Trustees.

We consider that, subject to the jurisdiction of the Railway Commission, the Trustees should have the widest powers in the management of their undertaking. They will have to decide how best they can secure both efficiency and economy by combining what have been hitherto competing systems. They must decide what new connections can be made to provide shorter routes; which lines shall be operated as main lines and which only as branches; in what cases two single lines can be used as one double line; where new extensions can be profitably built; how new capital can best be provided; whether any of the existing lines shall be, at least temporarily, abandoned. But they should always keep in mind that the intention is, not to establish local monopolies, but to maintain reasonable competition between their system and that of the Canadian Pacific Railway. They must have discretion to say how far net profits are imperatively required for railway purposes, and how far they may be safely taken to pay a dividend on the share capital. In a word, we would entrust to the Trustees all the responsibilities and powers which in an ordinary company are divided between the directors and the shareholders. We believe that the desire to render the best possible account of their stewardship to the people of Canada will be a sufficient motive to induce them to manage the railways efficiently and economically.

Financial Responsibility of Government.

We have recommended that the Government should assume responsibility towards the Trustees, but not directly towards the present holders, for the interest of all the securities charged on the new combined system. We cannot attempt to forecast with any accuracy what that liability will be, but the following table which we have compiled shows the results for the year ending June 30, 1916, of the operation of the various undertakings which we propose should be put together.

FROM REPORTS TO DEPARTMENT OF RAILWAYS AND CANALS, JUNE 30, 1916, (EXCEPT G.T.P. BRANCH LINES).

—	Can. Northern.	Grand Trunk.	Grand Trunk Pacific.	G.T.P. Branch Lines.	Intercolonial.	Transcontinen'l	Total.
	$ cts.	$ cts.	$ cts.	$ cts.	$ cts.	$ cts.	$ cts.
Operating revenues	35,476,275 06	39,155,040 10	6,963,188 88	1,319,599 16	15,686,661 91	5,798,516 09	104,399,281 20
Operating expenses	25,244,186 12	28,782,012 69	5,902,843 30	1,370,133 51	13,323,183 16	5,360,061 58	79,991,420 36
Net operating revenue	10,232,088 94	10,373,027 41	1,060,345 58	Loss 50,534 35	2,363,478 75	429,454 51	24,407,860 84
Outside operations			10,588 55				10,558 55
Taxes	741,508 11	853,596 39					1,595,104 50
Operating income	9,490,580 83	9,519,431 02	1,070,904 13	Loss 50,534 35	2,363,478 75	429,454 51	22,823,314 89
Other income		3,634,123 65				37,680 84	3,671,804 49
Gross income	9,490,580 83	13,153,554 67	1,070,904 13	Loss 50,534 35	2,363,478 75	466,135 35	26,495,119 38
Interest on funded debt	9,885,153 14	7,644 631 07					17,529 784 21
Other charges	506,010 29	2,415,539 70			167,214 29	808,750 86	3,897,515 14
Dividends		†2,433,333 33					2,433,333 33
Total income deductions	10,391,163 43	12,493,504 10			167,214 29	808,750 86	23,860,632 68
Surplus and loss for year	Loss 900,582 60	660,050 57	*1,070,904 13	Loss 50,534 35	2,196,264 46	Loss 342,615 51	Surplus— 2,633,486 70
Profit and loss items	267,885 85						Deduct— 267,885 85
							Surplus— 2,365,600 85
Add Interest to be provided for	5,445,389 56		6,668,084 04	538,760 16			12,652,233 76
Add Estimated loss, Prince Edward Island Railway							250,000 00
Total to be provided							12,902,333 00

* Before charges. † Div. on guaranteed stock.

Prospects of Dominion Railway.

From this table it will be seen that there was a nominal surplus of income over expenses and fixed charges of $2,365,000. But the above figure took no account of interest which had to be provided for on the Canadian Northern, Grand Trunk Pacific, and Grand Trunk Pacific Branch Lines, amounting together to $12,650,000; nor for a loss of some $250,000 on the operation of the Prince Edward Island Railway. The total of these items is $12,900,000. Deducting the surplus, it would appear that, if these railways had been in the hands of the Trustees for the year ending June 30, 1916, and if all the capital charges had been met out of income, the Trustees would have had to call upon the Government for about $10,500,000 to make up the deficiency.

We assume that the results for the year ending June 30, 1917, will not be greatly different. Gross receipts may rise, but operating expenses are rising fast, more especially owing to the high price of coal, the severe weather, and the congestion of traffic. When the Trustees assume office they will have to face, in addition to the present interest charges, the cost of settlement with the Convertible Income Debenture holders of the Canadian Northern, of the annuity payable to the Grand Trunk shareholders, and the interest on the capital necessary to complete the system and to make urgently needed betterments and additions. Further, for reasons we have already given, we do not consider that the Grand Trunk dividend is a real net surplus. It ought to go back into the maintenance of the property. On the other hand, the economies resulting from the amalgamation of the Canadian Northern, Grand Trunk, and Grand Trunk Pacific systems ought to be very large, as soon as time is allowed for the elimination of wasteful duplications. We do not venture to predict; but we should hope that the economies will at least balance the additional charges for new capital.

If then we take as a starting point a deficiency of roughly $12,500,000 a year; if we assume that this will not seriously increase for the next year or two, but will not, on the other hand diminish; then in order to reach a position of solvency, the Dominion Railways would need to earn an additional gross income of some $50,000,000, and to retain one-quarter of that amount as net. The present gross income is well over $100,000,000; and it is not unreasonably sanguine to hope that it may increase 50 per cent in the course of six or seven years, if Canada continues to progress at a normal rate. But that depends, not on railway management, but on the incalculable future.

We do not make any detailed estimates either of probable earnings or of probable reductions in operating costs to be obtained by the Trustees' system. We have however, every confidence in the country, its resources and possibilities.

The Canadian Pacific has been and is a great success. Combined under a common management, with one evenly balanced transcontinental system in the place of two disjointed ones, with adequate branches both in the West and in the East, we are confident that in the not far distant future the success of the Canadian Pacific ought, at least to a very large extent, to be repeated. The Dominion Railway at an early date should have an operating revenue as large as that of the Canadian Pacific. With proper economic and politically undisturbed management, the attainment of a satisfactory financial result is only a question of time.

Specimen Economies Resulting from Combination.

We will not risk embarrassing the future management by enumerating possible economies in detail. But it is clear that very considerable savings can be made by the amalgamation of duplicate outside and local agencies; by joint stations and joint service at many points; by coupling up the Prairie branches so as to afford the shortest outlet to market centres and the like. Great economy can also be secured in operation of the through traffic. East of Winnipeg this will require a small amount of new capital expenditure. We understand that the land between Cavell station on the Transcontinental and Longue Lac station on the Canadian Northern lends itself to cheap and easy railway construction. The distance is 35 miles. By the construction of this short link, a great saving of operating mileage can be made, and the best portions of both systems utilized. By the combinations of the Transcontinental from Winnipeg to Cavell, the new link from Cavell to Longue Lac, and the Canadian Northern forward from that point, a route superior from every point of view to the existing routes can be formed for Toronto business. The Winnipeg-Toronto mileage by this route would only be 1,197 miles. This is shorter than any of the three existing routes, which are as follows: Canadian Pacific, 1,232; Transcontinental and Grand Trunk, 1,256; Canadian Northern, 1,309. The combined route will also greatly improve the handling of traffic from Port Arthur to all points on the Transcontinental east of Cavell. This traffic at present is hauled back to Superior Junction, 188 miles to the northwest, before it starts on its eastward journey. And at present much of the coal used on the line follows this roundabout route. For grain sent east from the Port Arthur elevators to Quebec and beyond, the combined route will also offer better facilities than either line could afford separately.

Similar economies can be secured west of Winnipeg, without any expenditure beyond that necessary for coupling up closely adjoining tracks. The Winnipeg-Vancouver route can be shortened 40 miles. We need not multiply instances or attempt to translate the resulting economies into dollars. It is sufficient to say that the mere running expenses of a through freight train are not less than 80 cents a mile. Fifty miles means $40. Multiply this by 365, and there is a saving of nearly $15,000 per annum on each train, sufficient to pay the interest on $500,000 Grand Trunk Pacific 3 per cent Dominion Guaranteed Bonds. And this is only the mere running cost, and takes no account of other transportation expenses or of the reduction of maintenance expenses due to ceasing to maintain superfluous tracks.

PART VI.

THE DOMINION AND THE PROVINCES—PUBLICITY—GENERAL.

Railway Commission Control.

We have referred more than once in this report to the Board of Railway Commissioners for Canada, and have recommended that the system of the Trustees should