

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

SESSIONAL PAPER No. 20g

be subject to their jurisdiction. We attach great importance to this recommendation. Hitherto this Board has had jurisdiction only over the railways that are in the hands of companies. It has had no jurisdiction over Government lines. We think that this distinction cannot be justified, and that the Commission should have jurisdiction over all railways other than those operating solely under provincial charters. The public may from time to time have just cause of complaint against the management of any railway. It is not right that any one, even a Government official or a public trustee, should be judge in his own cause. Moreover, unless the final decision in matters of rate policy and the like is in the hands of a single authority, there may be in Canada two conflicting policies at the same time. There is yet another reason on which we would lay stress. Railway policy is a sealed book to the ordinary citizen. Why tariffs should be fixed as they are, why the train service should not be arranged so as better to suit his individual requirements, why cars cannot always be available for everybody everywhere, he cannot understand. The normal attitude of the public towards the railway management, whether in the hands of a company or a Government, is one of mistrust, if not of active hostility. It is a good thing both for the railway itself and for its patrons to bring the management out into the open; to have the reasons why such and such conditions exist, why certain concessions demanded cannot reasonably be granted, frankly explained in public. If there is nothing else gained, it is a great thing to have brought the complainant and the railway officer face to face. Even when they fail to agree, they are likely to understand each other better in the future.

Commission to Report on Charters.

In a second respect also we recommend that the jurisdiction of the Railway Commission should be enlarged. Charters for new railways are granted by the Dominion Parliament in great numbers. In the years from 1900 to 1908, 116 charters were granted for 37,862 miles of line. Only 453 miles were actually built. In the two following years there were granted, according to a statement made in the Senate by the Hon. Mr. Davis, on April 6, 1910, respectively, 68 charters for about 68,000 miles, and 75 charters for about 75,000 miles. We think that no charter should be granted, till the proposals made have been investigated by the Commission, and the Commission have reported whether or not, in their opinion, the construction of the proposed line would be for the public advantage. The opinion of the Commission will not necessarily bind the action of Parliament. But Parliament, before deciding, should have the benefit of the advice of an expert and impartial authority.

And on Subsidies and Guarantees.

We think also that no subsidy or guarantee should be granted except after a similar report from the Commission; and that no subsidy or guarantee should be voted in any session, unless it has been provided for in the financial budget of the year; and unless a substantial deposit of cash or securities has been made by the promoters, to prove the bona fides of their application.

Overlapping of Dominion and Provincial Control.

Cases have occurred in the past and may again occur in the future, in which railways are chartered by Provincial Governments, competing with railways under Dominion charters, and so withdrawing from the latter some portion of the traffic required to secure the solvency of their line. This is not in the public interest. It cannot be for the general advantage of Canada that a provincial charter should be granted, and in most cases also provincial financial assistance given, with the result in the first place of withdrawing traffic from a road with a Dominion charter, and so forcing that road to fall back upon the guarantee which has to be met out of the general taxation of the country; and secondly, of placing upon the province a burden of guarantee which the province subsequently finds itself unable to bear, and which ultimately it has to throw back upon the Dominion itself. The Dominion Government, when the Canadian Northern applied for the large loan of \$45,000,000 in 1914, was confronted with the possibility, if not probability, that some of the provinces would default on their guarantees as the result of the entirely disproportionate liabilities which they had assumed.

It would perhaps be difficult for the Dominion and Provincial authorities to agree upon such an amendment of the British North America Act as would for all time prevent the recurrence of such a situation as occurred in 1914, as a result of the provinces deeply pledging their credit, not for an intra-provincial, but for an extra-provincial undertaking, clearly outside their proper ambit. The Dominion Government ought, however, to use the existing powers of the Act. The policy should be laid down that, so soon as any provincial legislature incorporates a railway, it becomes the duty of the Railway Commission forthwith to investigate the necessity in the public interest of its construction; and further, in cases where financial aid by guarantee or otherwise is given by the province, to ascertain what provision has been made for meeting the liabilities which may thereafter accrue. The Commissioners should with all speed report their findings and the evidence on which they are based to the Governor General in Council. And in any case in which it is found that the railway is not required in the public interest, or that guarantees have not been accompanied by proper financial provision, the Governor in Council should exercise his undoubted prerogative and disallow the provincial Act. It is necessary for the sake of the credit of the provinces as a whole to make sure that no province with a population of less than 400,000 shall again take the responsibility for a guarantee of \$40,000,000 in respect of a single undertaking.

We think also that a single company should not be under duplicate control. Take for instance the Canadian Northern main line. If it is not for the public advantage of Canada as a whole, it has no justification for existence. Yet the portion of the line in British Columbia was constructed under a British Columbia charter; and a small section of the line in Saskatchewan under a Saskatchewan charter. It cannot be reasonable in principle that one portion of the through route should be regarded as of general advantage, while another portion of the same route, feeding it and being fed by it, is regarded as of only local interest. And from the point of view of practical administration it is highly inconvenient. We recommend that, in

SESSIONAL PAPER No. 20g

respect of all future charters, the Dominion Government come to an understanding with the Provincial Governments that a railway company shall be either wholly national or entirely local. In other words, neither provincial charter nor provincial aid should be given to companies or subsidiaries of companies already possessing a Dominion charter; and on the other hand Dominion aid should only be given to companies with a Dominion charter.

We further recommend that there be conferred on the Commission power to prescribe minimum as well as maximum rates, so that reckless and unfair competition may be prevented. A railway that gives to any members of the public a service below cost is unfairly discriminating against the rest.

Audit and Publication of Accounts.

We think it is of great importance that adequate accounts and statistics should be kept and published. We consider that the Board of Trustees should keep and furnish to the Railway Commissioners, and publish for general information, exactly the same accounts and statistics as the other railway companies are required to furnish. Further, we think the accounts of the Board of Trustees should be continuously audited by a firm of public accountants, appointed by the Finance Minister. This firm should be selected from those with special experience of railway work. And they should not only conduct a financial audit in the strict sense, but should be instructed to advise the trustees from time to time what improvement in accounting methods can be introduced, and what special investigations of cost can be undertaken with good hopes of economies resulting. It is within our knowledge that modern methods of cost accounting are at the present time being applied to railways on this continent with considerable success. And we feel that in taking over the management of so large an undertaking, with a mileage exceeding that of any railway system in the world except that of the Prussian State, the Trustees should have the benefit of the best and the most up-to-date advice obtainable. The auditors should make a full report to Parliament once a year on the financial status of the Dominion Railway.

The Railway Commission should in each year submit to Parliament the accounts received both from the Dominion Railway and from the other railway companies, and should accompany them by a report of their own. This report should set out in as simple and concise a manner as possible the financial relations between the Dominion Railway and the Government, so that every citizen may have a clear idea once a year what total amount of taxation he is called upon to pay for railway purposes. The report would naturally divide the total charges into subsidies, guarantees, and other suitable heads. And these charges should be taken up into the general budget of the Finance Minister as a separate and distinct entry. Any subsidies or guarantees given by the Government to railways other than those comprised in the Dominion Railway system should be included by the Finance Minister in the same statement. It must be for the Government and the people of the country to decide how much money they will find out of the general taxation for their railways. But, in order that they may decide rightly, it is essential that they should have full information, and that it should be brought before them in an easily intelligible form.

At present railways operating solely under Provincial charters are under no obligation to make returns to the Dominion Ministry of Railways. Consequently there is no complete record of the entire railway activities of the country. We think that the Dominion Government should come to an understanding with the Provincial Governments that returns should be made to the latter by their local companies in the same form as is required in the case of Dominion companies, and that copies of these returns should be filed also with the Dominion Government.

Railway Councils.

There is another matter that we desire to bring to the attention of the Government and the Trustees. In several countries in Europe, more especially in Prussia, there has been developed with great success an organization of Railway Councils. These councils are both National and Regional. The National Council in Prussia is composed of: (1) official representatives of the Government Departments specially concerned with railway questions, the Ministries of Communications, Commerce, Agriculture, etc.; (2) of representatives of Chambers of Commerce, of Agriculture, of Mines, and other persons competent to speak for large sections of railway customers. The Regional Councils are of a similar constitution, but on a smaller scale as benefits their local limitations. These Councils meet twice a year or oftener, and discuss a prepared agenda with the chiefs of the railway service. They are competent to deal with questions of rates and fares, facilities, extensions, improvements and all other matters affecting the public interest. They have no executive powers whatever. They can only criticize, dissuade, or recommend. But the universal testimony of competent observers is that the system is a success; that the influence of the Councils is considerable, and the result harmony and absence of friction between the railway administration and the public.

We do not think that the time is ripe for the formal organization of a similar system in Canada. But we think the central idea is valuable. And we suggest that the Trustees, when they get into harness, should consider the propriety of calling a conference of representatives of merchants, manufacturers, agriculturists, mine-owners, etc., and discussing with them all such questions as involve the interests of the public as well as the railway. And we think the Canadian Pacific Railway should be invited to join the conference. If the experiment proves a success, it will no doubt be repeated. And we should hope it would ultimately result in a permanent organization.

Railways in Excess of Existing Requirements.

We feel that we ought to draw attention to another important point. There are now three trunk lines in existence running from Winnipeg through the comparatively empty country north of Lake Superior. There is very little local traffic, and not much prospect for its early development. The through traffic will be shared, in what proportion the future must decide, between the three routes. But we may assume that the Canadian Pacific Railway will be able to retain on its own through route all the traffic which it itself originates. And the two new routes will only get the

SESSIONAL PAPER No. 20g

balance to carry. It cannot, we think, be expected that this balance will be sufficient for a good many years to come to make these two lines self-supporting. It seems to have been generally assumed that they would afford an important outlet for the grain of the Prairie Provinces. Evidence that we have had before us seems to show that only quite a small fraction of the grain exported from these provinces has hitherto followed the rail even as far as Montreal. The proportion that goes through all the way by rail to the Atlantic seaboard must be even smaller. And there seems no reason to suppose that this proportion will vary to an important extent. For a difference of something like 10 cents per 100 pounds between the charges for rail carriage and water carriage respectively—and this we understand to correspond to the normal state of affairs—will always enable the water routes to retain their hold on the traffic. It follows therefore that an increase of 100,000,000 bushels of wheat exported from the prairies might only mean an increase of 2,000,000 bushels, that is 2,000 carloads, or fifty train loads, of railway traffic. This conclusion is borne out by statistics of the Canadian Pacific Railway, from which we find that in the year 1911, out of a total revenue on the Lake Superior Division (the line between Fort William and Sudbury), amounting in round figures to \$12,000,000, less than \$900,000 were earned from the carriage of grain and flour, including grain and flour for local consumption as well as for export, while \$6,100,000 were earned from other freight, and \$5,000,000 from passengers, mail and express.

To show how much traffic is required to fill a railway up to its capacity and to enable it to pay interest on its cost of construction, we have made the following calculation. The Minister of Finance stated in Parliament on May 15, 1916, that in the eleven months ending February 2, 1916, which included the record harvest of 1915, Canada exported 180,000,000 bushels. This is equal to 5,400,000 tons of grain. We will assume that the whole of this grain went from Winnipeg to Fort William-Port Arthur. There were three roads to carry it. This gives 1,800,000 tons available for each road. Assuming the trains to run with an average net load of 1,200 tons—and in fact they usually carry much more—each road would need to run 1,500 trains, or for the eleven months an average of only $4\frac{1}{3}$ trains per diem. Evidently, even under the quite exceptional conditions of the harvest of 1915—and how exceptional this was, is sufficiently shown by the fact that in the corresponding eleven months of the preceding year the export was only 90,000,000 bushels, or just half—the three railways would not be worked to anything like their maximum capacity. Let us see what the net earnings would have been. We take the average rate for the carriage of grain as 4.2 mills per ton per mile, and we will assume an operating ratio of only 66 per cent. Then the net earnings would have been 1.4 mills per ton per mile. And, as 1,800,000 tons went over each road, the net earnings would have been $1.4 \text{ mills} \times 1,800,000 = \$2,520$ per mile of road. These net earnings would pay interest at 5 per cent on a cost of road amounting to \$52,400 per mile. Now the average cost of a mile of road in Canada is over \$70,000. In other words, if we assume that the roads between Winnipeg and Port Arthur were built at an average cost, even the exceptional volume of grain traffic of the year 1915 would not alone have sufficed to pay interest at 5 per cent on the construction cost, though the whole grain traffic of the prairies was concentrated on them.

Highway Improvement.

We think the Government would do well to give serious consideration to the question of the cost of bringing grain from the farm to the railway station. The desire of the farmer to reduce the cost of marketing his grain to the lowest possible point is natural. We do not believe that any serious reduction of rail rates can be expected, and no one can say what ocean rates will be in the future, but we think that the wagon cost is capable of considerable reduction. We find that an average rate per 100 pounds from Battleford, taking this as a typical point, to Liverpool, may be put at not more than 50 cents by the all-rail route to Montreal. By water from Port Arthur, which route carries the vast proportion of the traffic, the through rate would not be more than 40 cents per 100 pounds on the average. On the other hand, typical examples of the cost of wagon haulage have been brought to our notice. We find instances of a cost of 33 cents per 100 pounds for a distance of 12 miles, and of 54 cents per 100 pounds for 35 miles. And we are informed that in some cases grain has to be hauled as much as fifty miles to a station. In other words, in cases such as these the cost of delivery at the station is as much as or even more than the total through rate from the station to Liverpool. What method should be adopted to cheapen local haulage is a matter for detailed consideration in each individual case. But, either by road improvement, coupled possibly with an organized system of mechanical traction, or by the construction of short spur lines of the lightest and cheapest possible type, we are persuaded that a good deal might be done at a very moderate expense. And we therefore commend the matter to the serious consideration of both the Dominion and the Provincial Governments.

The Hudson Bay Railway.

We understand that construction work on the Hudson Bay line has been suspended. We think that the work should not in any case be recommenced till more urgent needs have been met and money is more easily procurable. And if work on the line is begun again, we think it should be done in the most economical manner possible, and only up to the standard of a local line, bearing in mind that it cannot be expected for many years to come to be self-supporting. Considering the small advantage in rail mileage from the grain-growing areas, which the Hudson Bay possesses over the existing routes to Port Arthur, and that from many districts it possesses no advantage at all; considering further the short and uncertain period of navigation in the Bay, and that grain consigned to Port Nelson will consequently always be liable to be detained there for nine months till navigation is again opened; considering that higher ocean freights may be expected to absorb, if not more than absorb, any possible saving in rail rates, we cannot believe that this route will ever secure any serious share in the export trade. Still less can we think that it will handle an import-business. Unless considerable mineral wealth should be discovered in the territory which this line will open up, it must, we fear, continue to be almost indefinitely a burden upon the people of Canada. And everything that can be done should be done to make this burden as small as possible.

SESSIONAL PAPER No. 20g

Steamship Connections.

The question of steamship connections on both oceans is referred to us. We have not reported on it. To deal adequately with a question of such vast range was impossible in the time and with the means at our disposal. Further, the complete revolution that the war has caused in the shipping trade of the world would, we feel, make any conclusions or recommendations based on a study of either war or pre-war conditions valueless for guidance after the war. The question of steamship connections naturally involves the question of ports. This question also we have refrained from touching. For port facilities depend on available steamship connections quite as much as steamship connections on the facilities available at the ports.

Tendency of Railway Rates to Rise.

Before concluding our report we desire to make one observation of a general nature. The average ton-mile rate in Canada in the last financial year was .751 cents; in the United States the figure was .732 cents, which is practically the same. In the United States it is coming to be generally understood that this rate is too low to give the railway companies an adequate return on their existing capital and that consequently new capital cannot be attracted to railway investment in sufficient amount to provide for necessary new expenditure. And this fact was to some extent recognized in October, 1914, by the Interstate Commerce Commission in their approval of a flat increase of 5 per cent (with certain exceptions) on all tariffs in the portion of the United States adjacent to Eastern Canada. And if an average rate of .732 cents is inadequate in the United States, where traffic is far more dense, and where climatic conditions are less rigorous, much more is an average rate of .751 cents inadequate in Canada. It is true that with the present rates the Canadian Pacific Railway pays a dividend of 7 per cent from railway operation. But as we have already pointed out, that company has some \$200,000,000 invested in the property on which no interest has to be paid. Were this sum represented by ordinary stock, the dividend from railway operation would be not 7 per cent but 4 per cent. And the Canadian Pacific has the cream of the Canadian business.

Necessity for Immediate Action.

It is to be anticipated that difficulties, more or less great, will need to be overcome before a final settlement can be reached with the Grand Trunk and Canadian Northern Railway Companies. We realize that, if the matter were dealt with in the ordinary manner, it might be a matter of months, if not years, before a final settlement was reached. The pressing public interest demands that the matter be not so treated.

We think instructions should be given by the Government forthwith, without waiting for further action on this report, to the Canadian Northern and Grand Trunk Pacific companies to discontinue all expenditure on works in hand, unless and until express permission is received for their continuance.

We will enumerate certain other matters that will not brook delay. In the West the Canadian Northern is not giving, and is not able to give, adequate service to the grain-growers in some important districts which are dependent on its lines. The situation in the Goose Lake district is highly unsatisfactory. The branch is in bad shape and is not fit to do the business offering. There is absolutely no room for doubt as to the lack of freight cars and the resulting inconveniences, and even in many cases distress. In the East the position of the Grand Trunk is most unsatisfactory. Beyond question the system immediately requires at least 200 more locomotives and at least 10,000 freight cars. If coal famines are to be avoided, and the proper winter movement kept up, the line from Burlington Junction to Fort Erie urgently requires double tracking. Other improvements are imperative. The question of electrification ought to be taken into consideration forthwith.

If things go on as at present, the traffic conditions of this year will in all probability return in an aggravated form next winter. The old equipment will be a little older, the roadbed will be in a little worse condition. And the situation in Eastern Canada has been so bad this winter, that there has been much difficulty, specially at Grand Trunk points, in maintaining a supply of grain and flour from the West. It is imperative that strong and efficient action be immediately taken.

Recognizing the probability of delays, caused by the efforts of the companies to secure better terms from the Government, we think that, in order to protect the business interests of the country, the Government should immediately put itself in a position to obtain orders appointing receivers for the Grand Trunk and Grand Trunk Pacific systems. We recommend that, at the present sitting of the House, an Act be passed constituting the Board of Trustees, so that, in case receiverships are necessary, the Trustees may, on the application of the Government, under its existing rights as a creditor, be appointed Receivers. They would then be in a position to take, through the courts, the necessary steps to vest the properties in the Dominion Railway Company so as to constitute the new system that we have recommended. Should the companies show themselves ready and anxious to come to a prompt agreement, actual application to the Courts would of course not be made.

We feel that the appointment of receivers is not in the interest of the country's credit. It certainly is not in the interest of the companies, as the evidence of this report shows that the property of the Grand Trunk Company, if it were put into a receiver's hands, would leave little or nothing for the shareholders. The result of court proceedings would probably be to divest the shareholders of all interest, and to place the Government in the position to take, to the fullest extent, the advantages of their legal position as holders of defaulting securities. But, though we hope receiverships will not be necessary, we think the Government must face the possibility of being compelled to take the course we have indicated.

In the case of the Canadian Northern Railway Company no proceedings in court are requisite. Under the provisions of section 24 of the Canadian Northern Railway Guarantee Act, 1914 (4-5 Geo. V, chap. 20), the Governor General in Council has power, when authorized by Parliament, to declare by Order, if default is made by the company in payment of interest on the \$45,000,000 guaranteed securities (the interest on which is at present being found by the Government) that the equity of redemp-

SESSIONAL PAPER No. 20g

tion of the company is absolutely barred and foreclosed; and thereupon the whole property becomes vested in His Majesty in right of the Dominion of Canada.

If receiverships become necessary, the advantage of appointing the Trustees as receivers is obvious. The Trustees, with the Government behind them, and with the approval of the court, would be in a position to operate the roads as a combined system, to purchase much needed rolling stock, and to make essential improvements, in a way that no ordinary court receiver could do. Receiverships in the ordinary sense would only result in greater traffic congestion than ever, and in losses not only to the shareholders but to the country at large.

PART VII.

SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS.

We summarize our conclusions and recommendations as follows:—

1. The mileage of Canadian railways is very great in proportion to the population of the country. It has increased out of proportion to the increase of population.
2. Canada's natural waterways make railways less absolutely necessary than in other countries.
3. The net return is so low as to prove that more railways have been built than can be justified on commercial grounds under present conditions.
4. The public investment in railways is very large. The total amount of public capital involved in direct construction of Government lines, and cash aid, land grants and guarantees to private companies, is \$968,451,000, not counting the value of lands still unsold.
5. Public aid to the principal companies, including subsidies, land grants, and guarantees, amounts to over \$680,000,000. In the case of the Grand Trunk Pacific it amounts to nearly two-thirds of the total investment; in the case of the Canadian Northern to over three-quarters.
6. There have been three phases of company development: (1) unaided enterprise, (2) assistance by subsidies and land grants, (3) assistance by guarantees. A guarantee policy is dangerous and its wisdom questionable.
7. The development of Canada justified two transcontinental lines. It did not justify three. The Grand Trunk and Canadian Northern should have been amalgamated.
8. The Grand Trunk Pacific system has cost nearly \$200,000,000. The interest charges amount to over \$3,800,000 per annum. The net income last year was \$826,653. The liability of the Grand Trunk Company for interest amounts to over \$5,000,000 per annum at present, and will rise to over \$7,000,000 in 1923.
9. We cannot recommend that the Grand Trunk Company be unconditionally released from their liability. The responsibility for the National Transcontinental line rests mainly with the Government, but that for the Grand Trunk Pacific proper

7 GEORGE V, A. 1917

belongs primarily to the Grand Trunk. The Government has voluntarily relieved the Grand Trunk of all responsibility for the National Transcontinental. In respect to the Grand Trunk Pacific proper the Government is fully entitled, morally as well as legally, to call upon the Grand Trunk Company to fulfil its contract.

10. The Grand Trunk Company proper has made unjustifiable charges to capital. Its lines have not been adequately maintained. More than \$21,000,000, which ought to have been spent on maintenance in past years, has not been spent. New capital expenditure of over \$30,000,000 is immediately required. The country is suffering from the company's inability to give adequate service. The Grand Trunk railway ought to be managed in Canada, and not from London.

11. We recommend that the control both of the Grand Trunk Pacific and of the Grand Trunk be assumed by the people of Canada on terms hereafter set out.

12. The Canadian Northern has been financed mainly by the issue of guaranteed securities. Till 1914 it met the interest from its own resources. Since that date the Government has assumed very heavy obligations on behalf of the company. There is little prospect that the company would be able in the near future to relieve the Government of these obligations.

13. The company's estimate of its future capital requirements is too low; and its estimates of probable growth of earnings have been and still are unduly sanguine.

14. We estimate that as a separate undertaking it would require fully \$70,000,000 of new capital within the next five years.

15. We do not recommend that further public aid be given to the Canadian Northern as at present constituted.

16. The Canadian Northern common stock represents no cash investment, and has no present value, either on the basis of the cost of reproduction of the property, or on the basis of its earning power.

17. We recommend that the public take control of the Canadian Northern Company on terms hereafter set out.

18. On the assumption that the people of Canada take control of the Grand Trunk, Grand Trunk Pacific, and Canadian Northern, we consider possible methods of management and operation.

19. We do not consider that operation by a minister directly responsible to Parliament would be in the public interest. It would not secure better service or lower rates.

20. If the Government operated these three railways, it would be bound in fairness to the Canadian Pacific shareholders to take over their railway also. The Canadian Pacific gives good service and should not be interfered with.

21. Special objections to direct Government ownership and operation are:—

(1) That Canadian railways operate more than seven thousand miles of line subject to the foreign jurisdiction of the United States;

(2) That the Canadian Government resources are required for war purposes.

22. We therefore reject the idea of direct Government ownership and operation.

23. We do not recommend that the Grand Trunk, Grand Trunk Pacific and Canadian Northern Companies be allowed to go into the hands of a receiver.

SESSIONAL PAPER No. 20g

24. We recommend that the control of these three companies be transferred to a new body.

25. We have discussed and rejected the following suggestions:—

Transfer of all three railways to the Canadian Pacific.

Transfer of the Canadian Northern or a portion of it to the Canadian Pacific.

26. There is no possibility of forming a new commercial company to take over the three railways. Neither the Mexican precedent, under which the Government becomes a majority shareholder, nor the New York Subway precedent, under which the public authority shares the profits with the private shareholder, is applicable to this case.

27. Having come to the conclusion that direct ownership and operation by the Government is to be avoided, and that ownership and operation by a commercial company is not possible, we recommend that a new public authority, a Board of Trustees be incorporated by Act of Parliament as the "Dominion Railway Company"; and that the Canadian Northern, Grand Trunk and Grand Trunk Pacific be transferred to this body.

28. We recommend that the Government assume responsibility to the Dominion Railway Company for the interest on the existing securities of the transferred companies.

29. We recommend that the Intercolonial and National Transcontinental be also transferred to the Dominion Railway Company, for reasons which we give hereafter.

30. We recommend that the whole of the Dominion Railways be operated by the Trustees as one united system, on a commercial basis, under their own politically undisturbed management, on account of, and for the benefit of, the people of Canada.

31. We recommend that there be five Trustees, three railway members, one member selected on the ground of business and financial experience, and one as specially possessing the confidence of railway employees; that the original Trustees be named in the Act constituting the Board; and that their tenure of office be substantially the same as that of judges of the Supreme Court.

32. We recommend that the original Trustees retire after 3, 4, 5, 6, 7 years, respectively, according to a prescribed scheme; that they be eligible for reappointment; and that all appointments subsequent to the original statutory appointments be by the Governor General in Council on the nomination of the Trustees themselves.

33. We lay stress on the importance of the Board being non-political, permanent, and self-perpetuating; and in this connection point to the experience of the Australian State Railways.

34. We give reasons for concluding that railways are not a proper subject for direct Parliamentary control. We point to a general tendency in modern democracies to withdraw certain subjects from this control. And we show that under Parliamentary control the general interest of the whole community tends to be subordinated to the particular local and individual interests.

35. We recommend that the authority of the Railway Commission be extended to include the Dominion Railway Company's system.

36. We give the reasons for our recommendation that one of the Trustees shall be appointed on the ground of his possessing the confidence of the railway employees.

37. We recommend the transfer to the Trustees of the common stocks of the Canadian Northern, Grand Trunk and Grand Trunk Pacific subject to certain conditions and reservations made hereafter.

38. We recommend the transfer to the Trustees of the Intercolonial and National Transcontinental Railways for reasons which we give hereafter.

39. We deal with the question of the compensation to Canadian Northern shareholders. We find the charge that Messrs. Mackenzie and Mann have misappropriated public moneys unfounded. We find that the Canadian Northern shareholders possess a system of which the lines are well located and economically constructed, and that they have raised the necessary money with considerable financial skill and at moderate rates of interest, but that they erred in unwisely duplicating lines and reaching out into unremunerative territory.

40. We recommend that the question be considered whether Canadian Northern shareholders shall be permitted to retain a moderate proportion of the \$60,000,000 shares which they now hold; that the precise proportion, if any, and the relation of that proportion to their share of any future profits of the Dominion Railway Company, be fixed by arbitration.

41. We recommend that the entire share capital of the Grand Trunk, guaranteed, preference and ordinary, be surrendered to the Trustees in exchange for an annuity based on a moderate but substantial proportion of \$3,600,000, the average sum paid as dividend in the last ten years; and that this annuity should increase by 40 or 50 per cent after the first seven years.

42. We recommend that the precise figure be fixed by agreement and that it be left to the directors of the Grand Trunk Company (1) to apportion the annuity among the five classes of Grand Trunk shareholders, and (2) to procure such assents of their shareholders as are legally required to complete the transfer.

43. We give reasons for considering that this recommendation is generous to the Grand Trunk shareholders, and why the shareholders in their own interest will do well to accept it.

44. We recommend the transfer to the Trustees of the National Transcontinental, in order that it may take the place it was built to take as part of a great inter-ocean highway, and because its financial position would be hopeless if it terminated in a dead end at Winnipeg.

45. We recommend the transfer of the Intercolonial: (1) in the interest of the Maritime Provinces to whom the Intercolonial at present can only give a local service with no adequate terminals beyond Montreal; (2) in the interest of the taxpayer who has a right to demand efficient and economical expenditure of his money; (3) in the interest of the railway staff who will secure the wider opportunities of a great system.

46. We recommend that in future the Intercolonial be required to pay local taxes on the same basis as the other railways; and that the inhabitants on the line receive statutory protection against increase of local railway rates.

SESSIONAL PAPER No. 20g

47. We make recommendations as to (1) non-railway property of the transferred undertakings, (2) getting in minority holdings of shares and outstanding titles to land, (3) arrangement with the holders of Canadian Northern 5 per cent Convertible Income Debentures.

48. We deal with the legal position of the Trustees; and point out that the Canadian Northern, Grand Trunk and Grand Trunk Pacific companies will continue to exist; and that consequently the rights of their security holders will remain undisturbed.

49. We recommend that the Trustees take over each railway as soon as the transfer can be effected, with the purpose of ultimately operating them all as a single unified system.

50. We deal with the finances of the Dominion Railway Company and point out that the Intercolonial, with no bonded indebtedness, has a considerable net revenue, and offers security on which new capital can be raised. We recommend the creation of a General and Refunding Mortgage of unlimited amount, to be issued as required.

51. We recommend that the Act of Parliament provide that the operation of the Company shall be on a commercial basis, and that the Trustees make no general reduction in rates until the property earns a reasonable net return.

52. We recommend that there be given to the Trustees the widest powers in the management of their property.

53. We have endeavoured to estimate the annual liability of the Government to meet interest unearned during the first few years of the new scheme, and we put it at about \$12,500,000 per annum. We think this amount should diminish steadily but not slowly; and that with proper economic and politically undisturbed management the attainment of a satisfactory financial result is only a question of time.

54. We give specimens of the large economies which should result from combined operation.

55. We recommend the enlargement of the functions of the Railway Commission; that it have jurisdiction over all Dominion Railways; and report to Parliament on all proposed grants of charters, subsidies, and guarantees.

56. We deal with the conflict of Dominion and Provincial jurisdictions. We recommend that, to prevent this in future, the Governor in Council should in certain cases disallow Provincial Acts, and that no railway company should operate under both Dominion and Provincial charters.

57. We recommend that there be a continuous public audit of the Dominion Railway accounts, and that full and comprehensive reports be made annually to Parliament.

58. We recommend the establishment of Railway Councils to bring together the railway management and representatives of public interests.

59. We point out that the existing railways are in excess of public requirements and show how much traffic is required to make a railway profitable.

60. We show that the cost of hauling grain to the station is sometimes as great as that of carriage from the station to Liverpool, and recommend that the question of highway improvement and motor haulage be taken into consideration.

XC

RAILWAY INQUIRY COMMISSION

7 GEORGE V, A. 1917

61. We recommend that future expenditures on the Hudson Bay Railway be reduced to the lowest possible amount.

62. We point out that railway rates are much more likely to rise than to fall in the immediate future.

63. And finally we lay stress on the necessity for immediate action lest Canada should suffer from railway congestion even worse than that of the past winter.

Respectfully submitted,

H. L. DRAYTON

W. M. ACWORTH

REPORT OF MR. A. H. SMITH.

This Commission was asked to report upon the general problem of transportation in Canada. Several subdivisions of the subject quite naturally suggested themselves, and were made a part of the problem to which the Commission was requested to give attention. Practically all of the subdivisions have received consideration, but the general problem is essentially a question of what to do with the railroads of Canada. To a constructive solution of this important problem, the Commission has given its attention.

The General Problem of Transportation in Canada:

For a proper understanding of the problem, a knowledge is necessary of the history of railway development in Canada, especially as affected by the public policy, which has found expression in governmental acts.

Canada early recognized that its growth depended upon the construction of railways. The large productive areas of the country could be served only in a limited way by its splendid system of waterways.

Even before the Eastern provinces became united into the Dominion of Canada, the Grand Trunk had become an important railway line, serving the people both of Canada and the United States. The Intercolonial, as is well known, was constructed out of public funds, and largely for the purpose of bringing more closely together, commercially and politically, two more or less separated sections of the Dominion. Long in advance of its justification upon a commercial basis, an all-Canadian transcontinental line was projected by the Government and completed with extensive public aid by a private company as the Canadian Pacific.

Because of the great distances which separate parts of Canada's producing territories from the consumers' markets, development of the country's resources depended upon railway building, while cheap transportation was necessary to enable the people to compete with other producers. The people of Canada, therefore, gave such aid as was necessary to procure for themselves railway lines that would bring the country's resources into use and keep themselves in touch with the outer world.

Cheap transportation depends upon careful investment and efficient management. In the usual case, these are most likely to be found where private initiative and proper incentive to effort are employed. So far, Canada, for the most part, has pursued the policy of leaving to private enterprise the management of its transportation machinery. The Intercolonial, which has been under governmental control since its beginning, is an exception. But this line, I am informed, usually pays nothing to the Government as a return upon money invested in the property. On the contrary, it has frequently called upon the Government for aid in meeting expenses of operation. The investment in this line is large, some authorities placing it as high as \$348,000,000, including loss of interest. Evidently its rates are too low or its expenses are too high, but the use of this line, at the rates enforced, is regarded in some quarters as a right of the people in the Maritime Provinces. If the Canadian people

7 GEORGE V, A. 1917

have ever made an agreement, or adopted a policy which may be construed as creating that right, the contention may be correct; it is, at any rate, within the power of Government to grant such a privilege. The fact is referred to merely to point out in connection with what I shall say later that a railroad may be built either as a commercial enterprise and for ordinary commercial purposes, or as a public undertaking and for other purposes, which are within the proper scope of Government. The two should not be confused. But it should be kept in mind that when Government builds and operates a railway which does not pay its way, including proper maintenance and interest upon investment, taxation is relied upon to support transportation upon that line. The burden is shifted from the user to the general public, but the processes by which this is done are often so complex as to obscure the facts, and actual costs are not ascertainable.

The Canadian Pacific affords a later example of the internal development policy of the Government. That road had its beginning in a transcontinental project that was proposed to be carried out directly by the Government. At an early date, and it seems to me wisely, that purpose was altered; it was decided to have the road completed by a private company. But the undertaking was large, the population sparse, the prospect of profit remote, so that the Government not only turned over to the company the uncompleted road upon which it had expended a large sum, but it also extended to the company generous aid in the shape of land grants, cash subsidies, guarantees, and loans. It is true that value was given to the land grants largely through the building of the road and the opening of the territory to settlement. The important point here is that the Canadian Pacific owes its later and continued success not only to the skill and enterprise of its builders and managers, but to the fact that through liberal direct aid, it was able to begin business with a small charge against its earnings on account of borrowed capital. Thus favourably started, the company was able to devote its energies and surplus income to the development of the road and the country.

A new transportation problem arose with the settlement of the Prairie Provinces, where the land is devoted chiefly to raising grain and live stock. Owing to the long hauls that intervene between the producer and consuming markets, freight charges absorbed a considerable part of the proceeds. The Great Lakes afforded the least expensive route to the East and tidewater. But these lakes are open only part of the year, and navigation closes before the season's crops can be moved from the lake ports. With the filling up of the country and consequent increase in production, came a general demand for additional means of transportation. While land speculation probably had no little influence, the farmer felt the effect of inadequate facilities, and any project that promised relief appears to have found approval among citizens who were able, through their legislatures, to bring public aid to the development of these enterprises. Railroads, therefore, were not only actively in demand, but railroad builders were popular and had little or no difficulty in obtaining public support for proposed new lines.

The Canadian Pacific stood as an example of success to be repeated by newer railways. Unfortunately, too little attention appears to have been given to the underlying facts which actually made that road what it was. Experienced

SESSIONAL PAPER No. 20g

men apparently believed that a second Canadian Pacific might be had if they could but lay a transcontinental road, build great hotels, passenger terminals, and operate ocean steamers. These things were only the outward evidence and not the cause of Canadian Pacific's prosperity. It may even be that they contributed little to the strength of that company's financial condition, if due account be taken of all the costs, investment as well as operating, involved in carrying on such enterprises.

In May, 1903, a Royal Commission of Transportation, of which Sir William Van Horne was chairman, was appointed "to consider questions affecting transportation of Canadian products to the markets of the world through and by Canadian ports, with a view of placing the Canadian producer in a position to compete, and compete successfully, through all Canadian ports with the producers and exporters of other countries." The report of this commission is interesting. It clearly reflects the effect of the outlook which great opportunities and a land boom had upon the minds of the people. All kinds of transportation projects were recommended. For instance, the Grand Trunk Pacific was to be extended to Moncton; the Intercolonial was to be extended to Georgian bay, etc. New canals were to be built, and old ones widened and deepened. This commission also recommended a bounty for Canadian-built ships, toll-exempt canals, additional waterways to be opened at public expense, and the acquisition of water terminal lands out of public funds. In other words, it was clearly the intent that transportation should be stimulated by subsidies from the public treasury.

It would now seem that there could not have been in sight enough traffic to justify the extensive development here recommended. However, many of the things proposed in this report have been done, and other ambitious schemes not here mentioned have since been brought out. The point in mind is that without making a specific declaration of the fact, as far as I know, Canada's policy for years appears to have been to promote the public welfare by means of building or aiding in the building of transportation lines throughout the Dominion.

It is unfortunate that Canada did not have a policy of regulation in this period which could have prevented needless duplication of lines and facilities. Competing lines have been built where effective regulation could have saved a large part of the investment, while completely satisfying every reasonable and proper need for service. Instead of co-ordination and conservation under government supervision, railways were permitted to duplicate plant in fields not yet productive enough to support the one; the Government, on the other hand, was, in one way or another, aiding both projects, if it had not indeed itself promoted either or both projects. Very naturally, it has not and could not have obtained the benefit which should have followed a correct programme of government aid. The policy of government aid makes the need for regulation of railway building more necessary even than where private capital is depended upon, for in the latter case the proposal must at least have a promise of commercial success before capital can be induced to come in and give it support. To the absence of such regulation must be charged responsibility for no small part of the railway problem of to-day.

7 GEORGE V, A. 1917

We may well inquire here as to the effect of this policy upon the three principal systems. The Grand Trunk Railway Company, feeling no doubt that its own traffic field had been invaded by the government-aided Canadian Pacific, desired in turn to enter the promising western territory. Accordingly, it proposed to build a line from North Bay to the Pacific coast. Public aid was required and granted in a way to ensure the building of the road. If any serious thought was given to co-ordinating existing or proposed roads, and to utilizing them for the public good, it did not find public expression in any constructive way. The Grand Trunk Railway Company evidently felt confident in the success of its plans, for it pledged its own credit in aid of the extension, and entered into contracts which it now finds quite beyond its ability to carry out.

Canadian Northern interests, directed by Mackenzie, Mann & Co., who since an early date had been operating local lines in Manitoba, seized the opportunity afforded them for expansion and rapidly extended their rails throughout the Prairie region. The records show that the Canadian Northern had a large mileage on the prairies before the projection of the Grand Trunk Pacific; so that when the extension plans of the Grand Trunk became a part of the national policy, as they did become, the Canadian Northern was added to the number of those who wanted to own a transcontinental system and one as fully complete and self-contained as was that of the Canadian Pacific. Hence, we find two new companies, both built largely upon public credit, striving for first place in a field which, as for transcontinental transportation, or even as for connecting Eastern and Western Canada, was already occupied. Besides having the Great Lakes waterway, there could have been barely enough business to support one additional line, and that only by the exercise of economy in operation and prudence in investment.

The Canadian Pacific, enjoying splendid credit, with adequate powers and resources, and keenly alive to the possibilities of losing business to competitors challenging its supremacy everywhere, then entered the contest by undertaking to build new lines in an effort to protect its sources of revenues.

The stimulation felt throughout the country by the influx of settlers and by the importation of so much new capital not only created a boom, but it quite naturally affected prices for labour and materials, sending these soaring; the increased prices in turn contributed largely to the higher costs which are now reflected in the construction accounts of the new roads.

‘This brings us fairly to a recognition of the fact that while the policy of public aid to railways had originally been founded on the urgent need for transportation to open up a new country, to develop its resources, and to unify Canada commercially and politically, it was carried far beyond the limits warranted by the original exigency. It appears to me that the responsibility is as much the Government’s as the private companies’. Without enabling legislation and the extension of Government credit from which all received their essential support, the companies could not have expanded and overbuilt.

This policy, in so far as it aimed at the development of Canada, appeals to me as sound, and fully justified in its inception, but it needed to be supplemented by some form of supervision that would have insured to the people the benefits of that policy without the losses that have followed the effort to assist development indiscriminately.

SESSIONAL PAPER No. 20g

The situation must be faced as it exist. It is not possible to undo what has been done; the money which has been spent cannot be recalled. The immediate and obvious thing to do is to adopt a constructive and discriminating programme, first, for correcting the conditions which necessitate continuing loss and waste, even where that would require the abandonment of useless property, and, second, for controlling new construction. The scrap heap is frequently the most economical disposition available for inefficient plant and machinery.

Status and Usefulness of the Three Transcontinental Railway Systems.

The Canadian Pacific Railway System;

The Grand Trunk Railway System (including the Grand Trunk Railway, the Grand Trunk Pacific Railway and their several branches);

The Canadian Northern Railway System.

The Canadian Pacific Railway is essentially self-contained and self-sustaining. I agree with my colleagues as to its financially strong position. It has world-wide commercial strength. As a result of the aid and privileges extended by Government, together with the prudence and progressiveness of its management, which has extended its field of activity over nearly all Canada, and through its steamship lines and commercial organizations throughout a large part of the world, it is a success.

The Canadian Pacific is well built, well maintained and has adequate terminals and equipment. - It is efficiently operated. It is somewhat at a disadvantage in crossing the mountains, and elsewhere it has gradients that, compared with more recently built lines, do not make for as good trainload and operating efficiently. It is assumed that the Canadian Pacific will make improvements as the need for them arises, for it is fully able to do so.

Accorded reasonable treatment, that company will continue, I am sure, to give good service, and I believe the best interests of Canada will be served by continuing the present status of the Canadian Pacific. The introduction of Government railway competition, which might have no regard for investment or cost of operation, would be unfair and, in the end, would react disastrously upon the Canadian people. The regulating power affords to the people of Canada adequate protection in the matter of rates and services, and such power should likewise protect the company.

THE GRAND TRUNK SYSTEM.

The fortunes of the Grand Trunk Railway Company are bound up with the Grand Trunk Pacific. It stands as guarantor for large sums of money invested in the railway, and has advanced millions from its own resources in an effort to develop the western line and its subsidiary properties. The Grand Trunk Pacific Development Company has absorbed many millions of Grand Trunk capital without definite prospect of return, and to the Grand Trunk Pacific Branch Lines Company large construction advances have been made. Not only is the Grand Trunk committed for many millions, but the Government has directly invested large sums of money in this property and guarantees other large sums, the total of which exceeds \$127,000,000.

7 GEORGE V, A. 1917

The Grand Trunk Pacific was located on a scale that would do credit to any single-track line. There is not enough business to justify such an outlay, and the prospect for business which will warrant the cost seems quite remote. For long distances, sections of this line parallel one or more other lines.

That part of the Grand Trunk Pacific lying between the Rocky mountains and the Pacific coast is in a country which appears to have abundant natural resources. In time, these may be developed to the advantage of this road.

The port of Prince Rupert is suited for a large ocean traffic, which is non-existent. The development of Alaskan trade seems to present the most immediate possibility for this port and railway.

The road west of Winnipeg has some disadvantages on account of expensive trestles and instability of embankments. It has good grades, but inadequate terminals at important places. It has sufficient equipment but lacks feeders.

From the Rocky mountains to Winnipeg, the presence of parallel road arises a question as to whether the Grand Trunk Pacific line is not the best adapted by location and physical condition to handle the trunk-line traffic. If it is not the best, then the disposition of this part of the road, with its branches, naturally depends upon its usefulness as a road serving local interests.

From Winnipeg east to North Bay and Port Arthur, the Transcontinental and Grand Trunk Pacific railroads together can give efficient service as a connecting link between the railways of Eastern and Western Canada. This road also affords a good line for traffic moving via the Great Lakes. In fact, it is probably the best route of any for hauling bulk commodities at low costs.

Officers of the Grand Trunk Railway Company claim that the Government is morally bound to relieve the company of the Grand Trunk Pacific, because the Government is responsible for the failure of the project, having permitted a rival company to enter the field. The rival line, however, has been constructed at a lower cost per mile, and manages to get enough traffic to pay its operating expenses and a large part of its fixed charges, which cannot be said of the Grand Trunk's system west of North Bay. I feel that I am not called upon to discuss the merits of the Grand Trunk's claim against the Government. I have no doubt the Government has observed at least the letter of its contract.

Standing alone, with efficient operating conditions imposed, there is no reason, within my knowledge, why the Grand Trunk Railway proper should not become a profitable operation. It occupies a good territory, reaching some of the best traffic centers in the United States and Canada, and has American connections that ought to contribute to its welfare. The company needs terminal improvements in cities and modern equipment, especially locomotives. The need for equipment is pressing, and should be met.

THE CANADIAN NORTHERN SYSTEM.

The lines of the Canadian Northern, particularly in the Prairie Provinces, appear to be advantageously located in view of traffic conditions. Inspection of the property brings out the fact that this road was built with proper regard for economy, and the creation of a permanent public service utility.

SESSIONAL PAPER No. 20g

In some instances, the system has extended its lines where it should have obtained a traffic interchange agreement or the joint use of facilities instead, at least until the traffic had grown enough to justify further expansion. A public policy intended to develop and serve the country as a whole, at the lowest cost, would have enforced arrangements which would have obviated the needless duplication of facilities.

The line from Yellowhead pass to Vancouver, in part at least, may be unnecessary, but it is there by the joint action of Government and the company. The character and capacity of this line through the Fraser River canyon, where it is alongside the Canadian Pacific for about 200 miles, would suggest that no more money should be spent for double-tracking or revising grades on either of the railroads for years to come. From Yellowhead pass to Edmonton, the proximity of the Grand Trunk Pacific places two lines where one affords abundant capacity.

The invasion of the East by the Canadian Northern now appears to have been unwise, but condemnation thereof must be tempered with a knowledge of the conditions which forced this extension. There was a public demand for railroads. All Canada was enthusiastic over the prospects of a rapid growth in wealth and population. Railroads were on a competitive basis, and the public stood ready to back any new railroad enterprise, since that meant a rival carrier, and, incidentally, a new business in construction. There was no regulation which enforced co-operation among rival lines. The Canadian Northern, seeking to expand and become a profit earner, quite naturally desired to get all the traffic it could, and to hold all it got for as long a haul as possible. As a result, it undertook to do what appeared to be necessary under the conditions then existing—that is, to extend its line to both oceans.

An inspection of this company's property shows that generally it is of a type of construction well suited to its needs, and that the builders have installed it at a cost which, by comparison, seems small. Nowhere was there evidence of waste in the construction work itself. It is true that the company had some construction under way, or planned, that appeared wasteful because unnecessary, but this is due, I understand, to the unregulated competitive system, or to bargains with public authorities.

The building of expensive terminals in cities already supplied with adequate facilities affords an example of duplication for which the public must eventually pay. However, in the absence of restraint and regulation by consistent public authority, it is difficult to determine how the company could have avoided this.

The precarious financial situation of the Canadian Northern is due, in part, to its uncompleted condition, and to the fact that needed capital cannot be obtained on its own resources, especially during the period when capital is so greatly in demand by powerful governments. This system is not at present able to earn all of its fixed charges. As important parts of the system have but recently emerged from the construction period, it would be truly remarkable if it were able to do so. It does earn a very large proportion of such charges, and probably could earn all of them but for the burden of eastern extensions and duplications that have been placed upon it. Practically all commercial enterprises, and particularly railroads, must go through a development period.

The Canadian Northern is short of equipment. With the return to normal conditions, and provided with the capital necessary for equipment and for additional local facilities, this road can, in my judgment, work its way out in a reasonable time.

Reorganization.

We are asked to make suggestions in regard to "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 conjunction with the Intercolonial Railway or otherwise."

The first practical question is, therefor, the need of reorganization of any of these three transcontinental systems; the second is whether they should be acquired by the State; and the third is whether the status of the Intercolonial can be changed; and, if so, can the road be advantageously grouped with either of the three systems.

In such suggestions as I shall make, I am influenced by consideration of the public policy as evidenced by past governmental acts. I further assume that the existence of these roads through the direct aid and sanction of Government is conclusive evidence of the fact that the people really desire them. That they were built in advance of their need for ordinary commercial uses—a fact which is emphasized by the present abnormal economic situation—does not appear to me a sufficient reason for condemning the policy of national development, or the wisdom and integrity of those who have built the roads under that policy. Neither do I think that there exists any condition to warrant taking up a new and untried public policy, which may lead to greater difficulties than those which are now faced.

The history and standing of the Canadian Pacific Railway, and its public service as a carrier to-day, is sufficient assurance that it does not need reorganization. The scope of its business, extending to other lands by steamships and commercial connections, and the control of many thousand miles of railroads in the United States, would afford sufficient reasons, if none other existed, for dismissing the idea of its acquisition by the State.

So much of the Intercolonial as is serviceable to the Canadian Pacific appears to be now used by it, either as a local connection or through trackage rights. Moreover, the two have existed separately for many years as competitors and no new reason appears why the relations of the Intercolonial and Canadian Pacific should be changed for the future, unless the people of Canada are satisfied that better results would be obtained for the territory served by the Intercolonial if it were in the hands of the Canadian Pacific.

The Grand Trunk Railway Company has stated that it is beyond its power to assume and carry the obligations which would be imposed upon it if it should try to become such a transcontinental system as the plans of 1903 contemplated. The company has not attempted to bring about the organization of a system approximating that of the Canadian Pacific or even the Canadian Northern, nor can it do so.

In view of the parent company's inability to carry out its original plans, and to discharge its obligation, the question is, what disposition is to be made of the various roads which were intended to be, but did not become parts of one operating system.

SESSIONAL PAPER No. 20g

My colleagues have recommended that the stockholders of the Grand Trunk Railway Company be paid an annuity which is to be a "moderate but substantial portion of \$3,600,000, the average dividend payment for the last ten years." This recommendation is in spite of the facts noted in the report that there are arrears in maintenance which require the expenditure of twenty-one millions of dollars, and that the company has charged to capital items which should properly have been charged against income, these facts indicating that there have been some dividends paid which have not been earned. Considering this situation and also the obligation of the company in the West, I am not impressed with the justice of paying an annuity to the stockholders in exchange for a surrender of this property. I also would be liberal to them, but I would allow them to keep their property and give them a chance to work out their own salvation. To that end, I would recommend that a settlement be effected between the Government and the Grand Trunk Railway Company. The railway cannot carry out its part of the contracts, and it should be relieved of further embarrassment. On the other hand, the stockholders of the Grand Trunk Railway should be required to curtail or forego their dividends for the present, and the entire earnings be applied to the rehabilitation of the road through a term of years. The Government thus gives up a present claim which the debtor cannot pay anyway; in turn, it will enjoy improved and extended service which may be worth far more to the welfare of the people. I should also give the Government some claim upon the future earnings of the Grand Trunk, so that it may share in any future prosperity which this action makes possible.

Reorganization of the Grand Trunk is desirable only in so far as it shall be required to put itself in shape to discharge efficiently its functions as a carrier. Whether it shall retain all of the subsidiaries which it has accumulated through the past fifty years depends in large measure on what they can contribute to the main property. Careful study of each of the subsidiaries will lead to definite conclusions from the standpoint of the Grand Trunk and its future welfare.

What the Grand Trunk needs most of all is to be relieved upon equitable terms of the embarrassment that it has incurred through the failure of the transcontinental scheme. The acquisition by the State of the Grand Trunk Railway proper presents much of the embarrassment that would obtain in the effort to acquire the Canadian Pacific, for here also, in addition to the question of equity involved, there is the problem of some two thousands miles of railroad owned in the United States; and the fact that the Grand Trunk's principal seaport is in the United States.

The investigation of the Canadian Northern by the Commission has disclosed evidence of skill in construction and efficiency in management, considering the means and equipment available. The company even now earns a large part of its fixed charges although important parts of the system have been in operation for but a year. I think there is ample justification for confidence that the affairs of the company will improve with the return of normal conditions. I see no reason for a change of management or a reorganization, excepting as hereinafter suggested.

It may be well here to consider the relation of the Intercolonial to the other roads, and the possibility of operating it in conjunction with any of them. We have shown its relation to the Canadian Pacific. The main line of the Intercolonial is about

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c *RAILWAY INQUIRY COMMISSION*

7 GEORGE V, A. 1917

1,000 miles, from Montreal to Halifax. It has occupied the territory for fifty years and has become adapted to it. There are apparently no operating economies available by combining it with another system that are not available to it alone. Assuming proper regulation, there appears to be no traffic interchange that could be better assured by merger. I am informed that the Maritime Provinces consider the use of the Intercolonial as a right to which they are entitled. Moreover, the Government has built the Transcontinental, a part of which was in compliance with plans of the Grand Trunk, while the rest of it is so placed that it ought to continue to be operated in conjunction with the Intercolonial. The present status of the Intercolonial and the eastern part of the Transcontinental should be continued as a government operation. The results of such operation should, however, be reported to the people of Canada in exactly the same form as is required from other railroads. And these roads should be subject to the same reasonable regulation as is exercised over all other railroads.

Mention might be made here of the railroad that the Government is building from the Saskatchewan river to Hudson bay. The object in the construction of this road has been stated to be that of obtaining a shorter haul from the western provinces to Europe. The bulk of the traffic to follow this route must necessarily be diverted from the roads extending from Winnipeg to the East, so that the project seems to be an instance of competitive construction which cannot be justified in this case, even on the ground that it opens up new territory.

There are numerous local railway projects, within provincial limits, which at the moment seem to have little effect upon this general railroad problem. Disposition of these may well await developments as to their necessity and utility when they assume operation. There is little that can be said just now as to their probable relation to the existing means of transportation.

The Great Lakes and the St. Lawrence river furnish a natural route from the western country to the East, and to the Atlantic ocean for a part of the year. Numerous steamship lines between Port Arthur and Georgian bay or the lower lakes and St. Lawrence river ports afford adequate transportation under normal conditions, though somewhat affected by customs requirements and other factors. In view of the heavy movement of grain in the last three months of navigation, regulations governing shipping should be as favourable as practicable, for the hauling of grain over the long distances to the eastern seaboard by an all-rail route involves a problem in car supply and cost which renders such a haul unprofitable for rail lines.

The success of the Canadian Pacific steamship lines has led to the suggestion by some that the other railroads ought also to establish steamship lines. I do not believe that this success was primarily due to the railroad ownership of the ships. Temporarily the war seems to have put a stop to plans for railroad-owned steamships. If, at the close of the war, it is to be tried again, it would seem advisable first to ascertain whether other ships cannot be induced to schedule sailings before railroads incur the responsibility of making additional investment in ships. There are ships running in regular postal routes with subventions. Perhaps the Government might well require, in connection with its subventions, that ships give equal service to the railroads without discrimination among them, thus removing another cause for the employment of duplicate facilities.

SESSIONAL PAPER No. 20g

In visiting the various ports, I was impressed with the facilities installed and being installed. At Halifax, particularly, important works were actively under way, necessitated, I believe, by the overseas traffic for war purposes. It is likely that the future development of steamship terminals in connection with railroads will be difficult to fix until normal conditions resume. Meanwhile, the Atlantic seaports are so much involved in the emergencies of war as to place them beyond the scope of this inquiry. In any event, such works of harbour improvement and development as are the result of war measures will be there at the close of the war as a foundation for what the future may hold.

I am unable to join my colleagues in their recommendations. They propose that practically all of the railways in Canada, except the Canadian Pacific and the American lines shall be turned over to a corporation to be managed by a board of trustees appointed by Government. They insist that this board is to be permanent and self-perpetuating. I do not know by what means one Parliament can bind its successors to a given policy, especially in so simple a matter as changing the organization of a government board. My friends seek to avoid government ownership and operation, in fact condemn it as inadvisable, but propose a plan which contains so many elements of danger in the direction which is sought to be avoided that I am unable to join them.

Their plan would add about a billion dollars to the direct debt of Canada. The interest on this is about forty millions, adding very largely to government expenses. Judging from the experience Canada has had with its government railways, it is fair to assume that this would remain a permanent burden. Operated by private companies, this interest would ultimately be borne by the companies without recourse to the government funds, and at the same cost of service to railway patrons as would obtain under government operation.

Their plan also leaves out some of the railways. This is unfair to the investors whose property is to be subjected to government competition. It also discriminates in the method by which the respective properties are to be acquired. I cannot approve the proposed centralization of control. There are problems local to separate regions which often require prompt action and co-operation between the railroads and the people served. There is a need everywhere for that prompt and efficient service which can come only from a knowledge of local conditions and responsibility for meeting them. I cannot believe that centralization, remote responsibility and control, will ensure good service to the people of Canada.

The recommendation creates a Dominion Railways Company owned by the Dominion Government, to take over those roads. There are about 7,000 miles in the United States controlled by Canadian companies. The Canadian railways depend for no inconsiderable portion of their revenue on United States traffic. A fundamental defect of the plan, therefore, is in placing the Government in the railroad business, not only in Canada, but also in operating railroads in the United States subject to both federal and state regulation.

Through private railway management, Canada has obtained about one mile of railroad for each \$30,000 of Government aid or guarantees, which is but a fraction of the cost of Government railroad undertakings. In some instances, a large proportion

of the aid was in land, the value of which was produced by the building of the railroad and the settlement thereby made possible. Compared with the total outlay involved in producing railroads by the Government for itself, as, for instance, the case of the Intercolonial or the Transcontinental, from three to six times that amount have been used to realize equal results. This shows distinctly the value of enlisting and retaining private enterprise.

The Obvious Remedy.

Let us review the salient facts concerning each company:

The Canadian Pacific is amply able to take care of itself. It can and does provide competition with the other railroads. In order to be most serviceable to Canada, it should be continued, subject only to such equitable regulation as is accorded to all lines.

The Grand Trunk succeeded in the East and failed in the West. The Canadian Northern succeeded in the West and was jeopardized by its eastern expansion.

There is extensive duplication of lines in the West; the unsuccessful Grand Trunk Pacific lines are found among the successful Canadian Northern lines. Public policy demands the unification of these lines, for great economies could be thereby accomplished.

There is extensive duplication in the East; the new Canadian Northern lines among the older lines of the Grand Trunk proper. Great economies in proposed investment and operating expenses await the joint working of these properties.

There is wasteful duplication in the connecting region between North Bay and Winnipeg, where the Canadian Northern line parallels the government line. Economy awaits the joint working of these lines.

Consideration of all phases of the problem leads me to recommend the following remedies for the existing situation:—

Let the Canadian Pacific alone; let the Grand Trunk operate the eastern lines now held by that company and the Canadian Northern; let the Canadian Northern operate the western lines, now held by that company and the Grand Trunk Pacific system; let the Government operate the connections or procure their operation by private companies; all of which should be done under arrangement that are equitable and yet look to the not distant day when the country will have survived the war and resumed its prosperous growth.

There may be several ways by which this can be brought about, but the one that has appealed to me is that which seems to be the least disturbing of values and credit and involves no untried schemes or protracted disputes. Therefore, I beg to make the following suggestions:—

1. Amend the regulating policy so that the Railway Commission may have jurisdiction over all railroads in the matter of maximum and minimum rates, the issuance of securities, the building of new railways, or the extension of lines, and other matters properly within the scope of governmental supervision.

2. Create a board of trustees, consisting of two government officials and three private citizens to act for the Government in the matters hereinafter proposed.

SESSIONAL PAPER No. 20g

3. Relieve the Grand Trunk Railway Company of its obligation to lease the Transcontinental, and require the company to relinquish all claims upon the Transcontinental; require it to lease to the Board of Trustees the Grand Trunk Pacific railroad properties at a rental amounting to the net annual fixed charges; require it also to take under lease the Canadian Northern properties east of North Bay and Parry Sound, and pay as a rental the net fixed charges on those properties. The time of the lease should be for twenty-one years. The Grand Trunk's investments, other than railroad, in the West may be disposed of by the company as it may elect, and in accordance with its best interests.

4. Require the Canadian Northern Railway Company to confine its operation to the field west of Winnipeg. Relieve it of the line east of Winnipeg by leasing for twenty-one years to the governmental Board of Trustees, at a rental of the net annual fixed charges. Require it to take a lease of, and to operate for the same period the Grand Trunk Pacific Railway, and its branch lines, paying as rental the net annual fixed charges upon those properties; except that until seven years after the end of the war they shall have the immunity that was promised the Grand Trunk Pacific for a period of seven years after construction, and that they shall not be required to assume any of the extraneous investments of the Grand Trunk System in the West.

5. Lease the lines between North Bay and Winnipeg (except the Canadian Pacific's) for a term of twenty-one years to either the Canadian Northern or the Grand Trunk (or, in event neither applies, to any other qualified company), requiring the lessee to furnish the necessary capital for new equipment, and to maintain and operate the lines on the best terms that can be made; terms that would give the best service needed at lowest cost to the Government being regarded as best. Either the Government or the lessee should build a connecting line of about thirty miles near Long lake, Ontario, to protect the better working of the two lines.

6. The Government and companies should have the option of terminating, after ten years, any of the leases upon equitable terms.

The foregoing recommendations are made with a view to obtaining for Canada a maximum of efficiency at a minimum outlay. The continuance of government aid, to some of the railroads at least, will be necessary under any plan. The plan herein proposed seeks to reduce this to the lowest possible point and to centralize it upon those parts of the existing lines which are not self-supporting, and which, in the nature of things, cannot be self-supporting for years. These connecting links, "bridges," as they have been called, exist, it seems to me, as a result of that public policy which has been discussed at some length. The Government may well afford to take them over and maintain them as necessary parts of the public investment in the country's development. They are not of sufficient importance to bring about those dangers inherent in government operation of this kind on a large scale, and holding them will not endanger private enterprise. It may be necessary in working out this plan to grant some additional and temporary aid to the Canadian Northern, and it will be necessary to effect some compromise with the Grand Trunk Railway Company

which will enable this Company to continue. Aid should be extended upon the recommendation of the Board of Trustees, who should be charged with the duty of investigating the need of and approving the aid to be rendered by the Government; they should also see that the Government receives for that aid such security as will give it a reversion in case of default.

The recommendations here submitted are to be considered as a general outline of what appears to be a fair solution of the transportation problem. Enabling legislation will be required in any case, and I realize that there are many technical and legal questions which will require careful attention at expert hands. If the general plan is adopted, my thought is that the Board of Trustees which I have suggested be charged with the duty of acting for the Government in all matters requiring new contracts, and shall protect the interest of the Government in every way while leasing, operating, or financing the property under their care to the best advantage, due consideration being given to the rights of the other parties at interest.

If for any reason it should prove inexpedient to carry out the foregoing suggestions, and if the Government should find it wise or necessary to possess itself of, and to hold any considerable part of the railway properties, I should recommend as an alternative plan the formation of a private company to take over other operations of those properties, either as a whole or in groups. Even where a road does not earn its fixed charges the Government could profit in the long run by making the terms of an operating lease sufficiently attractive to induce private enterprise to undertake its management. The terms of the contracts would naturally depend upon the extent of the property and the prospect of earnings, but they could be so drawn as to prove attractive to private capital and at the same time relieve the Government of the expense and embarrassment of government operation. Such contracts might be based upon a profit-sharing plan on a fair basis, which would leave the company a hope of reward commensurate with its efforts and give the public also a share in the prosperity which they must help to create.

I should like to add one other thought. The railways of Canada are in desperate need of equipment. Whatever decision is made with reference to the railways, the transportation problem is now acute in so far as equipment is concerned. I would, therefore, recommend that the Government undertake at once to provide an ample supply of freight cars and locomotives against immediate and imperative needs. These cars and engines may be had, if desired, under trust agreements. It will be a simple matter to turn these cars and engines over to the operating companies under lease, or contract of purchase which may be exercised when conditions are more nearly normal.

Concluding, I would be loathe to suggest recourse to any radical changes in the domestic policy of the Dominion of Canada in this time of war and stress. Remedial measures are often more efficacious than revolutionary ones, and more equitable. I have been impressed by the seriousness of your transportation problem, and in sincerity express my belief that the problem can be successfully and satisfactorily remedied by just and mutual recognition of difficulties and full and free co-operation between the Government and the railroads. Fair and broad treatment of the question will, I am convinced, bring capital and personal genius commensurate with the

RAILWAY INQUIRY COMMISSION

CV

SESSIONAL PAPER No. 20g

exigencies of the present situation, and capable of developing a happy solution. I believe that the best results hitherto have been obtained by the efficiency and economy of private initiative, energy, and capital. It is no longer assumed that the self-interest of the railroad investor and operator is antagonistic to the interest of the public; rather, we have all learned, governments and corporations alike, that the two are inseparately linked and must stand or fall together. Upon these fundamental truths I base my firm conviction that the brightest outlook for the future of your great Dominion can be assured through the extension of private railroad enterprises. The hope of honour and the reward of public approval must be open to human kind to get the best results from human endeavour.

Facing the urgency of the need, considering the part which the Government has taken and the responsibility which it shares, and keenly alive to the magnitude and the importance of the tasks now placed upon the railroads and the greater tasks which they will face, I see no safe alternative but the Government shall continue, with discrimination and resort to all available safeguards, and under a policy of proper regulation and co-operation of effort, to aid the necessitous railroads of the Dominion until such time, which I hope and believe will not be far distant, when these will become self-supporting and the problem will be solved.

Respectfully submitted,

A. H. SMITH.

New York, April 25, 1917.