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The Railway Question

TO THE many objections that arise to the railway proposals, the Government may perhaps ask their critics, "What better policy can you suggest?" And the question is one much more easily asked than answered. Two of Canada's great railway enterprises are in a perilous condition. Many citizens, realizing how much has already been done by the Government to aid these railways, may be disposed now to leave the corporations having control of them to work out their own salvation. If only the interests of the corporations and their promoters had to be considered, such advice might be followed. But the affairs of these companies have been so interwoven with those of the Dominion that the country can hardly afford to allow the railways to collapse financially.

So far as the Grand Trunk Pacific is concerned the situation is to be temporarily met by a further loan of \$7,500,000, for which the Government will take the obligation of the parent Grand Trunk Company and a further mortgage which, however, in view of the existing obligations, is not in itself of much security value. To that part of the proposals there is not likely to be much objection.

As respects the Canadian Northern the proposal is a far reaching one, full of grave responsibilities, both financially and otherwise. The Government are practically taking over and "nationalizing" the extensive Canadian Northern system, including subsidiary companies operating railways and telegraphs in every Province in the Dominion except New Brunswick and Prince Edward Island. The acquisition, we presume, includes the company's lands, although these are not specifically mentioned in the announcement made. All the obligations of the Canadian Northern Company, in every shape and form, are to be assumed by the Dominion. Of the common stock of \$100,000,000, two-fifths, \$40,000,000, is already owned by the Dominion under arrangements previously made. The remaining \$60,000,000, nearly all of which is held by the Mackenzie and Mann interests, it is proposed shall be acquired by the Dominion at a price to be fixed by arbitration.

It is here that one of the most difficult features of the arrangement arises. This common stock does not represent cash put into the enterprise. As the road is admittedly unable at present to earn enough money to pay the interest on its several classes of securities, the common stock has practically no present value. Whatever value it may have must be entirely prospective. It may in the future have an earning power. But how long before that happy condition will be reached is hard to foretell. While arbitrators may fix the value of a visible property, they will not find it easy

to lay down principles which can be regarded as safe guides for determining future values in such a case as this. In the public mind, a common stock which never put a dollar into the railway treasury, has never paid a dividend, the common stock of a company which admits its inability to carry on and asks to be relieved of its undertaking, can hardly have any substantial value. Sir William Mackenzie, however, sees things in a different light. Interviewed at Toronto on the subject he has said that in his opinion the stock "is worth at least par." He adds that if it is to be purchased by arbitration he and his associates will "make every effort to get as much as possible for it," a statement that nobody can object to. The intimation, however, that "at least par" is to be claimed by the company from the Government for this \$60,000,000 of paper is somewhat alarming, especially in view of the recent majority report of the Government's railway inquiry commission, wherein it is stated respecting the Canadian Northern, that "the shareholders of the company have no equity either on the ground of cash put in, or on the ground of physical reproductive cost, or on the ground of the saleable value of their property as a going concern." The demand for \$60,000,000, "at least," for this stock as a basis of arbitration, is not calculated to make the public view the project with enthusiasm. That the stock has no immediate value is clear enough. If it has such reserved earning power as is claimed for it, could not a scheme be devised which would recognize the reserved right of the shareholders and give them the benefit of it—when the road earns more than its upkeep and interest on the indebtedness which the Government must assume? Nobody should begrudge Sir William Mackenzie and his associates the benefit of such earnings when they actually arise. But will the public be satisfied to assume that such earnings can be counted on and pay for them in advance, even through the process of an arbitration?

The scheme as outlined by the Minister of Finance contemplates a considerable measure of the nationalization of railways for which there is undoubtedly a large volume of favorable opinion in Canada. Yet the Government, while at one moment meeting that section of public opinion, seem to shrink from the full control for which nationalization usually calls. The Government are to take over the Canadian Northern, but not to operate it directly. The entity of the corporation is to be maintained and the property managed by a board of directors. But as the Government will appoint the board, what is suggested seems to be a distinction without a difference.

Government ownership and control of such great works covering a large part of the Dominion is not without perils. Experience with the present Government owned railways en-