

partner with the G.T.P., tantamount to bad faith; (2) that the simultaneous construction of the Canadian Northern in the same territory greatly enhanced the difficulty of obtaining labor, doubled its price and also prolonged the period of construction; (3) that a new duty on steel rails was imposed after the G.T.P. Act was passed and that this added five million dollars to the cost of construction.

G.T.R. Originated the G.T.P. Undertaking.

The majority report does not accept any of these contentions. "The government was and is a government," it says, "not a mere private partner; and it retained and retains all the attributes of a government, including the power to charter new railways. We cannot suppose that the management of the Grand Trunk were ignorant of this fact when they took the act constituting the G.T.P. Co. As to (2), this no doubt was an effect which was disadvantageous to the Grand Trunk position, but the company took this risk, as it took other business risks, when it promoted its enterprise. (3) * * * The bill for the act imposing the duty was introduced three months before the agreement between the government and the G.T.P. was signed. The company, therefore, must have been aware of the government's intention. According to the correspondence, the prime minister believed in 1905 that the question of a duty on rails had been more than once discussed at the time of the inception of the scheme; Mr. Hays, for the G.T.P., believed that it had never been discussed at all."

The evidence brought out by the commission was that the Grand Trunk Pacific scheme originated with the Grand Trunk Railway, but that the government was responsible for the construction of all of the Transcontinental east of North Bay. The proposal of the company, as originally formulated, was for a line from the Pacific to North Bay. The Eastern Division, as it was then called, from Winnipeg to North Bay, was to be built by the government, and the Western Division by the Grand Trunk Pacific. The extension of the Eastern Division was entirely due to the government, but the G.T.P. concurred in it and agreed to rent the Eastern Division upon a percentage of its cost of construction. On account of the great cost of the construction of the Transcontinental, the G.T.P. refused to carry out its agreement and the government by accepting the company's refusal and commencing to work the lines themselves in effect released the company unconditionally. The line west of Winnipeg is at present being operated under the control of the Grand Trunk, the nearest point of whose rails is at North Bay, a thousand miles away.

"Financial Management Does Not Inspire Confidence."

Mr. Chamberlin, in a letter to the commission, in effect charges the government with bad faith unless the government accedes to the demands that his company be reimbursed for all G.T.P. expenditures and be allowed to withdraw from all G.T.P. obligations. "Confiscation," "crime," "repudiation of legitimate indebtedness," are among the terms used. On the other hand, the majority report says, "The Grand Trunk Pacific shareholders, in other words the Grand Trunk Co., have not shown such prudence and business foresight as would naturally encourage the government to have confidence in their future management." And again, "The financial management of the company is not such as to inspire confidence. We do not think that the credit of the Grand Trunk Co., weakened as it must be by its Grand Trunk Pacific failure,

can be so maintained as to render possible the raising of sufficient capital as required."

The total issued stock of the Grand Trunk Railway is about \$240,000,000, about one-half of which is preference and one-half ordinary stock. The London Stock Exchange valuation of this nominal \$240,000,000 is at the present time about seventy or seventy-five million dollars, ranging from 56 for the 4 per cent. guaranteed stock, which for the past ten years has received its dividend practically in full, down to about 10 for the ordinary stock, which has never received a dividend.

The total dividends paid in the past ten years have been \$36,106,439, or an average of \$3,610,643 per annum. Therefore, the stock exchange valuation practically capitalizes the dividends on a 5 per cent. basis. "This in a rapidly developing country might be reasonable, if the dividends had been earned and could be maintained, but in view of the statement of the company's own officers that \$21,000,000 which ought to have been spent out of the revenue for maintenance has not been so spent, it cannot be contended that the dividends have been earned. In view of the further fact that the company has to face immediate liabilities of over \$5,000,000 per annum in connection with the G.T.P., and requires a capital expenditure of \$30,000,000 on its own lines to put the company in proper condition to do its existing business, it can still less be contended that the dividends are maintainable."

To prevent arrears again accumulating, future charges must be \$2,500,000 a year heavier than in the past on equipment alone, according to Mr. Chamberlin's judgment. Even supposing the company could raise the new capital required and only had to pay 5 per cent. for it, the additional interest charge would mean a serious reduction of the dividend, and this on the Grand Trunk lines alone, independently of the company's liabilities in respect to the G.T.P. The G.T.R. chairman has admitted that the G.T.R. are "at the end of their tether" and that it is "quite impossible for them to meet the extra liabilities arising from the G.T.P. Co."

Position of the Canadian Northern— Eastern Lines Absorb All Profits

The majority report states that the Canadian Northern System has received subsidies from the Dominion and provincial governments of \$38,874,148; land grants from which \$16,603,295 has been realized from sales and \$17,776,514 from mortgages; loans from the Dominion government amounting to \$25,858,166; and securities guaranteed by the Dominion and provincial governments to the amount of \$199,141,140; or a total of public assistance, direct and indirect, of \$298,253,263.

In 1914, with heavy interest payments to be made, and large construction contracts still open, the company found its resources insufficient to complete and equip its system. It estimated that it could raise on its own account \$58,000,000, and appealed to the government to find the balance. An issue of \$45,000,000, guaranteed by the government, yielded in cash \$36,759,265, and the system was unable to sell many of the securities which it depended upon for the \$58,000,000, so in May, 1916, the Canadian Northern obtained from the government a further loan of \$15,000,000, and in addition the government undertook to lend the company the money necessary to pay interest either to the government itself or to the public on the \$45,000,000 issue, and to date \$1,756,000 has been advanced for this purpose.