

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 Ry. proper should not become a profitable operation. It occupies a good territory, reaching some of the best traffic centres 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 Lines, 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. 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 railways 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 railways. All Canada was enthusiastic over the prospects of a rapid growth in wealth and population. Railways were on a competitive basis, and the public stood ready to back any new railway 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 railways, 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 Ry. or otherwise." The first practical question is, therefore, 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 government aid and sanction 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 Ry., and its public service as a carrier today 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 railways 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 Ry. Co. 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. My colleagues have recommended that the stockholders of the Grand Trunk Ry. Co. 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 \$21,000,000, 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 G.T.R. Co. 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 G.T.R. 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 50 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 G.T.R. 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 2,000 miles of railway owned in the