

Canadian Railways and the National Debt

Acquisition of The Grand Trunk and of the Grand Trunk Pacific Would Increase Dominion Debt By One Third—Annual Deficit Probably \$20,000,000—Summary of Financial Obligations of Roads

By W. T. JACKMAN, M.A.

THE railway situation in Canada, since the beginning of the war, has been changing rapidly; and, instead of an era of private initiative and private profit in railway enterprise such as we witnessed before 1914, we have entered upon a period in which government activity in this direction is regarded by some as the panacea for all our ills in transportation. As an outcome of this changed point of view—brought about, perhaps, as much by the war-time results of governmental participation in transportation and industry in allied countries, as by the depleted finances of some of our own railways on account of the war—the government at Ottawa, on October 1st, 1917, took over the Canadian Northern Railway, through the purchase of the 600,000 shares of its stock which were then outstanding, at the price of \$10,000,000. When this transaction took place, the amount of the company's liabilities were such as to increase the country's funded debt by over three hundred and twenty-seven million dollars.¹

In the summer of 1918, negotiations were carried on by some members of the Cabinet with the Grand Trunk directorate in London, looking toward the acquisition of this line and its subsidiary, the Grand Trunk Pacific; but such conferences were fruitless of results and left the whole matter in a very unsatisfactory condition. On March 4th, 1919, the Grand Trunk Pacific Railway Company notified the government that, on account of insufficient funds, it could not continue to operate beyond March 10th; and upon receipt of this letter, on March 7th, an Order-in-Council appointed the Minister of Railways and Canals as receiver for the Grand Trunk Pacific in order to keep the line in operation.² This action, on account of its vital relation to the Grand Trunk, has brought the latter again into direct relations with the government; and measures are now being taken by which the Grand Trunk system, as well as the Grand Trunk Pacific, may soon become an integral portion of the Canadian National Railways. The purpose of the present article is to consider the effect of this probable transference of ownership upon the country's financial position.

Looking, first of all, at the condition of the Grand Trunk finances; what are its bonded debt obligations? Some of these have matured during the past year, but those which are still outstanding constitute a heavy burden.³ Changing from pounds to dollars, at the rate of £1 = \$5, they may be listed as follows:—

1. Grand Trunk Railway perpetual debenture 5s, £4,270,375	\$ 21,351,875
2. Grand Trunk Railway perpetual consolidated debenture 4s, £24,624,455 ⁴	123,122,275
3. Grand Trunk Railway second equipment 6s, £373,000	1,865,000
4. Great Western perpetual debentures 5s, £2,723,080	13,615,400
5. Northern Railway of Canada third preferred debenture 6s, £14,500	72,500
6. Northern Railway of Canada perpetual debenture 4s, £308,215	1,541,075
7. Canada Atlantic first mortgage 4s, £3,287,690	16,438,450
8. Grand Trunk Railway equipment 4½s, Series A, \$2,167,000 Series B, 2,016,000 Series C, 1,572,000	5,755,000

¹ Railway Statistics of the Dominion of Canada, 1915-16, p. 29.

² Hansard, March 20th, 1919, p. 681.

³ Our information here has been taken from Moody's "Analyses of Investments, Steam Railroads," 1917, pp. 1237-38, and the Annual Report of the Grand Trunk Railway Co. for 1917.

⁴ Additional amounts of these have been pledged for security of Nos. 9 and 10.

9. Grand Trunk Railway 5½ per cent. secured notes, unmatured, £2,500,000	\$ 12,500,000
10. Wellington, Grey and Bruce bonds, £62,400	312,000
There are also the following issues:—	
11. Matured bonds not presented for payment, £700	3,500
12. Collateral car trust 5s, due Whipple Car Co., guaranteed by Grand Trunk Railway	225,000
13. New England Elevator Co. first mortgage 3½s, guaranteed by Grand Trunk Railway	250,000
14. Montreal Warehouse first mortgage 4s, guaranteed by Grand Trunk Railway	1,000,000
	<hr/> \$208,312,875

From the foregoing it will be seen that the total bonded debt of the Grand Trunk, exclusive of the Grand Trunk Pacific, is approximately \$208,312,875. When we add to this the amount of the Grand Trunk guarantees of the Grand Trunk Pacific securities, as given below, namely, \$97,301,252.86, we get a total of \$305,614,127.86 as the amount of the Grand Trunk Railway Company's bonded obligations for its own system and the Grand Trunk Pacific.

Maintenance Has Been Neglected

Should the government decide to take over the Grand Trunk, its capital obligations would include not only this amount of bonded debt but also the large sums that are essential to put the property into good operating condition and bring its facilities up to standard requirements. When we contrast, for instance, the relative amounts spent upon maintenance of way and structures in recent years by the Grand Trunk and the Canadian Pacific, it is evident that vast retrenchment has been put into effect by the former in order to survive the emergency of war time. For this division of its expenses, to mention only one example, in 1915-16 the Grand Trunk spent only \$1,335 per mile of line, while the Canadian Pacific expended \$5.061 per mile;¹ in other words, the expenditure of the former was only about one-fourth that of the latter. In the same year, for maintenance of equipment, the Grand Trunk spent but \$1,850 per mile of line while the Canadian Pacific expended \$5,759 per mile; that is, the former disbursed for this purpose less than one-third as much as the latter.² It is clear from a study of the accounts and statistics for a series of years, as indeed has been acknowledged by both the present president of the company and his predecessor, that there has been great deficiency in providing adequate upkeep of roadway and equipment. President Kelly, in 1917, submitted to the Railway Inquiry Commission a statement of the company's needs in regard to rolling stock and roadway, in which he declared that for these purposes alone they should have \$21,181,345.07 to bring the railway up to par.³ I have spoken of this under the heading of "capital obligations." Had the amount been provided by the company in the ordinary course of operation it would have been a charge against revenue; but if it should have to be done by the government it would be really a part of its capital expenditure. Moreover, the commission reported in 1917, that the existing plant was wholly inadequate for the traffic re-

¹ "Railway Statistics," 1915-16, p. 92. But lest it be thought that the Grand Trunk has been allowing its property to go to ruin, perhaps the contemplation of the following figures may serve as a corrective. These have been worked out from the statistics returned to the government for the year 1915-16, the year when the effects of the war were probably most evident.

Road.	Expenses for Repairs and Renewals.		Average amt. spent per freight car.
	Average amt. spent per steam locomotive.	Average amt. spent per passenger car.	
C. P. R.	\$2,320	\$2,235	\$39
G. T. R.	2,605	2,293	13

² Report of the Railway Inquiry Commission, p. xxxiii.