

Absence of Regulation Helped Create Railroad Problem

Says Minority Report of A. H. Smith of Railroad Inquiry Commission—"The Scrap Heap is Frequently the Most Economical Disposition Available for Inefficient Plant and Machinery"—Status and Usefulness of the Three Transcontinental Railway Systems.

A LENGTHY summary of the majority report of the Railway Inquiry Commission, and a part of the minority report have already appeared in these columns. Mr. A. H. Smith introduces his report by discussing the general problem of transportation in Canada. He says:—

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 the 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 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.

Completed by Company.

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 favorably 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 legislators, 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.

What Made the C.P.R.

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 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