

of living caused by government ownership will be a net loss. Unfortunately, the taxes raised to pay the deficits incurred by state railways are usually so mixed up with the taxes raised for other purposes that those who pay them have no idea what part of them is to be used to pay the ordinary expenses of the government and what is to be used to pay the deficit of the railways.

The conclusion that the increased economic burden which will usually have to be borne by industry and by the public as a result of government ownership will be imposed mainly on the taxpayers, is supported not only by theoretical reasoning, but by the actual experience of most countries where government ownership of railways obtains. It cannot be shown that the average wages paid by state railways are ordinarily higher, under comparable conditions, than those paid by private railways, although undoubtedly under government ownership more men usually are employed to do a given amount of work. It cannot be shown that under comparable conditions the rates of state railways usually are lower than those of private railways. It is true that in Canada the rates of the Intercolonial, both passenger and freight, are relatively low, but the usual rule is that the passenger rates of state railways are somewhat lower than those of private railways, while the freight rates are somewhat higher. Considering the passenger and freight rates together, the total amount which has to be paid for the transportation of a given amount of traffic usually is relatively more on state railways than on private railways.

One thing, however, which may be conclusively demonstrated is that while private railways invariably are required to pay taxes to the public, the usual rule as to state railways is that taxes have to be collected from the public to make up deficits which they incur. One of the most extreme examples of this kind is afforded by your own Intercolonial Railway. My study of its figures, and a somewhat hasty and cursory observation of the physical property itself, have led me to believe that the Intercolonial is now being managed with an economy and skill which are a vast improvement over those shown in its management until within the last two years. Regardless of that, however, during the years from 1867 to 1914 the Intercolonial failed by \$9,600,000 to earn even its fair operating expenses. In 1914 the property was carried on the books at a cost of \$103,431,000. I had a calculation made to ascertain the total amount the road had cost the people of Canada. This was based on the assumption that, on the average, it ought to earn its operating expenses and 4% on the actual investment in it. This certainly is a conservative basis. This estimate showed that up to 1914, including the actual investment in the road and the total losses it had incurred, the road had cost the people of Canada over \$348,000,000. Assuming that it is actually worth today the cost at which it is carried on the books, its total cost to the taxpayers of Canada has been \$245,000,000 more than its present value. These losses have been partly due to the lowness of its rates, and partly to its uneconomical management; but to whatever cause they have been due, the losses have had to be borne by the taxpayers of this country.

While the case of the Intercolonial is an extreme one, it is by no means exceptional. There are some state railways which earn the interest on the total in-

vestment in them, and even more. This is true, for example, of those of Prussia and of Japan. But in Belgium, Italy, France, Norway, Sweden, Austria, Hungary, Switzerland, Russia, Australia, New Zealand, Argentina, and most other countries the state railways have on the average failed to earn their operating expenses and interest, thereby incurring deficits which have had to be borne by the taxpayers. I am aware that it can be shown that in some years the railways of some of these countries have earned their interest. I am speaking now of what they have done on the average over substantial periods, and the rule is, that over any considerable period almost every state railway in the world imposes burdens on the taxpayers, while almost every system of private railways pays taxes into the public treasury.

One question which may be raised in this connection is as to whether it is a violation of sound principle for state railways so to make their rates as to cause deficits, and thereby impose burdens on the taxpayers. It is a well known fact that the rates of your Intercolonial Railway are relatively low, and it is sometimes contended that all its losses have been due to the lowness of its rates. My study of its statistics and observation of its physical condition convince me that its losses, at least until within the last year or two, have been due more to uneconomical management than to low rates. This conclusion derives strong support from the fact that within the last two years the present management has been able to increase the earnings about \$1,600,000 a year, while actually reducing the expenses by about \$600,000 a year. But suppose its losses have all been due to the lowness of its rates. Is that a sufficient defense of them? Either those who pay non-compensatory rates and those who pay the taxes levied to meet the deficits they cause, are the same people, or they are different people. If they are the same people, what they gain by the rates is taken from them in increased taxes. If they are different people, those who pay the rates get their transportation for less than cost and those who pay the taxes pay for something they do not get. It is hard to see how anybody can be benefited by saving money through low rates and having it all taken away in increased taxes. It is also hard to find justice in giving some people low rates at the cost to others of higher taxes.

Both common sense and equity require rates to be so fixed that those who receive transportation service shall pay for it in full. The application of this principle to the situation in Canada makes it easy to decide in regard to the soundness of the rate-making policy followed on the government railways, if to it are due their losses. These railways serve only the people of the Eastern Provinces, and but part of them. The people of the entire Dominion must pay the taxes levied by the government. Therefore, if the trouble with the government railways is that their rates are too low, the few who use their service are unfairly benefiting at the expense of all the people of the country.

There is absolutely no more justification, on grounds either of economics, or of equity, for so making railway rates as not to cover interest on the investment, and then calling on the taxpayers to make up the deficit, than there would be for charging no rates at all, and calling on the taxpayers to pay both the total operating expenses and the interest. The interest on

the investment is just as clearly a part of the cost of providing the service as are the operating expenses.

The conclusion suggested by the foregoing facts and considerations, it seems to me, is that not only are private railways more likely than state railways to be so managed as to keep the economic cost of transportation down to the minimum, but that they are more likely under the system of public regulation, which now obtains almost universally where private ownership obtains, to be so managed and regulated as to promote equity in the distribution of wealth than state railways.

Let us now turn to some of the political considerations bearing on the subject. Many years ago a commission of the Italian Government investigated the subject of government ownership and reported that, in its opinion, under that policy "politics would corrupt the railroads and the railroads would corrupt politics." I have given my reasons for believing that especially under democratic conditions political considerations and political pressure are bound to exert so great an influence on the management of state railways as to cause them to produce less satisfactory economic results than would be produced by private railways. But whatever makes political considerations and political pressure exert more influence on the management of railways under government than under private ownership will at the same time make the railways under government ownership a more demoralizing influence in politics than they would be under private ownership. If it tends to demoralize the management of the railways to have men taken into and advanced in their service for political reasons, this taking them into and advancing them in the service for political reasons will also have a demoralizing effect on politics. If the giving of railway contracts for political reasons will tend to demoralize the management of the railroads, it will at the same time tend to demoralize politics. If the granting of concessions to the employes for political reasons will tend to demoralize the management of the railways it will at the same time tend to demoralize politics. And so all along the line.

Now, a country with an autocratic government, such as that of Prussia, may be able to keep politics out of its state railways and its state railroads out of politics. In such a country, therefore, the dictum that under government ownership "politics will corrupt the railroads and the railroads will corrupt politics" may not be true. In Prussia the suffrage is so regulated that the political influence of the different classes of the people is determined by their wealth and not by their numbers, and therefore the railway employes are almost entirely without political influence. It is in consequence of this that the government is able to, and does, prohibit them from belonging to labor unions of any kind and subjects them to a strict military discipline. But what can be done in a country having such a government, and having a people willing to submit to such a government, as Prussia, is no criterion of what can be done in a country having such a people and such political institutions as we have in Canada and the United States.

I am not sufficiently familiar with your affairs to know just to what extent politics pervades your government affairs and enterprises. I have, however, devoted much study to the results of your state railways, especially the Intercolonial, and