

continental. In respect to the Grand Trunk Pacific proper the government is fully entitled, morally, as well as legally, to call upon the Grand Trunk Co. to fulfil its contract. The Grand Trunk Co. proper has made unjustifiable charges to capital. Its lines have not been adequately maintained. More than \$21,000,000, which ought to have been spent on maintenance in past years, has not been spent. New capital expenditure of over \$30,000,000 is immediately required. The country is suffering from the company's inability to give adequate service. The G.T.R. ought to be managed in Canada, and not from London. We recommend that the control both of the Grand Trunk Pacific and of the Grand Trunk be assumed by the people of Canada on terms hereafter set out.

The Canadian Northern has been financed mainly by the issue of guaranteed securities. Till 1914 it met the interest from its own resources. Since that date the government has assumed very heavy obligations on behalf of the company. There is little prospect that the company would be able in the near future to relieve the government of these obligations. The company's estimate of its future capital requirements is too low; and its estimates of probable growth of earnings have been and still are unduly sanguine. We estimate that as a separate undertaking it would require fully \$70,000,000 of new capital within the next five years. We do not recommend that further public aid be given to the Canadian Northern as at present constituted. The Canadian Northern common stock represents no cash investment, and has no present value, either on the basis of the cost of reproduction of the property, or on the basis of its earning power. We recommend that the public take control of the Canadian Northern Co. on terms hereafter set out.

On the assumption that the people of Canada take control of the Grand Trunk, Grand Trunk Pacific, and Canadian Northern, we consider possible methods of management and operation. We do not consider that operation by a minister directly responsible to parliament would be in the public interest. It would not secure better service or lower rates. If the Government operated these railways, it would be bound in fairness to the Canadian Pacific shareholders to take over their railway also. The Canadian Pacific gives good service and should not be interfered with. Special objections to direct government ownership and operation are: That Canadian railways operate more than 7,000 miles of line subject to the foreign jurisdiction of the United States; that the Canadian government resources are required for war purposes. We therefore reject the idea of direct government ownership and operation.

We do not recommend that the Grand Trunk, Grand Trunk Pacific and Canadian Northern Companies be allowed to go into the hands of a receiver. We recommend that the control of these three companies be transferred to a new body.

We have discussed and rejected the following suggestions:—Transfer of all three railways to the Canadian Pacific; transfer of the Canadian Northern or a portion of it to the Canadian Pacific. There is no possibility of forming a new commercial company to take over the three railways. Neither the Mexican precedent, under which the government becomes a majority shareholder, nor the New York Subway precedent, under which the public authority shares the profits with the private shareholder, is applicable to this case.

Having come to the conclusion that di-

rect ownership and operation by the government is to be avoided, and that ownership and operation by a commercial company is not possible, we recommend that a new public authority, a board of trustees be incorporated by act of parliament as the "Dominion Railway Company"; and that the Canadian Northern, Grand Trunk and Grand Trunk Pacific be transferred to this body. We recommend that the Government assume responsibility to the Dominion Railway Co. for the interest on the existing securities of the transferred companies. We recommend that the Intercolonial and National Transcontinental be also transferred to the Dominion Railway Co., for reasons which we give hereafter. We recommend that the whole of the Dominion railways be operated by the trustees as one united system, on a commercial basis, under their own politically undisturbed management, on account of, and for the benefit of, the people of Canada.

We recommend that there be five trustees, three railway members, one member selected on the ground of business and financial experience, and one as specially possessing the confidence of railway employes; that the original trustees be named in the act constituting the board; and that their tenure of office be substantially the same as that of judges of the Supreme Court. We recommend that the original trustees retire after 3, 4, 5, 6, 7 years, respectively, according to a prescribed scheme; that they be eligible for reappointment; and that all appointments subsequent to the original statutory appointments be by the Governor General in Council on the nomination of the trustees themselves. We lay stress of the importance of the board being non-political, permanent, and self-perpetuating; and in this connection point to the experience of the Australian State Railways.

We give reasons for concluding that railways are not a proper subject for direct parliamentary control. We point to a general tendency in modern democracies to withdraw certain subjects from this control. And we show that under parliamentary control the general interest of the whole community tends to be subordinated to the particular local and individual interests. We recommend that the Board of Railway Commissioners be extended to include the Dominion Railway Co.'s system. We give the reasons for our recommendation that one of the trustees shall be appointed on the ground of his possessing the confidence of the railway employes.

We recommend the transfer to the trustees of the common stocks of the Canadian Northern, Grand Trunk and Grand Trunk Pacific subject to certain conditions and reservations made hereafter. We recommend the transfer to the trustees of the Intercolonial and National Transcontinental Railways for reasons which we give hereafter.

We deal with the question of the compensation to Canadian Northern shareholders. We find the charge that Messrs. Mackenzie and Mann have misappropriated public moneys unfounded. We find that the Canadian Northern shareholders possess a system of which the lines are well located and economically constructed, and that they have raised the necessary money with considerable financial skill and at moderate rates of interest, but that they erred in unwisely duplicating lines and reaching out into unremunerative territory. We recommend that the question be considered whether Canadian Northern shareholders shall be permitted to retain a moderate proportion of the \$60,000,000 shares which they

now hold; that the precise proportion, if any, and the relation of that proportion to their share of any future profits of the Dominion Railway Co. be fixed by arbitration.

We recommend that the entire share capital of the Grand Trunk, guaranteed, preference and ordinary, be surrendered to the trustees in exchange for an annuity based on a moderate but substantial proportion of \$3,600,000, the average sum paid as dividend in the last 10 years; and that this annuity should increase by 40 or 50% after the first seven years. We recommend that the precise figure be fixed by agreement and that it be left to the directors of the Grand Trunk Co. to apportion the annuity among the five classes of Grand Trunk shareholders, and to procure such assents of their shareholders as are legally required to complete the transfer. We give reasons for considering that this recommendation is generous to the Grand Trunk shareholders, and why the shareholders in their own interest will do well to accept it.

We recommend the transfer to the trustees of the National Transcontinental, in order that it may take the place it was built to take as part of a great inter-ocean highway, and because its financial position would be hopeless if it terminated in a dead end at Winnipeg. We recommend the transfer of the Intercolonial, in the interest of the Maritime Provinces to which the Intercolonial at present can only give a local service with no adequate terminals beyond Montreal; in the interest of the taxpayer who has a right to demand efficient and economical expenditure of his money; and in the interest of the railway staff who will secure the wider opportunities of a great system. We recommend that in future the Intercolonial be required to pay local taxes on the same basis as the other railways; and that the inhabitants on the line receive statutory protection against increase of local railway rates.

We make recommendations as to non-railway property of the transferred undertakings, getting in minority holdings of shares and outstanding titles to land, arrangement with the holders of Canadian Northern 5% convertible income debentures. We deal with the legal position of the trustees; and point out that the Canadian Northern, Grand Trunk and Grand Trunk Pacific companies will continue to exist; and that consequently the rights of their security holders will remain undisturbed. We recommend that the trustees take over each railway as soon as the transfer can be effected, with the purpose of ultimately operating them all as a single unified system. We deal with the finances of the Dominion Railway Co. and point out that the Intercolonial, with no bonded indebtedness, has a considerable net revenue, and offers security on which new capital can be raised. We recommend the creation of a general and refunding mortgage of unlimited amount, to be issued as required. We recommend that the act of parliament provide that the operation of the company shall be on a commercial basis, and that the trustees make no general reduction in rates until the property earns a reasonable net return. We recommend that there be given to the trustees the widest powers in the management of property.

We have endeavored to estimate the annual liability of the government to meet interest unearned during the first few years of the new scheme, and we put it at about \$12,500,000 a year. We think this amount should diminish steadily but not slowly; and that with proper econo-