

the west promoted, but economic activity in the east was stimulated. A direct railway connection with the prairies gave a tremendous impetus to the industrialization of Ontario and Quebec, to the coal and steel industries of Nova Scotia and to the lumber industry of British Columbia. Railways reduced the vast size of the country to manageable proportions. In the words of the Sirois Report: "An economically loose transcontinental area was transformed into a highly integrated national economy."

Unfortunately the assistance given the railways during the period between the end of the 19th century and the start of World War I was not necessarily in accordance with the conditions of economical and efficient transportation. Although some attempt was made to avoid duplication in the building of additional transcontinental railways, prevailing optimism was so great that eventually the government had given assistance to three different lines, and far more railways were built than were economically justified. The result was costly duplication extending across long stretches of unproductive territory, and the transportation overhead on the Canadian economy has increased with each passing year. A great deal of this heavy cost would have been avoided if the connections between different regions had been made by way of the existing route through the United States. On the other hand, without a railway backbone, it is doubtful if the Canadian economy would have survived: Canada's railway burden was the price of economic and political unity.

With the extraordinary demands of World War I, a tremendous strain was placed on Canadian railroad facilities. In the face of a record volume of business, the number of railroad cars proved inadequate, (largely because they were used to store freight instead of to convey it) costly delays resulted, and several lines collapsed. To avert financial disaster on a national scale, many lines had to be taken over by the government. Between 1917 and 1921, the Canadian Northern, the Grand Trunk (and its subsidiary, the Grand Trunk Pacific) and several smaller lines were taken over by the government. In 1923 these lines, along with the Intercolonial, which has always been a government railway, were brought together under the title of Canadian National Railways.

During the 1920's, the financial condition of Canadian railways improved considerably with general world prosperity. The Canadian National, however, was never able to free itself from the burden of inherited debt. Although the system showed a substantial net revenue in 1923, it was not until the year 1926 that net returns were enough to pay all fixed charges due the Canadian public. The Canadian Pacific during this period paid its shareholders substantial dividends. In the decade 1920-30 the motor vehicle began to prove itself a serious competitor to the railways, and the lack of governmental regulation in this field is blamed by the railways for loss of revenue.

The depression years of the 1930's saw railway freight and passenger traffic decline to new low levels, and hard hit by the long continued drought in the west and increasing highway competition. Revenues consequently decreased while capital expenditures and fixed charges increased. In 1931 the Canadian Pacific Railway reduced its dividend payment from 10% to 5%, and in 1932 discontinued dividends entirely. The C.N.R.'s deficit reached a high of \$60,968,438 in 1931 and for the next 8 years averaged \$50,000,000 a year.

In 1932 a Royal Commission was appointed to study the railway situation. The report of the commission condemned the competition of the Canadian National and the Canadian Pacific Railways. It stated that in order to reduce the burden of C.N.R. deficits on the federal treasury and to improve the financial position of the privately-owned Canadian Pacific, immediate steps should be taken to reduce unnecessary competition and duplication of service. However, each railway should retain its separate identity, the commission recommended.

As a result of the recommendations, the Canadian Pacific-Canadian National Act was passed in 1933. This act provided for the reorganization of the Canadian National Railways, and both railways were directed to co-operate in several