

GOVERNMENTS GUARANTEEING PAYMENT OF INTEREST ON RAILWAY BONDS.

The system which has grown in recent years of Governments guaranteeing the payment of interest on bonds issued by railway companies is most undesirable. This method of financing is highly attractive to both parties owing to the easiness of the operation at the initial stage. The Government when it gives its guarantee of interest payments gets rid of the pressure of the railway company and of the influence it commands by a mere stroke of the official pen. The railway secures an endorsement of its scheme and of its securities by which the money it needs can be promptly raised. The difficulties of both parties are temporarily solved as easily as by the touch of a magician's wand.

RAILWAY SCHEMES ORIGINATE

usually on some enterprising individuals conceiving the idea of building a line, which they endeavor to show, will be of great public benefit by opening up, and facilitating communication between certain parts of the country. They impress their views upon those locally interested, whom they induce to sign petitions, on behalf of the proposed railway. On the strength of these petitions, and on the alleged merits of the scheme, they then apply for a subsidy in cash, and lands, at so much per mile from both the Government of the Province, and that of the Dominion. These claims proving successful, they proceed to ask the assistance of the various municipalities through which the proposed railway will run, or the traffic needs of which it is likely to serve. By persistent importunity, aided by

POLITICAL AND OTHER INFLUENCES,

the promoters of a new line generally manage to secure what should be sufficient to build their enterprise. All this preliminary work, which often extends over a lengthy period, involves very heavy expenses, large enough indeed in some cases to have been an appreciable item in the cost of the road. The projected line is subsequently bonded at so much per mile, the Government being requested to guarantee payment of the interest, or, more precisely speaking, to become trustee for interest payments. If this request is acceded, the endorsement of the scheme by the Government enables the railway company to secure a market for its securities at a much better price than could otherwise be obtained. A bond which has the guarantee of a Government for its interest payments is naturally regarded with favor by the purchaser, as he regards this guarantee of the Government as its endorsement of the security as a safe investment, general confidence being felt that no Government would lend its name to an enterprise of a questionable character.

THIS GUARANTEE IS OBTAINED.

as a general rule, by the railway company arranging to place a sufficient sum in the hands of the Government to ensure the interest payments. This sum is taken from the proceeds of the sale of the securities which have been floated on the strength of the Government's guarantee. In plain words, the money assigned for meeting the interest payments on the railway's securities is taken from the pockets of investors in such securities, and placed in the hands of the Government, in order to be paid back to investors in the shape of interest.

WHAT ABOUT THE PRINCIPAL?

There is no provision for the due payment of the principal. If the road turns out a good paying concern, well and good, but if it earns mere nominal, or no profits, or is worked at a loss, the securities may become practically worthless. Several blocks of railway securities, the interest of which was guaranteed by a Government, were known to us to have been sold to the public at prices varying from 90 per cent. upwards. Those bonds will mature in a few years, yet to-day they cannot be disposed of at thirty, or even twenty-five cents on the dollar. The investors, no doubt, were deceived by that interest guarantee, they did not realize that payment of the principal was in no way guaranteed. Unless a Government is absolutely sure that the principal will be paid, we are of opinion that it is not justified in guaranteeing payment of interest on railway bonds. As no Government can be so absolutely certain of the principal sum of a company's bonds being paid when they mature, the sooner all our Governments abandon the railway securities guarantee business the better. This practice is wrong in principle: it is liable to seriously impair the credit of the country; and it is liable to encourage extravagance, and worse evils in management. It is no part of the duty of any Government to act the part of trustee for a railway company. Millions, many millions, representing a large percentage of the National Debt, of the hard cash of the people of Canada have been squandered in the construction of railways, the financial records of which all over the Dominion go to show that, neither the Federal nor any Provincial Government, is warranted in granting them subsidies, much less in subsequently acting as Trustees for interest payments. If any Government deems it wise in the public interest to assist a railway enterprise, let assistance in cash be given, but no pledge of the country's credit extending into the future. Before such cash be paid over it should be earned under some test which would be effectual in preventing the subsidization by a Government of a needless railway which was constructed, or proposed to be built, nominally to serve the public, but in reality only to benefit its promoters, and for other purposes.