

restricted responsibility in the field of railway operation and management, it omitted the proposed safeguards against political interference recommended in the Drayton-Acworth Report. The Canadian National Railways, including the former Government lines, were, at the same time, brought within the jurisdiction of the Board of Railway Commissioners, whose powers were enlarged, however, only to the extent of supervision of the issue of free passes and the location of new lines, by means of approval of route-map applications. Decisions of the commissioners remained subject to review by the Government, and control of the issue of railway charters was retained by Parliament.

ACQUISITION OF THE GRAND TRUNK GROUP

Meanwhile, the Government having taken the stand that it would make no further advances to the Grand Trunk Group without securing the ownership of the entire system including the eastern lines, negotiations looking to a transfer had been commenced in 1917. These negotiations were still dragging on inconclusively when, early in 1919, the Grand Trunk Pacific, which had been showing heavy deficits on operations, was informed that the Government would not permit the use of the remaining proceeds of its last loan for interest charges falling due in March, whereupon, the Grand Trunk Board, having declined to make an advance for the same purpose, the president of both companies notified the Cabinet that the Grand Trunk must cease to operate the Grand Trunk Pacific as of March 10, 1919, at the latest. The Government responded with the appointment under the War Measures Act of the Minister of Railways as receiver for the western road.

In the resumed negotiations, the Cabinet maintained its refusal to release the Grand Trunk from its western obligations, except as part of an arrangement for the transfer to the Government of the whole Grand Trunk group, including the original eastern system. Such an arrangement was concluded towards the end of the year and ratified by Parliament,¹ the Government receiving the entire assets of the group, and assuming all obligations including the payment of dividends on the Grand Trunk 4 per cent Guaranteed Stock, which the company insisted should be included with the debentures as a fixed charge to be assumed by the Government. The company had, in fact, previously declined an offer by the Government to make available an annual sum rising to \$3,600,000² for distribution by the company among the various classes of equity shareholders, provided the 4 per cent Guaranteed Stock was included among the equity issues and not among the fixed charges. The new arrangement comprised in the category of equity issues only the first, second, and third preference shares and the ordinary shares, upon which last issue no dividends had ever been paid. The determination of the value of these issues was now referred to an arbitration with an agreed limit to any valuation of approximately \$64,000,000,³ and with the proviso that, in reaching a valuation, the obligations of the company, to the Government, and as part guarantor of the Grand Trunk Pacific, were not to be regarded as extinguished. The agreement for acquisition having been ratified, a joint committee of management for the Grand Trunk, appointed partly by the Government and partly by the company, assumed control of operations on May 1st, 1920,⁴ and as of that date financial responsibility was assumed by the Government. On July 12 of the same year operation of the Grand Trunk Pacific was entrusted to the Canadian Northern Board.⁵

¹ 19-10 George V. Chap. 17, assented to November 10, 1919.

² This sum was based on the average total dividends of the previous ten years as ascertained by the Drayton-Acworth Report.

³ Acquisition Agreement, March 8th, 1920, ratified by 10-11 George V. Chap. 13.

⁴ P.C. Order 1089 of May 15th, 1920.

⁵ P.C. Order 1595 of July 12, 1920.

The arbitration not having been completed by April 9, 1921, the date set by the Act, and the Government being dissatisfied with the results of joint management, the arbitration was allowed to lapse. Upon the company's agreeing two months later, however, to the establishment of a Canadian Board of Directors with a head office in Canada, the arbitration was revived; and, on September 7, 1921, a majority award by Sir Walter Cassels and Sir Thomas White—the Hon. W. H. Taft dissenting—declared the Grand Trunk equity shares to be without value. An appeal to the Privy Council against the award was dismissed.

The acquisition of the Grand Trunk group (including the Grand Trunk Pacific) gave the Government another 7,621 miles of track, and thus a total of approximately 22,000 miles at the end of 1922.

THE NEW MANAGEMENT OF THE CANADIAN NATIONAL

In October, 1922, the Government completed arrangements to secure the services of Sir Henry Thornton, formerly of the Pennsylvania Railroad and latterly of the Great Eastern Railway of England, as President and Chairman of the Board of the Canadian National Railways. Unified operation of the combined National System, including the former Grand Trunk eastern lines, began as of January 1, 1923. The lines now combined for operation by the Canadian National Railway Company comprised the lines formerly known as:—

The Canadian Northern Railway.

The Grand Trunk System

(Including the Grand Trunk Western Railroad, operating into Chicago and the Central Vermont Railway.)

The Grand Trunk Pacific Railway,

and the lines comprising the Canadian Government Railways, namely:—

The Intercolonial Railway.

The National Transcontinental Railway.

The Lake Superior Branch (leased from the G.T.P. Ry).

The Prince Edward Island Railway.

The Hudson Bay Railway.¹

Under the new management the machinery of administration continued to be provided by the Canadian National Railways Act.² The temporary Canadian Board of the Grand Trunk passed out of existence, and the former Canadian Northern officials and others who had constituted the original Canadian National Board were replaced by fifteen directors, selected on a basis of regional representation—a method which necessarily gave weight to other considerations as well as those of business capacity or technical qualifications.³

The inauguration of the new management was not made the occasion for any broad administrative changes or of any readjustment in capital structure. Behind the simple legal facade set up by the Canadian National Railways Act, there continued to exist the confusion of predecessor companies with their multiplicity of corporate entities, directorates, and securities—in all one hundred and thirty-nine separate companies with two hundred and fifty-one different issues, requiring the preparation annually of forty-two income accounts

¹ P.C. Order 115 of January 20th, 1923.

² The Canadian National Railway Act, and amendments 1919, 9-10 George V, Chap. 13, 1924, 14-15 George V, Chap. 13.

³ Revised Statutes of Canada, 1927, Chapter 172, 1928, 18-19 George V, Chap. 13, 1929, 19-20 George V, Chap. 10, 1931, 21-22, George V, Chap. 6.

⁴ P.C. Order 2094 of October 4th, 1922.