Monetary Times

Trade Review and Insurance Chronicle of Canada

Address: Corner Church and Court Streets, Toronto, Ontario, Canada.
Telephone: Main 7404, Branch Exchange connecting all departments.
Cable Address: "Montimes, Toronto."
Winnipeg Office: 1208 McArthur Building. Telephone Main 2663. G. W. Goodall, Western Manager.

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RAILROADS AND DEBT

Some question has arisen as to the statement of Mr. A. H. Smith, in his minority railroad report, that the Drayton-Acworth plan "would add about $1,000,000,000 to the direct debt of Canada." Mr. Smith apparently makes the statement, taking it for granted that the matter of the precise amount is disposed of by the government railway statistics. By the majority recommendation, the liabilities of the railways would become debts of the government-owned railways, for which debts the Dominion government would be solely responsible. An analysis of the Drayton-Acworth report seems to indicate the commissioners' conclusion that the only direct addition to the country's debt the adoption of their plan would make is the amount required to cover the floating indebtedness of the Grand Trunk Pacific and Canadian Northern Railways, and the amount required to put the systems in proper shape to do business. The country has already committed itself to both these undertakings, and the report says that the whole question really is as to whether the country in taking the risk which it must take, whether it lends new moneys on credit to the companies or whether it puts up on its own account a much smaller sum than would be necessary to complete the full programme of both companies and is to get the resultant benefit in case the roads in the future turn out a success, or whether the results of the extension of the country's guarantee or cash advances for the purposes of the railways shall be entirely to the benefit of the railway companies.

The existing bond issues of both systems are not interfered with. As the report indicates, the country is already liable in connection with these issues. To the extent that the country is not already responsible for these issues, it does not require the country to become responsible for them directly to the holders, but merely to the trustees, to the extent that the results of operation do not provide sufficient funds to carry the interest. With loans that have been made to both systems, that is what the country has done in the past.

The Drayton-Acworth report assumes that it will cost less to carry on these companies under the joint scheme than it would if the original programme of the railways is carried out. The Canadian Northern construction in the East becomes unnecessary, they say, the ground being well covered by the Grand Trunk; and the Grand Trunk Pacific construction in the West becomes largely unnecessary, the ground being well covered by the Canadian Northern Railway. The systems very well supplement each other. Assuming that the situation takes its worst phase, the majority report does not seem to agree with Mr. Smith that the country is to be saddled with an additional billion dollars of debt. It says that the equity of the Canadian Northern shareholders would be met if they were permitted to retain a moderate portion of the $60,000,000 of shares which they now hold.

In the recent report prepared for the Canadian Northern Railway by Messrs. Loomis and Platten, two American railroad experts, the total net liability, which includes short-term notes, temporary loans, guarantee liabilities, etc., is given as $390,953,878. This does not include the $25,000,000 of income charged upon convertible debenture stock. Adding this, the maximum liability is $415,953,878. The cost of the Grand Trunk Pacific, as admitted by the company, amounts to $197,129,591. These are the two companies that require government assistance and cannot unaided carry on. The majority report contends that the country to-day practically owns them and that their position is that of mortgagees whose securities are in default without any present hope of redemption. The other line which it is proposed to take over is the Grand Trunk, which is operating not at a loss, but which constitutes a direct revenue-producing asset, and which has paid dividends of about $4,000,000 this year.

There is no assumption of any of the Grand Trunk's liabilities or change in any of the Grand Trunk's finances proposed, except to the extent that in operating the system the trustees would have to pay out of the earnings the different interest charges. In so far as the Grand Trunk is concerned, however, it is argued by the commissioners that the obligations of the shippers of the country to the Grand Trunk Pacific become less, as in their opinion too great a sum has been paid in dividends. Over and above the Grand Trunk's 4 per cent. guarantee and 3 per cent. preference stocks, their common stock is usually considered in round figures as amounting to $100,000,000. No dividends have ever been paid upon this stock, and the Drayton-Acworth report, rightly or wrongly, does not regard it as of any value, and makes no provision for it.

The position they take, therefore, is this: There is to be no change in Grand Trunk finances, except that the dividends must be substantially cut. All existing capital commitments stand as they are without assumption by the country, and are well provided for by the earnings of the line. New capital undoubtedly will be required as estimated by the railway officials themselves to the extent of $51,000,000.

There will undoubtedly be a heavy loss in operating the Grand Trunk Pacific, but this loss has to be faced in any event and is inevitable. The country cannot very well see the line abandoned, in view of its own commitments and in view of the settlement, small as it may be, that has already taken place on the line.

The position of the Canadian Northern ought to, in the comparatively near future, much improve if operated