

Canadian Railway and Marine World

December, 1916.

Government versus Private Ownership of Railways.

By Samuel O. Dunn

One of the most marked tendencies throughout the world during the last half or three-quarters of a century has been the tendency of governments to intervene more and more in industrial affairs. During a long period, which ended at about the time of the French Revolution, governments everywhere, and especially on the continent of Europe, were active participants in industry, and regulated closely almost every class of business which they did not undertake to manage. There then began a great and widespread reaction both in economic and political philosophy and in economic and political affairs. The leading thinkers on economic and political subjects began to teach that that government was best which governed least, and a very large amount of legislation was enacted to take governments out of business and to emancipate industrial enterprises from public control. The period during which the doctrine of laissez faire prevailed lasted, roughly, until the beginning of the latter half of the nineteenth century. Then the pendulum commenced to swing the other way, and it has continued to do so until now throughout the leading countries of the world governments are managing many important enterprises and are strictly regulating many which they do not manage.

In no field has this increasing tendency of government to intervene in industrial affairs been more strikingly illustrated than in the railway field. So extensive has the policy of government ownership and management of railways become that it is often represented as having grown to be the dominant policy of the world. This, however, is by no means correct. The mileage of railways owned and managed by private companies is still more than twice as great as that owned and operated by governments. In 1913, the latest year for which we have complete statistics, there were in the world 690,133 miles of railway. Of this, 464,421 miles, or 67%, belonged to private companies, and only 225,712 miles, or 33%, belonged to governments.

It is a fact, however, that North America is the great stronghold of private ownership, and that outside of this continent there is now a greater mileage in the hands of governments than in those of private companies. There are over 305,000 miles of railways in North America, and of this more than 290,000 miles, or over 95%, is privately owned and operated. In all the world outside of North America there are 385,000 miles, and of this 211,147 miles, or 55%, is owned by governments, while 174,000 miles, or 45%, is owned by private companies. It will be seen, therefore, that the mileage in North America which is privately owned and operated exceeds the total mileage owned by governments in all the world, while even outside of North America almost one-half the mileage is owned and operated by private companies.

Nor does it give a correct idea to say that government ownership has been adopted by most leading countries. Germany has adopted it, but Great Britain adheres to private ownership. Most of the railways of Austria-Hungary are state-operated, but most of those of France are still in private hands. Most of the railways of Italy and Russia are state-owned, but in the principal country of South America, Argentina, with a mileage greater than that of Italy, and in Canada, with a large and rapidly increasing mileage, private ownership is still greatly preponderant. Japan is committed to government ownership, but in the United States, which alone has a mileage exceeding that of the combined state-owned railways of the world, private management is the sole policy.

To say, therefore, as some do, that countries such as the United States and Canada should nationalize all their railways because the enlightened public sentiment of the world has decided in favor of this policy is to reason from an assumption which is not based upon facts. Furthermore, even if it were true that all the rest of the world had adopted government ownership, this would be no very forcible argument for adopting it in North America. In reasoning regarding any policy which is proposed for adoption we should give the greatest weight to the particular conditions under which it would have to be carried out. Now, the conditions, political, military and economic, which prevail in the United States and Canada are widely different from those which prevail in Europe, for example. Military considerations have been very influential in shaping the railway policy of some of the European countries, and especially Germany. The conditions which have made it desirable, or which have been regarded as making it desirable, for some of the governments of Europe to directly own their railways, so that they can be prepared to use them for military purposes at a moment's notice, do not exist on this continent, and we all hope and believe that they never will. Many of the countries of Europe which have extensively adopted government ownership are monarchies, while, regardless of constitutional forms, Canada as well as the United States is a democracy. It is hardly necessary to add that the economic conditions on this continent are widely different from those in Europe. If we on this continent are going to decide wisely on the question of private versus government ownership, we must get clearly and keep constantly in mind our own peculiar conditions, and then try to determine which policy will produce the better results under those particular conditions.

The policy of government ownership is sometimes advocated on the somewhat theoretical ground that the provision of highways is a function of the state, and that railways are highways. Of course, on this theory, it follows that railways

should be owned and managed by the government. But this argument disregards the fact that railways not only provide a highway but also carry goods and passengers. Now, this fact is of some importance, for never before the railway was invented was it considered a function of the state to become a carrier for hire, and even since it was invented governments very seldom have assumed the function of carriage except when they have become the owners and managers of railways. They provide highways for water carriers; but they do not ordinarily own the ships operated on them. They provide highways for vehicle traffic; but they do not ordinarily own the teams and wagons, the motor trucks and taxicabs which use them. While it must be conceded that governments always have provided highways, it cannot logically be concluded from this fact that the ownership and management of railways is naturally a government function. How can it be held to be naturally a government function, when about 60% of the expenses usually incurred are attributable to the service of carriage, which, on historical grounds, may be held to be within the normal scope of private enterprise?

The question of government versus private ownership has various phases, but there are two whose importance is paramount. One of these is the economic phase. Which policy will better promote the material welfare of the public—in other words, which will better promote the efficient production and the equitable distribution of wealth? The other phase which is of the first importance is the political phase. Will private ownership or government ownership have the better effects on the government of the country, and especially on that of a country having democratic institutions such as yours in Canada and ours in the United States.

Let us turn, first, to the question of which policy will more efficiently promote the production of wealth. The transportation of freight by rail, and the transportation of passengers by rail when they are travelling on business, is merely one of the processes of production. If the management of the railways is inefficient and wasteful and, in consequence, the expense incurred in furnishing the service of transportation is excessive, this reduces the efficiency and increases the cost of all the industrial processes carried on in the entire country. This remains true whether the total cost incurred in rendering the service is covered by the rates charged for it, or only part of it is covered by the rates charged and the other part of it is covered by taxes levied upon the public to pay deficits incurred by the railways. If it actually costs \$10 to move 1,000 tons of freight one mile the burden directly or indirectly imposed upon the industry of the country for the transporting of that 1,000 tons one mile is just the same whether \$5 of the cost is paid by the taxpayer and \$5 by the shipper, or