

loss, as a development road. In a little more than ten years, the whole railway situation had passed from a position of manageable cost and moderate expansion to one of financial confusion and over-extension.

EFFECT OF THE WAR UPON THE RAILWAYS

The war proved to be a severe strain upon most of the Canadian railways, while, of course, the other methods of transportation were not seriously affected. The rise in cost of labour and materials, virtual cessation of immigration, closing of international money markets, and technical problems of operation combined to create a very difficult situation.

With a well-equipped and co-ordinated service, and with ample resources to meet any strain that had been thrown upon it by fresh construction in the northern prairies, the Canadian Pacific was able to sustain the increased physical burden of wartime transportation. But on the other two chief railways, already severely crippled financially, the war imposed even from the operating point of view, an insupportable strain. In the first place it threw upon their incomplete transcontinental services a burden of traffic which, in their disconnected, unco-ordinated condition, they were unable to handle with efficiency and despatch; and the resulting congestion created in its turn a necessity for immediate and heavy expenditure on connecting lines, terminals and equipment, for which neither of them was able in the midst of war to find the funds. In these circumstances, the two incomplete systems, so much of whose recent construction rested on Government guarantees, found themselves entirely dependent upon the Treasury, the Grand Trunk (whose cash advances to the Grand Trunk Pacific by the beginning of 1916 exceeded \$25,000,000 with guarantees on bonds of nearly \$100,000,000) declaring that it was at the end of its tether in the West, and that the only alternative to further assistance was a receivership. To such an extent had the Treasury become involved in the plight of the Grand Trunk, on behalf of whose subsidiary \$54,000,000 had already been advanced from public funds apart from guarantees, and so close had become the connection between the Government and the Canadian Northern through acquisition of a portion of that company's stock in consideration of subsidies and guarantees, that the Cabinet, also apprehensive of a serious breakdown of transport in time of war and fearful of the effect upon public credit of allowing the railways to go into bankruptcy, appointed a Royal Commission to investigate and advise.

DRAYTON-ACWORTH COMMISSION

The conclusions of this commission, which were not available until April, 1917, took the form of a majority report commonly known as the Drayton-Acworth report, and a minority report by the chairman, Mr. A. H. Smith, of the New York Central Railroad. Both reports found a condition of over-extension, unnecessary duplication, deficient equipment and complete financial impotence in the case of both the Canadian Northern Railway and the Grand Trunk group. Both reports recognized the urgent necessity of reorganization and co-ordination if continued congestion was to be avoided and the drain on the public finances in any degree controlled. Finally, both reports recognized the disastrous situation of the Grand Trunk in relation to the Grand Trunk Pacific. In their recommendation, however, the commissioners differed. Messrs. Drayton and Acworth, deprecating not only further advances to either railway, but also any further relief of the Grand Trunk from its western obligations, urged, though with great reluctance, the immediate assumption of control by the Government of both the Canadian Northern and the Grand Trunk group under a species of foreclosure, with practical consideration for holders of equity securities. The only alternative in their opinion was a receivership, a course which, in view of

the Government's close association with both of the new transcontinental enterprises and the heavy loss that would result to the investing public, they dismissed. They proceeded to recommend the vesting of these properties, thus acquired, together with the Intercolonial and National Transcontinental, in a self-perpetuating Board of Trustees consisting of five members appointed initially by Parliament to operate the united Government lines on a non-political basis for the benefit of the people of Canada.

The dissenting report of Mr. A. H. Smith, on the other hand, expressed not only apprehension of a proposal that would have the effect of adding approximately \$1,000,000,000 to the direct debt of Canada, but also doubt as to the adequacy of the machinery proposed by his colleagues to obviate what he considered the inherent defects of any scheme of public ownership and operation of railways. The solution proposed by him involved a further revision of the Government's agreement with the Grand Trunk that would free it from its western entanglements and permit a continued operation by it of its eastern lines, with which, he proposed, there should be consolidated the eastern lines of the Canadian Northern. A corresponding consolidation under the Canadian Northern of its western lines and those of the Grand Trunk Pacific was also recommended, with Government operation or control of the lines intervening between the east and the west. Mr. Smith's report, like that of the majority, recommended an extension of the jurisdiction of the Board of Railway Commissioners that would bring within the powers of that body not only the regulation of rates for all railways, Government lines included, but also "the issuance of securities, the building of new railways or the extension of lines, and other matters properly within the scope of Government supervision."¹

ACQUISITION OF CANADIAN NORTHERN

The recommendations of the Drayton-Acworth report were adopted to the extent of the Government's assuming almost immediate control of the Canadian Northern Railway, the alternative being a continuance of Government assistance or an immediate receivership with consequent default and call in respect of the Government guaranteed securities and a heavy loss to the investing public in respect of unguaranteed securities. The Act of acquisition provided for payment of a sum not to exceed \$10,000,000 for the bulk of the outstanding equity stock (apart from what already had been transferred to the Government) the value of which, upon reference to arbitration was set at \$10,800,000.² This transaction, completed on November 16, 1917, added 9,559 miles of railway to the 4,393 miles of Government lines already included in the Intercolonial Railway and the National Transcontinental. The operation of the Canadian Northern by its own board, reconstituted by the Government was continued. Shortly after the Armistice, the operation of the Government lines, enlarged by accretions to the Intercolonial, was also entrusted to it; and the name "Canadian National Railways" as a descriptive term for the combined operating system was authorized by Order in Council.³

In 1919 an Act of Parliament incorporated the Canadian National Railway Company, a corporation designed to absorb all railways owned or controlled by the Government.⁴ The act provided for operation by a Board of Directors, from five to fifteen in number, nominated by and replaceable at the pleasure of the Government, and subject, in the matter of financial policy involving capital expenditure, to the control of the Minister of Railways and of Parliament. While the Act purported to assign to the Board of Directors un-

¹ Drayton-Acworth Report, p. CII.

² 7-8 George V, Chap. 24.

³ P.C. Order 3122 of December 20, 1918.

⁴ 9-10 George V, Chap. 13; Revised Statutes of Canada, 1927, Chap. 172.