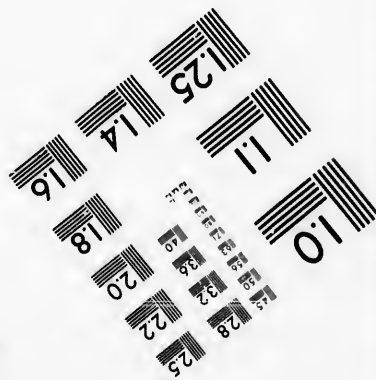
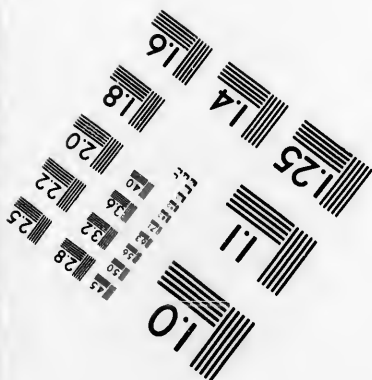
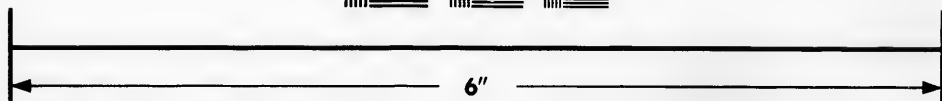
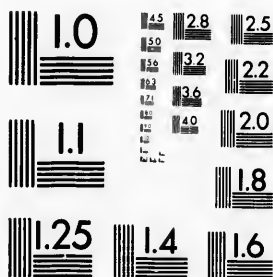


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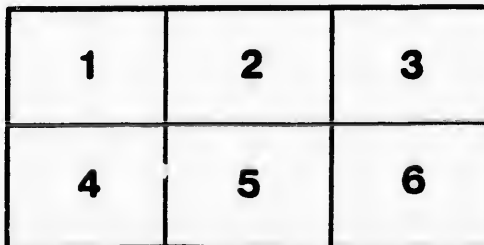
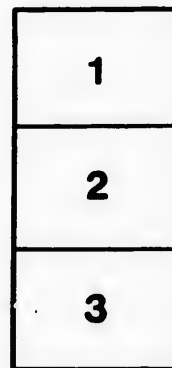
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NEW YORK, *March 1st*, 1848.

TO SIR ALLAN MACNAB,

President of the Great Western Rail-Road.

SIR,—In reply to the inquiries:

1. Whether it would be beneficial to the Company to apply for, and receive a loan through the aid of Government, to assist in the construction of your work, with reference to the value of the Stock?

2. Whether in my opinion such aid could be afforded by the Government, consistently with the public interest and the exercise of its proper functions?

3. Whether similar aid had been afforded in the United States, and if so, what had been its effects upon the public interest?

I would state that the answer to the first inquiry must depend on the expense of construction, and the amount of business which would probably be done on the road to be constructed. For the purpose of satisfying myself on these points, I have carefully examined the Report of Major Stuart to the Board of Directors of your Company, dated 1st September, 1847, which has been furnished me. I have scrutinized the Survey reported on, as the only means in my power to ascertain the probable expense of its construction. It seems to me to have been made with much care, and the estimates for the expense appear fair, and the allowance for contingencies quite liberal. From these, and my knowledge of the country over which it is located, I have but little doubt that it can be completed within the Estimate, from Niagara River to Detroit, to wit, £1,238,520, Halifax Currency, or 4,954,080 dollars.

I have also examined the statistics in that Report, and compared them with statistics in my possession, such as the trade and navigation of the Lakes, the Canals, the arrivals and departure and tonnage of the several ports, and the Rail-road and Steamboat passenger traffic, &c. It seems to me that Major Stuart is fully sustained by them in his estimates of business and profits. Indeed, I shall be very much mistaken if the profits he anticipates are not more than realized, if the work shall be successfully completed and prudently managed.

It has been our experience in all improvements, and channels of business and traffic connected with the Western Country and the Lakes, that they have far outstripped the most sanguine anticipations. This has been strikingly illustrated in the case of the Erie Canal and the line of Western Railways.

It may not be improper here to remark, that I regard Major Stuart's Report as the most able document of the kind that has fallen under my observation in a long time. No one can rise from its perusal without feeling a conviction of its reliable character.

If I am right, then, in my conclusion thus drawn, that the work can be constructed within the estimate, and that the profits will be as large as contemplated, a loan contracted with or without the aid of Government, at a reasonable interest, much below the per-centage of profits, for a period of considerable duration, it

would follow that such a loan of a portion of the capital for constructing the Road, would make the Stock much more valuable to the holders, because the excess beyond the interest would go to swell the dividends as much as the profits should exceed the interest, or be applied as a sinking fund to diminish every year and finally extinguish the principal of the loan.

The second question is not as easy of demonstration, because it depends on more complicated circumstances, some of which are not connected with the immediate work before us.

It may safely be adopted as our axiom, that all Governments are or should be administered with reference to the *general* interests of their constituents, and that no departure from this general rule should be tolerated, except where the favouring of a local or particular interest will in no material degree prejudice the whole or any of the other parts.

It would not therefore be right for Government to furnish capital for a sectional road or private improvement, without a reasonable prospect and security for its indemnity; because the application of it would not be universal, but the money would come from a common fund in which all would be interested.

It might be adopted as another safe axiom that wherever it can be done without injury or probable injury to the whole or its other parts, Government should lend its aid to advance the interest and prosperity of any class or section of its people. And in ratio to the extent and magnitude of the benefit, is the obligation imperative to put forth a helping hand. In deciding then on the answer to the second question we must be governed by the foregoing rules. I do not think this Railway can be presented as one that will so universally embrace the interest of the people of the Province, as to warrant the Government in embarking in a loan without at least a fair prospect of indemnity; but it is nevertheless a work of very extensive interest; as much so at least to your people, as was the Erie Canal to the people of the State of New York, and as large a proportion of them would participate in its benefits, as did the people of the States in the benefit of the Canal.

It connects Lake Ontario by a direct line with the Upper Lakes. It forms a base line where nearly all the people of Canada West, and with other and cheap communications, connect. It is a part of a line of Railways that will soon be made, passing through the interior to the Atlantic, and will be a portion of the outlet from the whole region of the Upper Lakes to the sea; and is a short connecting link between waters following the St. Lawrence to the Atlantic, and ascending Detroit River to the head of Lake Superior, in all following a demarcation of 2,000 miles through and along the Province. It gives your people the carrying business and traffic, and makes your country the transit between five Western States, and seven Eastern States of the Union. This must be a source of great profit and advantage to your people, and may become a source of revenue to your Government. In every point of view it is clear, that your road embraces an interest general enough to command the attention and patronage of Government, at least so far as will be compatible with general interests. This brings me to enquire whether the Government can, with safety to its own interest as such, lend you the benefit of its security.

In the first place, all the interest in the road will be pledged for the payment of the loan, and unless that pays more than enough to pay the interest, nothing will go to the Stockholders; they get no dividends. I am not informed as to the amount of the contemplated loan, but I will assume it to be one half of the estimated expense of the work, as I understand the other half is already subscribed. Interest on this sum, say at 5 per cent, would be £31,250 currency or \$125,000 yearly. To endanger the safety of this loan, then, the profits of the road must amount to less than this sum, or about 2½ per cent on the outlay. The Utica Rail-road from Buffalo East parallel with Lake Ontario and the Erie Canal, with which it has had to compete without materially shortening the distance, has averaged over 15 per cent profits yearly since its construction, and the last year has netted about 20 per cent. The Central Rail-way of Michigan completed only 144 miles, and terminating in a wilderness, running from Detroit West netted last year 14 per cent. These Rail-ways are mentioned because they are at the termination of your Road East and West of it, and furnish more approximate data to ascertain the profits of your Road than any other; but they do not in my opinion furnish or possess the advantage for profits that yours does; because yours from Hamilton to Detroit, 166 miles, will be without a competitor. It will shorten the distance of all the travel up and down the Lakes more than one third, and shorten the time two thirds, besides giving a safer and more agreeable passage. It would appear from these facts that the Government can lend you the aid of their credit without any public injury, or the most remote hazard of loss, and if I am right in this, they can fulfil a duty, render an incalculable benefit to a very great proportion, and probably a majority of their constituents.

That it is one of the proper functions of Government thus indirectly to aid the people in the improvement of the country seems to me to be a settled question, if indeed it ever was a question.

It is done extensively in England and France; indeed, in various forms, all over Europe, and in nearly all the States in the Union, and by the General Government of the Union.

Should it be objected that it would be unsafe, even with such ample security, to advance the public credit, because the Corporation may so mismanage its concerns that the Road will not produce enough to indemnify the Government, I answer that the whole Road lies within the Province, and will be under their eye and control, and they have the power in their own hands. If the Agents mismanage the concern of the Road, they can check or remove them, and take the Road under their own control whenever the Government is put in jeopardy by such mismanagement, and thus secure the faithful payment of the loan.

In reference to the third question, whether "such aid has been granted to Companies by the States, and with what effect?" I answer, that the State of Massachusetts has guaranteed to Rail-road Companies upwards of Eight Millions of Dollars, which has enabled them to carry the means of transportation to nearly every section of the State, and to penetrate other States also, and thus to draw their commerce to their own State. These Roads, it is believed, have doubled

the valuation of the land in that State, and probably more than doubled their commercial business, and the State has never had a dollar of the interest to pay, and seems in no manner of danger of ever being obliged to pay any.

The State of New York, about nineteen years ago, loaned to the Hudson and Delaware Canal Company, by an issue of debentures, 793,000 dollars, which enabled them to complete their works. They have always paid their interest punctually, have reduced of the principal about half, and have a surplus on hand sufficient to pay the remainder. This Canal has been of very great benefit to the section of Country within the reach of its influence, has made heavy dividends to the Stockholders, and the Stock is now worth over 150 per cent. in Market.

The State has since made similar loans of credit to the Auburn and Syracuse Rail-road Company, the Auburn and Rochester Rail-road Company, the Tonawanda Rail-road, the Long Island Rail-road, and the Schenectady and Troy Rail-road Company, all of which have punctually paid their interest and provided sinking funds for the principal, and nearly all of them made large dividends to the Stockholders. No well grounded fears exist that the State will ever meet with any loss by them, and these Works too have increased the business and enhanced the value of property within their influence to an unknown extent. The only Corporations by which the State has suffered by becoming security, are the Canajoharie and Catskill Rail-road Company, the New York and Erie Rail-road Company, the Utica and Oswego, and the Hudson and Berkshire Rail-road Company.

The two first failed because the amount of Stock subscribed, and the loans guaranteed by the Government, were not more than one-fourth sufficient to complete the Roads, and when this was expended the Roads were only just begun and unproductive, and being a doubtful Stock, they could raise no more money to complete them. The two latter Roads were located where there was neither travel nor business, and the income scarcely enough to support the Roads. Yet it is believed the Government will yet be indemnified for the loan to the Berkshire and Hudson Company by a sale of the Road. All these unfortunate loans were made at a time of great expansion of currency and commerce, when the nominal value of real estate was every where swollen, and the public excited by these fictitious prices almost to mania. The Government partook of this excitement to a dangerous extent. In short they were most improvident guarantees, and a little prescience ought to have foretold the disastrous issue.

No inference unfavorable to Government guarantees for internal improvements can be drawn from the failure of the loans to these four roads, any more than would an improvident loan to an insolvent individual, where the mortgaged property was without value, and a defective title given, be evidence against a provident loan with good security and perfect title.

I would not advise that Government should lightly or without most satisfactory evidence of safety, loan its credit to a Company. Nor would I think it advisable even in cases otherwise holding out strong assurance of indemnity to loan more than half the amount of the Capital. It appears to me too that the Government should require, in all cases, that there should be an annual sinking

fund to be applied to a reduction of the Principal. Where one half of the Capital is furnished by Stockholders, their willingness to invest and give the loan a preference and make their own holden for it, furnishes one very notable item of information to the Government in determining the safety of the loan.

The State of Maryland has loaned about four millions of dollars to the Chesapeake and Ohio Rail-road Company. This Road is completed to the Cumberland Mountains, is carrying on an extensive traffic, and saving the Government harmless.

Its benefits to Maryland are beyond calculation. Recently the State of Tennessee, which is nearly free from debt, and in this respect deemed very prudent and cautious, has loaned its credit to a Rail-road Company for \$800,000. Indeed it has;—indeed it is practiced by most of the States of the Union in a greater or less degree, and where reasonable caution has been used, always, so far as I have learned, with excellent effects.

Some of the new States in the south west parts of the Union, anxious to afford extensive commercial facilities, to force their business into competition with older and more commercial neighbouring States, have lent their credit to Banks, and in some cases to Banks connected with Rail-roads. Such loans have generally proved failures and involved the States. The States of this kind are, Alabama, Mississippi and Arkansas; each of these has entailed upon itself a heavy, cumbrous, and in some cases a repudiated debt. The other States that have brought upon themselves burthensome debts are Pennsylvania, Indiana, Illinois and Michigan. But none of the debts of these States were incurred by lending their credit to Corporations. They undertook to make their improvements directly by the Government, and not by encouraging individual enterprise. None of them that I am aware became surety for any Company, except Michigan in one single case, which was carried through successfully, and the Government saved harmless.

I have thus, Sir, given you my views on this subject, and have avoided, as far as I was able, all matters foreign to the matter in hand. I am under an impression that your Road promises more accommodation and better profits than any unconstructed work now before the public, within my knowledge.

I am, with great respect,

Your obedient servant,
(Signed,)

LCT CLARK.

