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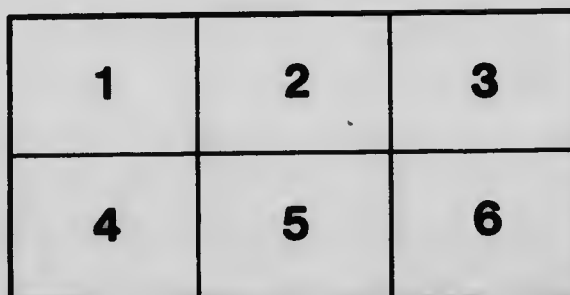
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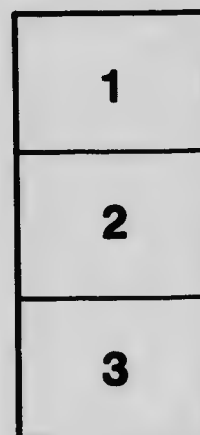
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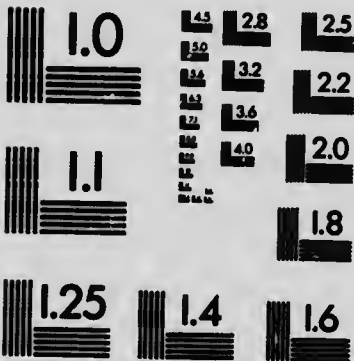
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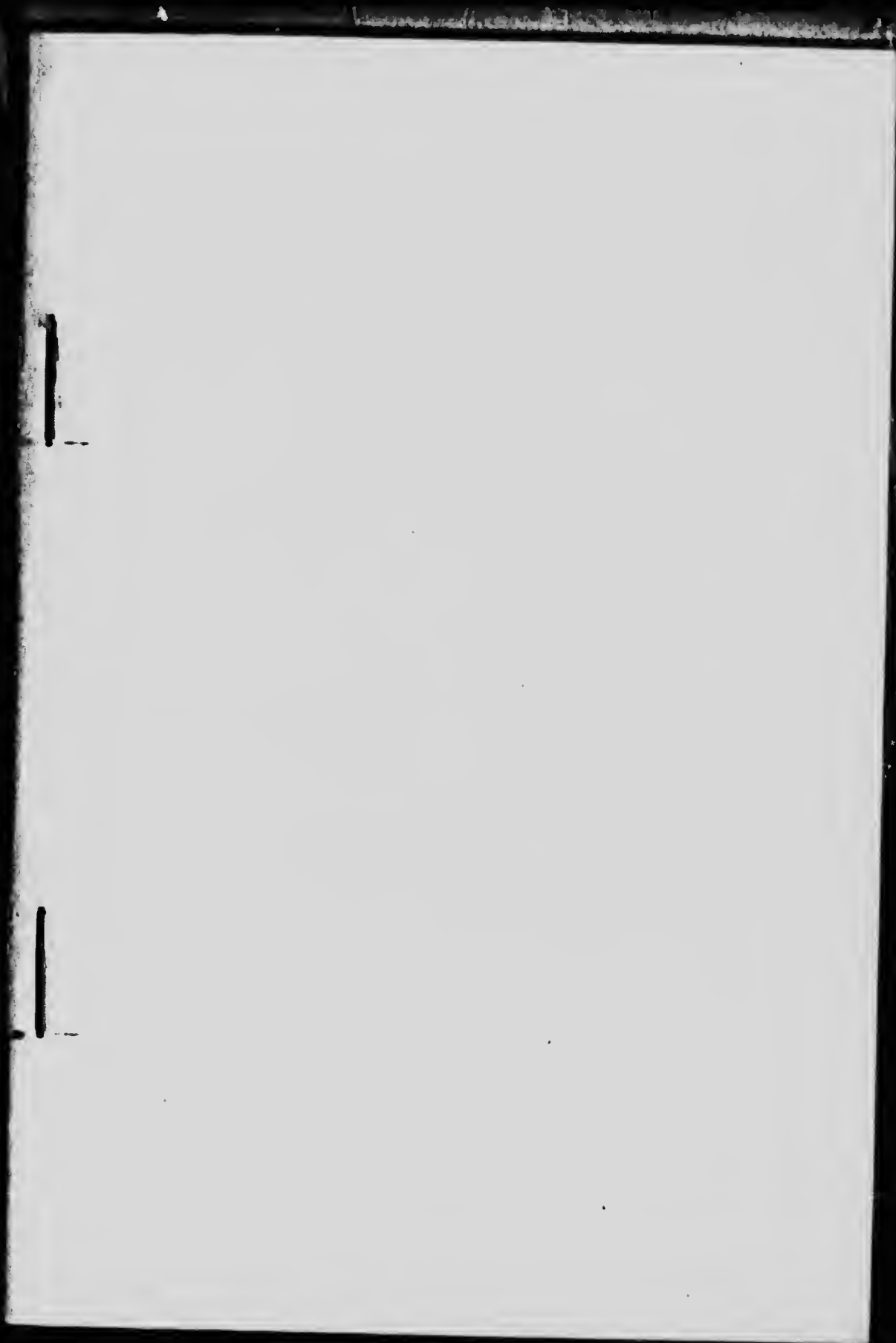
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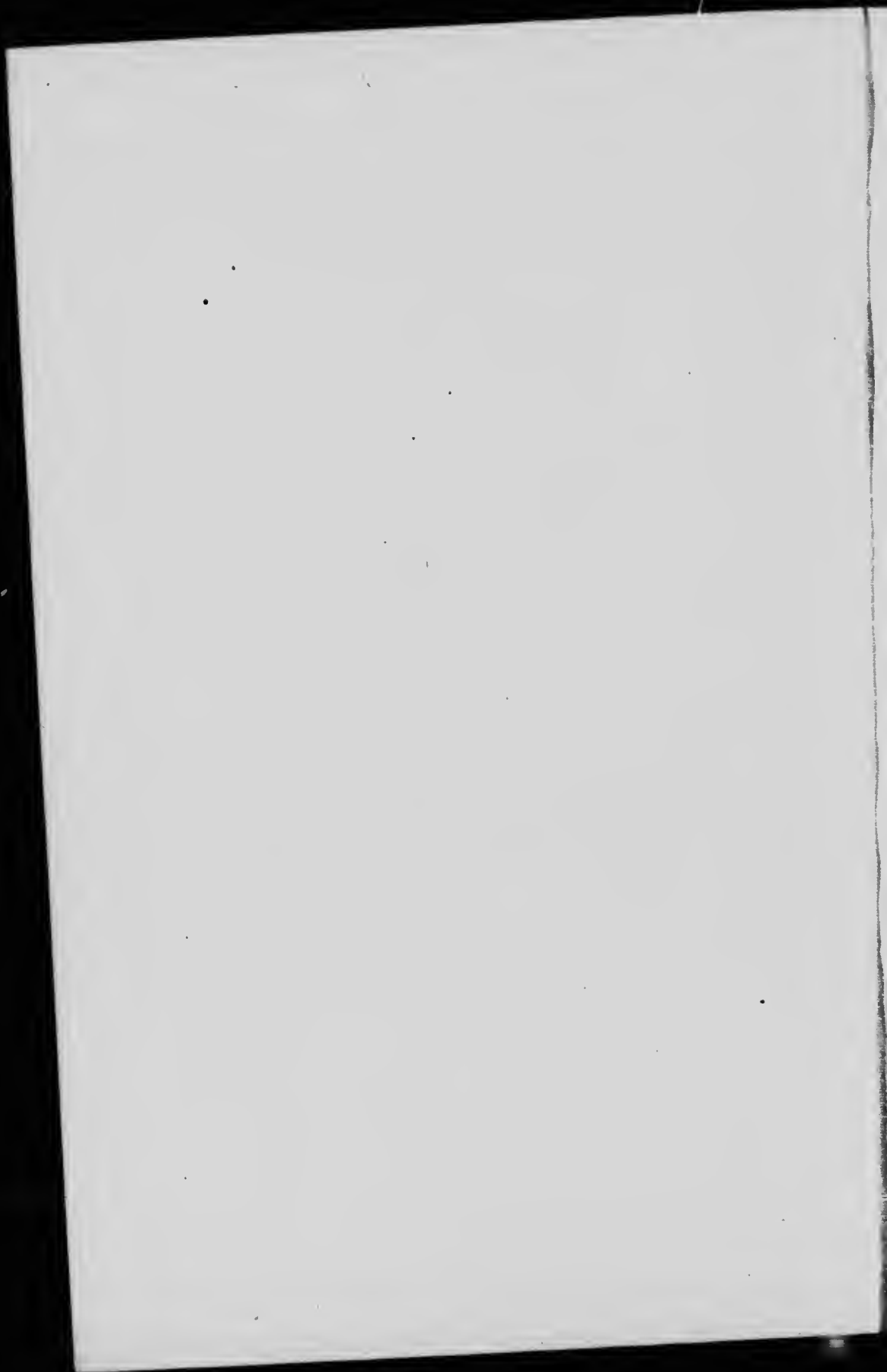
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**PUBLIC OWNERSHIP
AND
THE HYDRO-ELECTRIC
COMMISSION
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PUBLIC OWNERSHIP AND THE HYDRO-ELECTRIC COMMISSION OF ONTARIO

Being a reprint of a series of articles which appeared in the Financial Post of Canada, Toronto, between July 15 and December 23, 1916 written by James Mavor, Ph.D., Professor of Political Economy in the University of Toronto. Author of "Economic History of Russia," "Applied Economics," "Government Telephones: The Experience of Manitoba, Canada;" together with leading and other articles on the same subject published at various dates also in The Financial Post.



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PART I

INTRODUCTION

The Hydro-Electric Legislation of the 1916 Session of Ontario Legislature

The Acts concerning Niagara Power which have recently been passed into law by the Legislature of the Province of Ontario have again brought the whole question of the exploitation of power into the field of public controversy. The circumstances attending the passing of these Acts were such that so far from settling anything, the legislation has in effect unsettled the credit of the province at a most critical moment in the history of the country. The Acts in question were brought in on the very eve of the close of the Session of 1916 and passed without amendment and practically without discussion. Important alterations in the Provincial law have thus been effected in haste and without the consideration for which the very institution of Parliament was devised to provide. Moreover, steps have been taken which are designed to add largely to the public debt of the province and at the same time to depreciate the value of investments in works of public advantage which have been made by British and other investors.

Although the controversy over Niagara Power has been proceeding for many years, important legislative steps have been taken again and again in this haphazard manner. The powers of the Provincial Executive have been repeatedly strained to carry into effect projects which were assumed to be in the public interest, without any apparent attempt on the part of those who promoted them to preserve any continuity of public action or to meet the obligations into which the same or previous Executive Governments had deliberately entered.

Condensed Narrative of Events.

The Executive Government through the Niagara Falls Park Commissioners entered into agreements with certain companies, among them the Ontario Power Company and the Syndicate which afterwards became the Electrical Development Company of Ontario. In general terms these agreements permitted the respective Companies to take specified quantities of water from the Niagara or Welland Rivers for specified rentals payable to the Commissioners. The latter bound themselves not to lease similar powers to any other "Company or person" at less rentals than those payable under the Agreements by the Companies in question.

The Commissioners also bound themselves (under Clause 16 of the Agreement of 29th January, 1903, ratified by the Government on 30th January, 1903), as follows: "The Commissioners will not themselves engage in making use of the water to generate electric, pneumatic or other power excepting for the purposes of the Park." The only other exception mentioned in the clause relates to the case of failure on the part of the licensees to carry on the work.

Under these Agreements the right to take water and to generate power from the Niagara or Welland Rivers was sold to the Companies for a certain consideration, the Government on its part agreeing to refrain from taking water or from generating power, while at the same time the control of Niagara Falls in so far as it comes within the jurisdiction of the province was fully reserved

to the Provincial Legislature and provision was made for the settlement of any dispute between the Provincial authorities and the Companies by submission to the law courts of the Province. On the faith of these Agreements duly ratified by the Government and the Provincial Legislature the funds necessary for the prosecution of the enterprise were procured and the construction of the plant effected. The joint stock companies to whom the Government had granted licenses paid rentals and taxes to the Government in respect to these licenses, they were under the control of the Government and the capital with which the enterprise had been developed was provided on the faith of the licensees and in consequence of them.

In the year 1905 two Companies were actually engaged in the production and distribution of power, and a third, viz, the Electrical Development Company, as above mentioned, was in course of installing its plant for the production and distribution of 125,000 horsepower. The latter Company encountered great engineering difficulties in the construction of its plant and had not yet begun to distribute electricity, when an agitation began among some of the municipalities of Ontario for cheap electrical power. The promoters of this agitation would not wait for the effect of the competition which the increased supply of electricity might be supposed to induce, but insisted upon the promotion of a scheme under which certain municipalities would embark co-operatively in the production and distribution of power. This municipal agitation was superseded by a propaganda for a project by means of which the Province should enter upon its own account into the business of electrical distribution. Neither of these agitations was based upon plans formulated by competent persons. They were both conducted with much rhetorical exaggeration and appeals to prejudice. Nevertheless the Government was hypnotized by the advocates of the schemes

and was induced to commit itself to their support without regard to the fact that it had quite recently contracted obligations with which support of the schemes was quite inconsistent.

Under the hypnotic influences which have been mentioned the Government secured the passing of legislation which established the Hydro-Electric Commission with extraordinarily wide powers. The members of the Commission were appointed by the Government in January, 1906, and the construction of a transmission line was commenced after the Commission had made an inquiry which extended over about two months, a rather inadequate period for such an undertaking.

The Acts by means of which the Ontario Government embarked upon the distribution of power in competition with its own licensees, to whom it had immediately before granted exclusive licenses, created much uneasiness among those who had invested their money in these enterprises, as well as among investors in Canadian enterprises generally. Attempts were made to placate these investors by solemn assurances that interests which had been created by the Government would be protected by it: but these generalities were accompanied by others in which the people were told that power must be as "free as air" and the power should be "supplied at cost," altogether contradictory and inconsistent propositions.

In other words, the public were deluded by promises impossible of fulfilment while an attempt was made to delude the investor into the belief that the Government was not contemplating an act of spoliation.

Members of the Government repeatedly disclaimed any intention of ruining the Companies or of depreciating the investments which had been made through them: but these verbal assurances had no real meaning. They were belied by the Acts which were being forced on the Legislature and the public. Unfortun-

ately for the Government it has placed itself in a dilemma from which there is no escape; either it did not know what it was about and, therefore, suffered itself to be deceived, or it knew what it was about and soothed the Companies with soft words while it was at the same time confiscating the property which it had sold to the Companies and for which it was pocketing the price.

The investor is undoubtedly expected to take into account the hazards of a business into which he puts his capital; but among these hazards it has not been customary, in countries within the British Empire, to regard the repudiation by the Government of an explicit contract or of an obligation arising out of such contract as a hazard properly attaching to the enterprise. The capital which had been invested in the exploitation of Niagara Power on the Canadian side of the line was not Canadian capital, it was almost altogether British capital or capital obtained through British connections.

The Acts of an Executive Government are with difficulty called in question. Through the legal fiction of the irresponsibility of the Crown, transferred with extremely doubtful propriety to a small and not very stable group of party politicians, it is a really grave affair to call their proceedings in question no matter how injuriously these proceedings may affect either private interests or the public interests of the state. The more arbitrary its actions the more tenaciously will the authority which commits them refuse to have its proceedings called in question.

Thus the Acts by which the Ontario Government embarked in competition for the distribution of electrical power with its own licensees to whom it had deliberately granted exclusive licenses, were difficult to overturn no matter how injuriously they affected these licensees and no matter how visionary were the projects upon which the propaganda of their promoters was based.

In extenuation, members of the Government pointed to the provision that confined the operations of the Commission exclusively to the distribution of electrical power and explained that naturally the Commission would purchase the power which it required from the producing Companies already in existence. It was evident that the Hydro-Electric Commission was placed at least in the position of highly favored middleman if not even of monopolistic intermediary between the producers and consumers—a position in short which enabled it to dictate the price at which current would be supplied.

The Hydro-Electric Commission began early in its career to take arbitrary measures. It rode roughshod over all private rights, not only over those of Companies, but over those of individuals, and it sheltered itself behind the preposterous provision in its Acts that it should be immune from prosecutions in the courts of law. For those to whom exercise of power is a novel experience, all law is martial law.

Either through ignorance or through defiance of the Constitution upon which our liberties are founded the provision of Magna Carta "To no one will we sell or deny, or delay, right of justice," has been, we may hope temporarily, suspended by the Ontario Legislature. That this is no phantasy, but a very real suspension may be gathered from the fact that the Attorney-General of the Province has already twice refused a fiat to permit suit against the Hydro-Electric Commission on the ground that the Acts constituting the Commission give it immunity.

But the ambitions of the Hydro-Electric Commission were not satisfied with the position of monopolistic intermediary between the producer and the consumer. It demanded power to produce as well and to produce without payment to the Government of any rentals or taxes. With this advantage secured at the expense of the taxpayers of the Pro-

vince for the benefit of the users of power, the Commission hoped to be able to do what it had never done, viz., bring its rates for power into harmony with its promises without at the same time involving itself in financial ruin.

In order that it should accomplish this result it was not only necessary to secure powers to produce electricity, it was necessary to induce the Government to place the Companies with their investments and their plant entirely at the mercy of the Hydro-Electric Commissioners. This was necessary in order to eliminate the competition of the Companies and to leave the field clear for the Hydro-Electric Commission. The Government capitulated to these demands and in the Session of the Legislature of 1916, passed what are virtually confiscatory acts.

The Ontario Acts of 1916 relating to Power Development are four in number. They occupy eighty-five closely printed large octavo pages; they are even more prolix than is usual in such documents; and they must, moreover, be taken along with numerous other Statutes relating to the same subject passed in previous years. Apart from the circumstances attending their introduction, at the very close of the Legislative Session, which rendered it impossible for the members of the local Legislature, and perhaps even the members of the Government, to grasp the significance of the changes which they made in the law of the Province, their bulk and complexity place them altogether beyond the immediate reach of the public. Although these Acts have been passed through the conventional legal forms, it is idle to pretend that in any sense of the word they represent the mature judgment of the people. They are merely instruments of autocratic power for whose legitimization the forms of Parliamentary procedure have been undeniably strained. For that reason a review of the whole legislation by a superior authority seems to be absolutely indispensable.

The principal objectionable features in the recent Legislation are the explicit abrogation of a contractual undertaking between the Government and the Power Companies in respect to the taking of water and the production of Power, and the inquisitorial functions which are for the first time entrusted to the Hydro-Electric Commission.

The clause in the original Contract with the Electrical Development Company by which the Government undertook to refrain from taking water and from generating power for public distribution has already been quoted. Upon the faith of this and other clauses in the contract the capital which was expended by this Company was obtained chiefly in London, and the enormous plant which was necessary for the production of its quota of power was constructed.

Notwithstanding the provision in this original contract, the Act of 1916 explicitly empowers the Government Commission to use the waters of the Niagara or Welland Rivers and to construct the necessary works for the generation of electrical energy.

In order to render this clause effective it was necessary to get rid of the obligation under the Contract above mentioned. An attempt to jettison this obligation is made in the following naive manner:—

"The exercise of the powers, which may be conferred by or under the authority of this act or of any of them, shall not be deemed to be a making use of the waters of the Niagara River to generate electric or pneumatic power within the meaning of any stipulation or condition contained in any agreement entered into by the Commissioners for the Queen Victoria Niagara Falls Park."—(6 Geo. V., ch. 29, cl. 7.)

The plain meaning of language is according to this clause not the meaning of it; what meaning should be attached to the words "taking," "water" and "river" is not disclosed. This extraordinary piece of Legislation might as well have been expressed, "within the meaning of this Act, water is not water, the Niagara River is not a

River, an agreement is not as agreement, nonsense is not nonsense."

The serious matter is not merely that it was possible to make the Province and the Legislature ridiculous, but that a measure could be proposed and passed which deliberately set aside a contract to which the Government was a party. Unless this piece of Legislation is eliminated from the Ontario Statute Book, no contract whatever can be concluded with the Ontario Government with safety to the investors whose money is involved. In other words the credit of the Province has received a blow which can only be mitigated by the repeal or disallowance of the Statute.

The history of the Power controversy is filled with the record of arbitrary acts committed by the Provincial Government and its attendant and subordinate Commission, whose contracts the Government from time to time repudiates whenever it suits the convenience of the Government or the Commission to do so. For example, by way of embarrassing the Power Companies in order to prepare the way for subsequent spoliation, the Niagara Park Commissioners avowedly not of their own motion, but evidently at the instigation of the Hydro-Electric Commission, arbitrarily proposed to diminish the quantity of water which the Companies were permitted under their agreements to take from the Niagara River. This reduction was proposed in 1913 before the Act was passed which set aside the clause in the Contract relating to the production of power. Clearly the step was taken in preparation for the change in the policy of the Hydro-Electric Commission and by way of testing the extent to which expropriatory methods might be permitted to go.

The Acts in question provide also that the Hydro-Electric Commission, acting as it does as competitor with the existing Power Companies, may exercise visitatorial and inquisitorial powers in respect to the plants of these Com-

panies, and may appoint inspectors who may be empowered by the Commission to arrest the operation of the plants; in other words, to interrupt without warning the supply of electrical power by the Companies to the consumers upon their systems. To give such power into the hands of a Government inspector is in any case a highly questionable act, but to give it into the hands of an inspector not appointed by the Government but responsible only to a subsidiary Commission is vicarious bureaucracy run mad.

At the present time, the joint stock companies compete, although owing to the provisions of the earlier Acts, by no means on equal terms with the Hydro-Electric Commission; but if the Commission can use the argument, which it cannot be supposed to be likely to neglect, that at any moment it can put a stop suddenly and finally to the supply of power to their customers by the Companies, how can that competition be effectively conducted?

The Hydro-Electric Commission subsists upon the bounty of the State and upon the special privileges and exemptions with which it has been endowed. Yet it appears that it found itself hampered by the competition of the Electrical Companies to such an extent that it demands still further powers which if they are exercised must drive its competitors out of business, not by reduction of price but by the shorter and swifter method of simply closing up their plants by *force majeure*. After this is done, the Hydro-Electric Commission can then determine its own scale of prices and conduct its affairs as it pleases restricting its supply of electricity to those who are willing to pay its price. Like all attempts at monopoly it can only act in this manner to the injury of the public interest.

The recent legislation thus not only substantially repudiates obligations explicitly entered into by the Government, but adversely to the public interest con-

stitutes another step towards the elimination of competition in the supply of electrical power. If by means of its provisions the joint stock companies producing and supplying power under Government license are driven out of business through acts of the Legislature, the public will be left at the mercy of a monopoly created by the Government and entitled by the acts of the Government to fix prices for itself and to be judge in its own causes. Its history has already shown that it can be guilty of arbitrary conduct and that the ordinary law courts are closed to suitors against it who may have reason to complain of injustice.

So far from being an incident in progress, the tendency, of which the Hydro-Electric Commission is an example, to entrust Governmental agencies with industrial functions, is an incident in reaction. It is manifestly dangerous to permit a small group of party politicians, temporarily endowed with political power through elections on altogether different issues, to exercise industrial functions either by their own direct action or by proxy. This untoward experiment has been attempted on a large scale by Germany, and the consequences to the world of the governmental absorption of industrial and financial resources are very obvious. Under the pressure of extreme emergency other Governments have been obliged temporarily to mobilize their resources; but the peaceful progress of mankind would be at an end if at the close of the war governmental control were not relaxed in order that private enterprise may be resumed. The mobilization of industry in Great Britain has shown how readily private enterprises can in case of need be turned to public uses, and has also shown how difficult it is to expand public institutions to meet sudden increase of demand. The lessons conveyed by the remarkable development of productive power in Great Britain are wholly in favor of the encouragement of pri-

vate rather than government enterprise.

In Ontario, of all provinces in this country, there is little need for governmental attempts at industrial monopoly. The capital necessary for the development of industry has been obtained through private energy, and it has not been necessary for the province to interpose its credit. The revenue of the province is largely derived from the taxation of joint stock companies. Sound administration appears to lie in the encouragement of the investment of capital in the province rather than in the confiscation or legislative depreciation of capital already invested in it. Such Acts of the Legislature as those which have been referred to have indisputably the effect of checking the importation of capital, and, therefore, of raising the price of it, as well as of placing an embargo upon individual initiative and energy. The effect of these measures and of the attitude of mind of which they are the outcome must be to drive active and able men out of the country and to deteriorate the individuality of those who remain in it. One of the pregnant sentences in John Stuart Mill's famous essay "On Liberty" is the following:—

"A people, it appears, may be progressive for a certain length of time, and then stop. When does it stop? When it ceases to possess individuality."

It is not possible to make power or to make anything else "free as air," but if it were possible to do so without tangible price, and if the price of getting electricity for nothing were a check upon individual enterprise and upon the freedom and security of investment of capital from abroad, that price, intangible as it may appear to the orators who have hypnotized the Government of Ontario, would be ruinously high.

No one who dispassionately examines the Acts of the local Legislature, by means of which these things are permitted to be done, can avoid the conclusion that they ought either to be repealed or disallowed.

Public Ownership and the Hydro-Electric Commission

I.

Attitude of the Public Towards State Control and State Enterprises.

The public attitude towards the relation of the State to industrial activity may be described as having at any time one or other of four characteristics. The attitude may be one of pure indifference; it may be one of acute criticism; it may be one in which importance is attached to bureaucratic control of industrial activities; or it may be one in which importance is attached to ownership of the material means and bureaucratic direction of the services by which these industrial activities are exercised.

(a) Indifference may be regarded as the normal attitude of the public towards the conduct of its affairs by the Government.

Public indifference is by no means incompatible with bureaucratic control and bureaucratic direction. In fact, it is extremely usual for public indifference to supervene when a functionary is appointed to perform some bureaucratic act. "Now that is settled!" people say, and forthwith go their way and forget all about the matter that aroused their enthusiasm, the net result of the agitation being the addition of another group of salaried officials, working for somewhat less than the normal wages in such employments, and at somewhat less than the normal efficiency, of another group of departmental buildings and of a more or less considerable sum to the annual public budget.

(b) Acute criticism on the part of the public is rare.

(c) During certain phases of popular interest importance is however, sometimes justly attached to what is called public control; but what should rather be called official or bureaucratic inspection or interference. In the case of the ad-

ministration of the factory acts, public health acts, and the like, there is much to be said in favor of efficient inspection by agents of the government, and of prosecution in the ordinary law courts of those who are alleged to have infringed regulations laid down by Parliament. The difficulties which have arisen in this country and in the United States in the administration of such laws have been due primarily to the weakness of the executive government. The agents they have appointed have often been inefficient because of the absence of a properly trained civil service, and because of the political character of the appointments. In consequence of these conditions the factory acts and the like have not been administered as they should have been. This applies very specially to the Province of Ontario.

(d) Importance is also sometimes attached in certain phases of popular interest to what is called "public ownership," but what is really public possession of the material means and official or bureaucratic control of these and of the human services by which the industrial activities in their exploitation are exercised.

The last of these need alone concern us at the moment. By the right of eminent domain the state may under certain conditions more or less customarily recognized by statute law, enter into possession of the property of private citizens; but the exercise of this right may be abused and in the past has so frequently been abused in many countries that great historical quarrels between the common people and their rulers have arisen out of abuses in the exercise of executive power in the seizure of private property. Indeed, in consequence of

these long struggles in Great Britain, private property has long been regarded as safe from confiscation by the Crown. In this country, however, where those to whom the executive authority is entrusted by the people, are novices in the exercise of power and are for the most part ignorant of the law and practice of the constitution, seizure of private property, even of property explicitly granted by the Crown for payment by the grantees, is by no means unknown.

In the sense that anything which in the opinion of the competent authorities may be regarded as indispensable for the service of the State, may be taken by the State, the fact of public ownership of all property movable and immovable in the last resort may be taken for granted, but the expediency of exercising this right excepting in cases of emergency must be seriously questioned. If the seizure of private property by functionaries of the State becomes usual, then clearly the citizens of the State must either revolt or leave the country. If the seizure applies to those who are not citizens of the State—the act may bring about international complications, or even war. In any case such seizures must inevitably tend to prevent people from immigrating into the country where they take place and must also tend to prevent the importation of property in any form. In other words a policy of seizure by the State of property belonging to private persons is disadvantageous to the State, and may eventually lead to its ruin.

The acquisition of private property by the State, or by an authority endowed with power delegated by the State, by means not of explicit confiscation, but of compulsory purchase presents similar features. In all compulsory purchase there is an element of confiscation, and

in so far as this element exists, it contributes to the disadvantage of the State. Property is concealed, owners of it emigrate, and immigration is checked.

Even in cases where property is not acquired in either of the ways described, but is either in ancient possession by the State, or is acquired by it through voluntary sale at a fair price, there is rarely an advantage to the State in the administration of public property by state officials. Such administration may in some cases be a public necessity, as, for example, in the provision of buildings for the administration of justice, for defence, and for a limited number of like purposes; but where industrial functions which have been or may be as efficiently or more efficiently exercised by private persons, are forcibly handed over to public functionaries, there results, in almost all known cases, loss to the State, and disadvantage to the community. Even where the desire on the part of the State officials is to perform their functions in the same manner as they would if they were private employees, they are invariably exposed to political influences and the considerations which determine their actions become quite irrelevant to the business in question. Thus state conducted enterprises always cost more to the community than enterprises conducted for commercial profit. It may be held as susceptible in each case of indisputable proof, that excessive commercial profits are of very short duration. There is no known case of absolute monopoly; because there is nothing and no service for which a substitute has not been or may not be found. Moreover, high rates do not mean high profits, because in general the higher the rate the less the demand. The point on a curve of rates at which the profits are highest is a point at which the demand is relatively great, because the rate is relatively low.

July 29, 1916.

Objections to Conduct of Industrial Enterprises by Government Officials—Dangers of Value of Public Investment Being Impaired—Increase of Political Power the Main Motive of Public Ownership.

11.

The principal objections to the conduct of industrial enterprises by Government officials are the following:—

1st.—The increase of political power secured by the Government.

2nd.—The absence of inspection on the part of an independent authority.

3rd.—The ineconomical character of the management.

4th.—The tendency to minimize the risk and to underestimate the amount of capital necessarily involved.

5th.—Reluctance to provide for the continuity of the enterprise by setting aside adequate depreciation and reserve funds and by employing these exclusively for the purposes for which they are set aside.

6th.—The tendency to promote the illusion that "profits" inhere in industrial enterprise and to disregard the fact that save in the rare case of adventitious profit, these are due to economy and skill in management.

7th.—The tendency to overman the enterprise and to engage employees on political rather than technical grounds.

8th.—In the case of a public service, the tendency to fix the price arbitrarily at such a rate as to induce the public to believe that the service is being rendered cheaply, rather than at a rate determined by the technical conditions of the enterprise.

9th.—The tendency towards frequent changes in the management resulting from the fundamental unsoundness of the methods customarily adopted.

10th.—The absence of a properly trained board of directors accustomed to deal with affairs of magnitude and the substitution of a committee of politicians or of the nominees of politicians appointed on grounds having no relation to their administrative capacity.

11th.—The neglect by the Government which pursues the policy of "public ownership" of the functions proper to it as a Government owing to the preoccupation of its members in enterprises which they labour unsuccessfully to understand during the comparatively short period of their administration and to the engagement of the resources and credit of the country in hazardous enterprises which are a continuous source of anxiety.

12th.—The tendency to promote the illusion that politics and business are interchangeable expressions.

The disadvantages involved in the above objections are rarely offset by corresponding advantages. They are indeed only offset in one case viz., the case of an industry which no private person or group of persons will undertake either because of its relatively unprofitable character or because of the impossibility of collecting any revenue from it within an appreciable period of time.

Every one of these objections will be found to apply strongly to the hydro-electric enterprise. The exploitation of water powers in the Province has been shown to be one of those industries for which ample private capital can be found, provided no part of it is expropriated by the Government. There has never been any justification for Governmental interference excepting to see that those who exploited the water, took no more water than they were entitled to under their licenses. Even the rate might be trusted to competition. Monopoly in power is an impossibility—there are too many sources of power. Indeed the margin of economic advantage even in Toronto is by no means always in favour of hydraulics. A fall in the price of coal

might temporarily throw the balance heavily against water power, while improvements in the steam engine, in interior combustion engines or in other prime movers might throw the balance permanently against it. Even in the case of coal, the accumulation of reserves might render the price stable enough to resist the shock of a prolonged strike. Such changes as have been mentioned would seriously diminish the value of the public investment. The prospect of them should certainly render cautious any joint stock company engaged in the business of producing power and should cause it to hesitate before yielding to public clamour for increased expenditure of capital in the teeth of unfavourable economic conditions. A public authority is as a rule in a different position in this respect. It must go on with its capital expenditure, enlarged as this is by the circumstance that the price at which it offers its service is unduly low and is therefore bound to stimulate an abnormal demand. The end can only be ruin to the enterprise or continuous subsidies from the revenue from taxation.

The objections above detailed may be illustrated seriatim.

That the increase of political power is a main motive in "public ownership" propaganda is evident from the fact that wherever it has made its appearance the persons or the party promoting the propaganda were obviously infected with "the lust for power." They have indeed frequently been successful in securing power by means of the propaganda and sometimes they have exercised wide political influence on the strength of it, until the inherent weakness of the scheme caused their political downfall often as rapid as their elevation.

The propaganda of "public ownership" has only lately arisen in Canada. It cannot be said to have begun here until after its failure in some other countries had been demonstrated or until after its reactions in these and

other countries had disclosed to the careful critic its serious drawbacks.

The propaganda is thus not the outcome of "advanced" political or economical speculation but is due to imperfect acquaintance with the history of the subject or to reactionary views.

In France the failure of "public ownership" as a policy was fully disclosed in 1848-49; and this failure was influential enough to retard the progress of the propaganda in other countries for many years.

In the beginning of the third quarter of the nineteenth century, interest in "public ownership" arose in Great Britain in connection with the municipal administration of water, gas and certain other services. The adoption of these schemes at this period was not the result of any propaganda but was due in each case to local conditions. The return to capital in manufacturing industry and in commerce was much higher than the contemporaneous return from public services and it was in some cases difficult to obtain the capital necessary for extensions especially when these were demanded on an increasing scale during the great urban expansion of that period. Thus up till about 1884 there was no propaganda in Great Britain for "public ownership," but about that date the propaganda began chiefly in the municipalities. A considerable number of these embarked in various enterprises. Within a few years every one of the objections above detailed made themselves evident. The debt of the municipalities reached large proportions, the business of the town councils increased so much that it was impossible to obtain councillors with sufficient leisure to devote themselves to it without the prospect of ulterior pecuniary or political gain. For the first time for fully a century, municipal corruption made its appearance and the character of the municipal councils steadily declined. By 1905 or 1906, the movement

had worn itself out. Imperial Parliament was never affected by it and was always suspicious of State enterprises. Nevertheless, for the purpose of protecting the Post Office monopoly which appeared to be endangered, Parliament acquired the telegraph service and more recently in spite of serious loss in which the telegraph administration had always involved the country acquired also the telephone service. Here again the objectionable features made their appearance. The conditions of the future cannot be predicted but it is unlikely that any more propaganda for "public ownership" as such will have any weight. In those cases in which public administration takes the place of private, there will be some special fiscal reason and there will not likely be any illusion about economy.

The most conspicuous case is that of Germany. There "public ownership" has been adopted on a large scale, not for the purpose of benefiting the community but for the avowed purpose of intensifying political control over it. Bismarck saw in the State collectivism of the German Socialists an idea valuable to him as the minister of an autocratic State. Indeed it was essential to the autocratic State that it should "own" as much as possible and that all industry should be under its control. All the railways were speedily "nationalized," and all industries were organized on a quasi-collectivist basis. The result is apparent. The great struggle which is now going on is developing rapidly into a struggle between the peoples who desire a free economical and social development and the German-Socialist-autocratic state in which individual freedom and private initiative are sternly suppressed. All the world has seen in the living example of Germany the complete development of public ownership with its concomitants—disregard of treaties, agreements and the like, together with systematic and

brutal infliction of its principles such as they are upon the peoples of Europe. Germany is in brief an example of "public ownership" as it must be when it is fully developed.

In the United States the furore against the corporations took the same hold upon the public mind that "public ownership" took elsewhere and in some cases the two movements were mingled. Increased publicity on the part of the corporations and a very necessary change in their attitude towards the public, rather than any of the legislative measures which were adopted, combined with reluctance on the part of the people of the United States to change their political constitution have contributed to prevent the endowment either of the Federal or of the State Governments with additional powers.

In Canada during the past fifteen years propagandists ambitious for the exercise of political power and for the intensification of that power over the public have been advocating "public ownership." It is not a sufficient answer to the objection to it on political grounds that this is a democratic country and that the Government is responsible to the people. The facts of the case show that State ownership and official administration breed autocracy. The exercise of power becomes a habit and a country which commits bit by bit its industrial organization to Government control and Government operation will soon have little left upon which to base the assertion that it is democratic. All governments in the last resort are absolute and the more the people entrust into their hands the less they have at their own disposition. The downward path for a public ownership government is a very easy one. It begins by owning the public services, proceeds by regarding contracts and agreements as "scraps of paper," and ends in cynical autocracy from which there is no escape for the people but in revolution.

August 5, 1916.

**Second Objection to Conduct of Industrial Enterprises by Government Officials—
Absence of Adequate Inspection—No Impartial Authority.**

III.

The second objection to public ownership is the absence of inspection on the part of an independent authority. When an enterprise conducted by a private individual or by a joint stock company is charged with transgressing the law, the persons concerned can be brought to book either in the courts of law or by an application to the public authority to exercise the visitatorial power inherent in the government. Permanent organization for inspection is moreover often provided for certain groups of enterprises and in some cases special commissions are appointed or tribunals created for the purpose of examining into the conduct of individual enterprises or groups of enterprises. Thus for example, the affairs of a particular bank, and the methods of insurance companies, telegraph companies, telephone companies, railway companies and the like have been investigated. The power of visitation and inspection inherent in the government or placed in its hands by statute is a valuable power, although it may be misused.

In the exercise of this power the Government acts or should act as impartial official authority above all enterprises bringing to book offenders against the law.

In the case of enterprises conducted by the Government, no such impartial authority can possibly exist, since there is no authority above the Government. Public opinion is not effective in dealing with private enterprises, hence the need for governmental inspection; it is still less effective in dealing with governmental enterprises and thus no inspection of a serious kind is possible.

It is true that governments often appoint special commissions of inquiry into governmental affairs, but even where these commissions are not ostentatiously appointed to "whitewash" the govern-

ment, the reference to them is in general so limited that thorough inquiry is impossible. These occasional commissions however even if they were effective within their field could not take the place of a continuous organization of inspection.

It should also be pointed out that one of the reasons for public disapprobation of corporate bodies is the secrecy with which their proceedings are conducted. Disinclination to disclose information is partly due no doubt to fear of giving advantage to competitors but sometimes it is due merely to believe that the public has no right to ask for any information. The effect of this attitude of mind on the part of the managers of corporate bodies is seen in the public attack upon corporations.

A similar condition is arising rapidly in the case of public ownership enterprises. In almost all cases the managers of these are extremely reluctant to give information about them, the published reports are in general compiled in such a way as to render it difficult even for persons experienced in such matters, to discover whether or not the enterprise is being conducted in a sound manner. Sooner or later the public will demand a change in this respect. Only when this change occurs can the public be fully blamed if it continues to support enterprises conducted in a manner fundamentally unsound. Some illustrations of unsound methods of accounting will be given below; but here it may be pointed out that those governments which have adopted a policy of public ownership do not in general show in their accounts the total amount of their obligations to the public.

Briefly then, one of the principal objections to public ownership is that public opinion is not informed fully enough

and is unlikely to be effective enough even if it were to constitute an inspecting authority over governmental enterprises, while the government cannot in the nature of the case either act as or provide such an authority.

In the case of the Hydro-Electric Commission the Ontario Government has pursued a peculiarly objectionable policy. This Commission has been endowed by the Government with powers of inspection and with summary jurisdiction over the companies with which it was created to compete. The effect of this extraordinary provision must be that the Commission is tempted to discredit and destroy enterprises which it may be necessary for it at sometime to acquire. In short the Commission has

it in its power acting under the law to do as it pleases in and with its own plant while imposing arbitrary conditions upon the plants of its competitors to the end that the compensation which must be paid eventually to these competitors may be as small as possible.

Had the powers of the Commission been restricted to powers of inspection and had there been any reason to believe that such powers would be exercised in a proper manner, there would have been much to be said for the appointment of such a commission, but to add to powers of ownership and operation of certain plants, powers of inspection over other privately owned plants is a very dangerous mingling of functions.

August 12, 1916.

Third Objection: Management of Industrial Enterprises by Government Officials is Ineconomical—Supplies at High Prices Are Bought From Political Friends.

IV.

The third objection to the conduct of industrial enterprises by Government officials is that the management, excepting in very rare cases (if indeed there are any notable exceptions), is ineconomical. This objection may be regarded in two lights.

First, the management may be ineconomical in the wide sense, and

Second, it may be regarded as ineconomical in the sense of being thriftless or extravagant.

First. In the wide sense management by state officials of industrial enterprises is opposed to the economical interests of the community because the labor and capital applied to such enterprises are less productive than they would be if they were controlled by voluntary agencies. This deficiency of production has made its appearance in practically all experiments in public ownership.

The reason is not far to seek. The employees owe their position not to efficiency, but to political services, or to political favors.

From the superior down to the least officials, none have any incentive to exert themselves. Their positions are secure and owing to the absence of technical knowledge on the part of the political heads, their services even if competently rendered are apt to be unrecognized. Thus men who are keen in their profession do not enter or having entered leave the State service. The State thus comes to be served by persons inferior to those in voluntary employment of the same order or by persons of superior character who have been discouraged and spoilt by the continual necessity of capitulating to political exigency.

In the wide sense also such enterprises may be regarded as ineconomical because they make for legal monopoly under which the prices charged for the ser-

vices to those who use them are not regulated by competition. The prices may be relatively high in which case the using public suffer or they may be below the cost of the service in which case the community suffers through the tax rolls. In either case the prices are arbitrary; sometimes for long periods of time they are determined exclusively from political considerations and are not related to technical conditions.

Second. The thriftlessness of governmental management has made its appearance in all countries. The mingling of politics and business necessarily produces indifference to economy. The purchase of supplies from political friends contracts the market and therefore raises the price, in the same way as the employment of partisans only contracts the market and increases certain salaries. Innumerable commissions of inquiry, both in Europe and America have shewn that extravagance is a very usual concomitant of administration by state officials.

In the capital of our own country, in one or other of its provinces, we are seldom without one or more of these investigating commissions and the evidence taken before these points in general in the same direction—viz., that governmental administration is extravagant or corrupt, or both. Of provincial inquiries during recent years, those relating to the Manitoba scandals are most significant.

The only means of mitigating the thriftlessness inherent in governmental management is a continuous audit by an auditor appointed by Parliament and answerable to it alone. This salutary check was removed by Sir Wilfrid Laurier, who invented the Treasury Board for the purpose of over-ruling the Auditor-General. The consequences to the interests of the country of this

action are not yet fully apparent. Sooner or later, however, they must become vividly obvious in the increasing number of scandalous episodes. Expenditure upon the National Transcontinental for example, could never have reached its present colossal proportions unless the department of the Auditor-General had been tied hand and foot. The absence in the Dominion and in the provinces of a proper auditorial control independent of the executive government has during the past few years cost the country as a whole hundreds of millions of dollars. Every one who is at all acquainted with the subject is fully aware of this fact: yet some who criticize the governments even sharply, suffer themselves to be deluded into supporting every project which tends to place further economical power in the hands of the same governments with further opportunities of thriftless management and even of positive corruption.

With examples of governmental mismanagement on a large scale, like the Intercolonial Railway and the National Transcontinental, and like the Manitoba Government Telephones, it is amazing that the public should acquiesce tamely in projects like those of the Hydro-Electric commission. These projects are of exactly the same order as those mentioned and are equally likely to involve the country in losses.

The Dominion Government Railway have been all along sources of expenditure rather than of revenue, while the Manitoba Telephones have been conducted all along at a loss, while the rates to the public have been increased.

The Hydro-Electric Commission is so thoroughly political in its origin and in

its conduct that it can only be managed by and for politicians. The inquiry which is now in progress at the instance of the government in order to allay public suspicion, may be counted upon to reveal the essentially unsound methods of administration which are alleged to have characterized it. The published accounts reveal practically nothing except that it appears even from them, that large sums of money have been expended upon unauthorized extensions and that although depreciation reserves are ostentatiously established, the funds representing these reserves are nowhere to be found. They have been swallowed up as one of the commissioners has confessed, in extensions—these extensions not having been properly authorized.

One of the most serious effects of ineconomical management on the part of the State, is the reaction such management creates in the market for money. Where the State credit is insecure and where increase of taxation to meet State deficits is likely or certain, the borrowing powers of the community as a whole are at once diminished. Some markets are closed against them altogether and in others therefore the rate of interest rises. This effect was produced for example for the Saskatchewan farmer when the Government of Saskatchewan multiplied the number of liens prior to a mortgage and thus reduced the value of the security.

Acts of expropriation are profoundly ineconomical because they interrupt the continuity of economic life and restrict the area of supply both of money and goods. People will not deal with a country which takes things for nothing.

August 26, 1916.

Fourth Objection: The Tendency to Minimize Risk and to Underestimate the Amount of Capital Involved, as in the Case of the National Transcontinental and the Ontario Hydro-Electric.

V.

The fourth objection to the adoption of a policy of management of industrial enterprises by state officials is the tendency to minimize the risk and to under-estimate the amount of capital involved. The reason for this tendency is that in nearly all cases of so-called public ownership, the step is taken on political grounds and the technical aspects of the enterprises are customarily subordinated or neglected. If a plan is settled as a matter of policy, exact estimates might be merely disturbing. If the people were told explicitly what the scheme must cost them, they might not permit it to be carried out. Canada presents many examples of this tendency.

The most conspicuous of these is the National Transcontinental Railway. It will be remembered that when the scheme was introduced the statement was made on behalf of the Government that the net cost to the public would be not more than \$13,500,000. No proper estimates were made before the work was undertaken and no proper statement has up till the present time been made of the actual cost to the country of that project; but everyone now realizes that the cost to the country is unlikely to fall short of thirty times the original estimate and with high probability may be fully forty times as much. If the people had been told the truth about the scheme it would have been impossible to induce them to commit the country to an expenditure of from three to five hundred million dollars for a Government railway.

Another example is the Hydro-Electric. The original so-called estimate for both the provincial and the municipal shares in the enterprise were grossly understated. The people of Toronto, for instance, were told that an invest-

ment of half a million dollars would be sufficient. The expenditure already is many times that amount and further expenditures are inevitable. The provincial plant has cost vastly more than the original estimates, and up till the present time the full excess over the estimates has not been disclosed. Excess of capital expenditure over estimates is difficult to defend, and therefore the Government elect to conceal and to use funds for the purpose of providing the excess capital that should not be used for that purpose. We may probably learn from the report of the accountant who is now investigating the affairs of the Hydro-Electric Commission how much has been expended without authorization. Meantime, the published accounts leave us in the dark, excepting for the fact that the reserve funds have been used up in this manner, an absolutely indefensible proceeding.

By means such as this and by rhetorical exaggeration of the advantages of a subsidized power supply, the promoters of the Hydro-Electric enterprise have drawn the province gradually into enormous expenditures, and they are still doing so. Although the country is at war, and although the money market is exhibiting the effects of that condition, the people are forced by the Hydro-Electric Commission to supply constantly increasing amounts. Within the past twelve months the commission has added at least \$8,000,000 to the debt of the province, and now proposes to add another \$1,300,000. It is needless to say that the bonds representing the first mentioned of these sums have not been absorbed. What must be the effect upon the credit of the province of placing further large sums upon the market? In the future these issues must increase

more or less regularly. With every increase of the use of Hydro-Electric power more capital must be raised, until the amount for which in the aggregate Ontario has been rendered responsible, must approach the amount of the debt of the Dominion. The tax paying, public was not told this now patent fact before the enterprise was launched.

Nothing is more usual in public enterprises of this kind than to disregard the element of risk. Apart from the ordinary business risks—fire, damage by storm, etc., there is in all power enterprises the risk of competition by other forms of power than that which is made the subject of state monopoly. It is proposed that a statutory monopoly exempts an enterprise from competition. This is a great mistake. No field invention has experienced more activity during recent years than the field prime moving machinery. The internal combustion engine has revolutionized the field of power. There is no reason to believe that invention of motor engines has come to an end, and it

may be that ere long the street railway will appear to be a clumsy and antiquated device, while the conveyance of electrical energy over long distances at high tension may be looked upon also as a relatively costly means of obtaining power. If the community has been meanwhile committed to enormous capital expenditure for plant, it may be necessary either to impede the adoption or to purchase or confiscate enterprises established for the purpose of developing these methods. In any case, there must be an apparent necessity to protect the public investment by some means.

In these cities in Great Britain, for example, where the supply of gas has been undertaken by the municipality, it became necessary to purchase or confiscate the electric lighting plants established by joint stock companies and to restrict the business of electric lighting, in order to protect the gas department. Had neither been under municipal management, the public would have had the benefit of competition.

September 2, 1916.

Fifth Objection: The Reluctance of Political Control to Provide for the Continuity of the Enterprise.

VI.

The fifth objection to official management of industrial enterprises is reluctance on the part of the political control to provide for the continuity of the enterprise by setting aside adequate depreciation and reserve funds and by employing these exclusively for the purposes for which they are set aside. The temptation to deduct from the real cost of a service the items mentioned and to exhibit as the cost a much lower sum is frequently, and in the early stages of such enterprises, almost invariably, yielded to by the politicians. Since their single aim in promoting the enterprises is to maintain themselves in power, they feel themselves obliged to redeem, at least in form, the ill-considered promises they have made, by stating the cost at a fictitious figure. Even where they do nominally set aside depreciation and reserve funds, they frequently, as in the case of the Hydro-

Electric, employ these funds for the extension of the system or otherwise, instead of using them as such funds ought invariably to be used. The history of the Manitoba Telephones is highly significant in this connection. Ignorant as the Government was of the technique of large enterprise, at the beginning of the public ownership of telephones, it scoffed at the idea of setting aside any depreciation fund. This went on for a few years until the annual expenditure came to be so great that enormous deficits had to be admitted, these deficits being aggravated by the circumstance that no fund for the replacement of worn-out plant had been created. So, also, when a depreciation fund was established some years after the plant had been acquired, the Government utilized the funds for general purposes and did not regard them as sacred for the purpose for which they were created.

September 2, 1916.

Sixth Objection: The Tendency to Promote the Illusion That Profits Inhere and to Disregard the Factors of Economy and Skillful Management—Many Mistaken Conclusions at Which the Public is Likely to Arrive Without Analyzing Conditions.

VII.

The sixth objection to the conduct of industrial enterprises by Government officials is "the tendency to promote the illusion that profits inhere in industrial enterprise and to disregard the fact that, save in rare cases of adventitious profits, these are due to economy and skill in management."

This tendency makes its appearance in practically all projects for the transference of industrial enterprises to "public ownership." The gross profits are usually regarded as *public* and the necessary provision for the continuity of the enterprise through the allocation of portions of these profits to reserve is not taken into account. It is not realized by the public and sometimes not even by the promoters of the projects, that the earnings of all such enterprises fluctuate, and that while in private enterprises dividends are not customarily paid unless sufficient profits are earned to pay them, or unless a fund has been established out of previous profits for the equalization of dividends, the interest upon bonds issued on the credit of the public must be paid whether profits are earned or not.

A conspicuous case of the disadvantage of "public ownership" under conditions of depression is afforded by the parallel cases of the docks at Liverpool and at London. In the former case the docks are under the control of a public body, while in the latter case they are under control of joint stock companies. The Mersey Dock Board was obliged to pay interest upon its bonds during a long period prior to 1886, although the docks were not yielding interest, while during the same period the dividends and interest upon the shares and bonds of the chief London docks were cut down to a nominal amount, or suspended altogether.

The illusion that profits are inherent in industrial enterprises not only tends to induce the public to sanction increased expenditures upon services undertaken by a public authority, but also tends to induce opposition to the increase of capital by private enterprises where legislative authority is necessary to increase such capital. It is obvious to anyone who studies industrial fluctuations that the investment of capital does not necessarily involve return in the form of interest. Large sums were invested, for example, by the municipalities and other public bodies in Ontario in railway enterprises which have never paid any dividends, and in all probability never will pay any.

The earnings of industrial enterprises depend upon three broad factors—the general economic conditions of the time, the special statutory conditions of the place, and the skill with which the enterprises are managed. Over the general economic conditions the Government has no more control than any voluntary organizations. Over the statutory conditions it has a certain control and this may be directed towards the encouragement of private enterprise in the community, or towards the discouragement of it. Owing to circumstances which have been indicated in a previous article, the Government is not in so favorable a position to employ first rate skill as a voluntary organization under normal conditions. The history of municipal and provincial offices in the Province of Ontario affords frequent examples of skilful direction, being persistently thwarted by political considerations and of consequent abandonment of their positions by disheartened officials who were able to do their duty if they had been allowed to do it.

In large private enterprises, it is notoriously difficult to obtain competent superior management. The presidents of railway companies in this country and in the United States receive salaries much larger than those of Cabinet Ministers, and in general they receive them because they are worth the amounts they are paid, and because they cannot be obtained for less. In State enterprises where inferior skill is customarily employed, and where political interference is more or less constant, the indirect costs of management are immensely greater than the direct costs. For example, gratuitous management of a State enterprise may cost the country many times what adequately compensated management might cost it. In voluntary organizations incompetent management has generally a brief career; but in a State enterprise where the manager has been appointed by political influence, an incompetent manager may remain indefinitely through the exercise of the same agency.

In a voluntary enterprise, the absence of adequate return to capital cannot long be concealed. Exasperated shareholders would soon make their influence felt if there was any reason to believe that the absence of dividends was due to absence of skill in conducting the business. In State enterprises the absence of return may easily be covered up by the manipulation of accounts. Especially if the general resources of the Government Treasury are open to the management, the process of disguising the real state of matters may go on for years.

It is true that the institution of a subsidized enterprise and its competition with voluntarily established concerns, may result in reduction of the price to the consumers of the commodity involved. This reduction in price may be initiated by the State enterprise and may be rendered possible through the diminution of the costs of production, by means of increased economy of management, by subsidies from the

general revenue, or by means of disguising of the real cost through unsound book-keeping.

In State enterprise the first is extremely rare, if not quite unknown; the second is the usual means by which reduction in price is effected, and the fact is usually concealed by the third. Reductions obtained by this means cannot last. One day the unsoundness of the method must be apparent.

The reduction in price may, however, be initiated by the previously existing voluntary organizations which forestall the state enterprise and meet the competition of it by voluntarily reducing their prices. Such a condition of matters may make the task of continued existence very hard for both parties, but especially hard for the State enterprise, the managers of which are unable to conduct their business so economically as those of the private enterprise. If, however, the private enterprises succumb in the struggle of competition, the State enterprise is left in possession of the field and then it must be open to subsidization out of the general public revenue or it must endeavor to make ends meet by increasing its net revenue in some manner. In either case the competition is at an end, the State enterprise is in full possession of a monopoly, and the cost to the community tends to increase; indeed, it may increase to a point greatly above the point which it attained before the competition of the state enterprise began.

It is a matter of experience that those who enjoy the benefits of the supply of commodities at or below cost—i.e., cost to the makers of these—are extremely reluctant to sacrifice any part of this enjoyment by paying more for them than they have been paying. When the commodities are supplied by voluntary agency, the consumers are helpless. The price, low or high, is determined in the market—and the consumer must take his chances there; but where a State monopoly is concerned, the price is

usually determined exclusively by economic considerations, the consumers bring upon the State enterprise all the political pressure they can bear, irrespective of economic conditions or consequences, and very often succeed in keeping the price from advancing or even in reducing it. There are many examples of this in State and municipal industrial enterprises, where temporary reductions have been made in obedience to popular clamour, and where reductions have with great difficulty been refused because of the obvious wreck of the system involved. The cases of the temporary reduction of the price of gas in Glasgow, and of its subsequent advance, and of the dispute over the reduction of tramway rates in the same city are illustrations of these points.

A great deal of controversy has arisen in Great Britain as to the legitimacy of making profits out of municipal or State industrial enterprises; but these controversies have in general been settled by the spontaneous disappearance of profits and by the difficulty of meeting the obligations on account of interest, sinking funds, and the like. In

brief, the dispute about profits has lost its interest because profits have tended to disappear.

A large part of the motive force behind the Hydro-Electric propaganda was the illusion that immense profits were being realized by the companies which had been voluntarily organized. These companies have never been in a favorable financial position; their net profits have been insignificant compared with the risks they undertook. The chief reason has been that while at the beginning their formation was welcomed by the Legislature and the Government, and while on this welcome they were able to raise the capital necessary for their enterprises, they were afterwards mercilessly attacked by the Government and the value of their property seriously diminished.

There are many examples in this country and elsewhere of flourishing enterprises being taken over by the Government and within a few years being reduced to financial ruin. A conspicuous case of this is to be found in the Manitoba Telephones.

September 16, 1916.

Seventh Objection: The Tendency to Overman Such Enterprises and to Engage Men on Political Grounds.

VIII.

The seventh objection to the policy of management of industrial enterprises by public officials is the tendency to overman such enterprises and to engage employees on political rather than on technical grounds. This tendency manifests itself alike in state and municipal employment of all kinds. The extension of the activities of public bodies into the field of industry greatly enlarges the area of patronage and increases the cost of it to the public.

There are many notorious examples of loss to the community through the employment of excessive numbers of persons in public offices. In a recent case in one of the eastern provinces, a Dominion official was dismissed on poli-

tical grounds, and on the same grounds four persons were employed to fill his position. Similar conditions exist in Federal, state and municipal employment in the United States. In those cases where municipal enterprises have been transferred to voluntarily organized joint stock companies, large numbers of unnecessary employees have been gradually discharged until the enterprise was brought into a businesslike condition.

The point is familiar to everyone who has any acquaintance with such matters. It would be wonderful if the Hydro-Electric enterprise were freed from such a tendency.

September 23, 1916.

Eighth Objection: Tendency to Fix Price at an Arbitrary Amount.

IX.

The eighth objection is the tendency to fix the price at which a public service is rendered at an arbitrary amount without regard to the technical conditions of the enterprise. The most conspicuous example of this tendency is the sixpenny telegram in Great Britain. The amount of one halfpenny per word, with a minimum charge of sixpence, was fixed for the whole of the United Kingdom when the telegraphs were purchased by the Government. This uniform charge was settled upon largely on political grounds, although there was thought to be an analogy between the penny post and the sixpenny telegram in respect to the resilience of the revenue. This anticipation was not realized, and the consequence has been that the telegraph system has involved an enormous annual loss ever since the purchase was effected in 1870.

There are many other cases of a similar character which need not be detailed here; but as there is a certain analogy between the cases of the telegraphs and telephones on the one hand and the supply of electrical power on the other, it seems worth while to indicate the ground of this analogy. There are certain industries to which what is called the law of increasing returns is specially applicable. If, for example, the employment of \$1,000 in the manufacture of nails of a certain type, produces a return say of 10 per cent. when the nails are sold at say, a dollar a barrel, it may be found that the employment of \$100,000 in the manufacture of the same type of nail yields a return say 20 per cent. when nails are sold at fifty cents a barrel. The increase of capital produces an increase of return which may be counted upon to do so until, owing to the excessive production of nails, a point is arrived at when no fur-

ther increase of capital will produce an increase of return.

Capital and Return

This result will obviously follow whether the manufacture is conducted under conditions of competition or under monopoly. That is to say, that at some point in the curve of the increase of capital, what is called the law of diminishing return comes into play. All industries correspond to this rule; some, however, are of such a nature that the law of increasing return applies, as it were, longer, that is to a greater extent of increase than other industries. From the point of view of increasing return, those industries which have to do with the manufacture of commodities subject to steady demand which can be readily standardized and can therefore be made by means of machinery almost automatic in its action, may be regarded as favorable industries, whereas those which do not afford beyond a certain not distant point, an increase of return to capital are non-favorable industries.

The services of the telegraph, the telephone, and electric power are examples of unfavorable industries in this sense. The reason is that while the capital in the favorable industry is only applied to it when the demand reaches a point when an increase of capital is necessary to enable the anticipated demand to be met while previous increments of capital are still engaged in production, the capital in the unfavorable industry may have ceased to be productive and yet fresh demand necessitates the application of continued increments of fresh capital whether the particular increment in question can be counted upon to yield an adequate return or not.

Thus, for example, a telegraph line is laid at considerable cost to a remote dis-

trict. For a time this district uses the telegraph to such an extent that an adequate return is received upon the investment, but for some reason the district declines and the telegraph line ceases even to pay operating expenses while it returns nothing upon the capital invested. Meanwhile another district develops, which demands telegraph facilities. These have to be given or the telegraph enterprise would fail to keep faith with the public, but the increase of capital which is involved in the process of supplying fresh demand does not necessarily mean increased return upon the total capital employed. While in the case of the telegraphs the demand arises from communities in the case of telephones, the demand arises from individuals and thus in the telephone business there is even more fluctuation of demand and a large part of the capital invested in wires, etc., remains dormant, and is sometimes lost altogether, although the number of users of the telephone is constantly increasing. The telephone also offers another kind of case of the law of diminishing return, because the cost of working any individual telephone increases with the number of connections with which that telephone is brought into contact. The consequences of increasing numbers of connections, even although these may only be possible and not actually employed connections, are that switchboards become more and more complicated, the total plant more intricate, and the investment of capital per connection thus tends to increase, and therefore the return to capital, the rate being the same, tends to diminish.

The service of electrical power is analogous to a large extent to the service of the telephone. In it also there is much fluctuation of demand and there is also much dormant capital. People who use electric light or power abandon the use of it or change their residence—the residence remains empty for a time or perhaps is removed to make way for a larger building—the

connections which have been made yield no return for a time, or have to be removed—in one case the capital they represent is dormant and in the other at least a portion of it is lost.

The Example of Manitoba

These conditions are perfectly well understood by those who are in the respective businesses of supplying telegraph, telephone, or electric lighting services, but they are by no means always understood by those who assume the role of advocates of "public ownership."

In Manitoba, when the propaganda for "public ownership" was initiated by the Government, the Premier, Sir Rodmond Roblin, spoke of the "false theory" that the more numerous the telephone subscribers in an exchange, the greater the cost of the exchange per telephone. Not many years elapsed before the Manitoba Government found to its cost that the "theory" which it regarded as "false" was really a statement of practical experience. Before this elementary fact was discovered, however, the Manitoba Government had promised "to cut the telephone rates in two," and had actually so far attempted to redeem this promise by a reduction in the rates. Knowing, as they afterwards admitted, nothing whatever about the subject, they decided upon the rates quite arbitrarily without any regard to the technical conditions. These rates were not based on economical but on purely political grounds, with the consequence that the Government found it necessary to increase the rates for urban telephones in order to avoid the hopeless bankruptcy of the scheme. Had politics not been mingled with the business of the telephones the promise never would have been made and had the Government known anything about the business it presumed to manage the rates would have been fixed exclusively on technical grounds.

Danger of Politics in Hydro-Electric Development.

One of the great dangers of the Hydro-Electric scheme is that, like the Manitoba

Government, it will set aside all technical opinion and on political grounds fix rates which it will find impossible to sustain without either making higher differential rates to some places or disguising the accounts in such a manner as to conceal the deficits for a time.

There is another element in the Hydro-Electric case which affords an example of the law in question. This element the Hydro-Electric Commission has already encountered. The first contract which it made for the supply of power was made at \$9 per H.P., the second has been made at \$12 per H.P. At what price will it be able to make the third contract and at what price will it be able to produce electrical power on its own account? It is obvious that as Niagara is drawn upon more and more, the cost of installing plants, other things being equal, must become greater.

Apart from this, the estimates and the promises based on these, which were made when the Hydro-Electric scheme was launched some years ago, were founded upon conditions of wages, etc., which then existed, but exist no longer. Either the

Commission must wait until the fluctuations of wages and the prices of certain commodities bring them to the point at which their estimates took them, or it will require to pay substantial increases upon its estimates. As to the Hydro Radial scheme—railways in the neighborhood of great towns exhibit great fluctuations in prosperity. Everyone who is familiar with the Toronto of twenty-five years ago, remembers the pair of lines of rusty iron which represented the rosy anticipations of the promoters of the "Belt Line." Toronto has prospered since then, but that project has not been revived.

As indicated in a previous article, a very careful inquiry would have to be made by competent and experienced persons into the likelihood of effective demand arising in this province within any measurable period of years, for a radial system involving so much capital as is indicated by the scheme of the Hydro-Electric Commission. If the public are lured into support of the scheme, the lure will be rates based upon political and not on technical grounds.

October 7, 1916.

Ninth Objection: Tendency Towards Frequent Crises in Management.

X.

The ninth objection to the official administration of industrial enterprises is the tendency toward frequent crises in the management resulting from the fundamental unsoundness of the methods customarily adopted.

The tendency previously noticed to minimize the risks of the enterprise to make political appointments to technical positions, toward interference by the politicians with the technical management; to avoid the creation of reserves against depreciation, to provide inadequate working capital for the conduct of the business, to fix the rates for the service on political rather than technical grounds, and other similar tendencies, result in frequent crises. During these crises, the question of "public ownership" becomes a political issue, critics of the system in general and of the particular scheme in question are vigorously denounced and rhetorical speeches are delivered instead of plain, businesslike statements. Sometimes the crisis ends in a Commission of Inquiry. Often this Commission is cunningly devised to shield the Government. Since the Commission is invariably appointed by the Government, it would be the height of ingratitude for its verdict to be otherwise than favorable to the administration. If some one has to be blamed, the blame must rest somewhere else than on the shoulders of the Government.

The Case of Manitoba.

In this connection, as in several others which have preceded, an example may be drawn from the case of Manitoba. There the Telephone Commission was subject to frequent crises. In the first crisis, the Commissioners found themselves under the necessity of expending out of the revenue of a single year a large amount upon replacement of worn-out material. This amount should have been provided out of a depreciation reserve, but as the Govern-

ment scorned the idea of creating such a reserve, there was no fund upon which to draw. The result of this operation was that the Commissioners had to report a heavy deficit in the accounts of the year. The next crisis occurred when the Commissioners insisted upon raising the telephone rates. This raised so great a storm that the Government had to appoint a so-called Royal Commission for the purpose of inquiring into the Telephone Department. As was to be foreseen, the crisis ended with the vindication of the Government by the obedient Commission and the sacrifice of the Telephone Commissioners. Another incipient crisis occurred when the Public Utilities Commissioner who had been entrusted with the oversight of the telephones in succession to the former Telephone Commissioners, also resigned. Indeed, the Manitoba Government telephones have been in a chronic state of crises from the beginning of their history.

Hydro-Electric Crises.

The Hydro-Electric Commission has had a somewhat similar career. Its whole history, indeed, is a record of a succession of crises with no appreciable intervals of time between them. In general, these crises were due to ignorance on the part of those who promoted and managed the system, to consequent want of foresight and to neglect of the most ordinary provision for contingencies. The customary method of escape from these crises was to commit a breach of the law and then to press through the local Legislature a special Act declaring that the breach of the law should not be regarded as a breach of the law. In spite of the fact that at the outset of its career the Hydro-Electric Commission secured for itself extremely wide powers, which indeed it exercised in a highly arbitrary manner, it found that these powers were inadequate and each year came before the Legislature

asking for further and further powers, in many instances these powers having already been illegally exercised by the Commission. In respect to the statutory powers to expend and to raise money, the Commission has been shown by the Provincial Auditor to have been always expending money illegally. Its almost invariable practice appears to have been to spend the money and then ask for authorization. All these incidents of the Hydro-Electric administration have been due to want of foresight arising, as has been said, alone out of want of knowledge on the part of the administration.

British Investors Alarmed.

The most important crisis in the early history of the Hydro-Electric occurred in 1906, when the companies which had been granted leases for the generation of power at Niagara and had been investing funds secured chiefly from British investors, in plants under these leases, became alarmed at the policy of the Government. Their representatives went to Sir James Whitney, then Premier, to ascertain precisely the nature of that policy. Sir James Whitney told them distinctly that the Government had no intention of interfering with vested interests. He assured them in the most positive manner that the power which was to be distributed by the Hydro-Electric Commission would not be generated by it, but would be purchased by it from the generating companies. He said decisively, that for the Hydro-Electric Commission to generate power on its own account would be a breach of the agreement the Government had entered into with the companies. This statement of the Premier was accepted in good faith by the companies and the declaration then made led to further expenditures upon plant on behalf of the companies. The successors of the late Sir James Whitney and the Hydro-Electric Commission have absolutely ignored not merely the solemn engagement made by the Premier on behalf of the Government, but in de-

fiance also of explicit written contracts have done the very thing the Government guarded itself against in 1906. That is, they have done the thing which Sir James Whitney described as a breach of contract.

The By-laws of 1908.

An important crisis of the Hydro-Electric Commission arose over the passing of the Municipal By-laws in 1908. After these by-laws had been passed by a number of municipalities, their legality was called in question and it was decided by the court that the provisions of the Ontario Municipal Act in respect to the information to be supplied to the electors in the by-law had not been complied with. Retroactive legislation was then passed in order to legalize the contracts made between certain municipalities and the Hydro-Electric.

The Toronto and London Contracts.

Another important crisis arose when actions were entered to set aside the contracts between the Commission and the cities of Toronto and London on the ground of misrepresentation on the part of the Commission regarding the obligation of these city corporations in respect to the contracts. The court held that a fiat of the Attorney-General was necessary to enable the actions to be tried. The Attorney-General (the late Sir James Whitney) refused to grant a fiat, upon the strange ground that he "could not divest himself of the knowledge that the Act was 'intended' to validate the contracts in question." This ground was clearly irrelevant, yet the Attorney-General assumed the power (which he may or may not really have had) to refuse a fiat, which he did.

When the transmission line from Niagara was erected, instead of following the usual practice in respect to easements and leases of land for the line, the Hydro-Electric Commission resorted to arbitrary measures which necessitated further special legislation.

Absence of Foresight.

It has been remarked that lack of foresight has many times led the Hydro-Electric Commission into critical situations. This is especially true with regard to the crisis about power. From the beginning they grossly underestimated the effect upon the demand for electrical power which the mere promise of "power at cost" would produce when that promise was made by a Commission with the financial resources of the province behind it. The Commission also greatly underestimated the cost of producing power and took no account of the limitation in the supply of water by the International agreement between Canada and the United States.

All of the estimates of the quantity of power which might be demanded were too low. The consequence of this underestimate has been frequent failure of current and constant complaints on the part of the Commission that they had not enough power. At the present time the Commission is involved in a power crisis of this kind. It has increased its purchase of power and has also undertaken to generate power on its own account. But the available margin between the amount of water which may be taken under the international agreement and the amount which is now taken is not great; and it is obvious that the only way in which the Hydro-Electric Commission can conduct its business is either to raise the price in order to diminish the demand for power or to reduce the amount of water which the companies may use. If the latter expedient is adopted, and the process of reduction has already begun, the companies must eventually give up business.

October 14, 1916.

The tendency towards frequent crises in the management of industrial enterprises under official administration was illustrated by examples from the history

of Manitoba telephones and the Ontario Hydro-Electric Commission. The most important recent crisis in which the latter was involved may be described as a political crisis, in which the main issue was the Government of Ontario. The Hydro-Electric Commission advanced the pretension that owing to its influence with the municipalities it held the political control of the province, and that unless the Cabinet yielded to its demands, it would defeat the Cabinet at any election which might take place, or in the event of an election being postponed, that it would transfer its influence to the Opposition, and by this means defeat the Government. The demands of the Hydro-Electric Commission were, to say the least of it, exorbitant beyond belief. It demanded all the funds which it considered necessary for its fantastic schemes, and it demanded also that the expenditure of these funds should be exempt from audit. In other words, the Commission should receive a blank cheque from the Government, and should not be required to give any account. Although the Cabinet had previously shown itself to be incredibly weak in yielding to the Commission, and had under the pressure of suppositious political influence acquiesced in many irregularities, these demands were too much, and with a propriety which was almost greater than might have been expected, it refused.

The Hydro-Electric organs did not spare the Government; but if the Government had gone farther and refused absolutely to give the Hydro-Electric Commission any further facilities for exploiting the credit of the province, it would have earned the lasting gratitude of the people of Ontario. Had it drawn the line sharply, it would have avoided either for itself or its successors the complete recasting of the system of taxation of the province, which must inevitably result from the necessity of providing out of the general revenue of the province for the enormous deficits which must be incurred by the Commission. It

is quite obvious that at the present time the principal revenue of the province is derived from the joint stock companies which carry on business within its boundaries.

If the conduct of the Government renders it impossible for such companies to carry on business, the Government must find its revenue otherwise than from them. Since every encroachment by the Government or by Commissions instituted by it must involve diminished revenue from these joint stock companies, it is clear that ere long the Provincial Government must resort to another form of taxation in order to secure the revenue necessary to conduct the business of the province. If every service rendered by the Government or by its Commissions is to be rendered "at cost," and if the Government monopolizes all services, there can remain nothing for the general service of the State.

More than most regions of its size, Ontario requires the aid of external capital to develop its resources. This development has been retarded in the past by fluctuating and ill-advised governmental policy; if such policy is continued, the only consequences must be the retardation of further development.

The Present Power Crisis.

The crisis in which the Commission is now involved is a power crisis, in which they are encountering a demand for power, stimulated by the temporary reduction of price, due on the one hand to the effort on the part of the Commission to redeem their pledges to supply cheap power, and on the other to the effort on the part of the companies to compete with a Commission, subsidized as it is by the province and the municipalities. The prices which have been fixed by the Commission are purely arbitrary; they have no relation to the prices at which electricity can be continuously sold, and they have no relation to the increasing demand. The conditions brought about by the intervention of the Hydro-Electric Commission, inexperienced as it was and is in the conduct of such enter-

prises, has demoralized the power market. It is true that the condition is undoubtedly temporary, and that the Commission must at some point cease to be able to increase its supply of power. Then it will become apparent to the general public that the credit of the province has been engaged, the resources of the province mortgaged, and the income of the province drawn upon for the purpose of providing a certain number of municipalities, and in these a certain number of individuals, with electrical power not "at cost," but below cost, and at the expense of the province. When the general public have become fully aware of that fact, the Hydro-Electric Commission must raise its rates; and in the raising of them they must lose customers, and go on losing them, until all the customers, whose only inducement to take power was the relative cheapness of it at successive points on the scale of prices, have been eliminated. Meanwhile, the Hydro-Electric Commission, through the demoralization of the market for power, will have driven private enterprise out of the field, if not entirely, at least so far as some established and all new enterprises are concerned.

A Dog-in-Manger Policy.

In this connection it is instructive to notice that the policy, (which can only fittingly be described as that of a dog in a manger, adopted about twenty years ago by some of the larger municipalities in Great Britain and supported by Parliament and by the Electrical Department of the Board of Trade both of which were terrorized by the political influence of the municipalities) accounts wholly for the slow development of electrical enterprise in Great Britain. Under private enterprise, the most important early advances in electric lighting were made in Great Britain; these advances were checked and a promising industry restricted and almost totally ruined by the conjoint action of the municipalities and Parliament. The fear

that any one should make a profit out of a public service became a kind of panic and the inevitable result was that no one wanted to provide service for the public, the municipalities showed themselves quite incompetent to do so, the public service steadily declined in efficiency and the electrical industry was almost ruined. The most remarkable period of invention and improvement in public lighting took place when electric lighting under the management of private enterprise competed with gas lighting under municipal management. Gas lighting in many cities was enormously improved, while electric lighting gradually won its way to a commanding position. It began to undertake the supply of for public lighting, when the municipal-electric light, as well as gas, the process of development was arrested and Great Britain fell behind. This circumstance reacted upon the manufacturing of electrical appliances. The manufacturers looked abroad for their market, while the municipalities strangled the electrical business in the interests of their gas departments.

Strangling Private Enterprise.

The course of history sketched above may be regarded as indicating the almost inevitable course of history in the immediate future of Ontario. The power crisis will be surmounted by the Hydro-Electric strangling every private enterprise in the province which in any way competes with it, absorbing all the power which it can find means to develop and then when it possesses a statutory monopoly of electrical industries attempting to raise its rates in the same arbitrary fashion as it lowered them. To obtain a supply of power in any particular case will require the exercise of political pressure and the province must rapidly glide into a hopelessly demoralized condition. Meanwhile the electrical manufacturing industry will be strangled in the same way as the same industry was strangled in Great Britain and as the industry of

distributing power has been strangled in Ontario.

It is very significant that whether aided or not by an active lobby, alleged to have been carried on by the Hydro-Electric Commission at Albany (a very questionable proceeding) the building of radial lines in Ontario by private enterprise, has been impeded. The determination of the Hydro-Electric Commission to stamp out by any means all competition must thus be rendered absolutely certain. Private enterprise which has been applied directly to the rendering of public services has been the first to suffer. In a short time, we shall be told that it is quite impossible for the Hydro-Electric system to pay expenses so long as it is being held up by conscienceless manufacturers of electrical supplies and compelled to pay exorbitant prices for these. The Commission will argue that this proceeding will force it into manufacturing on its own account. It may therefore be expected to embark upon the construction of street railway cars, and of electrical plant of all kinds. The consequences of this expansion of the activities of the Hydro-Electric must be the ruin of one of our most promising industries and the driving of our electrical engineers out of the country.

October 21, 1916.

Consequences of the Power Crisis

It has already been remarked that the Commission is now in the throes of a power crisis, the causes of which have already been noticed. Some of the consequences of the crisis remain to be considered. Relief has been sought by forcing the companies now generating electricity to supply power, not at the market price of it but at an arbitrary price fixed by the Commission. This has been forced to sell power, although it appears that the price has not been definitely fixed. It must

be remembered that the Hydro-Electric system nowhere provides for an alternative steam supply. This circumstance renders their supply very uncertain and handicaps the system in view of the fact that at least some of their present competitors (as for example the Toronto Electric Light Co.) possess an alternative steam plant which indeed is called into requisition and is found to be advantageously so called even when the emergency of a failure of the power from Niagara does not occur. Thus the Hydro-Electric Commission, by forcing the generating companies to sell power through it, may throw upon these companies an increasing obligation to supply alternative steam power while at the same time the Hydro-Electric Commission is doing its utmost to prevent the companies from obtaining capital for any purpose whatever.

The crisis in which the Commission is at present involved is a crisis arising from deficiency of power but it must be remembered that the conditions under which the system must be worked involves the acquisition of power in large amounts and not in small increments. Thus the next crisis, when the Chippewa power plan is developed, must be a crisis in which there is not a deficiency of power, but a surplus of it. How can this crisis be relieved? Only by selling power out more cheaply in order still further to stimulate demand, or starting enterprises, especially radial railways for the purpose of using up the power regardless altogether of whether or not these enterprises meet their expenses.

The Treaty Crisis

When the plans of the Hydro-Electric at present formulated are fully carried out, the whole of the power at Niagara Falls available under treaty will be utilized, and then two concurrent crises will emerge—one a treaty crisis and the other a financial crisis.

The treaty between Canada and the United States restricts the amount of

power which may be taken respectively by each country. This treaty was concluded after a long period of negotiation. An influential body of opinion in the United States was strongly averse to the impairment of the beauty of the scenery of the Niagara Falls and their surroundings by the utilization of the water for industrial purposes. With much difficulty a compromise was arrived at, and each country was permitted to withdraw a certain amount. The action of the Hydro-Electric Commission in proposing to draw water from the Chippewa River has reopened the question, and correspondence has already taken place on the subject between Washington and Ottawa. The Dominion Government has indicated that the water power which the Ontario Government proposes to take will not exceed the amount as at present determined by treaty. Yet the projects of the Hydro-Electric go far beyond this amount. If these projects are carried out, the whole question must be definitely reopened. It is quite conceivable that the reopening of it might result in a more or less acute international crisis; and it might be that at a critical moment in the relations of the two countries, the question would be still unsettled and discussion of it might be inexpedient and even dangerous. Rhetoric about the "white coal" of Niagara will not avail against the determined opposition of people in the United States, who are not disposed to permit the destruction of what they consider a great national asset. Even the prospect of reducing the price of power by a dollar or two will not appeal to them as sufficient compensation. Moreover, disturbance of the existing arrangement, arrived at with so much pains, may not redound to the advantage of Canada. No one who is familiar with the history of the negotiations which preceded the treaty, and of the arrangement which placed the question in the hands of the International Waterways Commission on certain terms, would rashly disturb the existing arrangement, and bring this

thorny and difficult question once more into the field of international politics. Yet this is where the heedless projects of the Hydro-Electric are inevitably leading.

The Financial Crisis

Another crisis than this last mentioned is even more imminent. Deficits in the Hydro-Electric are inevitable for a long time to come and no matter how these may be disguised by the system of accounting, some day they must come demonstrably to light. The deficits of the municipal enterprises which are already apparent must react upon the accounts of the Commission sooner or later.

We must thus anticipate at no distant period of time, a serious financial crisis in the Hydro-Electric affairs. The crisis will no doubt be attributed to the conditions engendered by the war; but this must be regarded as a wholly unjustifiable attribution. The crisis will be due to fundamental defects in the whole structure and conduct of the Hydro-Electric system, to the want of provision of adequate capital, to the want of anticipation of the demand which must be created by arbitrary fixation of the price and to the general defective conditions of a technical kind, customary in public enterprises.

No one can tell at the present moment at what date the war will come to an end; but no prophet is needed to tell us that for a long time thereafter the demands upon the money market by Governments in Europe and elsewhere will be great enough to keep the rate of interest relatively very high. The enormous mass of the public debt of all countries, so greatly enhanced by the war, must lead to extreme economy in Governmental expenditure. The financing of the huge loans, past and future, must in the nature of the case be so difficult to

manage, that every effort must by force of circumstances be made by all Governments to reduce their gross requirements for all purposes to the smallest practicable limits. Any Government that attempted to increase its total of obligations unnecessarily would speedily find itself frozen out of the money market. Neither the Dominion nor the Provincial Governments of Canada can be permitted to exploit the gallantry of the Canadian troops and the value of their services in the war by vulgar appeals for money on the ground of that gallantry or these services. Even if they did so, the appeal must fall on deaf ears, for the stupendous magnitude of the obligations which must exist at the close of the war must of necessity prevent such appeals from being heeded.

On narrower grounds than these, however, it may well be that so far as the Hydro-Electric Commission is concerned, further demands for capital may be refused until and unless adequate evidence is forthcoming of the soundness of the financial basis of its credit. So long as there remains no provision by means of a sinking fund or otherwise for the amortization of its obligations, and so long as there is no independent audit of its accounts, further credit is likely to be firmly refused.

Some time ago it was announced that a well-known firm of accountants had been employed to make an investigation into the Hydro-Electric accounts. No report from this firm has yet been published. It may be that the investigation has not yet been concluded; but until it has been concluded and until a satisfactory report upon past expenditures has been produced, it would be merely on the part of any Government to commit the credit of the province any further than it has already been committed to the highly speculative schemes of the Hydro-Electric Commission.

October 28, 1916.

Tenth Objection: Absence of Board of Directors.

XI.

The tenth objection to the conduct of industrial enterprises by Government officials, is the absence in the management of a properly constituted board of directors accustomed to deal with affairs of magnitude and the substitution for such a body of a committee of politicians, or the nominees of politicians, appointed on grounds having no relation to their administrative capacity.

The board of a large joint stock company is customarily composed of four classes of persons in varying proportions. These classes are as follows:—Directors with a technical knowledge of the industry or business in which the company carries on operations, directors who have been trained in or in close association with the company or with privately organized firms which preceded the formation of the company, and who are therefore familiar with its transactions and methods of business, directors who are specially qualified for dealing with the larger financial arrangements which the company may find it necessary to make, and finally, directors who are representative of or who are themselves large investors in the enterprise.

One or more of the directors may belong to all of these classes; but in the composition of a properly constituted board, all of the classes must be represented, and in all successful and permanent joint stock companies there must be a certain proportion of each class on the board. As a matter of experience, it is extremely difficult to attain this ideal, especially in the United States and Canada, where business enterprise of magnitude is a comparatively new growth. It is not difficult in Great Britain, Holland, or France; and for that reason there is much greater stability in joint stock enterprises in these countries than there is in similar enterprises in America.

The Public Attitude.

There is also, it must be said, less pro-

vocation of public hostility towards joint stock enterprise in Europe than there is in America because such enterprise is customarily conducted in Europe with greater skill, with greater sense of responsibility and regard for the relation between the permanent interest of the company and the permanent interest of the public. It may be remarked also that these characteristics are not infrequently accompanied by a conservatism which to the feverish energy of the American company promoter may seem another name for inertia. Yet, in the case of the United States for some years, and in Canada for a shorter period, for the most part through imitation, there has arisen a movement which at times has risen to a furore against "corporations." These "corporations" are of course joint stock companies whose shares and other securities are held by hundreds of thousands of the very people who have joined in the furore against them.

In Europe no such furore has arisen and the corporation or joint stock company has not been dragged into politics in the same manner as it has been dragged into politics in the United States and Canada. The reason lies partly in the management of joint stock enterprises in the respective regions and to a larger extent in the manoeuvres in America of politicians who have found corporation baiting a profitable sport. On the other hand, politicians have been able to blackmail the corporations and at the same time enhance their own prestige in the eyes of the public. The presence of a few enthusiastic, unworldly but ill-instructed people, has given the movement a certain specious air of respectability, while the movement has also been aided by the arrogance of some of the company promoters whose methods and manners are universally disavowed by serious and able organizers of business enterprises. When the public incited by the politi-

cians, directs its wrath indiscriminately against all corporations because some of them do wrong, or are alleged to do wrong, it is invariably an indication either that the courts of law are not courts of justice, or that the legislative and executive powers are incompetently exercised. In a democratically constituted Government there need be no difficulty in preventing joint stock companies from committing breaches of the law; nor should there be any difficulty in devising legislation for the purpose of safeguarding the public interest against any possible attack.

Furore Against Corporation Against Public Interest

If, therefore, the politicians, supported by a public movement which they have engineered, engage in a campaign against joint stock enterprise, they must be held to be engaged also in a campaign against the public interest. It cannot be in the interest of the community to prevent or even to discourage spontaneous co-operative effort. To do so is to drive energetic and able men out of the country and to prevent the importation of capital into it. Above all, this is true in a country like Canada, where there is as yet comparatively slender accumulation of capital when the amount of it is considered in relation to the requirements for the development of our natural resources and where the immigration of effective and energetic people is urgently needed.

Opposition to Co-operation.

The rationale of the movement against corporate and co-operative effort probably lies in the fact that Canada is still predominantly an agricultural country and that the farmer is characteristically opposed to co-operation in any form. His natural enemies are the loan corporation, which holds the mortgage on his farm, the implement manufacturing corporation, which holds his notes for his agricultural machinery, and the railway corporation which charges him rates of freight upon his grain, which

from his point of view are always exorbitant. Quite naturally, the farmer is under the impression that he controls the Government and that therefore if all these services were rendered by the Government he could himself, through his control of the Government, regulate the charges for all of these services.

It is possible that such a policy could be developed; but long before it became perfected, Canada would have lost all her industries, and would have become an exclusively agricultural region.

The reasons for this conclusion will appear whenever the objection against public ownership, as stated at the head of this article, is fully realized. The committees or commissions entrusted by the executive Government with the conduct of enterprises under public ownership are almost invariably appointed on political grounds. In almost none of them are any of the classes catalogued above represented. The Executive Government is not wholly to blame for that condition, excepting in the sense that if it could execute a statute of self-abnegation, the condition might be altered. The condition is due to the fact as experience has practically invariably shown, that a commission appointed by the Government acts under the control of the Government and under constant pressure of interference by it. Competent persons will be reluctant to risk their reputations by accepting positions upon such commissions even with guarantees of freedom upon political pressure. Thus, the commission appointed by a Government to manage an industrial enterprise is upon its organization almost never competent. In the course of time, some of the members of a commission may probably learn the business, although such a process of education is extremely expansive to the public; but when they have become acquainted with the details of the business the invariable consequence is that they quarrel with the Government on the ground of political interference and throw up their position in disgust.

November 4, 1916.

In those enterprises the successful conduct of which requires not merely technical knowledge of a business but capacity for considering dispassionately and determining promptly matters of industrial policy, the politician is conspicuously out of place. So also he is out of place in those enterprises, the successful conduct of which requires a knowledge of finance and experience in the practice of it.

The board of directors of any industrial organization which does not keep steadily in view the continuity of the enterprise would be faithless to the trust which has been placed in it by the proprietors. The political commission is in a different position. An adverse vote of the legislature on a question of general policy might suddenly throw the government out of power and the commission would sooner or later have to follow it; no matter how successfully it might have conducted the enterprise in which it was particularly interested.

The Political Influence.

The political commission has, therefore no inducement to secure continuity. The conduct of the enterprise must be such as to contribute towards the maintenance of political power in the hands of the party which has appointed it, and other and more permanent interests must be sacrificed for that. This attitude necessarily influences decisions upon what ought to be purely technical questions, viz., the fixation of rates for service and the appropriation of depreciation and sinking funds.

From the point of view of the technical management of an industrial enterprise the absence of a skilled board is a great disadvantage. The success of the enterprise may be compromised by a decision on political grounds of which the technical management may wholly disapprove. Thus, for example, a rate for a service may be determined by a political commission against technical advice and with the full knowledge that the permanence of the service might be

compromised. Again, also technical managers quite competent for the exercise of their proper functions are not unusually unable to determine questions of general industrial policy. In the State service they generally look in vain to their commission or committee, of management for guidance.

Experienced Directors Necessary.

In general when propagandists of "public ownership" are demonstrating its advantages on the platform, they make much of the circumstance that a great saving must be effected by the elimination of the "headquarters staff" or of an expensive hoard of directors. This plea was as matter of fact made for example when the Manitoba Government Telephones were projected. In that case the headquarters staff was dispensed with and the consequences were disastrous.

In so highly complicated a business as the supply of electrical power and the administration of radial railways, something more is necessary than the employment of technical assistance in the narrow sense. The superior direction especially in large questions of policy must reside in the hoard under what ever name it may be called, and unless this board is thoroughly experienced in the business, enormous losses may readily be incurred in a very short period. Such faults of management occur no doubt in some industrial enterprises conducted on the voluntary principle; but state and municipal enterprises are much more certainly and frequently subject to these faults of management for the simple reason, that the managers have something else to think about than the mere conduct of the business, viz., the political effect.

It is matter of experience in cases where an industrial enterprise is conducted by a political committee, that it is extremely difficult for the technical management to secure the attention of the committee. The members of the committee through indolence or lack of mental capacity are found habitually to

neglect their duties upon it, especially if as often happens they receive no special remuneration for the work. They refuse or neglect to read the reports which are submitted to their judgment, and in gen-

eral avoid the performance of the duties they are supposed to discharge. This might not be the case in an ideal society, but it is well known to be the case in ours.

November 11, 1916.

Eleventh Objection: Neglect by Government.

XII.

The eleventh objection to the conduct of industrial enterprises by Government officials is the neglect by the Government which pursues the policy of "public ownership," of the functions proper to it as a Government, owing to the pre-occupation of its members in enterprises in which they labor unsuccessfully to understand during the comparatively short period of their administration and to the engagement of the resources and credit of the country in hazardous enterprises which are continuous sources of anxiety.

This objection is particularly applicable to the case of municipalities, not only in this but in many other countries. Under the influence of propaganda for "public ownership," conducted generally by people who are quite ignorant of the history of the question and quite innocent of any critical judgment upon it, municipalities often plunge into projects of municipal ownership of services which may fairly be called luxuries, before such primary essentials as water supply and sewage have been properly provided. This tendency was corrected in the United Kingdom by the Local Government Boards, which exercised a certain supervision over the municipalities. These boards effectively checked the tendency towards embarking the means of the taxpayers in such luxuries as municipal telephones for example, while the essential services were absent or were inefficiently supplied. Where a superstition of public ownership affects a government, the check which has been customarily imposed upon the municipalities is withdrawn or neglected, and these bodies are left to plunge the taxpayers inhabiting the administrative areas into indefinite obligations. For example, under the Hydro-Electric Acts of last session, the amounts raised by municipalities for radial railways are declared not to fall within the limits of indebtedness prescribed by the Municipal Acts.

That is to say that a debt incurred for a radial railway is not a debt within the meaning of the Act. The effect of this ostrich-like policy must necessarily diminish the credit of the municipalities because by means of it, the total debt incurred by them is concealed and is very difficult to discover. In Canada the institution of a Local Government Board is hardly practicable — a provincial board under present conditions would be so much under party political control that it would be useless and a Dominion Board would necessarily bring the Dominion into conflict with Provincial jurisdiction. In Ontario the mingling of Provincial and municipal finance which has been part of the policy of the Hydro-Electric Commission, has a history previous to that commission which suggests very grave difficulties in this second experiment.

Spread of the Movement.

The only real safety for this country is to confine the Dominion, Provincial and municipal authorities to the performance of obviously essential administrative duties. If they perform these well, they will have plenty to do. The more widely they are endowed with functions in addition to those of a distinctively administrative character, the less efficient they become in the exercise of their proper functions and the more dangerous they become to public liberty.

An illusion is prevalent that the ever-widening extension of public ownership is inevitable, or at least that over those services which are customarily known as "public utilities," public ownership must come. This attitude of mind can only be described as fatalism: it means complete abandonment of any critical examination of projects either before they are adopted or after they are carried into effect. It is the same attitude of mind which in many coun-

tries has caused the peasantry to submit indefinitely to exorbitant peasant rents and to exploitative wages. From this point of view all existing conditions are inevitable. They can never be altered. To them the law of variation does not apply. But less acquiescent minds among the peasantry have at times shown that such conditions are not inevitable, that in fact they are quite temporary. So also with the furore for public ownership, critical examination of the actual facts concerning the attempt on the part of governments to monopolize the public utilities and to manage or mismanage them in any way they please, may eventually bring

this system to an end, or at all events prevent its indefinite extension. In any case the view is wholly superficial and unintelligent that there is any permanence in the movement for the extension of governmental powers in the economic field. It has been previously remarked that this movement breeds autoocracy, and innumerable examples show that the growth of autoocracy and the growth of democracy are wholly incompatible. If public ownership is inevitable and if autoocratic exercise of the economic power which is placed by it in the hands of governments and their officials is inevitable also, it is fairly clear that the destruction of the whole system is equally inevitable.

November 25, 1916.

Twelfth Objection: Tendency to Promote Illusion That Politics and Business are Interchangeable.

XIII.

The twelfth objection to the transference of the operation of industrial enterprises from spontaneously organized groups to public officials, the essential characteristics of what is called "public ownership," is "the tendency to promote the illusion that politics and business are interchangeable expressions." The distinction between politics and business is intended to suggest that politics in the high sense, i.e., in the sense of the art and practice of government to the end that the welfare of the people as a whole may be secured—welfare that is of a moral and intellectual as well as economic character—is distinct from the commercial activities of the same people. There is, however, another and baser sense in which the expression politics is customarily applied—the sense of intrigue to secure power over the people.

When business and politics are regarded as identical, the consequences are the degradation of politics to the inferior sense and the utilization of economical power in strengthening control over the people. While this question of public ownership is an economic question, it is thus also very largely a political question, because the seizure of economical power by the group of politicians, temporarily in the seat of government, may strengthen them to such an extent that, in peril to the public interest, they may retain that seat indefinitely.

In a complete system of state collectivism, political and economical power are concentrated in the same hands; and in so far as any given system—public ownership, for example—makes for collectivism or shares its characteristics, the tendency is to promote the illusion in question. Discussion of state collectivism as a system has been avoided in these articles because the intention of them has been to show the practical de-

iciencies of "public ownership" in the narrow sense of public operation of public utilities. It may here be remarked, however, that both the larger and the smaller system make in the same direction, viz., to the unification of economical and political interests, both expressions being employed in the baser sense. In other words, the nation comes to be regarded as a commercial-political unit, with exclusively mercantile interests and without moral ideals or spiritual significance.

There have been such commercial aggregations of peoples, but they have never constituted a nation in a real sense and the inherent weakness of their commercial organization has invariably brought them to grief. There are in history, also, many examples of nations which have gone far towards completely commercializing themselves and thus subordinated the interests of the state to commerce. These also have been unable to maintain their national position. The most complete collectivism not only affords room for the growth of profound moral individualism, but it would appear that in that atmosphere the baser types of selfishness chiefly thrive. The story of Ananias and Sapphira is thoroughly characteristic of a formal collectivism concealing real selfishness. No one who knows the inner history of any small collectivist, communist or similar group, has failed to observe many cases of the Ananias type.

For these reasons the assumption that greed is being diminished, much less eliminated by public ownership, is wholly unfounded. Indeed, it may be said with truth as the outcome of experience, that in this country, as in others, the movement for public ownership in so far as it has not been initiated and conducted by persons who did not grasp the meaning of it, has been initiated and conducted by persons who in some form or other desired to profit by it, either

through the luxury of the enjoyment of power or more tangibly through the patronage it enabled them to exercise.

Instance of the Intercolonial Railway

This country appears to have reached a certain stage in the experience of Government operation of industrial enterprises which demands inquiry as to whether the mingling of politics and business results not only in poor business, but in poor politics. In this connection the incident which has just occurred in the management of the Intercolonial Railway is highly instructive, and is deserving of close examination. The Intercolonial Railway, for many years the chief Governmental enterprise in Canada, has never paid interest upon the capital invested in it, and up till very recently has not within very large amounts, been able to pay its operating expenses. It was constructed, and has always been conducted as a political and not as a business enterprise. Employment upon it, and the rates charged by it, have alike been determined on political grounds. One of the consequences of this state of matters is that the Maritime Provinces have come to look upon the railway as their peculiar appanage and upon the cost of the enterprise to Canada as a whole as constituting a fair homage to the superior intelligence of the shrewd Nova Scotians. During the past two years the Intercolonial Railway has in a manner justified itself. Had it not been available, it would have been extremely difficult for Canada to have maintained the supply of troops for the campaign, which it has been fortunate enough to maintain. The enormous increase of the traffic caused by military movements not only brought the earnings of the line to an unprecedented point but necessitated the employment of superior officers, having special experience or special qualifications for the work.

The Minister of Railways, Mr. Cochrane, wisely selected his men on the ground of competence, and perhaps for the first time in the history of the In-

tercolonial, appears to have neglected altogether political considerations. Even in time of war that could not be allowed to pass, and we have the edifying spectacle of the Conservative whip resigning because a non-political appointment has been made, and engaging in a political campaign against the Government at this critical moment in the history of the country. Nothing could be conceived of more thoroughly condemnatory of the policy of public ownership than this incident, excepting, perhaps, the history, as a whole, of the Intercolonial. That railway had to be constructed as a political necessity; but it would have been in every way more advantageous for the country as a whole and even for the Maritime Provinces, if, being constructed, it had been leased to a company, which would have paid upon it an increasing rental and would all along have been under the control for all legitimate purposes, of the Government.

The incident throws into a lurid light the objection previously noticed that public ownership induces the employment of unfit persons and drives the intelligent and competent out of the country.

It is clear that, saving for an independent and vigorous Minister, a most rare case in this country, had the whole of the Canadian railway systems been under public ownership from the beginning, we should never have had the benefit of the services of Sir William Van Horne, or Mr. Hays, nor should we now have the services of Lord Shaughnessy.

The War As a Factor.

At the present time the chief practical objection to encroachment by the Government upon the domain of industry is the situation in which we find ourselves in consequence of the war. It is surely our interest, as well as our duty, to mobilize all our resources and not to reduce the value and importance of any of them. Those who go about for political reasons denouncing every effort but their own, are not acting in the interests of the country: and those who

insist upon public funds being immediately embarked upon highly speculative enterprises, which under no circumstances can yield any return for many years, are really doing their utmost to embarrass the country in the prosecution of the war.

It is perfectly clear that up till the year 1914, this country had expended an excessive amount in public enterprises, the yield from some of which must be long postponed. The inflow of capital was sharply checked and in consequence we were on the eve, if not of a crisis, at all events of a period of depression. The war altered these conditions, caused a wide advance of prices and of wages, and changed the relative values of many things. It also brought increased burdens, both immediate and remote; above all, it brought the need for sharp economy both public and private, in order that the Empire should sustain the enormous financial pressure to which it must be subjected. Those who just now are promoting excessive public works have little interest in the war or knowledge of what it means. The newspapers are entitled to little credit for the flattery with which they have anointed these persons and one day they may be expected to turn upon and rend them. We have seen many popular favorites fall from the precarious heights to which they have been carried or have been able to climb and we have seen how little notice is taken of them when they fall.

Conclusion.

The articles in this series have not been designed as a complete exposition of a complicated subject; they have rather been intended to protest against irretraceable steps towards committing the country, and especially the Province of Ontario, to a dangerous policy. One of the leading English economists has remarked: "In all practical cases, before a decision between these alternative methods (public control or public operation) is arrived at, it is necessary to take account of the general character

of the particular public authority whose action is involved, as well as of the probable effect of new tasks upon its efficiency for the purpose of its primary non-industrial duties."

No one who has any intimate knowledge of the politics of the Dominion or of any of the provinces can view without grave misgivings the promotion of a policy which should permit the existing public authorities or any others who might be expected to take their places, to encroach upon private enterprise even to the extent of assuming control of a single public utility. The qualifications of these authorities, such as they are, lie in wholly different directions. Repeated commissions, and public inquiries of various kinds, during past years, have shown that when they touch an enterprise they ruin it, when they presume to override the counsel of experience, they do, as they did, for example, in the case of the National Transcontinental Railway, when they threw railway enterprise in Canada into almost hopeless confusion and burdened the country with a mass of debt which only the temporary inflation of the war has enabled it to endure without grave hardship. In the Western Provinces, experiments in public ownership have abundantly proved themselves to be costly failures although even yet the full weight of their cost has not been spread over the communities as one day it must be. In Ontario, the only even partially successful instance of public ownership on any considerable scale is the Temiscamingue Railway. That line has had, however, two unique and fortuitous advantages. After its construction, extensive deposits of precious metals were found near the line and the management of it was assumed gratuitously by an unique personality, whose experience had been derived in one of the much derided "corporations." Unless the whole of the capital involved in the railway is subject to amortization within the lifetime of the mines and unless the Government is lucky enough to secure a suc-

cession of Mr. Englehart's on the same generous terms, the Temiscamingue Railway will lapse into the state of chronic deficits in which all other Governmental enterprises in Canada are found.

It must be pointed out very explicitly that these articles do not constitute in any way an attack upon the Government of Ontario. Criticism of a project before that project is fully embarked upon is in no way adverse to the interests of the Government. Moreover, the Government has repeatedly indicated that the Commission "is out of politics." In the sense that both political parties appear to support the policy of the Commission that statement is true. But in a deeper sense the Commission is in politics. It is highly probable that the Government will find that it is much easier to control corporations, no matter how powerful, than to resist the control of the Hydro-Electric Commission backed by the Ontario Union of Municipalities. If the Hydro-Electric plans are fully matured, we may see, after no great lapse of time,

the Union of Municipalities in full control of the Government. There will then be a strong inducement for the municipalities in general to default in the payment of the interest upon their Hydro-Electric debentures, and to land the whole of the burden of the Chippewa power project and the radial railways upon the Provincial Treasury—a result precisely similar to that which occurred in connection with the Municipal Loan Fund. If this way out of the series of obligations did not already present itself to the municipalities, it is doubtful if one of them would vote for the by-law which has been prepared for them. If they do vote for it and for the money by-laws which must follow, the watchdogs of the public interest will be very negligent if they do not see to it that every municipality pays to the Provincial Treasury the amounts due with proper punctuality. The great fear is that political pressure will be invoked continuously, and that the community of Ontario as a whole will suffer for years from the effects of the foolish optimism of the promoters of the movement for public ownership.

December 23, 1916.

Financial Aspects of the Projects of the Hydro-Electric Commission

**System of Expenditures by Municipalities Defeats the Object of Limitation of the
Municipal Act—Inevitable Effect Upon Municipal Credit—Estimates
Being Made in an Irresponsible Manner.**

The argument has been used by advocates of the Hydro-Electric schemes that the enterprise was originally a co-operative municipal enterprise and that the province was not justified in imposing any check upon it. These advocates even object to an audit of the accounts of the Hydro-Electric Commission by the Provincial Auditor. Such opinions do not, however, prevent the Hydro-Electric Commission and its advocates from demanding financial assistance from the province, nor would they prevent the commission and its advocates from demanding financial assistance from the Dominion. Indeed, even the estimated costs of the various schemes upon which the Hydro-Electric has embarked, or announced its intention to embark, are so enormous, that the collective credit of the municipalities concerned would be a wholly inadequate basis upon which to raise the necessary funds. It is, therefore, indispensable that the province should either find the money by means of the issue of its own securities or by guarantee of the issue of municipal securities. If the Dominion Parliament allows itself to be drawn into the scheme, direct grants must be made from the Dominion Treasury, or the securities of the province must be guaranteed by the Dominion. In other words, under the present conditions, the province is responsible for the debt which has been contracted by the Hydro-Electric Commission and by the municipalities which have been drawn into the net, and we may yet witness the eventual responsibility of the Dominion. Under these circumstances, to refrain from imposing any restraint upon the municipalities would be an act of extreme folly.

Not only would the absence of any check upon the expenditures of the municipalities and the commission very gravely increase the risk incurred by the province, but the inevitable result would be decline in the security of all provincial as well as of all municipal bonds. These securities have hitherto been looked upon as gilt-edged. They have been largely invested in by trustees, as well as by home and foreign insurance companies, etc. The action of the Government, even so far as it has gone, has seriously affected the desirability of these securities and has, therefore restricted the market for them.

An Unlimited Debt.

Under the Municipal Act, the amount of debt which a municipality may incur for the purpose of providing streets, water, sewage, etc., is limited; but under the Hydro-Electric Railway Act, the amount of debt which a municipality may contract, for Hydro-Electric purposes, is not to be regarded as a part of the aggregate debt of the municipality to which the statutory limitation applies; in other words, the total debt of the municipality is not limited. It is clear that the provision in the Municipal Act for the limitation of municipal debts was inserted for the purpose of preventing municipalities from embarking in schemes beyond their financial strength. The provision was the outcome of historical conditions, in which a tendency had manifested itself on the part of ambitious municipalities to incur expenditures involved in too optimistic anticipation of their growth and prosperity.

Effect on Credit

The consequence of this tendency had been quite disastrous to municipal

credit and had involved the provincial finances most seriously.

The result of the abrogation of this provision must inevitably be the decline of the municipal credit it was devised to sustain. To suppose that because expenditures of municipal funds raised by loans for Hydro-Electric enterprises are not to be regarded as debt is merely naive. No intellect investor will pay any attention to such a supposition. We may be prepared, and and we ought to be prepared for heavy realization of municipal securities in consequence of the recent legislation and we ought to be prepared for heavy realization of provincial securities as well, in case the Legislature adopts the plan of the Union of Municipalities and relieves the Hydro-Electric Commission from even the slender checks which are now imposed upon it.

If under the influence of a headstrong and irresponsible Commission the Government abdicates what remains of its authority, then the Legislature ought to see that the commission is taken at its word—and that the Hydro-Electric and Union of Municipalities are "left alone"—left so severely alone that they are required to raise what money they need for their extravagant schemes on their own unaided credit and not upon that of the Province.

If, as may be the case, the commission then appeals to the Dominion, it can hardly be believed that any Minister of Finance who valued either his reputation or his position would have the hardihood to propose that the Dominion of Canada would guarantee the bonds of an irresponsible group which objected to the audit of its accounts and resented any control?

In its recent dealings with the railway companies, to whose assistance the Dominion Treasury came, checks of many kinds were imposed and guarantees were exacted for the purpose of protecting the Dominion. Any other

policy in its dealings with the Hydro-Electric is inconceivable. If any other policy were adopted, it could only be the outcome of a discreditable political intrigue, the consequences of which must react upon the Ministry which engaged in it.

Reckless Estimates.

The amount involved in the schemes of the Hydro-Electric, as already formulated, has been stated. Day by day fresh extravagances are suggested—costly terminals and tunnels along the waterfront of Toronto, for example, are part of the latest projects. It is quite impossible to forecast otherwise than approximately the total cost of these enterprises. No technical estimates have been offered. Those which have been suggested by the Hydro-Electric advocates are ludicrously inadequate.

The experience of the past history of the Hydro-Electric Commission leads to the belief that the method adopted would be as follows: An estimate would be offered which placed the cost at a figure which excluded altogether any allowance for difficulties or accidents, presuming upon this estimate the work would be begun and when a certain sum was expended the work would have to be proceeded with regardless of difficulties and of cost, in order to avoid the total loss of the money which had been expended. Bit by bit the city and the province would be drawn into expenditures which neither of them had ever deliberately contemplated.

The Necessity of Caution.

In any case, no construction such as that which is projected should be permitted even by a private corporation, much less by a public authority, without the most careful examination of the whole project and a survey of the region by competent engineers who have had experience of similar constructions. Even then construction should not be attempted otherwise than by entrusting

it to a highly responsible firm of contractors also of similar experience, who should be bound to complete the work for a stipulated amount. As a preliminary to any such engineering steps, it should also be made a primary condition, that a most careful investigation into the present and probable future demand for radial service of this kind be conducted by properly qualified persons. We may be perfectly certain that unless these preliminary measures are insisted upon, the city and the province will be committed to a happy-go-lucky scheme involving enormous expenditure at the dictation of a few aspirants for political prestige and power. Even if some of these aspirants have been giving their services for nothing that is not to the point. People who do mischief gratuitously are none the less mischievous.

The Chippewa Project.

While the plans, so far as Toronto is concerned, are wrapt in uncertainty, not less so are the plans which have been formed for the construction of works on the Chippewa River. The rough estimate for these works is \$25,000,000. Here the experience of very similar enterprises is available. The promoters of the new scheme may be asked if they have considered adequately the risk of misadventure in construction, the likelihood of the clogging of the turbines by frazile ice formed in the long tunnel, as well as the other difficulties attaching to the particular site they have chosen. In short, if they have considered why none of the joint stock companies who have developed water power in the Niagara Falls region undertook to develop it at the Chippewa River. They should also be invited to state who is the engineer responsible for the estimate. Without calling in question the qualifications of the chief engineer of the Hydro-Electric Commission, the amount at stake is surely large enough to justify the employment of an engineer specially skill-

ed in such construction and with experience of them to advise as to the probable cost.

Are Railways Needed.

Absolutely no proof has been offered that the province either needs or could maintain, with its present rural population, and taking into account the probable future fluctuations of that population, any greatly more extensive system of radial railways than those which at present exist. The fact that a few persons are enthusiastic about the extension of radials has no bearing on the question. It may be that those who pioneered in the construction of radial lines were mistaken in refraining from extending them, but public clamor must be carefully distinguished from effective demand. There is no reason why a public authority should yield to the one in the absence of the other.

Thrift is Forgotten.

On the strictly financial side, it must be realized that the Hydro-Electric Commission has at the present moment for issue \$8,000,000 of provincial bonds, which have been, or are to be given for the twenty-two companies acquired by it a year ago. These bonds may be put upon the market. They cannot be regarded as absorbed. We are threatened with another issue immediately of \$1,300,000, and in the near future with we know not how much more. It is idle for the Minister of Finance to inculcate thrift at Ottawa while the expenditure of enormous sums is precipitated at Toronto. We are not yet at the conclusion of the War. There are those who tell us that the finances of the Allies will be strained to the utmost. Canada is herself deeply committed, especially to Great Britain. All our resources should be carefully conserved and none other than the most necessary expenditure should be incurred for permanent construction. The country as a whole had gone perilously near the feasible limit of such expenditure before the War began and only

the release of large liquid sums occasioned by the War has prevented Canada from feeling the full effects of her excessive expenditure upon railways and other permanent forms of investment. We should not permit the Hydro-Electric Commission, or any other body, public or private, to imperil the stability of the finances of the country by the carrying out of fantastic schemes now, or even to disturb credit by the initiation of them.

Reckless Expenditures.

Enough has already occurred in the history of the Hydro-Electric to excite the gravest fears. The Provincial Auditor has reported more than four million dollars of unauthorized expenditure by the Commission. It is little wonder that objections are made to an audit which reveals so unbusinesslike a state of matters. The Commission has already had experience of municipalities like the city of Stratford, for example, desiring to terminate contracts with the Commission, and of others which have refused to enter into contracts with it. The jealousy of one another, which is character-

istic of rising towns may be counted upon to produce friction among them in relation to the Hydro-Electric. The Union of Municipalities will find it difficult to avoid differential rates which will give advantages to some towns over others, and will in all probability, lead to repudiation of contracts by some of the towns involved. Already it appears from the report of the proceedings at a recent meeting of the Union of Municipalities, that an effort will be made to make Hamilton, rather than Toronto, the "huh" of the radial system.

Apart from these considerations, the whole Hydro-Electric scheme is deeply involved in political intrigue, and is regarded evidently by its promoters as a convenient club wherewith to assail the Government. Thus, alike on financial and on political grounds, it is expedient to go warily in entrusting the Hydro-Electric Commission and its ally, the Union of Municipalities, with power which there is only too good reason to believe they cannot do otherwise than abuse. If the Hydro-Electric Commission had its way, responsible government in this country would be ended.

September 9, 1916.

PART II

Analysis of Toronto Hydro Report

Inadequate Allowance for Contingencies—Adverse Sinking Fund Suspense Account Balance—Toronto Commissioners Handicapped by Lack of Finances—Rates Arbitrarily Reduced by Ontario Commission.

Evidence Plain That Toronto Hydro-Electric is Going Behind Every Year—Reserve Funds Being Absorbed, While Interest Payments to City of Toronto Are Going by Default.

The fifth annual report of the Toronto Electric Commissioners, which has just been issued, shows that the net bonded debt of the enterprise is over \$5,819,000. On the face of the accounts, the balance of the operations of the year shows a nominal surplus of \$3,137, less than one-fifth of one per cent. upon the transactions of the year—a very small margin for such an enterprise. Although the report of the business is for its fifth year and although the system is described in the report as being "now firmly established on a sound and stable earning basis," it should be pointed out that the margin between income and expenditure is less than one-fourth of the amount stated as being the margin in 1914. It should also be pointed out that in spite of the fact that the total investment is about six million dollars, the amount set aside for contingencies apart from depreciation account is only \$8,000.

The Sinking Fund Suspense Account contains a sum of nearly \$94,000, which accrued as an adverse balance in 1911. This amount is still carried forward as a charge upon future earnings. More searching examinations of the accounts reveals, however, a really serious condition of affairs.

The report illustrates very well the difficulties under which such a Commission labors. These difficulties arise directly from the control exercised over the Toronto Electric Commission by the Hydro-Electric Commission and by the city of Toronto. It is not suggested

that the Toronto Commission should be uncontrolled, but it is clear that the control of neither of the corporations named is exercised wisely; in other words, the situation of the Toronto Hydro-Electric is explained by political interference, as in nearly all such cases. For instance, the Toronto Commission finds itself handicapped by the circumstance that while the "net cash expenditure or capital account" amounted at the end of December, 1915, to \$5,897,000, the cash proceeds of the issues of debentures up till the same period amounted to only \$5,287,000. There was thus a deficiency of resources to meet capital expenditure of \$610,000, apart altogether from the absence of working capital, an item to which the Commissioners drew attention in their report for the year 1913.

Commissioners Handicapped.

The Commissioners are thus handicapped to the extent of fully a million dollars. Under these circumstances they have felt themselves obliged to use resources allocated to other accounts for the purpose of carrying over the deficiency. This necessity is very properly deplored by the Commissioners. The funds so required have been drawn from two sources—First, the depreciation reserve funds have been diverted from their proper purpose, and, second, the interest due to the city upon its debentures has not been paid. It appears from the accounts that the Commission is due the city \$758,000 for interest. These facts are not disguised or palli-

ated in the report, which is indeed a highly creditable document, as it states without reserve the extremely unfavorable financial position in which the Toronto Hydro has arrived after five years.

The narrow margin of the surplus which is stated as having accrued from the operations of the year 1915 (viz., \$3,173), is accounted for in the report by the reduction of rates which took place in that year. The Commission disclaims responsibility for the reduction of rates and points out quite properly that the rates are determined by the Hydro-Electric Commission. The report goes on, however, to claim credit for the Toronto Commission on the ground of the reduction, although, as they admit, this reduction was forced upon them by the Hydro-Electric. The full truth, however, scarcely lies in that direction. The fact is that the Toronto Electric Light Company led in the reduction of rates, and both the public commissions were obliged to follow. The reduction, in other words, was the result of competition and the fact that it was reluctantly submitted to with the consequence that the margin between profit and loss was cut down to an insignificant amount is convincing proof that if for any reason the competition should cease, the rates would be advanced immediately. In other words, the moment the Hydro-Electric is able to establish an effective monopoly, substantial increase of rates must be announced.

A Questionable Surplus.

But even the surplus, as stated (\$3,173), cannot be regarded as a real surplus. It appears from the report of the General Manager that after other charges had been met, the sum of \$266,000 was held "to be available from the year's operations for depreciation and special purposes," but depreciation is a definite charge against the business and ought to be so regarded. No surplus can be held to accrue until the charge for depreciation is fully provided for. If the balance in question is not sufficient to meet the properly esti-

mated charge for depreciation, a deficit must be stated. The form of the statement shows that the question of depreciation is dealt with in a haphazard manner, no percentage upon the capital expenditure being stated as properly chargeable against the revenue of the year in respect to depreciation. Moreover, no details of the Depreciation Reserve Account are given. It is impossible to gather from the accounts what amount has been drawn from previous accumulations for replacement of worn-out plant during the year, or during previous years. We must, therefore, take the depreciation charge for the year by itself. In the United States it has been generally agreed that an adequate depreciation charge applicable to the invested capital as a whole in the case of public utility undertakings is 5 per cent. per annum.

Many might think this too small an allowance in respect to certain municipal enterprises; but it may fairly be regarded as a minimum. This amount charged upon the amount of capital invested by the Toronto Commission, would involve a charge of about \$345,000 for the present year. The amount actually charged, according to the accounts, was, in round figures, only \$250,000. Deducting the alleged surplus of \$3,137, there is thus apparent not a surplus, but a deficit on the operations of the year of nearly \$92,000, to which should be added the interest upon the accumulated deficiency of depreciation reserves of previous years.

Depreciation Fund.

What the amount of the depreciation fund ought to be at the present time after five years accumulations, is impossible to state accurately in the absence of the necessary particulars: but if the fund were adequate and intact—and it ought to be almost, if not altogether intact—it ought to amount to at least \$1,200,000. This sum, or a sum approximating to it, ought to have been in evidence. The amount of the accumulations which have nominally been

made is stated in the accounts at \$700,000. Even this amount, however, is not in evidence. The fund is clearly not kept in a tangible form, readily available for use as and when required. It has been employed for carrying over the obligations which ought to have been provided for otherwise, and in the strict sense, the depreciation reserve is non-existent, excepting as an item in the ledger of the Commission.

This is made clear by the following statement, which is compiled from the published accounts, fractions of \$1,000 being omitted:—

TORONTO HYDRO-ELECTRIC SYSTEM

Balance Sheet, December 31st, 1915.

Assets.		
	As reported	Actual with proper depreciation
Plant and discount on bonds	\$6,910,000	\$6,910,000
Current assets	800,000	800,000
	<u>\$7,800,000</u>	<u>\$7,800,000</u>
Liabilities.		
Bonds less Redemption Fund	\$5,820,000	\$5,820,000
Current Liabilities—		
Accounts payable ..	142,000	142,000
Interest due City of Toronto	758,000	758,000
Depreciation	700,000	1,223,000
Contingencies	8,000	8,000
Sinking Fund	481,000	481,000
	<u>\$7,909,000</u>	<u>\$8,442,000</u>
DEFICIT	\$ 109,000	\$ 642,000

The Taxpayers' Outlook.

The plain English of the matter is that the Toronto Hydro-Electric during the five years of its existence has been going behind at the rate of about \$130,000 a year, and that it has been able to do this by absorbing its so called reserve funds and defaulting in the payments of interest due to the city of Toronto. This interest has, of course, had to be paid by the city and therefore the taxpayers have had to bear the burden. In other words, the users of Hydro power and light

have paid during the five years of the existence of the Hydro only about 90 per cent. of the cost of the power to the Hydro, while the taxpayer has been paying about 10 per cent. of the cost. This state of matters cannot last. The Hydro cannot increase its rates without losing business, because of the competition of the Toronto Electric Light Company. It cannot go on as it is doing without drawing more and more heavily upon the taxpayer. How long will the taxpayer stand it?

Although the report of the Toronto Commission does not state the gravity of the situation fully, it is evident from its terms that the reduction in price to which it has been forced by the Toronto Electric Light Company on the one hand and the Hydro-Electric Commission on the other, has resulted in its giving its customers electricity not at cost, but below cost, and that, as usual, the patient taxpayer pays the difference. When to this circumstance is added the fact that the Commission has no steam reserve plant and that it cannot therefore give continuous service, it is clear that the provision of such a plant would plunge it more deeply in the mire of accumulated deficits.

As to Future Financing.

A significant paragraph in the report refers to the future financing of the system. It appears that Mr. Bradshaw, the recently appointed Finance Commissioner of Toronto, has advised that in future when debentures are issued for the purchase of plant or equipment, that their term should be limited to the estimated life of the plant in question. This is the plan invariably adopted in Great Britain in respect of municipal debentures. It appears also, as might be expected, that in view of this arrangement the Commissioners have been urged to abandon their practice of setting aside out of the revenue of each year a sum to be placed to the credit of Depreciation Reserve. The Commissioners very properly take the view that the Depreciation Reserve must be

maintained, otherwise it would be necessary for them to apply to the city continually for funds to replace the plant as it wears out. Fortunately, the present Toronto Commission takes a sound view of this important question. One of the difficulties and dangers at-

taching to municipal enterprises is the constant pressure upon those who manage them to adopt unsound methods. It is this fact which renders their work disheartening to competent officials who desire to conduct the public business on sound and safe lines.

September 30, 1916.

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Editorials from "The Financial Post of Canada"

THE NATION'S BUSINESS.

It has been announced that an application is being made to the Attorney-General of the Province of Ontario for a fiat to enable the Electrical Development Company to institute proceedings against the Government and the Hydro-Electric Commission in order to have a judicial decision upon the question whether the Government has the power to authorize the Commission to undertake certain works which are held to be inconsistent with the agreement entered into between the Commissioners of the Niagara Falls Park and the company with the approval and authorization of the Government.

If the Government grants a fiat in this case, it will show that rightly or wrongly it acted within what it considered to be its legal powers; if on the other hand, it refuses a fiat the Government will make plain to every one that it is afraid to submit its procedure to judicial inquiry and decision. In plain English refusal of a fiat will be tantamount to a confession on the part of the Government that it acted deliberately and consciously in bad faith and that it knew that its only course was to rest upon the immunity from prosecution which it had invented precisely to enable it to escape the consequences of such breaches of the ethical and legal codes.

In the event of the refusal of the Government to submit the question to a judicial tribunal, the effect upon the credit of the Province must be disastrous. Not only must the Government find it difficult to borrow upon the credit of the Province but all private borrowers will find their borrowing market restricted by the circumstance that the Government is amenable to no process of law, and that at any moment it may capriciously confiscate the property of any one. No contract of any kind into which the Government has entered or

may enter and no promise verbal or written which it might make could be regarded as secure. The Government might for example, either by means of an act of the legislature or even by an arbitrary act of executive authority invalidate the bonds of the Province issued for the purpose of carrying out the design involved in the breach of faith in question, or it might tax such bonds to the point of confiscation. A Government which will break one solemn agreement may be counted upon to break others as occasion arises.

Such considerations must enter into the calculations of investors, both in the Province and outside of it, and the consequence must be either refusal to purchase the bonds of the Government on any terms, or the fixation of a rate of interest upon public borrowing in the future sufficiently ample to provide for a high premium of insurance against the risk of confiscatory legislation. The diminished saleability of all existing securities of the province which would result from this condition would at once produce a diminution of their value. Some years ago representations were made which induced the British authorities to place Canadian Government securities upon the list of securities which might be held by trustees without personal liability.

It is quite certain that had risk of confiscation been anticipated or had the issuing government been suspected of refusal of a remedy at law, this concession never would have been granted.

Those who are familiar with the legal history of this province are aware that the late Sir Oliver Mowat never failed to obtain a decision in favor of the Province in cases carried to the Privy Council in his time. The reason for his invariable success before this tribunal was that before he embarked on any legislation or took any administrative action concerning which there could be

any doubt from a constitutional point of view, he made most exhaustive research into the powers of the Province under the British North American Acts. He never lost a case because he was always sound in his main contention and because the acts of his Government were carefully based upon sound legal principles.

The practice of the present Government seems to bear a precisely opposite character. It appears to consist of a series of attempts to stretch the powers of the Province in all directions, without regard to law or justice and without regard to ulterior consequences to the community.

The constitution of this country is gravely at fault if it entrusts the property and civil rights of citizens and strangers to the unrestrained caprice of a provincial government which acts habitually in an arbitrary manner.

At the present moment we are conducting a stubborn campaign and the blood of our youth is being shed for the purpose of resisting and suppressing absolutism and bureaucracy in Europe. To tolerate the growth of these evils here would be grossly inconsistent. We know well that freedom is costly but it is worth its price and at home as well as abroad we may be sure that the price will be paid. So soon as the people of this country understand the real character of the acts which are being perpetrated in their name, they will deal with the perpetrators as they deserve.

It were well that the Government elected to submit to the courts of law rather than to have to submit to a slowly aroused but quite remorseless public opinion.

Toronto, August 5, 1916.

DANGEROUS AUTOCRACY.

The Hydro-Electric System of Ontario have expended over \$13,000,000 on lines and sub-stations, etc., and have in addition purchased the Electric Power Company's properties at a price reported as \$8,000,000. They have undertaken to

build a second transmission line from Niagara to Toronto which involves approximately another \$1,000,000, making the total amount expended and incurred over \$22,000,000. The Government have undertaken to construct a power plant for 500,000 horsepower at Niagara, which is estimated by Hydro to cost between \$10,000,000 and \$15,000,000, but which must run into \$25,000,000 to \$30,000,000 before completion.

This would bring the total up to \$47,000,000 invested in Generation and Transmission Works.

In order to market the 500,000 horsepower to be generated at least an additional \$15,000,000 in lines and sub-stations would be necessary.

This would result in a total expenditure of \$62,000,000 by the Provincial Hydro-Electric System.

To December 31st, 1915, 99 municipalities have expended \$17,683,264.07 on distribution systems. 14 more municipalities are expected to be ready for Hydro power this winter and when the additional 500,000 horsepower is ready an increased outlay at least equal to the present amount will be required. This would bring the expenditure on local distribution systems up to \$35,000,000.

The Hydro-Radial scheme proposes to supply electric railways to any district voting for them in order to provide an avenue to dispose of the additional power that it is expected will be available.

The first line proposed between Toronto and London is estimated to cost \$13,734,155. A line to Kingston would cost as much more, but when every section of Ontario that has as good a claim as the Toronto-London section is built it is safe to say that \$50,000,000 would be a low estimate of the money required for this purpose.

On this basis the total expenditure would be:

Provincial Hydro	\$62,000,000
Municipalities	35,000,000
Radial Railways	50,000,000

Total\$147,000,000

On the completion of the work at present approved or in prospect the Hydro-Electric Commission would control the operation of properties valued at \$147,000,000.

Furthermore, every municipality pledges its credit not only for its own distribution system, but for a proportion of the general system cost and also for the general radial railway cost, and the taxpayers are liable for deficits over a system they do not control, but which is run by a Commission appointed by the Government.

The credit of the taxpayers to the extent of \$147,000,000 is placed nominally in the hands of a Commission, but in reality is in the hands of one man to administer without fear of adequate review or scrutiny.

If any Government should have the temerity to oppose any suggestion of the Chairman of this Hydro-Electric Commission, he, the Chairman, has only to call together the representatives of the 100 or 200 municipalities and instruct them to tell their Municipal Councils that the whole enterprise is in danger and immediately opposition to such interference is launched, with the result that the Government of the Province is coerced into any action the Chairman of the Hydro System suggests.

Thus the Chairman of the Hydro System becomes superior to the Government inasmuch as the Government is dependent on the will of the voters.

This is exactly the procedure followed during last Session when the Government suggested that the expenditures of the Hydro should be subject to the same scrutiny and control as all other expenditures of the Province. The opposition engendered by the Hydro municipalities coerced the Government into differentiating between the Hydro Government expenditures and any other Governmental Department.

Are the people of a British Province willing to place so vast an interest in the hands of a single individual?

[These figures are quoted from estimates given from time to time in the Daily Press from speeches made by Sir Adam Beck, the Hon. Mr. Ferguson, the Hon. I. B. Lucas and others.]

Toronto, August 12, 1916.

REFUSAL OF THE FIAT—THE CONSEQUENCES.

Within a few days, and evidently without considering the serious ulterior consequences of his action, the Attorney-General of Ontario, who is also a member of the Hydro-Electric Commission, has refused a fiat to permit the Electrical Development Company to have the legality of their contract with the Government tested before the Ontario courts. This action clearly amounts to a confession by the Attorney-General that the repudiation by him of the contract deliberately entered into by the Government is indefensible. The resources of civilization available to deal with this piece of barbaric autoocracy are no doubt not exhausted. There are several legal means by which the Government may yet be brought to book.

Unfortunately, however, the effect upon the credit of the province of the refusal of a fiat must remain. This effect is irretrievable. Although the Government must be fully aware that the pecuniary interest of those in this country who are morally responsible for the success of the Niagara enterprises is trifling compared with the interests of those investors in Great Britain who supplied the major portion of the funds for these enterprises on the faith of contracts with the Government, the Attorney-General has elected to take another step in the confiscation of the investments. The action of the Government must be characterized as adverse to the interests of the province and of the community inhabiting it. This Government will ere long pass away, but the reactions of their policy of expropriation must be numerous and far-reaching. Among these reactions the most important from the point of view of

the community must be reluctance on the part of investors to supply the funds required for the development of the resources of the country, whether this development is proposed to be conducted by private enterprise or by public authority.

THE FINANCIAL POST of last week contained a statement of the amounts involved in the execution of the projects of the Hydro-Electric Commission. According to the extent to which these projects may be carried, the estimated addition to the provincial and municipal debt of Ontario is between one hundred and one hundred and fifty millions of dollars. Relatively to the realized means of the people of the province this is an enormous sum; it is even greater in relation to the resources of the country. The total capital of the banks is less than the latter of these amounts, so is the aggregate reserve of all the banks; it is only slightly exceeded by the aggregate funds of all the trust and loan companies in Canada. It cannot be supposed that these voluntarily organized corporations employ in general a larger or more competent force of superior officials, including directors and presidents, for the management of these large sums, contributed as they are by widely scattered investors, to whom they are responsible. The Government of this province actually proposes to invite investors to entrust their capital to the management of a commission of three members, not one of whom has had any experience in the management of large affairs of any kind, and not one of whom is qualified in a technical sense to deal with an electrical enterprise, which in the nature of the case is of a highly intricate and rapidly changing character.

From the beginning the Hydro-Electric propaganda has been conducted by means of rhetorical speeches by persons who have none but the most superficial acquaintance with the technique of the business, and who have, therefore, been continually tempted to underrate the

difficulties of it and to underestimate the cost. They have always fallen to this temptation; the cost of the existing plant of the Hydro-Electric Commission has already greatly exceeded the original estimates, and the cost of extensions may be counted upon greatly to exceed any estimates that may be made.

The Hydro-Electric Commission has encountered another temptation to which the recent legislation and the refusal of the flat have shown they have yielded. This temptation is to attempt to implement their promises to give cheap power by means of the confiscation of the property of the private corporations in order that the capital cost of their undertaking will appear to be less than it really has been. But this process cannot go on indefinitely. When the Hydro-Electric Commission, otherwise the Government, has appropriated the plant of the private companies, and has effectually put a stop to the voluntary organization of public services of all kinds in this province, its career of public plunder will be at an end. The unsoundness of its economic basis will then become apparent; and either it will go bankrupt, or the rates for power, for which a demand has been artificially stimulated by ineconomical rates, must be steadily increased, until not improbably they are much higher than they were before the public ownership propaganda began.

Meanwhile confusion must have been produced in the tax system of the province and in its public accounts. No one who knows anything of the financial history of the province can possibly regard the municipalities as either permanent customers or necessarily solvent debtors. If money is raised upon the guarantee of the province, that guarantee must be regarded as an obligation of the province and the amount involved must be added to the provincial debt. If the people of the province desire to ruin their common credit, they will support the Government; if they do not, they will express their disapproval of the whole Hydro-Electric policy, with its confiscatory legislation.

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its financial unsoundness, and the huge possibilities it opens up of political intrigue and corruption.

Toronto, August 19, 1916.

WHO RULES THE PROVINCE?

There is little doubt that it is the great political force wielded by the Chairman of the Hydro-Electric Commission that forced the Government to repudiate its contract with the Electrical Development Company; the Government solemnly agreed, under its seal, with the Company named, that it would not take water from the Niagara or Welland Rivers to generate electrical power; this obligation had been voluntarily assumed by the Government as a condition of the franchise granted to the Company, the Company agreeing on its part that it would maintain one-half of its power in Canada and would pay rentals exceeding \$100,000 a year to the Government. Upon the faith of this arrangement and the mutual covenants between the Company on the one side and the Government on the other, fifteen or twenty million dollars were raised in England and in Canada by the Company for the construction of the necessary works.

The Hydro-Electric Commission needing more power and wishing to undertake a new power development at Niagara Falls, applied to the Government for the necessary legislation to enable it to do so, to which the Government replied that it was bound by an agreement not to exercise any right it might have to take water from the Niagara or Welland Rivers for the generation of power; notwithstanding this answer, the Hydro-Electric Commission insisted upon their Chippewa Power project and called upon the Government to break its contract and to pass an Act for that purpose; although there was a great deal of demur about it, and some of the Ministers were opposed, the Act was finally passed, authorizing the water to be taken and the work to be done.

Then followed the whitewashing clause in the Act as follows:—

"The exercise of the power shall not be deemed to be the making use of the waters of the Niagara River to generate electric or pneumatic power within the meaning of any stipulation or condition contained in any agreement entered into by the Commissioners for the Queen Victoria Niagara Falls Park."

The same political force has since compelled the Government to issue an Order-in-Council authorizing the purchase of rights of way for the Radial Railways, notwithstanding the provisions of the Act already referred to.

The same political force is now behind the municipalities in their demand formally made in writing by Mr. J. W. Lyon to Premier Hearst, that although the right of the Government to undertake the Chippewa project is a debatable one, the municipalities themselves should be authorized to undertake it on their own account, and that the municipalities should have the right to appoint two members upon the Hydro-Electric Commission.

The cost of the Hydro-Electric undertaking already accomplished and now projected in the form of the Chippewa project and the Radial Railways amounts to approximately \$150,000,000, the items of which we have already given.

The control and expenditure of this vast sum of money is in the hands primarily of the Chairman of the Hydro-Electric Commission, and it remains to be seen whether the checks imposed by the Government must yield to the same powerful political force. Will the Commission with various municipalities ranged behind it, be too powerful for the Provincial Government to resist or will justice be done?

Toronto, August 26, 1916.

BRITISH OPINION AROUSED.

The London correspondence of "The Toronto Daily Star" contains notices of the publication in *The Economist* of a letter to the Editor by Prof. Mavor in which he is said to have warned English

investors of the consequence of the action of the Government in infringing the agreements between it and the electrical companies, and of leading articles on the same subject in *The Morning Post* and *The Financier*. It is quite evident that the English press is not so apathetic as is the press of this country which, with the exception of **THE FINANCIAL POST** and one or two others which have followed our lead, appears to be willing to see the credit of the country destroyed by measures which can only have the effect of temporarily inflating the influence of a small group of politicians.

THE GOVERNMENT AND THE LAW.

The refusal of the Attorney-General to grant a fiat permitting the Electrical Development Company to institute proceedings against the government and the Hydro-Electric Commission for breach of contract has, as we anticipated, not been accepted as the last word in the controversy between the Government and the company. A writ has been issued summoning the Attorney-General and the Hydro-Electric Commission to an Ontario Court to have it declared in brief that the Government has no right to abrogate a contract entered into by it, without consent of the other party to the contract. The Government, fully conscious of the indefensible charter of its conduct, has used and may still use the forms of law for the purpose of shirking responsibility, but this is a game that more than one can play at, the forms of law do not exist for one side alone. Some means of having this question settled in the courts of law must exist and however the Government may attempt to wriggle out of its obligations there is a strong probability that it may eventually be caught in the trap of its own setting.

Every attempt made by the Government to evade the process of law constitutes cumulative evidence of its conscious guilt. It has not attempted nor have any of its organs or supporters attempted any answer whatever to the charge of breach of contract. The rea-

son is obvious, the charge is true and no answer is possible save an admission of its truth. Under these circumstances, the Attorney-General would be well advised to refrain from interposing further obstacles in the path of justice, we are not specially concerned with the interests of the parties, although these parties being for the most part in England and, therefore, distant from the spot, entitles them to more than usual consideration. The ulterior consequences to the Province and to the Dominion of ostentatious and cynical disregard of contracts on the part of the Ontario Government are likely to be more serious than we care to develop in detail.

Toronto, September 2, 1916.

THE INVESTOR'S ATTITUDE.

The attitude which **THE FINANCIAL POST** has taken with regard to the protection of right in the Hydro controversy has been on behalf of the investor and in the interests of the credit of the province. That the danger of interfering with future supplies of capital in the British market is a real one may be realized from the following which appears in an editorial in *The Financier* of London:—

"The dispute between the Government and the power companies is of many years' standing, but it has now reached a point when it has ceased to possess merely local significance. The reputation not only of Ontario but of the Dominion Government for fair dealing towards British investors is at stake. We may go further and say that this is a test case, involving the right of individuals to protest against the repudiation of agreements solemnly entered into by the State. While the Empire is fighting for the principle that treaties between nations are sacred and cannot be torn up as mere scraps of paper, we cannot afford to shut our eyes to acts of injustice perpetrated by a petty Provincial Legislature which happens to have been captured by demagogues. In such a case the group of citizens who consider themselves to have been wronged should surely have the right of appeal to a higher authority. That has so far been denied them, though there is reason to hope that when the facts become fully known and appreciated such a storm of indignation will be aroused as to compel the repeal of the unjust legislation which has been the cause of the trouble. Already we have reason to believe that the Ontario power scandal has cre-

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ated grave concern in Canadian financial circles, and this will no doubt be shared by British investors in Canadian undertakings when the position is fully appreciated.

"The Hydro-Electric Commission claims to be above the law. The Act by which it was constituted provides that the Commission is immune from process of law excepting through a fiat of the Provincial Attorney-General. This fiat has been thrice refused, but the matter will not rest here. The Dominion Parliament will be asked to intervene, and to disallow the arbitrary legislation of Ontario. But it is difficult, as Professor Mavor points out in an article in THE FINANCIAL POST OF CANADA, to call into question the Acts of an Executive Government owing to the legal fiction of the irresponsibility of the Crown, which on this occasion is transferred with extremely doubtful propriety to a small and not very stable group of party politicians. It is a really grave affair, says the Professor, to call their proceedings in question, no matter how injuriously these proceedings may affect either private interests or the public interests of the State. The more arbitrary its actions the more tenaciously will the authority which commits them refuse to have its proceedings called in question. But there is, fortunately, a higher power in the land than the Government of Ontario, and we await with confidence such action on the part of the Dominion Parliament as will compel the suspension of the confiscatory legislation pending a reference of the whole case to the Privy Council of the Empire, which is the one legal authority competent to decide upon the grave issues involved."

Toronto, September 16, 1916.

A CONSTITUTIONAL MENACE.

The attitude which THE FINANCIAL POST has taken in support of the rights of private corporations as against confiscatory legislation on the part of a provincial government has been endorsed by keen students of the economic and financial issues involved. Particularly has this been the case in England where those who study the barometer of the world's money market appreciate the effect which the over-riding of the agreements and contracts of a province by politicians seeking the temporary favors of the people is likely to have upon credit and borrowing power. W. R. Lawson, an eminent economist and student of Canadian industrial and financial conditions—author of "Canada and the Empire," "American Industrial Problems," "American Finance," "British Economics," etc., and a contributor to the *Financial*

Times and the *Outlook*—in a letter to the *Economist*, expresses himself very strongly in connection with the matter. Expressing surprise that the charges of good faith have not been answered, he points out that while the high-handed action of the Ontario Government is sufficiently grave of itself, a much more serious question is the complete failure of the judicial checks which "were supposed to have been provided by the Dominion constitution."

Mr. Lawson states his opinion that the ten years' conflict between the power commission and the power companies might have been cut short in its infancy had the law courts, both Provincial and Imperial, been left open to both parties. However, as has been pointed out in THE POST, there is a preposterous provision in the Act by which the commission was constituted which renders it immune from process of law except through a fiat of the Provincial Attorney. Such fiat has been refused and the events, according to Mr. Lawson, are a series of most complicated financial adventures into which the province has been plunged by a "public ownership" craze, while a constitutional issue has been raised which may affect the whole future not only of Ontario, but of Canada and the Empire. He continues:

"If a Provincial Assembly, in Canada or any other part of the British Empire, is to be allowed to declare itself, judicially as well as politically, independent, it will have a free hand to over-ride the simplest principles of justice and equity. Should any political official have the right to refuse an elementary right of every citizen—the right to have his case brought to fair and open trial? That is what the refusal of the Attorney-General's fiat practically means to start with, but it involves a good deal more. It is also a flat defiance of the Dominion and the Imperial Courts of Appeal, the constitution safeguards against abuse of legislative and executive authority. If the Government and the people of Ontario deliberately intend to raise such an issue and fight it to the bitter end, they will be embarking on a long and costly conflict. Have they made sure that the financial results of their hydro-electric monopoly—should they succeed in establishing it—will be worth all the sacrifices, direct and indirect, which it may entail on them? Already it has cost them 10 years of political turmoil, broken contracts, unfair competition with private en-

terprise and strategical law-making. Can such a game ever be worth the candle for any public authority which has an historical reputation and a valuable credit to maintain?"

Toronto, October 7, 1916.

A QUESTION OF CREDIT STANDING

Leading financial journals in England continue to express their endorsement of the attitude in connection with the Ontario Hydro-Electric controversy, which has been adopted by *The FINANCIAL POST*. In touch with the financial pulse of the Empire and of the world, the writers for these publications, who are students of the broader phases of finance, are noting the attitude of the British investor with regard to the treatment of private interests by Ontario and other provinces of the Dominion, and are sounding a warning. When the time comes for Canada's provinces, municipalities, and large industrial enterprises, to seek British capital, the remembrance of what is described in England as the Ontario power "scandal" will be lived down with difficulty. The investor who sends his capital across the Atlantic demands security first, and when the makers of legislation, to whom he has a right to look for protection, confiscate his property and rights, he is not likely to hesitate in seeking other fields—and other fields, in our opinion, will not be hard to find after the war.

The *London Financier*, referring to an announcement of the Agent General for Ontario, regarding the facilities offered by the Hydro-Electric Commission, comments that he omits to add that extensions and improvements are being made in violation of a solemn contract entered into between the Government and the syndicate which afterwards became the Electrical Development Company of Ontario. On the strength of this contract, British investors subscribed for bonds and they now see their security threatened owing to the fact that the Government of Ontario does not find it convenient to keep its pledged word, *The Financier* candidly states that British hankers

who are agents for Canadian loans will discriminate very strictly between those provinces which have dealt fairly with British investors in the past and those which have not.

Toronto, November 4, 1916.

EXPERT OPINION WANTED.

As was to be expected the Chairman of the Hydro-Electric Commission has summoned his cohorts to Toronto to enable him at this crisis in the affairs of the Hydro-Electric enterprise, to terrorize the Government into supporting his fantastic schemes. He regaled them copiously with figures drawn for the most part from his imagination as well as with announcements that in order to give them cheap power he was prepared to plunder the people who are at present engaged in supplying it.

It is insulting in the highest degree to the intelligence of the people of Ontario that any politician could be found to sketch a programme so flagrantly opposed to their permanent interests and so pregnant with discredit and disaster as the programme which was unflinchingly placed before the representatives of the rural municipalities. This programme proposes calmly to burden them with debt and to handicap their real progress.

The pretence that the scheme is being kept free from politics can be described only as impudent. The whole scheme is political from the beginning. It is a transparent device to commit the Province irrevocably to a project which must place within the power of those who control it, the administration of the Province. The plan is quite simple. Radial lines will be provided for a few places where probably within the next few years they might be profitably utilized, then other places where profitable utilization is extremely remote will clamor against discrimination. The government will be worried by threats of political reprisals unless radial lines are run into regions where long continued subsidies will be necessary. The argument, very familiar in the United

States, that every place should be given its opportunity will be used to the full, and the administration of the Province will find itself under compulsion to expend the resources of the Province in many cases in wholly unremunerative directions. Meanwhile the rural municipalities misled by optimistic and hazardous estimates will have plunged themselves into debt from which they will naturally look to the Province to extricate them. This very thing happened in Ontario before and it is bound to happen again.

Moreover, long after the present Hydro-Electric Commission has been hopelessly discredited because of its financial methods and its policy of spoliation of private property, the burden may remain upon the province and upon the municipalities.

If the scheme were merely local and if it involved only a few million dollars it might be left to go its own inevitable way to ruin without any material disaster accruing to the country; but since it involves not a few millions but perhaps hundreds of millions of dollars, it is surely not too much to ask that the Government should pause before giving its adherence to a scheme of such magnitude.

It is surely not too much to ask that advice be taken of the best available professional character upon the real cost of the enterprise and upon the economic feasibility of it. The statements of possible advantages which have been made have been drawn in the highest colors. Is it not important that before committing ourselves to a scheme of such magnitude, we should be made aware whether or not these estimates are justified? If the estimates are not justified, they are the outcome of a peculiarly dangerous form of megalomania — dangerous because the people who are afflicted by it have at present really the power to commit the province irrevocably to an enormous extent. They have this power through the accident of political fortune; they may at any moment be discredited and lose

their places; but the effects of their folly will remain for this and future generations to pay for.

It is the plain duty of the Government to obtain advice from more competent persons than the amateurs of the Hydro-Electric Commission.

Toronto, November 25, 1916.

A BLANK CHEQUE FOR THE CHIPPEWA PROJECT.

It has been announced that the Hydro-Electric Commission has not only decided to proceed with the construction of the Chippewa power works, but has also decided not to do the construction by contract but place the risk upon the shoulders of the Province. It is explained that the large contractors who are working in the neighborhood upon construction for the Dominion Government were unwilling to tender for the Chippewa works without including in the price a considerable margin for contingencies. The Commission announces its intention of purchasing \$800,000 worth of construction equipment; but it says, "even with this tremendous expenditure on equipment, much of which will be of little use after the work is done, the Commission will be able to save a large amount of money to the Province."

It is quite clear that this hypothetical saving is arrived at by the elimination of allowances for contingencies such as the increase in the cost of materials and labor, damage to works during construction through failure of dams or other works, unanticipated difficulties arising through faults in the strata, quicksand or otherwise. These important elements cannot be safely eliminated in such an undertaking, especially at a time like the present when economic conditions are highly disturbed.

The Hydro-Electric Commission has the temerity to ask the Government for an Order-in-Council which is necessarily the first of an indefinite series asking for funds to embark upon a project which has never been reported upon by a competent

engineer independent of the Hydro-Electric Commission and which has not been subjected to any rigorous estimate.

If the Government accedes to the request of the Hydro-Electric Commission it will in effect give the Chairman of it a blank cheque upon the credit of the Province. This blank cheque must bear upon its face eventually a figure indicating the withdrawal from the Provincial Treasury of possibly hundreds of millions of dollars.

If the Government accedes to the request of the Hydro-Electric Commission this will suggest strongly that the Government is a mere tool of that commission and that it does not possess power of movement excepting under the influence of that commission.

If the Government accedes to the request of the Hydro-Electric Commission it plunges the Province and municipalities into a whirlpool of debt in which these administrative bodies—unless they have recourse to taxation—will find themselves involved as inextricably as logs in the whirlpool at Niagara.

Toronto, December 2, 1916.

THE NEW HYDRO BY-LAW.

Serious Aspects of the Issues Behind the Question to be Submitted to the Ratepayers—Heavy Financial Responsibilities Are in Reality Involved

On the first of January, 1917, the voters in many of the municipalities of Ontario will find themselves called upon to answer the following question:—

“Are you in favor of having the municipality develop or acquire through the Hydro-Electric Power Commission of Ontario whatever works may be required for the supply of electric energy or power in addition to such electric power as is already obtained under the existing contract with the Hydro-Electric Power Commission of Ontario?”

On the face of it this question does not involve a money vote; but, in reality, it involves the signing of a municipal guarantee for an unstated amount of money. If this question is answered in the affirmative, the municipalities will commit themselves to a policy under which enormous financial obligations must be incurred. Money by-laws must succeed this by-law at frequent intervals, the municipalities being almost insensibly drawn into expenditures which they never might have incurred had they been aware of their magnitude. At the meeting of the City Council of Toronto, held on Tuesday (5th December), some of the aldermen wisely objected to the by-law being placed before the people of Toronto without full information upon the project to which it related. Representatives of the Hydro-Electric Commission were then permitted to give their interpretation to the Council. They said that the Government was in any event committed to the scheme; and that if the municipalities desired to become owners of the Chippewa development plant a new Act of the Provincial Legislature would give effect to their desires. In the meantime the City of Toronto incurred no financial liability through the passing of this by-law; but money by-laws would have to be passed before such financial liability was incurred. This is the method previously pursued by the Hydro-Electric Commission, viz.:—To secure adhesion to a vague project without ostensible liability and then to take action upon that adhesion demanding subsequent financial support, as a logical sequence of previous action. The municipalities are really invited to enter upon an unlimited expenditure which must tax their resources for many years.

The question is: Is it wise for the municipalities to vote these by-laws, especially in the presence of the most serious crisis ever encountered by this country?

The gravity of the situation is greatly enhanced by the fact that in the present uncertain conditions prevailing in the labor market and in the market for commodities, the Hydro-Electric Commission has been unable to induce any responsible contractor to undertake the hazardous task of tendering for the works at Chippewa. Under these circumstances an estimate is impossible—no estimate provisionally advanced by the Hydro-Electric Commission could possibly be accepted. The statements made by it upon the saving which will be made through the management of the construction by the officers of the Commission are merely fantastic—they have no relation to reality.

In any case the municipalities have no voice in the matter of construction. Even the promise of legislation amended in accordance with their desires has no validity. The engineers of the Hydro-Electric Commission cannot be regarded as being able to predict the action of the Legislature. The fact that as representing the Commission they ventured upon this promise is significant only because it shows to what extent the Commission supposes that it can control the Legislature and obtain any legislation it may require.

Nothing is clearer than that if the municipalities pass these by-laws they will find themselves saddled with the ownership of a plant over the construction and cost of which they had not control and with the management of a highly speculative business with, at the best, insignificant, pecuniary advantage.

. . .

It seems necessary to set forth explicitly the reasons which appear to have caused the Government to require the municipalities to vote upon this by-law on the 1st of January.

The original idea of the Government, as shown in the legislation of last session (1916) was to construct the Chippewa Power plant and to develop a system of radial railways through the

Hydro-Electric Commission. This Commission has been appointed by the Government and the moneys to be expended upon the project were to be moneys raised upon the credit of the province. The total amount of these moneys has never been definitely stated by the Government, and the magnitude of them has probably never been seriously considered. The cost of the Chippewa project has been stated at \$20,000,000 to \$30,000,000 on the basis of peace conditions; but even if the Chippewa works were constructed for one or other of these amounts this would only form the initial expenditure. The Radial Railway system might cost a sum which could only be expressed in terms of many times that initial amount.

Indeed, it is impossible to avoid the conclusion that if the Hydro-Electric Commission carries out the projects already announced by it, a capital sum to be expended within the next few years, of between \$150,000,000 and \$200,000,000, must be contemplated. This statement has frequently been made, and has never been called in question by the Government. It must, therefore, be taken as substantially accurate.

It may be taken for granted that this formidable scheme has been forced upon the Government by the Hydro-Electric Commission, political influence acquired by the Commission having enabled it to exert the necessary pressure. Up till the present time, however, it would appear that the Government has been opposed to the policy of entrusting the Hydro-Electric Commission with a free hand in carrying out the scheme, and has not been disposed to acquiesce in the domination of the Commission by the Union of Municipalities. The Government refused, for example, to allow the Union of Municipalities to appoint two members on the Commission on the evident ground that the control of the Government over it would thereby be weakened; the Government also demurred to the release of the Commission from sub-

jection to the audit of its accounts by the Provincial Auditor.

The Hydro-Electric Commission was to begin with, and is now in fact, if not in law, a department of the Government subject to control by the Government in substantially the same manner as other Government departments. A member of the Cabinet sits upon the Commission. It is to be presumed, in order that the policy of the Government may be duly carried out. The Union of Municipalities has all along objected to this arrangement. What it desired was that the whole Hydro-Electric scheme should be conducted as a co-operative municipal scheme, the necessary funds being raised by means either of a loan from the Government to the Union or by municipal bonds guaranteed by the Government. This arrangement, however, would have deprived the Government of the patronage and of the prestige, real or imaginary, of the Hydro-Electric enterprise. It was, therefore, rejected. But control involves responsibility, and sometimes responsibility is real, while control is only nominal.

The Hydro-Electric Commission appears to have forced the Government into the legislation of last session by which an attempt was made to declare invalid the contracts entered into between the Government and the companies generating electrical power, under which the Government had agreed not to generate power on its own account.

Litigation has arisen over this attempt at repudiation of a contractual obligation, in spite of the efforts of the Government to stop the proceedings, through the refusal of a fiat to enter suit and otherwise through the employment of every legal and other resource to prevent the light of day being shed upon the transaction.

In spite also of efforts on the part of the Government to stifle criticism of its own proceedings and of the proceedings of the Hydro-Electric Commission cer-

tain criticisms have seen the light in Canadian and also in English newspapers.

In its anxiety to unload the whole scheme upon the municipalities and to abandon the plan of a provincial Hydro-Electric system, a change of mind on the part of the Government is apparent. It is evident that the litigation and the criticism together have caused the Government to feel a want of confidence in its ground. The ostensible transference of its responsibility to the Commission does not promise any security; therefore the Government is adopting another method. It proposes to transfer to the municipalities the responsibility for acts already committed, and for others to be committed at variance with previous legislation and previous agreements. The adoption of a subterfuge of this kind by the Government is entirely in accordance with its whole attitude and conduct on the question. It is not to be supposed that any court of justice before which such a matter may be brought could fail at once to recognize the subterfuge.

Even if the Government has been coerced into its change of policy by political pressure from the municipalities, this would not enable the Government to escape from the consequences of its repudiation, nor would it enable the municipalities with impunity to place themselves in the position of receivers of stolen goods.

Let us look the matter fairly in the face. It is proposed that a municipality, the City of Toronto for instance, should enter into a joint guarantee with an unknown number of unknown municipalities for an unknown amount, this unknown amount being expended without adequate previous estimates upon a highly speculative and hazardous venture.

If after this warning the municipalities plunge blindly into this scheme they will have prepared the way for serious curtailment of municipal as well as of

provincial autonomy, because sooner or later there must come an irresistible demand that the authority of the Dominion should be invoked to prevent irreparable injury to the interests and the credit of the country as a whole from ruinous provincial or municipal adventures.

It is impossible for the people of the municipalities to judge fairly in such complicated matters as the distribution of electricity and rural transportation, especially when the data which is essential to a thorough understanding of them is elaborately concealed by the Hydro-Electric Commission, therefore the first thing to be done is for the municipalities to insist upon a thoroughgoing investigation and report by competent engineering experts and accountants appointed, not by the Provincial Government, but by the Dominion Government, in respect to all the aspects of the Hydro-Electric Commission and its projects.

If the schemes of the Commission which have been endorsed by the Government are sound, such an investigation should be welcomed. If the report were favorable, the advantage to the Government would be obvious; if it were unfavorable, and if the Government adopted its conclusions, the Government would also gain credit through having saved the province from an unsound speculation.

It is very distressing that at this supremely critical juncture in the history of the country when the resources of the whole Empire are being taxed to the uttermost, that the minds of the people should be distracted and the successful prosecution of the war compromised by a project which has already led to international difficulties, and has every indication of eventual serious embarrassment to the municipalities and the province.

December 9, 1916.

HYDRO'S LACK OF RESERVES.

The Hydro-Electric Commission is in

serious difficulties with regard to its supply of power; the reasons are obvious. The Commission originally provided for a supply of 100,000 horsepower, and although the end of this supply was in sight three or four years ago, no steps were taken to secure an additional quantity. The Hydro-Electric Commission has had no contracts for an increased supply, no additional transmission lines, no separate batteries, and no reserve steam plant. The business of the private companies has been conducted on an entirely different basis; they have carried on business with the usual precautions and safeguards; they have from time to time increased the number of units in their generating stations at Niagara Falls; have added to their transmission lines; have purchased storage batteries, and have large steam reserve plants, the cost of which has amounted to millions of dollars.

The Hydro-Electric Commission has encountered the difficulties which that body was warned against. It is obvious that with increase of business, there must be reserves of power and operating facilities to meet it. The Hydro-Electric Commission has not conserved the usual portion of profits, and, therefore, has been unable to equip the necessary reserves. In any ordinary commercial undertaking the result would be bankruptcy. There is no royal road to commercial success.

Is it possible for the Commission to extricate itself and to overcome this fundamental weakness? Some months ago the Commission obtained the right from the Local Legislature to generate power from the Niagara and Chippewa Rivers, but the supply from this source will not be available for at least four or five years. At the present moment the Commission has appealed to the Dominion Government to restrict the export of power from the Power House on the Canadian side to the United States, but under the franchise of the Canadian Companies they are entitled to export

one-half of their production, and of the three companies, only one of them is exporting a greater quantity, and that one, the Canadian Niagara Power Company, will soon be in the same position, so that little, if any, relief can be found there; but there is an insurmountable difficulty against the restrictions of export, and also against the building of the proposed Chippewa Power plant, namely, that these matters have already been dealt with by International Treaty between Great Britain and the United States, made through the International Waterways Commission, whereby the total quantity of water which may be diverted from the Niagara and Chippewa Rivers has been limited to the amount now being taken by the Canadian Power Companies—there is a small quantity of second feet of water still available without breach of the Treaty, but quite insufficient for the required purposes—and the amount of power to be imported into the United States has also been fixed and cannot properly be altered without the consent of the authorities at Washington.

Should action be taken by the Dominion Government in this matter, at variance with the Treaty, retaliation might be expected in anthracite and petroleum.

An action is now pending in the Supreme Court of Ontario for an injunction to restrain the Hydro-Electric Commission and the Attorney-General of the Province of Ontario from proceeding with the Chippewa development, on the ground that in the franchises of the Canadian companies the Government of Ontario has expressly contracted never to take water from the Niagara or Welland Rivers—the Welland and Chippewa Rivers are the same—for the generation of electrical power.

These are some features of the situation upon which those who enthusiastically voted for the Hydro proposals on Monday last might well reflect.

Toronto, January 6, 1917.

THE HYDRO MENACE.

However easily Sir Adam Beck may be able to hypnotize the ratepayers of Ontario to support his ill-judged Hydro-Electric projects by the alluring magic of "public ownership," it is evident that investors will form their own conclusions as to the soundness of his schemes and the justice of his attitude towards private interests. The London financial press, which is an important influence in shaping the policy of the British investor seeking foreign fields for his funds, is strong in its condemnation of what is referred to as the "Ontario Power Scandal." The situation, says *The Financier*, is fraught with grave injustice to undertakings, which were established with the aid of British capital. This journal prints the following from a Toronto correspondent in reference to the attitude of the commission:—

"The electric interests are in the hands of the Philistines and may be expropriated at any time, as the Hydro-Electric Commission made the power so cheap as to create a false demand, which the means are lacking to supply. Unfortunately, some of the power is needed for the making of munitions, and this lends a fictitious strength to proposals for more power and for the right to take it wherever it can be found.

"In the cases of the private corporations they built duplicate transmission lines and reserve steam plants in order to meet the increasing demand; but the Commission could not do this, for the very simple reason that the cost of it would have prevented the sale of power at the low prices that attracted the public and would have taken away from Sir Adam Beck the popularity he enjoys and the political power it has given him. The situation is, indeed, serious."

Toronto, January 27, 1917.

ONTARIO POWER SCANDAL.

London Financial Journal Criticizes
Narrow Policy of Provincial
Government.

The attitude of THE FINANCIAL POST in connection with the Hydro Commission's development schemes in Ontario has again been supported by *The Financier*, of London, which makes some pointed remarks about the socialis-

tic tendencies of the Ontario Government. In quoting THE POST'S recent editorial on the subject of heavy capital expenditures under the prevailing financial conditions, it is pointed out that there is evidently more concern being shown for the welfare of the province than for the Dominion or the Empire. We quote:—

The Socialistic Government which now controls the Province of Ontario is more concerned with the welfare of the people of that Province than with that of the Dominion of Canada or of the Empire. Otherwise it would not be lightly proceeding with the scheme for an enormous expenditure of public money on works which might very well have been deferred until after the end of the war. In this it runs counter to the wishes of the Lieutenant-Governor of Ontario, whose Christmas message contained a grave warning as to the inexpediency of promoting unnecessary public work at this juncture. It will be remembered that the program of the Hydro-Electric Commission, who are the nominees of the Ontario Government, involves the expenditure of a sum of from 20 to 30 million dollars for a power plant on the Chippewa River, where it joins the Niagara River above the Falls, and 10 million dollars for a fresh transmission line. To accomplish this project they have ridden roughshod over the rights of the British investors who subscribed to the bonds of the Electrical Development Company of Ontario on the faith of a contract which was subsequently set aside by an Act rushed through the Ontario Legislature. The plan also involved the construction of a hydro-radial railway system throughout the Province, and, incredible as it may seem, this hare-brained scheme is being persisted in, notwithstanding the urgent need of the Empire for the capital, the labor and the materials that will be absorbed by this purely local undertaking.

The proposal has been sharply criticized by the Canadian financial press, and it is fitting that the attention of British investors should again be drawn to the scandal. In proceeding with this big expenditure of public money on "improvements" which are of little more than parochial value the Hydro-Electric Commission is doing a dis-service to the Ontarians who are serving with the Colors, including many of its own employees, and is setting a bad example to public bodies throughout Canada. The provision of radial railways throughout the Province may be advisable, though, as THE FINANCIAL POST OF CANADA points out, there is absolutely no proof that such railways would pay working expenses, but their construction at the present time would be little short of a crime against the welfare of the country. Our contemporary goes on to show that before the war Canada had in the aggregate spent a disproportionate amount of her resources in actual means and had seriously strained her credit by excessive public works, especially railways. Steel is just now not only at a high price, but every

pound which is made is needed for the purposes of the war. The demand for money for the purposes of the war is also heavy, so heavy as to cause anxiety to everyone who takes a serious view of the future. Yet, in spite of these facts, says THE POST, we have a few persons who have never exhibited any real sagacity in public life urging the expenditure of immense sums of money and the addition to the demand for steel of very large quantities at this tragical moment. Surely it is time that these "few persons" were called sharply to account by the responsible authorities at Ottawa, who have it in their power to prevent the perpetration of a grave injustice to the credit of the Dominion and to the brave Canadians who are fighting for the Empire.

The annual report of the Toronto Hydro-Electric Commission, issued in July, contained no mention of this contemplated expenditure. The hydro-radial railways project was not even referred to, but the growth of the City of Toronto was alleged to compel further extensions from time to time. The vague promise was made that "every care will be taken at all times, but especially during the present time of war stress, to limit the extensions within the requirements of a sound and conservative policy." Apparently this promise is to be treated as was the contract with the syndicate which afterwards became the Electrical Development Company of Ontario—that is to say, as a mere scrap of paper. It is true that in its public advertisements the Hydro-Electric Commission claims that in voting for the by-laws authorizing the hydro-radial project they are not voting money. But they are voting authority to the Commission to incur obligations to an unlimited extent, for which the people will have to pay, and the reputation of the Commission in financial circles is not such that the money will be found on easy terms.

February 17, 1917.

PUBLIC ENTITLED TO HYDRO-ELECTRIC AUDIT

Government Announced a Year Ago
That Examination of Accounts
Would be Made.

About a year ago the Government announced in the newspapers that Messrs. Clarkson & Sons, chartered accountants, had been instructed to examine the accounts of the Provincial Hydro-Electric Commission and to prepare a report upon them. A sufficient length of time has now elapsed to justify the belief that the report is now in the hands of the Government. The question is, when is it going to be put in the hands of the public? The Provincial Treasurer an-

nounced in his budget speech that the requirements for the Hydro-Electric would be put in supplementary estimates. Before these supplementary estimates come up for discussion it is absolutely necessary in the public interest that the actual state of the fin-

ances of the Hydro-Electric should be known.

If the report of Messrs. Clarkson & Sons is favorable, there could be no possible disadvantage to the Government in disclosing its terms. If it is not favorable, the public ought to know.

Toronto, March 3, 1917.

Government Telephones

**The Experience of
Manitoba, Canada**

**By
James Mavor, Ph.D.**

**Professor of Political Economy in the University
of Toronto. Author of "An Economic History of
Russia," etc.**

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