THE CANADIAN RAILWAY PROBLEM

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BY

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PREFACE

Do not infer from the historical portions of *The Canadian Railway Problem* that the owners of the private railways of this country are worse than other men. Give the ordinary individual the control of a function of the state for his private gain, and he will exercise all the authority committed to him and take all the gain allowed. The wrong is in the system, which permits a sovereign right to become the subject of usury.

It will be proved in these pages that railway rates are public taxes, the service of the railway being the prerogative of the state, and that therefore the revindication of this prerogative, long surrendered into private hands in Canada, is not merely a matter of expediency—it is a duty. That the administration of railways by the state may prove more efficient or less does not absolve the people from this duty in the least. Yet on the points of efficiency, economy, and integrity of administration the reader will here have the records of both systems. Let him judge between them.

In its essence the railway problem is one of self-government, and that being the case, its settlement is not one for railway experts, but for statesmen. It will be well to consult the railway expert as to methods of operation, but surely the railway expert

is not to determine for us how we shall govern ourselves, or what rights the people shall abandon or reclaim. No Parliament can use a Royal Commission's report as a Pilate's basin in which its hands may be washed of the responsibility of deciding whether the people shall own the highways, or continue to pay tribute to the tax farmer, as in old Rome.

The writer thanks the railway departments of the various British Dominions and foreign governments for information received. Officials of the Interstate Commerce Commission and of the Bureau of Railway Economics at Washington have been especially courteous.

On the subject of the relations of the British railways to the state, helpful literature is furnished by the Railway Nationalization Society, of which Mr. Emil Davies (author of *The Case for Nationalization*), 1 Charing Cross, London, is chairman.

E. B. B.

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CONTENTS

THE RAILWAY PROBLEM

CHAPTER I

The Railway as a Revolutionist and a Tax Collector

Whatever may be said as to the unchanging character of man's moral nature, the physical conditions of civilized mankind have been transformed in a wonderful way in the last hundred years. The division of labour and the new means of communication brought about by the application of steam and electricity have put a new colour on the face of the world, and the chief instrument of this revolution is the railway. As the gossamer lines of steel have spread over continents they have not only charmed away the former isolation of city and village life, but by the aid of the telephone, another wonder-working offspring of electricity, have made the pioneer farmer a next-door neighbour to the citizen of the metropolis, and have even broken down the barriers that have separated nations. The railway has performed in many cases the miracle of giving bread to the labourer of Great Britain cheaper than it is furnished to the citizens of Western Canada or Argentina where the wheat is grown; it has made the manufactures of the boreal pole familiar to the children of the torrid zone, and lavishly scattered the

varied products of the tropics over every continent. Indeed it is a poorly furnished house in Britain, the United States, or Canada whose owner cannot sit down and trace the articles of food and clothing and the furniture of his home to regions where the railway has connected him with a hundred mines and quarries, a thousand separate agricultural districts, and ten thousand different industries distributed in every zone and continent. In the organized life of a community or a nation the railway has in fact become what the air is in the functions of life; or what the veins and arteries, muscles, and tendons are to the work of the human body.

The man who does not personally use a railway may not realize it, but it is true that every day the railway is serving him and his family, and he in turn pays tribute to the railway. Because of his three primary needs—food, clothing, and shelter—he and the community of which he forms a unit can no more carry on their organized life without the railway than life can be sustained in a vacuum.

These statements may be commonplace, but there is a purpose in here calling attention to them. Two simple illustrations—one a mental need, one a bodily need—will serve to show our dependence on railway transportation, which increases the complexities of civilized life by the very facilities it brings to us. If we apply these illustrations to a thousand and one products shipped by rail, beginning with raw materials and ending with the finished articles in the consumer's home, we are driven to another conclusion, which has not yet been grasped by many economists,

and this is that in the final summing up the greater elements in the price of most manufactured articles are not labour, but the cost of transportation.

The first example is that of a daily paper which can be bought for a cent or two; but what a system of transport has to be set in motion before we can read the revelations of the last twelve hours. We have to begin with the tree in the forest, for without the tree we cannot get the pulp from which the white paper is made. And we cannot commence to take the tree out of the woods without axes, saws, and other implements, harness and vehicles, and the use of these implements, takes us back by another road to the various mines of coal, iron, and other minerals, each involving their own separate series of industries leading up at last to the finished articles with which we began on the tree, and which, without the services of a railway, could not themselves have been brought into existence. The wood having been conveyed to the pulp mill and ground into pulp, it is sent to the paper mill, but before it has gone to the paper machines it has to be mixed with a certain proportion of chemically-made pulp to give it strength, and the production of this chemical pulp carries us back again to other railway services involving the traversing of continents and oceans to seek the raw materials from which the chemicals are made, the chemical industries themselves being an endless chain of complicated processes requiring an immense range of transportation services reaching to distant parts of the world. The paper mill outfit comprises not only iron and steel in various forms,

but brass, copper, zinc, bronze, lead, aluminum, and other metals, each of which requires rail transportation from the mine to the location of industries that work it up to the finished article. And last of all, the rolls of white paper must find their way to the newspaper office by rail, and then, when printed, must depend for their distribution by rail to their readers in a hundred or a thousand towns and villages. Even in the city of publication, mechanical transport that depends upon the railway for its construction, must be used. Thus continents must be traversed by rail, and that many times over, before a person can get his cent's worth of news.

A pair of boots will serve for the other example. Before the era of railways the shoemaker of a village might be a barber and repair clothing; and the whole village might be almost self-supporting and self-contained, but the railway has revolutionized the shoe industry. The making of the shoe begins, as of old, on the farm and with the grass in the field, but before the farmer is able to provide shelter for himself and his animals, he must have building materials and implements, all of which have been carried on a railway, and some on railways, steamships, and wagon roads combined. When the cow or calf has yielded up the hide with her life, the hide goes to the tannery, but the tanner himself must already have received by rail many items of chemicals and supplies before he can deliver the dressed hide to the manufacturer. The manufacturer in his turn must already have bought items of machinery and supplies from a hundred sources before he can produce the

boots. What this stage of the process means may be understood when it is known that the United Shoe Machinery Company in the regular routine of its business makes over 83,000 different kinds of machine parts, varying from a machine base weighing over a ton to the most minute machine screw, in the production of its eighty special machines. But boots and shoes are not made from Canadian leather alone. The hide of the ox from the hills and plains of India, as well as from Mexico and Texas, comes into the sole leather; the cattle of South America, Asia, and Africa yield their pelts for different classes of soles and uppers; the sheep and goats of Arabia, Turkey, Siberia, China, and Thibet, or of South Africa and South America contribute to the finer footwear, while for other special classes of leathers the manufacturer may draw material from the kangaroo of Australia on one side of the globe to the hair seal of the Canadian Arctics on the other. Then there is the long list of supplies such as linen thread, cotton, alpaca, brass eyelets, nails, ink, and colours, etc, which must be furnished by transportation. It seems a modern marvel that six continents must unite their products in a factory in Montreal, Lynn, or Northampton before a full line of boots and shoes can be made. But the miracle could not be performed without the medium of the railway in alliance with the steamship. We need not trace the boots and shoes to the wholesaler and their distribution over the country by rail to retailers.

When this same analysis is applied to all the other items of civilized life, it must be clear enough

that no tax is so far reaching and inevitable as that imposed for the transportation of our persons and goods. Upon rich and poor, on every class and occupation, its tribute is levied directly and indirectly, and it is not possible to bury one's self so far in the wilderness as to be beyond the demand of its assessments.

By the inventiveness of man there is provided in the railway a means of communication by which all other means of communication are maintained—a service through which all services are carried on. It is a creation of man. Should the thing created be greater than its creator? Does the railway exist to serve the people or the people to serve the railway? We must seek the answer to these questions in a study of railway history.

CHAPTER II

Prototypes of the Railway—Inventors and the Pioneers of the Modern Railway

The history of railways is most interesting, no matter from what aspect we review it—the political, the scientific, or the economic. Especially fascinating is the life story of the many inventors who have contributed to its evolution—their disappointments, their triumphs, their patience, self-sacrifice, and Abrahamic faith; the marvellous luck of some, the disappointments and defeats of others, and the astounding results that have come out of the adventures of the railway Columbuses, alike in the field of railway inventions and railway building.

The modern railway had only one prototype in ancient times, and that was the caravan. The caravan had no steam or electric traction, and had no organized lobby in Parliament, but in many other respects the correspondence was complete. It had its motive power, the camel, and over the narrow gauge route the single file of camels formed trains, varying from 40 up to 600—organized much like the modern railway. On the trunk lines from Damascus to Tyre on "the great sea," and from Jerusalem to Ezion Geber on the Gulf of Akaba, or from Damascus to Bagdad and the Persian Gulf, for example, the camel trains had their Karawan-Bashi or general traffic

manager, not appointed, however, by a board of directors, but elected by the travellers who constituted the caravan. They had their junction points, the caravanserais, where stop-over privileges were allowed, and sometimes enforced, though the porter who took charge of the persons and goods of the travellers had no legal claim for payment and was content with a small tip. Then there was an officer under the Bashi who regulated the march—he might be called the Divisional Superintendent—and a second officer whose duties began at the end of the route—he was the Superintendent of Terminals—and there was a baggage master and a paymaster. The object of going in trains was for mutual help and for protection against raiding bands of Bedouins and other marauders. Frequently the Bedouins would offer their services as an armed escort, and then it might happen that the escort led the caravan into the very den of thieves it was paid to avoid. Those who have studied modern stock and bond transactions and the character of the latter-day railway legislation prepared for a people who think they govern themselves can judge whether the parallel ends here.

The primitive trails over mountains and through valleys, trodden by camel, ass, and horse, remained for centuries the only routes of land traffic, until the builders of Rome laid out those straight and enduring roads which are even yet the admiration of highway engineers. As a result the wheeled vehicle came into common use, first the chariot for war purposes, then the cart and the wagon for peaceful

trade. Then there was a stay of progress for centuries till the re-discovery of steam power provided in the locomotive a stronger tractive power than the horse or mule. The way was prepared for the locomotive, however, as far back as 1676, when parallel rails, made of timber, and afterwards timber plated with iron, were used on the roads for the cartage of coal from the Newcastle mines of England to the river Tyne. By this means, it was said, "carriage was made so easy that one horse could draw 10 to 13 tons." The day of the locomotive was further prepared by the idea of the flange to keep the vehicle on the track, the flange being first made on the rail, but afterwards—by the invention of William Jessop about 1800—placed on the wheel itself.

Passing over the early steam locomotives of Trevithick, in 1804, and of others brought out in England in the following years down to 1813, we come to George Stephenson's first engine, the *Blucher*, which was put on the rails in 1814 and drew a train of eight loaded wagons, weighing 30 tons, at a speed of four miles an hour on a grade of 1 in 450. The first regular railway authorized by Parliament in 1821, the Stockton and Darlington, 38 miles including its branches, had Stephenson for its engineer, and when in 1825 steam replaced animal power in its operation, Stephenson attained a speed of 15 miles an hour on some parts of the line with a train of 34 vehicles having a gross load of 90 tons. Compare this with the modern locomotive having a loaded weight on the engine and tender of 300 to 500 tons, and hauling 50 to 70 cars of an average carrying capacity of 30

to 40 tons each—a total tonnage including the weight of the cars of over 4,000 tons.

It was not, however, till 1830, when the Liverpool and Manchester line was equipped by the enterprise of George Stephenson and his brother Robert, that the British nation began to be impressed with the promise of revolution which the steam railway was to make in transportation. The genius of Stephenson had not only surmounted the difficulties of carrying a road bed over a morass of five miles, through a rock cutting of over 60 feet, and over an embankment of the same height, but also by means of four inventions applied at this stage—the internal water-jacketed fire-box, the multi-tubular boiler, the artificial draft created by directing the waste steam into the "chimney," and the direct connection of the steam cylinder to the driving wheels—he developed a quartet of features which have not been superseded in principle to this day. Trevithick had, however, applied the blast pipe on his first engine in 1804.

After all the sneers and jeers of scientists and Members of Parliament, the opening of the Liverpool and Manchester line was a triumph, for not only did prominent men of all classes come to see the wonder, but the Duke of Wellington, then Prime Minister, with Lord Stanley, the Marquis of Salisbury, and many of the skeptical Members of Parliament were among the visitors, and one of the most prejudiced of these was the Premier himself. The Duke came at a risk which he realized only afterwards. A vast concourse had assembled all along

the route, but it was made up largely of people who had suffered from the reactions and depressions that came in the wake of the Napoleonic wars. There was discontent and distress among the poorer classes of the manufacturing districts and consequent anxiety among the employers and landowners. The flames of political agitation were accompanied by the flames of incendiary fires throughout the country. To add to the peril of the opening day the Right Hon. Wm. Huskisson, one of the official party, was run over by an engine and died before the day was over. In going for a doctor it was mentioned that the train made a speed of 34 miles per hour. The newspapers said little of the disorders of the day, but Fanny Kemble, the celebrated actress, who was one of the guests, relates that on arrival at Manchester groans and hisses greeted the Duke and the high personages who sat with him in the carriage. "High above the grim and grimy crowd of scowling faces," she adds, "a loom had been erected, at which sat a tattered, starved looking weaver, evidently set there as a representative man, to protest against this triumph of machinery, and the gain and glory which the wealthy Liverpool and Manchester men were likely to derive from it."

Miss Kemble's letters, written when the impressions were fresh upon her, form the most graphic description handed down of this railway and the man who built it. She had been invited with her father for a trial trip before the formal opening and chatted with Stephenson as she stood beside him on the engine. He told her of the rejection of his plans by

the committee of enquiry of the House of Commons, of his hopes and fears, his many trials and disappointments, and "related with fine scorn how the 'Parliament men' had badgered and baffled him with their book-knowledge." In one of her letters to a friend she says: "A common sheet of paper is enough for love, but a foolscap extra can only contain a railroad and my ecstasies. There was once a man born at Newcastle-upon-Tyne, who was a common coal digger; this man had an immense constructiveness, which displayed itself in pulling his watch to pieces and putting it together again; in making a pair of shoes when he happened to have some days without occupation; finally—here there is a great gap in my story—it brought him in the capacity of an engineer before the committee of the House of Commons with his head full of plans for constructing a railway from Liverpool to Manchester. . . . Members of the House of Commons said, 'There is a rock to be excavated to a depth of more than sixty feet, there are embankments to be made nearly to the same height, there is a swamp of five miles in length to be traversed in which, if you drop an iron rail, it sinks and disappears. How will you do all this?' 'I can't tell you how I'll do it, but I can tell you I *will* do it,' said Stephenson." But, though he was dismissed by the members as visionary, he found believers in Liverpool, and in December, 1826, the first sod was turned, or as Miss Kemble puts it, "the first spade was struck into the ground." She tells how Stephenson had anticipated the later methods of filling in muskegs in his dealings with the Chat

Moss swamp, near Liverpool, by laying a foundation of "hurdles or basket work" covered with moss and then with earth, and in places with timber. Over this they went at 25 miles per hour, and she breaks forth again in praise: "The ingenuity with which two narrow rods of iron are made to bear whole trains of wagons, laden with many hundred tons of commerce, and bounding across a wide, semi-fluid morass previously impassable by man or beast, is beyond all praise and deserving of eternal record."

In another part of the letter she reveals in what light regard the common people were held when she tells of travelling in a "lumber train" in which "many of the carriages were occupied by the swinish multitude and others by a multitude of swine", a reminder that then and for many years afterwards railway passengers travelled in open "wagons" exposed to all sorts of weather in coaches that had no seats.

The opening and profitable working of the Liverpool and Manchester line definitely decided the superiority of the railway over the unrailed road; for it paid a dividend of eight per cent. at the start.

But before they achieved this success Stephenson and his friends were not only flouted and obstructed by Members of Parliament, but by many of the scientific men of the day. It will be remembered that while the first steamer was actually crossing the Atlantic, a scientist was demonstrating in an English paper that it could not be done. The obstinacy which refused to accept the logic of the

superior power and greater speed of the locomotive was matched in Parliament by the thoughtlessness which surrendered the power of the state as regards land transport into the control of a few individuals. It led to a disastrous panic which ensued through reckless building and the exploitation of the people. But a worse legacy left by this ignorance and lack of insight was that the example of Great Britain gave a false start to railway enterprise in nearly all parts of the world. As the locomotive and allied inventions were of British origin, and as much money was to be made in railway construction and the production of railway appliances, the methods pursued in Great Britain were naturally transplanted to other countries along with the railway inventions.

Fortunately it was not so with every country; the little kingdom of Belgium, famous for the last two thousand years for its instinctive love of liberty and its stout defence of the people's rights, saw with clear insight what was involved in the abandonment of the public control of the nation's channels of communication, and from the first insisted on the government direction of the railway policy, with very important results to the whole world, as will be explained hereafter.

Two other circumstances contributed to surrender into private hands the control of the new highways in Great Britain. One was that although the post office, involving the public rights of communicating intelligence and transmission of goods, had long been taken out of private hands, the mainten-

ance of the common roads had been given over on the most important highways to private companies, who were allowed to collect tolls from the travelling public. The other was that among certain sections of the people themselves much opposition arose against the new means of transportation. Farmers, teamsters, and those interested in the stage coaches and the toll-roads feared their occupations would be gone, and the prejudice in high quarters helped to confirm them in this fear. The speech of Sir Isaac Coffin in the House of Commons was a sample. "He would not consent to see widows' premises and their strawberry beds invaded. What was to be done for all those who had advanced money in making and repairing turnpikes? What was to become of coach-makers, harness makers, coach-masters and coachmen, under-keepers, horse breeders and horse dealers?" There was such antagonism to the new means of locomotion that surveys of railways had to be carried out by stealth or under pretence of doing other work.

While from the middle ages onward the maintenance of the highways had been provided by statute labour not differing in principle from the statute labour laws of the rural sections of Canada, the farming out of roadwork to turnpike companies, who were allowed to levy tolls, began in England by an Act passed in 1663, applied to the counties of Hereford, Cambridge, and Huntingdon, through which ran the post road from London to Scotland. The turnpike companies were as unpopular as their prototypes, the Roman publicans, and advantage was

taken of this to levy blackmail on them when subsequent Acts of Incorporation came before Parliament. In course of time it became necessary to employ a skilful negotiator to carry the case before the Private Bills Committee—and then before Parliament—where opponents had often to be bought off —and the expenses of obtaining an Act tended to grow, until in the early years of the nineteenth century it was commonly estimated that the cost of obtaining a new Turnpike Act would swallow up the total receipts of the trust for two years (*Development of Modern Transportation in England*—W. T. Jackman). Once the Act was obtained all these expenditures had to be recouped by levying tolls as high "as the traffic would bear" and by maintaining the roads with as little outlay as would be tolerable. The group of men who were able to buy a Turnpike Act had, therefore, no difficulty in obtaining a free hand in imposing such exaction as they chose, and the Act usually gave them immunity from indictment or penalties. The turnpike roads were, therefore, well described by the farmers and "waggoners" as a system of "robbery screened under an Act of Parliament." Adam Smith, the author of the *Wealth of Nations,* estimated that the amounts levied in tolls at the gates of the turnpike trusts of Great Britain were more than double the sums needed to maintain the roads in proper repair.

With the re-establishment of the Roman system of tax farming on the highways of Great Britain, how natural was it, once the possibilities of the iron road were realized, for new groups of franchise seek-

ers to claim the inheritance of the ancient turnpike trusts! Thus was transmitted not only the private control of a public function but also the blackmailing methods by which those franchises were obtained, at a cost which was necessarily thrown back on the public, from whom the revenues of the roads were derived.

CHAPTER III

What Is a Railway? Is the Function of a Railway a Public or a Private Right?

As may be inferred from the facts presented in the last chapter, the relations of the state to the railway in Great Britain were, in the inception of the Liverpool and Manchester line, determined for the nineteenth century and till now by the "farming out" policy, which delegated a public right into private hands, as in the administration of the common roads.

Is the function of the railway a public right and therefore subject to public law? If so, is this subjection to public law a matter of expediency from which a government may acquit itself at its convenience? There would be little need to ask and answer this question, if it were not that in Canada the men of this generation and the last take the fact of the private ownership of railways as they take the phenomenon of the setting sun, or the phases of the moon. It is one of the conditions into which they were born. But is the ownership of a railway by a private individual a perversion or an elementary right?

What is a railway? It is the successor of the old public highway. We have legal as well as legislative and economic proof of this. The definition

is not based on the occasional judgments of courts, but on a long line of decisions by high court authorities in many countries. Justice Strong of the United States Supreme Court, said: "That railroads, though constructed by private corporations and owned by them, are public highways, has been the doctrine of nearly all the courts since such conveniences for passage and transportation have had any existence." Another Supreme Court decision defined a railway franchise as "a privilege of the sovereign in the hands of the subject," and whether that subject is "an artificial being (a corporation) or a natural person" it is "as entirely subject to legislative control as such natural person would have been." The very fact that privately owned railways carry on their privileges of transporting people and their goods by virtue of a license called a charter is evidence in itself that it is performing a public function and is subject to public law. But even though no court had defined a railway as the modern highway, nothing can alter the fact that it is to the public of this generation what the high road was to former generations. The high road was the means by which the people of a country communicated with each other by post, and the channel by which they travelled or shipped their goods for sale or exchange. The railway now fulfils precisely the same function that the high road did in those times and is related to the life of the whole community in the same way. The fact that a railway train runs on a metal track instead of a paved roadbed, and that it carries vastly greater traffic and makes much

swifter communication, are points that make no difference in its nature and purpose. These differences, in truth, only make the modern railway more intimately related to the daily wants of the people and make its service more vital to the general interest.

"How use doth breed a habit in a man! For use can almost change the stamp of nature." Shakespeare's estimate of the power of habit is as correct in the realm of thought as of physical habits. It has so perverted the popular idea of the actual relationship of the railway to himself and the state that it will be one reason for a little further definition.

Railways, canals, and wagon roads differ in the method of carrying on traffic upon them, but not in the public purpose they serve. "No one will dispute the assertion that canals are public highways, but no one drives a stage coach along a canal. It is none the less a public highway because a loaded wagon cannot be drawn on its surface by horsepower. Nor is a turnpike any the less a public highway because a canal boat cannot float along its surface. Each kind of public highway has its own peculiarities and its own method of conveyance. The railroad is a much more effective and powerful highway than any of its predecessors, but it is a highway nevertheless.[1] Thus it will be seen that the Legislatures of many States, as well as the Congress of the United States, by an uninterrupted series of Acts, beginning with the first inception of the rail-

[1] *National Consolidation of the Railways of the United States.*—Geo. H. Lewis.

way system and continuing down to the present time have declared railroads to be public highways."

Time and again private railway companies held —and courts sometimes upheld their contentions— that they owned their railways in the same sense that a man owned his stock of merchandise, and that therefore they could sell their rates of transportation at what prices they might fix, or might even refuse to sell them. But since railway transportation, under modern conditions, is to the industrial and social world what the atmosphere is to the physical world, an essential to life itself, "it is idle" in the words of A. B. Stickney, himself a railway president, "to call that merchandise which no man can refuse to purchase." Chief Justice Black, in deciding a railway case in the Supreme Court of Pennsylvania, observed that "canals, bridges, roads, and other artificial means of passage and transportation from one part of the country to another have been made by the sovereign power, and at the public expense, in every civilized state of ancient and modern times," and that the delegated right to levy tolls does not make a railway's main use a private one. "The company," he said, "may be private, but the work they are to do is a public duty."

This was the ground of another decision by Judge Shiras, who said: "The establishment and maintenance of the public highways of the country is a governmental duty, and railways are only the modern or improved highways furnished for the transportation of passengers and property over the

same." When a government deputes this duty to a company its nature is not changed by the form or means of putting it into action. When the state delegates its powers and duties to a person or company that person or company becomes only an instrument or creature of government. But the thing created cannot be above its creator, nor can there be two sovereigns in one state. Such a condition is not ordered government but anarchy; and such has been the economic condition of the United States and Canada at more than one stage of their railway history.

The natural deduction from the foregoing is that the imposts levied under the name of "tolls" upon common highways and of "passenger rates" and "freight rates" on the railways are taxes. As shown, they are in fact a tax of more universal and inevitable incidence than even the national customs dues, because no citizen escapes the immediate effects of transportation rates. The designation of these charges as passenger fares or freight rates makes no difference in their character as taxes for a public service.

This sovereign power of taxation, which, as well stated by Lewis, is one of the most solemn and weighty prerogatives of government, is thus conferred on a few private individuals, and permits them to use the powers of government, intended for the benefit of all, to take from the public a profit to their own private advantage. It seems a curious reflection on the capacity of the governing bodies, and the alertness and independence of the governed

in the two lands particularly under review, that a principle established in theory by the Magna Carta and fought for in the American Revolution, should, while asserted in form, be abandoned in fact in that very sphere of taxation where the heaviest and most all-prevailing impositions are levied. After democracy has boasted of its achievements and science has bestowed its benefits so lavishly, we awake in the twentieth century to find ourselves farming out our taxing powers exactly on the old Roman system which has given to the English language its most odious synonym for rapacity—the Publican.

If we take our stand back of the birth of the railway and ask, "What is the high road and what its function?" we have still higher sanction for the claim of public right. The right to a road has been an instinctive right in all ages. From the remotest antiquity down to the modern hermit people, the Thibetans, all nations have recognized the need of a common right of way.

The public right of communication is therefore no mere development of modern law. It has arisen in a higher sanction even than ancient custom. It was proclaimed at the Creation as an element of the Creator's plan for peopling the world. "Replenish the earth and subdue it," was the command given to the first of the Adamic race; and it is a remarkable fact that this injunction was given to Adam and then, when the race had been given its second chance, again to Noah after the flood, in precisely the same terms. Now, how could the earth be colonized, replenished, and subdued without the right of

moving from place to place, and how could this migration be continued without recognized channels of communication? The common right to the road is therefore implied as one of the primary conditions of human society; and as a necessity of the race it must have been acted on from the earliest ages. If this injunction had not been acted on as a natural right, there would have been none of those mysterious movements of races and nations in the remote past that have so puzzled students of ethnology and ethnography.

One incident in the migration of the Israelites from Egypt to Palestine gives a striking specific sanction to the theory of the public right to the highway. When approaching the promised land the Israelites had to pass through the territory occupied by the Amorites. The sacred history tells us that Moses was required to ask of the Amorite King Sihon a right of way through his territory. We must infer that this request would not have been made by Divine instruction, if it had been unjust or contrary to natural rights. The only question that might be raised on the request was that of damage to property in passing, but the Israelitish embassy was instructed to assure King Sihon that they would not only take care that no injury would be done, but they would confine their movement to the high road—"We will go by the King's Highway." It is significant that this is the first mention in the Bible of the King's highway, and that it occurs in a situation that not only implies a public right recognized among the Amorites as per-

taining to the sovereign and his government, but as clearly implies the extension of this right to the subjects of another ruler, conditioned of course on a peaceful passage. These are not fantastic implications from obscure surroundings, but natural deductions from a plain statement of a simple situation. We might even go further in deductions applying to the modern railway problem and say that this situation affords no justification for a private profit out of this public right, for if such profit had been founded in equity Moses would have been commanded to offer compensation for the use of the road, which he did not do. The inherent public right to the use of the road was assumed from beginning to end of the episode. So clearly so that the denial of thoroughfare was held to justify the opening of the highway by force of arms, which ended in the destruction of Sihon's army and the annexation of his land. The same question of right of passage by the high road came up with Og, the King of Bashan, with the same result.

Clearly the logic of these incidents is the highway is essentially a public function, and that a private profit out of its control is not an ancient right but a modern perversion.

CHAPTER IV

The Five Propositions

It being admitted that the railway is the successor, in modern civilized life, of the highway, and that the use of the highway has been from immemorial time a public right in organized human life, the true relation of the railways to the people or the state may be set forth in the following propositions:

First—The railways of a country are the main highways of a country.

Second—There is no source of revenue for a railway other than the rates imposed upon the people for the carrying of their persons and their goods.

Third—This revenue is raised not from any hidden fountain of wealth within the railway itself, but from the earnings of the people whose labour and money furnish the traffic.

Fourth—By the division of labour in modern civilized life, everyone who earns or spends money contributes directly or indirectly to the cost of transportation, and this cost enters into every article used by every citizen.

Fifth—The maintenance of a nation's means of communication is a function of sovereignty, and since all the people contribute to their cost, railway rates are a national tax; and in the more highly civilized countries they are the largest element of all forms of taxation.

That railway rates, whether for passengers or freight, are taxes will be evident from consideration of the examples of a pair of boots and a daily newspaper, given in a previous chapter. The words

"rates," "tariffs," and "tolls" all signify taxes in their ordinary meaning.

Is any reader not yet convinced that railway rates are taxes? Then here is another proof: Suppose that the railways of Canada and the United States were taken over by the two governments, and that in the case of Canada there was a shortage of fifty million dollars in the cost of operation, and in the case of the United States a surplus of a hundred million dollars over the cost. In the case of Canada would not the deficit of fifty millions have to be made good from some other source of revenue, which has been drawn from the people through some source of taxation? And would not the surplus of the United States roads be national revenue which would be applied to some public service equally furnished by taxation? And did not the deficit in one case and the surplus in the other arise out of the operation of a service whose revenues were raised by passenger and freight rates? And what citizen who paid his share of transportation in the goods he used and the purchases he made, would, or could distinguish between the share of his contribution which went to the surplus or to the operating expenses of the railway? The citizens who now make up the national revenue derived from railways are the self-same citizens who before made up, through the same railways, the profits that went to private individuals.

Surely then, however, we may have conceived or misconceived the matter; railway rates are taxes and the most prevailing and inexorable of all forms

of taxation. The reason we have not conceived of railway revenues as taxes is that the costs of transportation so pervade every fibre, vein, artery, bone, and muscle of our economic life that they become like the air we breathe—vital yet intangible and invisible. Moreover the excess over cost of operation which, under state ownership would be evident as national revenue, vanishes in the domain of private ownership and becomes—merely profits.

From the foregoing premises we draw conclusions of the highest importance to the economic life and to the government of the country. One is that all revenues raised from railways in excess of the cost of building, operating, and maintaining them are a super-tax on the people whose earnings create the traffic. Another is that any diversion of these super-taxes from the public service to the use of private individuals is a violation of the principle of representative government, under which all taxes are subject to the control of and are to be used for the people who pay them.

One other deduction from these premises, as will appear from a study of the political history of Great Britain and Canada and the United States, is that of all the causes of corruption in the public affairs of these countries, the private ownership of the nation's railways is chiefest and most dangerous. This corruption grows naturally out of the surrendering into private hands of such an important function of government, with enormous taxing powers but without direct accountability to the people who pay the taxes.

It is curious that the people who raised the cry "No taxation without representation," and "Millions for defence—not one cent for tribute," and who took up arms rather than pay taxes against their will, have for three-quarters of a century tamely submitted to a tax-levying oligarchy created under the sanction of their own laws and levying a thousand times the amount of tribute.

This has not come about because railway owners are greater wrongdoers than other holders of franchises.

In theory the railways are and always have been subject to government and public law, for no private railway company can exercise its powers as a public carrier till it obtains a charter from the government. But in practice a railway company exercises powers of "eminent domain" (the right of taking possession of private property, etc.), and all its work being of an essentially public nature, we find that, as the railways control the economic life of a country, government itself tends to pass into the hands of the men to whom these powers of sovereignty are delegated. And since the avowed purpose of a railway under private control is not purely the conduct of its communications for public service, but for a financial profit on their operation, the natural desire of those who hold the franchise is to influence legislation in order to retain their powers and profits.

If it were not for the element of private profit out of a public function there would be no irreconcilable conflict between public and private owner-

ship. It is, as we know, the constant claim of private companies that they are more efficient than governments, though why a group of men organized for a certain purpose as a company should be efficient and a larger group of men organized for the same purpose as a government should be necessarily inefficient has not been demonstrated in theory or practice. But the admitted primary purpose of a railway under private ownership is profits. If this were not so, on what ground would a new company make its appeal to the investing public to put money in their undertaking. Did ever a railway prospectus ask people to put their money into a company on the ground that the road would offer a great opportunity of public service but no hope of dividends? The work a private company does is a service for the public, but the object is always a private profit. Even where there is every desire in a company to render the best service, this service is given in order that profits may be maintained or increased. Transportation carried on by the state for the people has the one object of service, and when railway systems have been taken over from private companies, it has often happened that one of the first changes deliberately made in the general interest has been the reduction of rates to the point of eliminating profits or surpluses. Has the world ever known a privately owned railway company of set purpose to discard dividends as a permanent policy in order to reduce the cost of transportation for the people? Herein lies the essential difference between a state function carried on

for state purposes and a state function conducted for private aims. The conflict is fundamental, and if private capital cannot identify itself with the high aim of the state, then it is a confession that a state function is not a fit sphere for private investment. Short of this identity there can be only one end of the conflict. Private profit must yield the right of way to public service. The system of levying and collecting general taxes by private persons and for private profit disappeared long ago with the Roman publican; elimination of the private post office contractor from the post office of China freed the last of the nations of the world from private ownership of the postal service, and, as will be shown, the world has already far advanced in the abolition of private profit in the public service of railway transportation.

Here is a pertinent question. Why is it that in all the immense literature of railway economics the core of the argument in favour of leaving our railways in private hands is that state railways do not "pay" where, as a rule, their privately owned predecessors did pay. We shall answer this question by asking another. Why should a railway pay? The real object of a railway, so far as the people are concerned, is the transportation of their persons and merchandise. When the cost of this has been covered what more is needed? By the very purpose of state ownership—the utmost service at the lowest cost—when carried to its right conclusion, a railway ceases to "pay" in the sense that the taxes for transportation should be more than the service

itself needs. The post offices of nearly every country "paid" when they were under private ownership—that is, they paid the holder of the franchise—but who grieves because our post-office department does not make it a chief aim to accumulate a surplus, and who would exchange a modern postal system for the costly and clumsy private postal monopolies of two or three centuries ago?

The historical sketch in Chapter V shows that in the era when the post office was in private hands it "paid" best when the public was most ill served, and the first marked result of the government ownership of the postal service was the lowering of rates and the extension of its benefits to the masses.

CHAPTER V

The Parallel of the Post Office

The post office has been mentioned because it fulfils a public service of the same essential character as the railway. It is a department of transportation and communication, for through it the people send not only their letters and newspapers, but money and goods, and in the United States it has become in the last three years what it has long been in European countries, a medium of shipping light freight of all kinds.

What light does the history of the post office throw on the railway problem? Do we find that the postal service of Canada or the United States or Great Britain is a hot-bed of corruption and a corps of inefficiency? On the contrary, making allowance for those imperfections which characterize human effort in all spheres of work, the post office is a marvel of service to the people, carried out in faithfulness and honesty of administration. So fully is this proved in our daily life, that we know what would happen to a government that would now propose to hand the post office over to a private individual or company to operate with a view to paying dividends.

Yet the postal service was once farmed out to contractors and others, not only in England, but

in all European countries. It is true that in almost all countries in former times foreign posts were under the direct control of kings and governments, but the domestic posts, which furnish the basis of comparison, were given out in England to favourite dukes or court favourites, and in Europe to guilds or to cities such as those of the Hanseatic League, to universities, or private companies. In Germany the postal service was farmed out as a sort of hereditary right to the Counts of Taxis, who were constituted the postmasters-general. Several states gave the postal service into the hands of the chief universities, the University of Paris having possessed the right in France at the beginning of the 13th century, and others had it in the two centuries following. In other parts of Europe the mercantile guilds and the brotherhoods were licensed to carry letters, etc. Queen Elizabeth granted a license or charter to one titled Englishman to organize a postal service in England, but when a quarrel arose between him and a rival holder of a postal license she investigated the dispute and promptly cancelled the right of both, and carried on their work under government supervision. This was, in fact, the first crude beginning of a state-organized postal service in the British Isles. In actual working the "farming out" method was reverted to by spasms, and, although in the time of Cromwell both Houses of Parliament passed resolutions declaring "that the offices of postmasters were and ought to be in the sole power and disposal of the Parliament," these resolutions were a declaration of right rather than

an actual reformation of the work. There was more than one legislative battle over the postal service.

In 1644 the appointment of Edmund Prideaux as "Master of the Posts" ended a contest which had kept the two Houses of Parliament in collision for twenty years. At this time the Common Council of London had a city postal service, but this was suppressed in 1649-50, Prideaux agreeing to pay a rental of £5,000 a year for these rights. That plan of farming out continued to the end of the 17th century, as regards the main postal routes, and on to the middle of the 18th century as regards by-roads. Prideaux's successor paid double the rent and still made enormous profits, the postage on a single letter being six pence. As an example of the efficiency of the service it may be mentioned that the great fire of London which broke out September 2nd, 1666, had been burning for three days before it was known to the Duke of Buckingham, at Arundel, though he was one of the prominent officers of state. One town did not know what other towns at any distance had "post houses." It was not till 1680 that a building was set apart as a general post office for London, and nowhere else could a letter be posted. A man named Dockwra was the post-office genius of this period and organized a remarkably efficient service, being the pioneer of the express service which carried with it an insurance of the value of the parcel. The Duke of York at that time held the official monopoly and quietly looked on while Dockwra's system was being developed. As soon as Dockwra reached the point where his sys-

tem began to pay, the Duke proceeded against him for infringement of the right, and Dockwra was ruined. For the life time of King James Dockwra's public services were never recognized, but a petition in his behalf in the reign of William and Mary brought a pension and a seven years' renewal of his work.

Broadly speaking, it was not till nearly the beginning of the 19th century that the postal services of European countries were brought under state administration as well as state control. Both on the continent and in the British Isles the possession of these postal franchises was a frequent subject of intrigue and a source of corrupt administration while they were in private hands. And the other noteworthy fact in post office history is that it never became cheap and available to the people at large until it was taken out of the hands of corporations, made a department of the public service, and operated as a unit, on the plan of giving the widest service at the cheapest rate. And note this, that precisely the same arguments were used against the reform, and that the same dire predictions of corruption and failure were made as now are made against the state ownership of railways. When John Hill, in the time of Cromwell, undertook to convey letters and parcels at half the former rates from York to London, and conceived the idea of ultimately having a penny postage for all England, a two-penny postage for Scotland and a four-penny rate for Ireland, he was looked on with disfavour by a government which farmed

the service out for revenue, and his new letter carriers were "trampled down" by Cromwell's soldiers. The later post office reformer, Rowland Hill, met the same opposition, but he lived to see the rate for an inland letter reduced from an average rate of about ninepence to a penny. As in Great Britain so in every other country each reduction in the rate of letters, papers, and parcels has been followed by an increase in revenue, through the increased use made of it by the people. When Hill began his agitation, letters were charged for according to distance and it cost 1s. 3 1-2 d. (about 30c.) to send a letter from London to Edinburgh or Glasgow. It is instructive to recall that Hill's scheme for a level rate of a penny throughout the British Isles, which came into force in 1839, had the opposition of the post office authorities added to the opposition of the vested interests threatened by the reform.

The summary of postal history is that whereas the carrying of mails and parcels was once "farmed out" in every country of which we have record, there is now no civilized country in the world where the post office is in private hands, nor is there a single instance of any nation seriously contemplating a reversion to the private operation of this branch of transportation. The predictions of corruption, of inefficiency, and of extravagance of railways, all have the logic of the facts of post office history against them.

The same is true of the state administration of the customs revenue departments, the department of inland revenue, department of agriculture, and

other branches of the public service which at one time or another of the world's history of nations were placed in private hands to the financial profit of the holder of the franchise.

To bring before the mind the contrast between the possibilities of the state administration of railways solely in the interests of the whole people and the conduct of the railway system with the prime object of financial profit to a few individuals, we have only to imagine the settled areas of Canada divided from the Atlantic to the Pacific into three belts, each partly overlapping the others, but all having a different set of post offices in the leading cities with three rival sets of staffs and delivery equipment, and each so arranging its rates of postage and times of delivering mail matter that the cost would be reasonable in, say Trenton, Ontario, where the whole country was paying for three sets of post offices (two of which were not needed) and dear in Bancroft with its single post office and no "competition." The whole of Canada would be paying in each case, as it does to-day, for there would be no other source of revenue than aggregate postal charges imposed on the entire country. But by the operation of that wonderful law of competition whereby the three postal companies would "divide and conquer" on the large cities, Bancroft, which would get two to four mails a day, would be paying its full share of the postal service, while Trenton would get eighteen or twenty deliveries a day from its three line service at a cheaper rate. The reader who has had

railway experience can carry the comparisons in many other directions. We would be warned that unless the postage rates were raised high enough to provide a fair dividend and a reasonable chance of increase in the market value of post office shares, capitalists would avoid Canadian post office investments, and the country would be brought to financial disaster. Having secured an increase in postal rates all round to protect the investor, the next step would be easier—an appeal to national sentiment to secure the home companies against the competition of foreign postal services, especially from those countries where the public money given to state-owned post offices was being used to the injury of legitimate Canadian investments, etc.

Familiar as we are with the post office as a state-owned, state-administered institution, such arguments would be laughed at; but familiar as we are also with the railway as a private institution, the same arguments are seriously put forward in defence of the private ownership of this more important of the two public services.

CHAPTER VI

Influence of the Tax Farmer on Public Life—Turnpikes vs. Canals—Canals vs. Railway Companies

It has been frequently said that the surrender into private hands of what is by nature a public right has been the cause of more political corruption than all other influences combined. What is the evidence of history on this point?

When the success of the Liverpool and Manchester Railway showed it was possible to take the people's transportation service, and, by monopolizing the new highways, make from a railway franchise profits exceeding the dreams of any of the old turnpike trusts, there followed a rush as to a gold mining camp. By 1838 no less than fifty-six railway bills passed the British Parliament authorizing a total of 1,800 miles. Owing to a commercial depression in the early forties there was a halt, and then another railway mania spread over the country. The meteoric career of such men as George Hudson, who, rising out of obscurity, became the dictator of half a dozen railways, no doubt gave lead to the gambling spirit and intensified the effects which followed. By the end of 1844 many new lines were projected whose aggregate capital was over £550,000,000, making a mileage of new lines of 8,470 miles in

three years, and the rage for railway shares continued till it infected all classes "from peer to peasant and from private individual to government official." The over-investments in these shares brought the memorable panic of 1845-47, the result being the abandonment of many of these enterprises, to the ruin of hundreds of thousands of people, and a severe trade depression. It was altogether the most disastrous panic in the history of British finance. When the claim of superior wisdom, efficiency, and economy is made on behalf of private ownership, it may be asked whether such a panic could have arisen out of railways if they had been owned by the government from the first.

Modelling their methods on those of the turnpike trusts, the solicitors and agents combined with those Members of Parliament who could be influenced, to erect a parliamentary toll-gate which none could escape who were seeking a railway franchise, and these men grew fat in the great railway building boom of the period. Plans for any new line had to be laid before the Board of Trade, and each new scheme had to pass the Private Bills Committee, some of whose members were personally interested in lines already built or in progress, and these did their utmost to thwart schemes which might compete with their own. It was announced towards the close of the session of 1845 that November 30th would be the last day for depositing plans for new lines. All kinds of devices were taken to help or to hinder new applications according to the personal interests affected. Some railways refused to carry

plans of roads that might rival their own, though they could rush a train at 60 miles an hour to London for plans to which they were friendly. It is related that one strategem adopted was to put the plans in a coffin and a funeral procession was arranged to give the semblance of mourning. "The ultimate resting place of the contents of the coffin," says Ernest Protheroe in *Railways of the World,* "was the Board of Trade offices which for many of the schemes proved a real cemetery so far as investors' money was concerned."

Up to this period practically all the railways were short lines, the ambition of the promoters being to control the traffic of a district comprising two or three large towns; but already a number of these lines were extended by purchase, or amalgamation, or a joint traffic arrangement, and the bursting of the boom greatly hastened the process. Thus was proved the truth of Stephenson's dictum that "Where combination is possible competition is impossible." But as in general trade the term "competition" had become an article of faith. These combinations were strongly opposed in Great Britain, as in the United States, in the belief that competition was the only means of keeping down rates and safeguarding the public interests. It took many years to demonstrate that the railway is in the essence of its operation a unit, the nature of its service being the same wherever its influence extends. If the railway was to be a public benefit, which it undoubtedly was in multiplying the opportunities of intercourse, then the longer its reach and the more

equitable its distribution the better. It was here that the ownership of railways by private persons has failed to fulfil its public duty, and has added untold millions of needless cost to the people of Great Britain, the United States, and Canada, for the motive of profit rather than the common need has invariably led the companies to duplicate and triplicate roads between large cities where traffic requirements enabled them to levy profitable rates. The result has been congestion, the social problem, poverty presided over by tyrannous wealth; while the remoter rural communities toil under the cruel handicap of needless wagon haulage, yet paying their share of railway costs in everything they buy and sell.

It was by this process of amalgamation that the Manchester and Birmingham, Liverpool and Manchester, the London and Birmingham, and other lines became the present London and North-Western Railway. A number of local lines were amalgamated to form the Midland, others became the Great Northern, still others were united to form the North-Eastern Railway, and so on. The Great Western was built into its present system by a combination of more than one hundred local lines. These systems were in very recent years formed into groups with a common policy aimed at avoiding unnecessary mileage and cutting off unnecessary trains; so that the London and North-Western, the Midland, and the Lancashire and Yorkshire became an enlarged unit in traffic; the Great Central another unit; the South Eastern, the London, Chatham

and Dover another, and the Great Western and the London and South Western another. The growth of these systems into larger units was, generally speaking, undesigned; indeed the development was frequently opposed by directors and managers who really believed that competition was in the public interest. But as railway transportation became more diffused, and a fair distribution of its benefits became a daily and hourly necessity, so it became more clear that, with no resulting reductions in rates, two or three lines of railway between the same centres of traffic, where one would serve the purpose, was not a public advantage but a common loss.

The lessons of the great panic proved the need of a greater check upon railways, both in their building and operation. As early as 1836, James Morrison, M. P. for Ipswich, though himself interested in railways, urged measures of greater control of these public works, especially as to the profits the holders of the franchises were making; but he soon discovered the strength of railway influence in the House. The majority was against him, and he withdrew his proposals till another session. But, to use his own words, he found that "the railway interest increased in the sessions that followed . . . . till at length, from the difficulties with which the subject was beset, the government were probably reluctant to enter on it"—a very soft euphemism for expressing the extent to which the railways had got their hold on Parliament. The nature of these difficulties may be inferred when we learn that shortly

after this, the Great Northern, in its contest with the Midland Railway combination, spent £432,000 in parliamentary expenses. And before this contest it had cost the Great Northern £683,000 to get its Act of Incorporation through the House. In 1853 Lord Cardwell, in moving for a committee to bring the railways under a steady and consistent control in the public interest, estimated that already sums aggregating £70,000,000 had been needlessly spent in obtaining parliamentary sanction, and in opposing rival schemes, on which, if the matter had been regarded solely from the standpoint of public advantage, not a penny of the people's money need have been squandered. As before stated, work of this sort in behalf of private corporations brought into the world a brood of solicitors, parliamentary agents, and other experts of various descriptions, who attached themselves parasitically to the railways and lived on the money furnished by those corporations to influence opinion. The burden of carrying these parasites and the costs of parliamentary procedure was of course passed on by the railway companies in increased rates to the public.

In 1844, under the leadership of Sir Robert Peel, Gladstone became chairman of a special committee and made a brave attempt at railway reform. Five reports were presented to the House.

The bill which Gladstone presented as the result of these reports, provided for regulation and for ultimate purchase. But the railway interests would have neither, and they showed Gladstone that their influence was already too great to be shifted by his

oratory. In his speech he referred to the parliamentary agents and solicitors as the means by which an opposition was got up in the House. "They could talk aloud of the public interest, and draw up petitions, in which, while they steered clear of direct untruth, they made statements wide of the fact." In finishing his speech he said: "I shrank from a contest with the railway companies. I knew their power in the House, and was satisfied that, with justice on their side they would be perfectly resistless, but being persuaded that justice is against them . . . . I do not shrink from the contest. . . . . I say that, although the railway companies are powerful, I do not think they have mounted so high, or that Parliament has yet sunk so low, as that at their bidding you shall refuse your sanction to this bill."

He was soon to realize that the Parliament of that day had indeed "sunk so low," for his own political chief soon capitulated to the railway power. The bill was emasculated, and in the end all that remained was the right to purchase in the future, and the provision of the third-class passenger rate of a penny a mile, which proved to be a permanent advantage to the railways who opposed it. Upon these reports, however, was built some of the subsequent legislation which brought the railways under a "direct, but not vexatious control," and to the sympathy of Gladstone and other statesmen whose eyes were open was due the imperial encouragement which enabled Australia, New Zealand, and South Africa to inaugurate their railway era by govern-

ment ownership, and thus saved these Dominions from so much of the corruption prevalent in lands where Parliaments are dominated by railway oligarchies. India, too, was rescued from the rule of railway rings by one of these statesmen, Lord Dalhousie, who had joined Gladstone in urging Peel to bring the railways under public regulation. Lord Dalhousie was appointed Governor-General of India at the beginning of the railway era of that empire, and having a keen perception of the evils wrought in his home land by private railway influence, he resolved that India should not fall under like subjection. The happy result was the creation of a railway system in which state control has been so combined with state ownership that the Indian railways are not excelled by any in the eastern hemisphere to-day.

The competition of the railway companies having proved disastrous to many of the canal companies, and it being recognized that the railways were already dominant in inland transportation, Parliament began to consider some means of defence for the weaker party. It is strange that although the Chinese, Romans, and all other ancient nations had made use of canals for inland transport ages ago, and the Romans had colonized England, no works of this kind, except in deepening some of the river channels, had been undertaken till the latter half of the eighteenth century. The English had no doubt learned the advantage of canals from the Dutch, who had used them long before. The macadamizing of roads had not yet been learned, and

the highways were so badly made that it cost forty shillings a ton to haul goods from Manchester to Liverpool; while coal was doubled in price by the time it was carted to Manchester from Worsley, only ten miles away. The Duke of Bridgewater, who owned the Worsley mines, won well deserved fame in building a canal from Worsley to Salford—now a district of metropolitan Manchester—and in stipulating that canal rates and the price of coal should be so regulated that it would be within reach of all in the city. The canal was afterwards extended to Manchester, and finally to Runcorn, where it connected with Liverpool by the Mersey River and became known as the Bridgewater Canal. James Brindley, the man employed to do the work, became in canal building what George Stephenson was in railway work; and the aqueduct by which the canal was carried over the Irwell at a height of 39 feet above river level, became one of the wonders of England's public works.

The building of this and other canals made a revolutionary reduction in local rates of carriage. The districts around the canals became populous and wealthy. Though the rates on the Bridgewater Canal were so low by comparison with roads and its cost was £220,000, it made a revenue of £80,000 a year before many years. Its profits started a mania for canal building, and between 1767 and the close of the century many schemes were floated for canalizing almost every county. These were left in private hands, and only in the case of the Thames navigation was there a modified public control by

a commission. Many of these were profitable and well managed; many of them unprofitable and ill managed. Jealousy of one another and disregard of the public interest were the direct causes of a good many failures, and these failures were followed by sales to larger companies or by mergers. There was no conscious plan in the wider interests of the country in canal construction, and many of the schemes, as with the later railway schemes, were mere stock market speculations. Each canal company regarded itself "as the favourite child of Parliament, to be jealously guarded from any adversity due to possible or actual competition; and any upstart rival project ought to be put down so as to avoid anything that might be detrimental to property or other interests that had been created under legislative sanction." Once the toll privilege was obtained, the object of the privately owned canal was not to help, but to prevent the people of the district from obtaining better or cheaper means of transport, and large and increasing sums were spent by these companies in maintaining a monopoly of the region under their tribute. Thus, against the wider interests of the state, the private canal corporation succeeded to the private monopolies held by the turnpike trusts, and the railway corporations succeeded to the canal monopolies—like father, like son.

When the private railway companies had superseded the turnpike trusts in land transportation, they still had powerful competition in the canals, especially those which would nearly parallel the railways. One by one the stronger railway companies bought

up the canals, not for the sake of making the canal a helper in its traffic, but to put it out of business. When the canal was closed the rates of transport to farmers and traders went up. Parliament was appealed to, and enough sympathy for the weaker side was evoked to get an Act passed in 1845 enabling canal companies to connect with each other or amalgamate, and to vary their rates so as to compete with the railways on through traffic. But the railway companies were not long studying this Act before a means of defeating it was discovered. A number of the railway companies were already canal owners and as such could claim the privileges of the Act. The railways could then make an agreement with a canal company, and control, chloroform, or strangle it as they chose. As early as 1846 more than 200 applications for such amalgamations were made to Parliament, and by 1865 1,271 miles of canals had passed into the control of the railways out of a total of 2,891 miles of canals and navigable river channels. Many of these canals would have gone down before the competition of the railways, and some of them were forced upon the railways "as the price of an Act of Parliament," but whereas the canal systems of countries in which the people own the railways are still of great use in transporting at a nominal cost crude material like coal, stone, lumber, etc., the canal system of Great Britain, estimated to have aggregated 5,000 miles, has been all but ruined, to enable the privately owned railways to monopolize all kinds of traffic at higher rates.

A typical instance of the manner in which the great railway corporations of England used Parliament to obstruct the national interest, and used the people's money to maintain their private monopoly of transportation, is presented by the case of the Manchester Ship Canal. The appeal of the people of Lancashire and neighbouring districts for better shipping facilities, more reasonable rates, and less discrimination against Manchester, especially in access to the sea, was ignored for years. All attempts at securing a remedy of grievances were treated with scorn, until at length the city of Manchester decided to build the ship canal as a municipal work, and then the railways got busy—not in the direction of removing the grounds of complaint, but in taking the money they had made out of the nation and spending it to prevent the people from getting relief. Hitherto the railway companies had defended their local monopolies of traffic on the ground of their great service to the public, and most of them glorified the great principle of "competition," but when the law of competition was invoked in behalf of the people to be served in Lancashire, Yorkshire, and Cheshire, every influence in and out of Parliament was used against the canal.

Had the ownership of the railway and canal transportation of Great Britain been in the hands of the nation, a proposal for a canal to supplement the railways by giving cheaper facilities to six million citizens—of whom two millions resided within hauling distance of the docks—would have been favoured everywhere the moment its economy had been shown.

But what was the effect when private profits were the governing question? The very evidence that the people of mid-England would be served more cheaply by the canal stirred them the more to snatch this advantage away, even though the people were ready to put up their own money to build it. The first application to Parliament on behalf of the canal was made in 1882. The bill was not carried till 1885, and it had to be fought through five sessions of the two Houses, being defeated in the House of Lords when the Commons passed it, and then defeated in the Commons when the Lords passed it. It was finally adopted only after 326 petitions had been presented by various bodies in its favour, and after taking up 175 days of the time of Parliament. Witnesses were cross-examined as if they were on trial for a crime. The promoters of the bill had to put up a deposit of £229,905 in Parliament, and the provisional canal committee organized to promote the work were put to an expense of £172,000 in the preliminary work of resisting the obstruction of the railways in Parliament. The traceable expenses of the opponents of the bill were £100,000, but these outlays were trivial compared with the pains, labour, and money squandered by the railways in obtaining possession of lands, buildings, etc., to be used to prevent the canal from being carried to completion. Seeing what might be done to block the scheme by the establishment of so-called vested rights, the Midland Railway Company had already attempted to buy up the Bridgewater Canal, whose property would form an important section of the

projected work, but there arose such an outcry that the company gave way, and withdrew the bill. What then happened was that another company applied for a charter to buy the Bridgewater Canal property, but it afterwards transpired that the chief shareholders in the new company were eight men, all of whom were directors in the Midland and Sheffield companies.

The service rendered by the Manchester Ship Canal in giving new facilities to the middle portions of England, and in distinctly reducing the cost of living and the cost of manufacturing in an area containing a present population of twelve millions, can be shown by a mass of facts and statistics. From the standpoint of the general interest it was immaterial whether these benefits were attained through a canal or a railway. And can anyone suppose that if the dividends and traffic of the railways had not been in question, all this time of Parliament, all the opposition to these petitions, all this huge expense and labour and all these vexatious and demoralizing influences would have been exerted to rob these millions of people of such manifest benefits?

Let us still keep in mind the fact before proved, that every pound of the money so misused was taken in profits from the very people whom the railway companies now sought to despoil. One argument by the railway interests against the ship canal was that it would never pay, that it was a waste of money and consequently against the public interest. Well, the Manchester Ship Canal Co. paid its first dividend

for 1915—in spite of the increased costs for which the railways were to blame—and the Manchester Association of Importers and Exporters, in its last report (June, 1916) says of the service it has rendered: "Without the aid of the port of Manchester during the past year this district would have been in a sorry plight."

CHAPTER VII

Genesis of the Canadian Railway Systems

The railway history of Canada is instructive because, unlike that of Great Britain and the United States, we have the inception of the railway era under state ownership and its later development under a dual system of state and private ownership.

Before considering the influence which each system has had on Canadian public life, a brief outline of the beginnings of the railways of Canada will be in place.

The first railway in the British American Provinces to be operated by steam was a little line built in 1830 at Quebec to convey stone from the wharves at Cape Diamond to the Citadel. It was an incline railway operated by a stationary engine. In 1835 a horse railway was built to surmount the hill between Queenston and Chippewa and to aid the traffic from Lake Ontario to the upper lakes.

The success of Stephenson's steam railway inventions in England stirred up an interest in the subject in British America, and from 1827 to 1832 efforts were made to form a company to build a steam road from St. Andrew's, N.B., to Quebec, but it was not till 1836 that the Legislature of New Brunswick granted the charter, deputations having in the meantime gone to Montreal and Quebec, where

committees of trade met and commended it to the Legislature of Lower Canada. In that year surveys were made, but the project was held back because the United States government claimed a piece of the territory through which the survey ran. This was the Maine-New Brunswick boundary dispute which was settled by the Ashburton Treaty in 1842. Meantime, in 1832, a charter was granted in Lower Canada (Quebec) for a line from Laprairie, opposite Montreal, to St. John's, on the Richelieu, a distance of 16 miles. It was called the Champlain and St. Lawrence Railway, and was opened in 1836. For the first year its four cars were drawn by horses, but in the following year a locomotive was imported from England. It ran on a gauge of 5 feet 6 inches on rails formed by wooden beams on which straps of iron were spiked. In 1834 charters were granted to two railways in Upper Canada (Ontario), the Cobourg and Marmora and the London and Gore. From 1839, when a six-mile railway was built in Nova Scotia connecting the Albion Coal Mines with the Gulf of St. Lawrence, there is a gap till 1851, when the era of real railway development began in the provinces now known as the Dominion of Canada. The railway committee of the government of the united provinces of Upper and Lower Canada in that year had formally before it the scheme, originating years before, of a railway through the British Provinces from the Atlantic to the Pacific; and in the same year delegates went to England to open negotiations for the Intercolonial Railway, of which an account will be given hereafter. It may be

noted here, however, that although proposals for an inter-provincial railway under government auspices took shape to the extent of issuing a charter for the line from the New Brunswick seaboard to Quebec as early as 1832, and a rail-and-water transcontinental route was advocated by a Toronto editor, Thos. Dalton, in 1834, it was not till 1853 that the first sod of the present Intercolonial Railway was turned at the St. John terminal and in the following year at the Halifax terminal.

Later, as the result of the admission of British Columbia into the Canadian Union in 1871 the Canadian Pacific Railway took shape by the proposal of Jay Cooke in that year to build the line as a company undertaking, the road to have four divisions, three of which were to be in Canada and one in the United States, the latter extending from the "Soo" via Duluth towards Pembina, Man. A bill was prepared in the Dominion Parliament, but the sudden and serious illness of Sir John Macdonald, the premier, delayed its consideration, and owing to complaints that United States interests were too largely represented, a new company was afterwards organized by Canadian capitalists. The charter of the Hudson's Bay Company had been extinguished in 1870, and in the same year Manitoba became a province of the Dominion. The time was therefore fully ripe for the railway to the Pacific coast, the undertaking being in fact already pledged as a condition of British Columbia's entry into the union; just as years before the Maritime Provinces had made it a condition of joining the two provinces.

The political history of the Canadian Pacific Railway will be referred to in another chapter, but its physical history may be briefly chronicled by the statement that on the issue in 1881 of the charter for the new company, composed of Lord Mount Stephen, Donald A. Smith (Lord Strathcona), J. J. Hill, and others, the road was pushed with remarkable energy and completed, all within Canadian territory, in 1886, five years before the contract time. Sir John Macdonald, Premier during construction, went over the new line to the Pacific coast, and by a coincidence arrived at Port Moody, B.C., on the 23rd July, the very day on which, 50 years before, the first railway in Canada was opened; and as he arrived in the harbour of Victoria, the first tea ship direct from China for the C. P. R., was sighted on the Pacific. During this summer the Colonial and Indian Exhibition, the first great assemblage of the products and arts of the British "Dominions beyond the seas" was being held in London. There, alongside the wealth of the Indies, the potentialities of Canada were presented, coincident with the news of the opening of its first transcontinental railway, in a way to start the great migration into the Canadian West which did so much to obscure the dangers accumulating to threaten the free government of Canada, through the private control of its public services. Symbolic of the true relationship of a railway to its national government, the first freight train to pass over the whole line from tide-water to tide-water was loaded with naval stores, transferred from Quebec to the naval base at Esquimault.

The remarkable development of settlement in the prairie regions of the Canadian West, with the exploitation of the mineral, timber, and marine resources of British Columbia and the Yukon roused the ambition of other railway promoters and in due time led to the creation of the Grand Trunk Pacific (1903-4), an extension of the Grand Trunk system, and to the Mackenzie and Mann enterprises, which finally by the purchase of various local lines, developed into the Canadian Northern Railway, making the third transcontinental system in private hands. The last named system was opened to the Pacific coast in 1915. The building of the Hudson Bay line from Winnipeg to Port Nelson, now in progress under government auspices; the extension of the Temiskaming and Northern Ontario under the ownership of the Ontario Government, and the completion of minor branches of the privately owned systems, brings the record up to 1916, when there were 37,434 miles of steam roads built and 3,150 miles under construction in Canada. Of this total 4,178 miles are owned and operated by government. This mileage of government roads includes the Temiskaming and Northern Ontario Railway, 329 miles, owned by the Ontario government, and the National Transcontinental line of 2,002 miles.

The evolution of the railway system of Canada has been like that of Great Britain, the United States, and all other countries, whether under state ownership or private ownership. First there was the building of detached lines, the projectors having in mind the provision of railway transport for

localities in which they were personally interested and generally with little thought of serving distant communities. But as each line was completed, the operators found they were only at the beginning, and not at the end, of the public demands. The people within each district previously isolated discovered new opportunities of mutual benefit in connections far beyond their present ken, and those who acted in honest fellowship with connecting lines succeeded, while those companies that regarded every other neighbouring line as an enemy either destroyed or was destroyed by that enemy.

Thus the Grand Trunk from Quebec to Montreal and Toronto was formed by the amalgamation of several small links, and the trunk lines expanded by the acquisition of the Midland of Ontario, whose headquarters were at Peterboro under the management of the late Senator Cox. Then the Great Western, running from Toronto to Hamilton with branches east from Hamilton to the Niagara river and west to the Detroit, came within the orbit of the Grand Trunk. The Northern Railway (of which more is told elsewhere) became the Toronto and Collingwood branch of the Grand Trunk, the Canada Atlantic the Montreal-Ottawa branch of the same system, and so on.

The Intercolonial Railway expanded into a "system" under government control in the same way; the Eastern Extension of 80 miles being transferred from the government of Nova Scotia, the Cape Traverse line, the Dalhousie branch, the Carleton branch, Pictou and Oxford branches being

added at various times, with the Rivière du Loup extension to Quebec (bought from the Grand Trunk), and finally the Drummond County road to Montreal.

Such accretions, designed and undesigned, formed an important part of the history of the Canadian Pacific System. In the name of a fallacious "competition" whose only effect was to load upon the people of the Dominion two sets of lines in Ontario and Quebec without any reduction in the rates of either, the Canadian Pacific Railway was allowed to spread itself over these provinces, and amalgamations rapidly resulted. The North Shore from Quebec to Montreal and Ottawa fell into the hands of the Canadian Pacific Railway in the very year it obtained its charter; the Ontario and Quebec from Montreal to Toronto in 1883, the Credit Valley to St. Thomas from Toronto in the same year; the Toronto, Grey and Bruce to Owen Sound also in that year; the New Brunswick Railway, St. John to Fredericton, etc., including the St. John and Maine Railway. In the West this company, by various methods, some direct and some devious, obtained for a long time a practical monopoly of the traffic of the prairie provinces. The Winnipeg to Manitou was absorbed in 1882, and five lines were acquired in the territory from Kemnay to Estevan, other lines being the Manitoba South-western, the Manitoba and North-western, the North-west Central, the Qu'Appelle, Long Lake and Saskatchewan, the Calgary and Edmonton, the Crow's Nest Pass, the Columbia and Kootenay, Shuswap and Okanagan, etc.

While some of these local lines fell into the net of the large companies through financial weakness, mismanagement, miscalculation of expected traffic or other causes, and while a monopoly of transportation was one of the main motives, yet the operation of larger units under one control made for economy to the companies, apart from the question of its national cost and national control.

Such is a brief outline of the physical development of Canadian railways.

CHAPTER VIII

"Eminent Domain"—The Hudson's Bay Company as the Ancestor of Government by Private Corporation in Canada

Perhaps the most far-reaching power which the sovereign or the sovereign state has ever delegated to private individuals is that of "eminent domain," and no railway, whether publicly or privately owned, can be constructed or conducted without the exercise of this special power. Eminent domain is a phrase used to define the right of the state to take private property for public use on payment of just compensation to the owner. Where the public interests require it the state may use, control, or take to itself private property without regard to the wishes of the owner. In theory and in fact the ownership of private property is always subject to this higher right of the government, and it makes no difference whether the property is owned by an individual, a corporation, or as franchise. This right of eminent domain is one of the first powers exercised by a private company when it builds a railway, and the power naturally opens the opportunity of acquiring land, mineral resources, and other property not needed for tracks. With the consciousness of such power and the habit of its use how easy it is for a group of railway presidents

and directors to clothe themselves with this authority so habitually that they end in presuming that they are the state itself! How they have acted on this assumption will be shown.

The ancestors of the present railway corporations of Canada were the fur-trading companies, the first of the line during the French regime being organized under Champlain in 1614, and the first British company being that of Sir David Kirke in the reign of Charles I. The rights of the Kirke company were extinguished by the restoration of Canada to France. Champlain's company undertook to do colonization work along with fur-trading, but its chief care, like that of its fur-trading successors, was to monopolize the trade routes from the rivers and lakes, and thus prevent any rivals from sharing in the huge profits taken from the labour of the Indians.

It would be interesting to give some account of the operations of those companies, but as all, save one, relate to the era before railways, they must be dismissed with a brief reference to the Hudson's Bay Company, the exception alluded to. Probably no private corporation was ever given such wide powers over land and water, and over the bodies if not the souls of men, as those bestowed in 1670 by Charles II on "The Governor and Company of Adventurers of England Trading into Hudson Bay."

To the company was given a perpetual monopoly of trade and commerce in all the seas, straits, bays, rivers, lakes, creeks, and sounds in the region of

Hudson Bay with all the "lands, countries and territories" adjacent to these waters—a region equal to half a dozen Old World empires. The company was to have not only this monopoly of trade, but was to own the lands, mines, minerals, timbers, fisheries, and other assets of the region. It was endowed with the power to make laws and ordinances, or to revoke them, and could administer justice and punish offenders, and could even equip and maintain military forces and build forts. No one could trade or travel in this vast but undefined region without permission of the company, and a violation of this clause could be punished by seizure of the offender's goods, half of which would go to the King and half to the company. A visiting British officer or commander of a war ship could even be called on to help enforce the company's laws. And all the tribute required in return for such dominion over land and sea was that the company should pay two elks and two black beavers, not annually, but whenever his majesty or his successors should enter the company's territory. The charter was irrevocable, the territorial claims which the company afterwards set up covered nearly half a continent, its political and administrative powers were imperial, and yet after two centuries the holders of the charter were obliged to abandon their claims and surrender the right of "eminent domain" upon the demand of the Canadian people. This outstanding fact of Canadian history is here cited because we still hear the argument put forth in Parliament by the friends of private railway

ownership that because privileges and favours were unwisely given in charters to the Canadian Pacific, the Grand Trunk and other railway companies these favours cannot be revoked, no matter how much wrong or oppression is inflicted on the country. An economic wrong created by a charter is not hallowed because it is entrenched behind the phrase of "vested interest." The property rights of individuals under any kind of charter must give way before the superior rights of the nation, whenever in the judgment of the nation its creature, the chartered company, may be called on to yield up its existence.

It is well known that the policy of the Hudson's Bay Company was to hold this empire as a fur preserve forever and they not only forbade settlement but were ready to shed blood—as they did in the conflict with the North West Company—to prevent any rivals from trading in the regions over which they claimed dominion. It took seven years of continual pressure on the part of Canada before the Imperial Government would consent to extinguish the charter and restore to the people the rights that never should have been alienated; and then three more years were consumed in making terms. When finally agreed to these terms gave the company $300,000 in cash; land around their various trading posts amounting to 50,000 acres, and in addition, two sections in each township, making a reservation of one-twentieth of what was known as the "fertile belt" from the Red River west to the Rocky Mountains. Many years ago it was estimated that the

company had made $100,000,000 on furs got at trifling cost from the Indians. After selling many millions of dollars worth of land to settlers this company has a remnant of nearly four million acres of farm lands still unsold valued at $15 to $20 an acre, besides its other properties and stores, having a vast but unknown cash value. Its original stock was £10,500, but twice the capital was trebled by the watering process already in vogue in the 17th and 18th centuries, and by 1720 out of a total capital of £103,950 only £13,150 had been actually paid up in cash. The curious reader who wishes to know more of the methods of the Hudson's Bay Company in those days will find in a report of a committee of the British House of Commons in 1857 evidence to show "how the system of the Hudson's Bay Company was calculated to degrade the Indian and destroy his capacity to emancipate himself from the bondage of an avaricious company of trading monopolists".[1] Not to mention their demoralization by drink, this serfdom, with its frequent famines, has left its mark on the tribes of the whole region. What sardonic humour was that which inspired one of its officials to devise as the motto of this company the Latin phrase *Pro pelle cutem*—skin for skin.

Out of this school of irresponsible corporation government there graduated many men who afterwards organized land companies, railway companies, and other corporations using public functions as a means of increasing private wealth. One among

[1] Report of Committee of Legislature of Province of Canada, 1857.

these—Donald A. Smith—Lord Strathcona—became very prominent in the railway history of Canada.

When the era of railways opened in Canada the promoters had the example of the Hudson's Bay Company, the Canada Land Company, and other land corporations to suggest the means by which they could link up the transportation service with the ownership of land and thus have two sources of extracting wealth from the people, who were obliged to pay the rates asked for transport, and whose labours gave to the land the only value it possessed in a new country. In this respect the history runs parallel to that of the United States.

But the moral of this history, as applied to the present railway problem of Canada, is that a charter of such imperial scope as that of the Hudson's Bay Company, was broken and extinguished, and legislators of this generation should realize that the time has passed when vested rights are to be accounted high and holy and human rights of little concern.

CHAPTER IX

The Inheritance of Evil in the Evolution of the Grand Trunk Railway

Anyone who investigates the genesis of the early railways of Canada will be impressed by the numbers of Members of Parliament who, while publicly advocating the building of railways for the sole purpose of developing the resources of the country, obtained personal control of the roads. They prostituted their positions in Parliament to this end and used not their own cash, but the public money and credit wherewith to construct the lines, and then took to themselves the profits derived from these public funds. It is not surprising that once having obtained control of the railways these men should take the profits made on the operation; but it is a travesty on the system of bestowing public honours that a halo of glory should surround the lives of many of them who got titles because of the very misuse of their positions of public trust.

The first railway to be operated permanently in Upper Canada (Ontario), the London and Gore, chartered in 1834, had as promoters Allan MacNab (afterwards Sir Allan MacNab), and a group of other prominent members of the Legislature. "Railways are my politics," declared Sir Allan,

and well did he apply his maxim. He became leader of a party, was Speaker of the House for several years and, after being knighted, was raised to a baronetcy. He was actually chairman of the standing Committee on Railways and in that capacity was able to advance the plans of the railway schemes in which he was privately interested. On this same committee, besides cabinet ministers and other members, was Francis Hincks (afterwards Sir Francis), who as a pupil in railway affairs, soon surpassed his teacher. The London and Gore Railway became the nucleus of the Great Western Railway of Canada, which in 1879 was merged into the Grand Trunk system. Sir Allan MacNab was for many years president of the Great Western Railway, and through his influence the government made loans to this company to the extent of £770,000. It was while on the Railway Committee that Sir Allan tried to get Parliament to endow this road with a monopoly in railways in this part of the province, and no doubt the scheme would have carried had not the Grand Trunk Railway risen to influence in Parliament with another set of politicians personally interested in opposing the Great Western. In 1868 Sir John Rose, Minister of Finance, showed that the promoters of the Great Western Railway had misappropriated $1,225,000 of public funds it had obtained, in order to build a line in the United States (the Detroit and Milwaukee) contrary to its charter; and that altogether four millions of its capital was thus illegally used. Now the Commercial Bank of Canada, which had been organized by an affiliated

group of capitalists for the more effective promotion of these railway interests, had advanced £250,000 towards the Detroit and Milwaukee Company—then a separate corporation—but by the foreclosure of a mortgage the loan to the Michigan line was wiped out, with the result that the Commercial Bank collapsed, bringing ruin to many. Although millions of public money had been granted to this road, it was so wretchedly built that accident after accident occurred, three in a single year bringing great loss of life. A parliamentary enquiry was held and it reported the embankments and cuttings to be in a dangerous state, the road crossings left unfinished, sleepers without support, etc. The managing director had been warned of this, but no one was punished and little attention was paid.

The Great Western now sought power to lay a double track from Hamilton to London, but a member of the government privately told the applicant that the right could not be given as a certain contractor had too much influence in Parliament. The contractor was therefore approached and was asked his price. It was the contract for the double tracking. This scheme was afterwards dropped owing to exposures, but other privileges were sought instead. "Among other favours thus bartered for," says Thos. C. Keefer,[1] in *Eighty Years' Progress,* "was the power to disregard that provision of the Railway Act which

1 Mr. Keefer, who was one of the engineers of the Victoria Bridge, and afterwards president of the Canadian Society of Civil Engineers, was always careful and accurate in his statements. His account of the railway contracting work of the period should be read by all students of railway control.

required trains to stop before crossing the bridge over the Desjardins Canal near Hamilton. In less than two years afterwards a train which did not stop plunged through this very bridge, and among the first recovered of the sixty victims of that accident was the dead body of the great contractor himself." Mr. Keefer was one of the examining engineers appointed to report on this, the greatest catastrophe in the early history of the railways of Canada, and he found that the structure was not built of oak as specified, but of pine, and badly put together.

So far from being an exception this road may be taken as a type of railway construction by private companies during the last century in Canada.

Among the incorporators of the St. Lawrence and Atlantic Railway, the infant which afterwards grew into the Grand Trunk Railway—were the Hon. A. T. Galt (afterwards Sir Alexander T. Galt), and the Hon. Peter McGill, a member of the Legislative Council of the old Province of Canada and for a long time president of the Bank of Montreal. Of another of these early charters "The Canada, New Brunswick, and Nova Scotia Railway," it was said that the list of incorporators read almost like a roster of the Legislature itself.

Among the lists of directors and shareholders of the various lines which were merged into the Grand Trunk we find the names of A. T. Galt, George E. Cartier, Luther H. Holton, Francis Hincks, John Sandfield Macdonald, James Ferrier, William and John Molson, Hugh Allan, J. J. C. Abbott, Allan N. MacNab, R. E. Caron, Malcolm Cameron, D. L.

Macpherson, Joseph Cauchon, James Morris, John Ross, and others whose names became familiar to the public, as knights, Senators, Members of Parliament, and high officers of state. Some of these were ministers of the Crown or sat on committees which were asked to approve of the schemes by which public money was to be voted, or crown lands given, to become the personal property of themselves and their friends who promoted the railways.

In the decade of 1850-60 there was a mania of railway chartering, fifty-six charters having been issued up to 1853, of which 27 were acted on. Clever contractors and lobbyists came over from the United States to show how a railway could be built without any expense either to the contractor or to the operating company, except for the charter and the use of a printing press. They also taught the Canadians how, when government aid was not enough, the cities and municipalities on the route could be induced to supplement the fund by bonus, loan, or gift, so that these would yield a good profit, whether the line paid or not. Of course English contractors and promoters also had their special methods, which could be combined with promotion on the American plan.

At this very period Australia, New Zealand, and South Africa were starting on their railway era by building their lines as public works under government control and ownership. The contrast by results is striking—public ownership has kept public life in the Antipodes up to a comparatively clean and

wholesome level; private ownership in Canada, as in the United States has contaminated the sources of law and justice and spread its pollution into almost every department of public life. At the beginning in Canada there was indeed that better instinct in parliamentary life which recognized that the railway fulfilled an essentially public or national service, for in the Railway Act passed in 1850 there was a provision that the Grand Trunk Railway could be built as a public work by the Canadian Government in co-operation with the municipalities more immediately affected; and, as we shall see, the province of Nova Scotia afterwards joined the confederation on the express condition that the railway joining them should be built and owned by the government.

Through whom and by what means was the natural current of these first enterprises of such great pith and moment turned away? At the time of the granting of the Grand Trunk charter Sir Francis Hincks was Inspector-General, or as we would say now, Minister of Finance, and went to England to arrange for financing the road of which he was one of the promoters. Why did Sir Francis abandon the implied plan of a government owned line and turn the contract over to a private firm? We may pass by the official reports and go forward to the fact which leaked out four years afterwards that stock to the value of £50,400 in Grand Trunk shares was credited to Sir Francis Hincks personally, and that he had turned these shares into cash while in England. There were several other charges

made that he and several other colleagues had taken advantage of their official positions to buy land which it was known would become valuable when the railway was located. Charges were made in the Legislative Council, the Speaker of which by the way, was Hon. John Ross of the Grand Trunk. Mr. Ross afterwards became Attorney-General and was later made a Judge of the Court of Common Pleas. The charges were too serious and the public indignation too great to be ignored, and a committee was appointed to investigate. The enquiry disclosed the fact of the shares transaction with Sir Francis, and disclosed also that another block of shares of £50,400 was made over to A. M. Ross, a relative of the Hon. John Ross.

These charges were championed in the House by George Brown, who when called before the committee made the definite charge that Hincks had made a bargain with the English contracting firm of Peto, Brassey, Betts, & Jackson, by which that firm were to get the bulk of the Grand Trunk stocks and bonds, on condition of being allowed to charge extravagant sums for construction of the road. Mr. Brown also charged that through the influence of Sir Francis the same firm got a charter for the Quebec and Trois Pistoles Railway, a Grand Trunk branch, and got the contract for the Quebec and Richmond line. A large part of Mr. Brown's testimony was ruled out, but the statements were published. Sir Francis' explanation was that he and Ross had taken these shares merely to "hold in trust for allotment in Canada to parties who might desire to take an in-

terest in the company." As often happens with conspirators, the record furnished one of those "evidences" which the committee had never intended to disclose. The committee, overlooking Sir Francis' explanation, reported that the stock had been put in Sir Francis' name "without his knowledge." If Sir Francis was telling the truth then he was admitting that he, who was then Prime Minister, was speculatively holding stock whose value depended on legislation in his control. G. C. Glyn and Thomas Baring, bankers and financial agents of the railway, in reply to questions, wrote that the allotment of stock to Hincks and Ross was made by the Grand Trunk directors upon the advice of Sir S. M. Peto, of the contracting firm referred to. However, the Legislative Committee, as might be expected, failed to find any evidence of corruption.

Of the nine Grand Trunk directors who were nominated by the government to look after the public interest, eight were in reality representatives of the English contractors.

Various sums, totalling £3,111,500 sterling, were voted in aid of the Grand Trunk, and when one of these items was being voted on in the Assembly, the votes of Galt, Holton, and Angus Morrison were challenged on the ground that these Members were either railway contractors or shareholders. The motion was voted down by a majority comprising the names of Ministers and Members who were themselves, in violation of parliamentary rules, shareholders in this or affiliated railways, whose influence placed them there.

The country at this time was sparsely settled by a struggling and poor people; the construction work was badly scamped by the sub-contracting system introduced by Peto, Brassey, Betts & Jackson; lordly salaries and allowances paid to officials—amounting in one case to over $40,000 a year[1]—was bound to bring trouble and loss to the company; and lastly the railway had to compete in some sections with the cheap transport of river, lake, and canal. Yet in the face of these conditions investors in England were assured in announcements drawn up by Hincks and his friends of dividends of at least 11 per cent.; but before the true situation could be disclosed the shares were unloaded. For example, the stock of the St. Lawrence and Atlantic Railway controlled by Sir A. T. Galt was worked off on the company at par, and when it was taken over the Grand Trunk management found they had to spend another million of dollars to put the line in running order.

Thos. C. Keefer, the well known civil engineer, whose integrity and knowledge of railway work cannot be questioned, refers to these transactions in a contribution to *Eighty Years' Progress; British North America* in which he alluded to the construction of the Northern Railway as follows: "The government found the road so scamped under the American engineer (who subsequently openly became a partner with the contractors) that the Commissioner of Public Works refused to recommend the issue of

1 This salary was £2,000 more than Sir Robert Peel, the premier of Great Britain, was receiving and £6,000 more than Mr. Gladstone was receiving as President of the Board of Trade.

provincial bonds. Here was a fix! But the contractors sent for their American 'brother' who for a brokerage of $100,000 of the first mortgage bonds of the company undertook to obtain the guarantee. He went to his colleague in the government; the Commissioner of Public Works was shunted out of office on a suddenly raised issue—which was immediately thereafter dropped—and just one week afterwards, the guarantee bonds were forthcoming. In connection with this it is worthy of remark that a member of the government shortly afterwards paid nearly £10,000 of the first mortgage bonds of the same company in the purchase of real estate."

Mr. Keefer shows how "amalgamation with existing lines in Canada, and the lease of a foreign one, were made upon the most reckless and extravagant terms" with the result that greater rents had to be paid for these leased lines than they could possibly earn. When the depression came on after the boom of the Crimean War, the company appealed to Parliament to save it from the effects of its own folly. The appeal was not likely to be made in vain to a Cabinet whose members were stockholders in, and directors of, the company. A gift of £900,000 of public money was voted in 1855, and in the following year something better was done for the company. The government held a first mortgage on the railway property, and to prove their regard for the public interests the Cabinet gave up the public rights as holders of the first mortgage and allowed the private bondholders to step into the first place. The effect could be plainly foreseen in the case of a com-

pany which had all along been paying interest out of its own capital. It meant that with the grant of £900,000 the government virtually made the company a present of a total of £3,000,000, and when as a condition of this release from the debt—for that was what it proved to be—the government stipulated that the company should devote £225,000 of this on its branch lines, the company described this stipulation "as one of the injuries inflicted on them by the Canadians."

Had the Grand Trunk been conducted as a purely Canadian enterprise, it might have paid with economical management. But Lord Elgin, who by adroit flattery and the liberal use of champagne at Washington, had obtained the Reciprocity Treaty, used his powerful influence in favour of the line to Portland; while the English promoters urged the line through Michigan in the expectation that the grandeur of the scheme and the chances of getting Western American traffic would cover up the losses due to their own extravagance elsewhere. But the Portland line required an outlay of over $1,500,000 before it could be put in working order, and even then was never able to earn more than two-thirds of the rental which was fixed at six per cent. of its cost. The situation of the Michigan line was still worse, for the Grand Trunk got from this branch less than the cost of operation, and of course could not get back any portion of the eight per cent. on the cost which it had to pay. Even to-day, after sixty years of operation, the Grand Trunk lines in Michigan show a deficit which has to be made up

by the people of Canada, part of the deficit being paid in the form of state taxes, so that we have the curious spectacle of the people of Canada paying taxes to the State of Michigan.[1]

Mr. Keefer gives further explanation of the Grand Trunk's early deficits: "The railway satrap sent out by the London board, whose salary is only exceeded by that of the Governor-General, naturally considers himself the second person in the province; and, the special Commissioner sent out from the same source, with the salary of the President of the United States, to obtain more money from the province under the veil of a postal subsidy, would deem himself the second person on the continent, and therefore assume a position commensurate with his importance, and indulge in threats of destroying the credit of the province."

The building of the various local lines which in after years were linked up into the Canada Southern and the Michigan Central, and now a part of the New York Central system, was accomplished by frauds and misrepresentations like those that have been cited. Sometimes the members of the municipal councils were active participants in the frauds which imposed such heavy debts upon the ratepayers, and sometimes they were merely bribed. A flagrant case was that of the Woodstock and Lake Erie Railway which was begun, continued, and ended in bribery, and misrepresentation. It finally fell into the hands of the Hon. Isaac Buchanan, of Hamilton,

1 The Grand Trunk paid in 1915, on the various United States lines, state taxes amounting to $909,149, or $108,076 more than was imposed on all its great mileage in Canada.

whose method of obtaining control is thus tersely described by a select committee appointed to enquire into the scandals: "It simply consisted in the giving of a direct bribe of $100,000 to obtain the removal of three of the directors and the substitution of three of his own nominees, to enable him to transfer the charter to a rival company." Buchanan's own version of the story was that American capitalists of the New York Central and the Michigan Central were trying to get control of a road through Southern Ontario and that, if they succeeded, they would compete with the Great Western in which he was interested. But his opponents said his object was to get control, so as to force the Great Western Company to buy an unprofitable road at an outrageous price.

A later crop of railway scandals implicating members of the Government, was investigated in 1858 by a Select Committee of the House. At this enquiry the Hon. William Cayley, then Minister of Finance, admitted that he had advanced £10,000 of public money to the Cobourg and Peterboro Railway Company (now a branch of the Grand Trunk Railway) with whose president, D'Arcy Boulton, he was connected by marriage, and the charter for which had been obtained by Mr. Boulton while a Member of the House. He admitted also that sums advanced to the Grand Trunk for specific purposes had been handed over to other roads with which the Grand Trunk had had no apparent connection. The president of the Grand Trunk at that very time, Mr. Cayley admitted, was his own colleague the Receiver-

General. The way in which bank funds were used by these men was shown by T. G. Ridout, cashier of the Bank of Upper Canada, who testified that on the authority and advice of the government, the bank advanced nearly £60,000 to the Cobourg and Peterboro Railway and to the Ottawa and Prescott Railway; and when the Bank of Upper Canada failed some years after with such disastrous results, it was found that this, the second great bank failure of the province, was due to this and similar misuse of its funds at the instigation of members of the government in the promotion of their private railway schemes. Some banks were in fact created for these exploitations.

These evils did not end with the pollution of parliamentary life. From that time onward it corrupted municipal life to an equal degree. The charter mongers started out among the municipalities with the statement of a public need—railway communication—but they skipped over the fact that a line which connected the village of Milton with Toronto, for example, would also benefit the towns and villages in other parts of the country that did not give a dollar of bonus. This was afterwards realized when small municipalities, after loading themselves with a bonus indebtedness greater than they could bear, found that the new railway left them with less local trade than before; and that the money which should have been spent on their own highways to make transport easier to the railways actually went to build up the trade of towns hundreds of miles away.

Very adroitly did the private railway interests create the atmosphere through which these illusions were spread among the municipalities. Members of Parliament, railway lawyers, and others were employed to go through the country and show what railways had done for American cities and towns and to show the profits in railway enterprises in England and other countries. Everywhere the impression was left that the profits would be local, and that only those municipalities that gave bonuses would get the blessing. To make these municipal gold-bricks more tempting an Act was passed in the provinces of Upper and Lower Canada creating a Municipal Loan Fund, on which municipalities might draw for the purpose of carrying out needed public works. Once the fund was provided there was nothing easier for these eloquent railway touters than to show that of all public works the great and primary need was the railway. The municipalities could get the money at 6 per cent. and pay it off by a sinking fund of 2 per cent., and for this total obligation of 8 per cent. they would get a return of 10 or 12 per cent. by putting it into railways; reaping into the bargain the enormous prosperity due to the railway. The railway owners never repaid a cent of these loans, which, under the spell of these illusions, involved many a municipality in debts from which they have not fully recovered to this day, though sixty years have passed since the debts were incurred. For instance, the town of Port Hope borrowed $680,000 and Cobourg $500,000 and handed these sums over to the railways, for branch

lines from inland points. These two towns on the north shore of Lake Ontario had each a population of about 7,000, were only seven miles apart and derived their trade from practically the same territory and the same industry—the lumbering of the inland region to the north. When the bonused railways started, much of this lumber was carried away over the main line of the Grand Trunk, and the lake shipping of both ports declined in consequence, leaving both towns with a population smaller by several hundreds in the nineties than they had twenty years before. And all these weary years the Grand Trunk has given not the slightest consideration in low rates in return for the borrowed money so confidingly placed in the company's hands. The money has gone, of course, into the general expenses of the company and has necessarily been distributed all the way from Portland, Maine, to Chicago, some of it going to pay the princely salaries at headquarters in London.

Under a like illusion the municipalities in what was then known as Northern Ontario bent their necks to the yoke of heavy bonuses to the Hamilton and North-western Railway to get what they believed to be much needed competition, but before the road was in actual operation the line had been absorbed by the Northern Railway and melted into the Grand Trunk.

In the ten years covering the railway building mania (1851 to 1861) the city, town, and county councils of Upper and Lower Canada were talked into taking from the Municipal Loan Fund of these pro-

vinces for railway purposes a total of $6,520,340, and at the end of that period the arrears of interest on these loans amounted to over $2,700,000. To this must be added three millions given by municipalities that did not draw from the fund. The wholesale defaults in interest were less due at that time to inability to pay than to the connivance of the Government. As Mr. Keefer said: "To press a municipality to pay was to drive it into opposition; and railway corruption had so thoroughly emasculated the leaders of the people, that they had not virtue enough left to do their duty."

The case of the Northern Railway (afterwards the Toronto and Collingwood branch of the Grand Trunk) will serve to show how the funds of the municipalities were looted and the councillors corrupted to serve the new system of highway exploitation. When that line was projected in 1850, the city of Toronto was approached for aid. J. G. Bowes, the mayor, was made a director, and he and the officials, without the required authority of the citizens, gave a valuable site for a station with a free right-of-way in, and a cash gift of £25,000, to which next year was added, nominally as a loan, but in reality a gift, of £35,000 more. To cloak the scandal that was caused, a by-law was illegally passed to cover the advances made, and when the irregularity was challenged, a bill was railroaded through the Legislature to blanket these transactions by a loan of £100,000 for the ostensible purpose of consolidating the city's debt. Premier Hincks piloted the bill through and it was so worded that the deben-

tures which were for twenty years were made payable in advance. It was then discovered that Hincks and Bowes had already, before the bill became law, bought in these debentures at less than their face value. Then it came to light that Bowes and Hincks had bought up from the contractors, at a heavy discount, the very bonds that had been originally issued to aid the railway, and made such use of the local bank that neither of them had advanced any cash to accomplish their purpose. The case was brought before the Chancery Court where Hincks and Bowes admitted their share in the transaction. Again charges against Hincks were made before an investigating committee, but this committee could not see that Hincks had used his influence "as a minister of the Crown." This time the matter was carried to the Privy Council, and there the offence appeared in its true light and was denounced as a corrupt bargain.

In 1853 practically the whole board of directors of the Grand Trunk was represented in the membership of the Cabinet, and it was at this time that they raised the rate for carrying the mails from $25 a mile to $110 a mile per year. The Hon. Malcolm Cameron, one of the board of the Grand Trunk directors, became Postmaster-General on August 17 of that year, and on the same day the Grand Trunk held its meeting at the capital and graciously agreed to "accept" the increase for the carriage of the mails. Then the meeting adjourned and the directors of the Grand Trunk resumed their work as members of the Canadian government. The Hon.

Mr. Galt afterwards spoke of the rate of $110 as having been "agreed upon by the government," when as a fact, there was no record of any agreement on the side of the government except the knowledge of what took place at the meeting of the same gentlemen as directors of the Grand Trunk. When this was exposed another committee of enquiry was held, and a compromise was offered by the new government of $70 a mile and this would probably have stood had not the Grand Trunk, in 1862, presumed to take the matter into its own hands and demand a new scale for mail carriage which in its practical working would amount to rates from $300 to $850 a mile. The manner of presenting this claim was so offensive that the new government stood out and reduced the rate to $60 a mile.

These are but random illustrations of what went on in the early years of railway construction in Canada. Fortunately for the public life of Canada no subsequent Prime Minister ever so scandalized and betrayed the people who had made him the chief guardian of their public affairs. He had dishonoured his high office by taking bribes and levying blackmail upon railway promoters and contractors. That was an evil which, to a great extent, was interred with his bones; but the greater evil which he established to live after him, was that a prerogative, involving the greatest of all taxing powers was given over to a few citizens for their personal profit. It violated the first principle of representative government. He made it easy for a Member to do wrong under cloak of promoting the country's progress,

whereas the purpose of public law is to make it easy for a man to do right, and to make the way of the transgressor hard.

The recent history of the Grand Trunk has not been marked by those forms of exploitation which involved the wholesale corruption of Legislatures; in many cases their lobbying in Parliament has rather been a fight against that system of duplicating and triplicating railways by which private ownership has entailed an incalculable waste on the whole of America.

The Grand Trunk strenuously opposed the extensions of the Canadian Pacific Railway and the Canadian Northern Railway into Ontario and Quebec, but only because these extensions meant the end of its own monopoly of railway transportation in these regions. The same system of defence marked the policy of the Canadian Pacific Railway and, in its turn, the Canadian Northern Railway. It well illustrates the irreconcilable nature of the conflict between private railway ownership and the people's interests, that when a wrong is inflicted on the whole country by the duplication or triplication of unnecessary lines in one region, the only remedy which private ownership has to offer is in retaliation upon a rival at the cost of the people—for let it be remembered that the only sources of a railway company's revenues are the taxes which it is empowered to impose upon the public.

The last epoch in the history of the Grand Trunk which calls for notice is the organization of the

Grand Trunk Pacific, just referred to, which was designed to connect with the eastern Grand Trunk system by means of the National Transcontinental, thus forming the third trunk line from ocean to ocean.

When Charles M. Hays became general manager of the Grand Trunk there was a general overhauling of the affairs of the road, and he insisted on the transfer of executive responsibilities from London to Montreal. Having thus effected all the economies possible he realized that the Grand Trunk was still at a disadvantage with the Canadian Pacific, which was drawing from the West not only all the traffic and prestige due to the marvellous development of the newly organized provinces, but, while able to exact higher rates in the West at less cost of building and operating on the level prairies, was able to take a great part of the westbound traffic from the east by the lines it had duplicated in Ontario and Quebec. The Grand Trunk was losing its monopoly in Ontario and Quebec, while the Canadian Pacific had been consolidating its hold at more profitable rates in the West, and making this monopoly more sure by the creation of steamship lines on the Atlantic as well as on the Pacific. The Grand Trunk, therefore, approached the government with a proposal to build a line from its North Bay terminus into the West and so on to the Pacific coast. One plea was that otherwise the growing traffic of the West would be diverted to United States channels. Profession did not quite correspond with practice here, since the Grand Trunk's own Atlantic

terminal was at Portland, and from the beginning its interests have naturally been to deflect all the traffic it could from the Maritime Provinces to the Maine seaport. To this end its purposes would have been served by the extension westward from North Bay. But the government here stepped in to give the Grand Trunk what it did not want—a line to the seaboard through Canadian territory. To make the proposition acceptable to the Grand Trunk the government offered to build a line to be known as the National Transcontinental Railway from Moncton, New Brunswick, right through to Winnipeg instead of stopping at North Bay. This road parallels the Intercolonial, the Canadian Pacific, and the Grand Trunk for many miles in the East, while from Quebec westward it runs through a land as yet having very few inhabitants and affording no present local traffic.

The government offered to build this and, on completion, to lease it to the Grand Trunk for fifty years. For the first seven years the Grand Trunk was to pay no interest at all and for the balance of the fifty years only 3 per cent. on the cost of the work. The Grand Trunk agreed that all freight originating on its lines, not specifically routed by the shipper, should be carried to Canadian points over Canadian territory and that export rates via Canadian seaports were not to exceed those via United States ports; but railway men knew how these conditions could be stultified. The terms were very generous to the company, for in this offer the government was relieving it of the great expense

of building the enormous railway bridge over the undeveloped country between North Bay and Winnipeg, and putting it at once in touch with the prospective profits of Western traffic. But regarding the situation east of the Grand Trunk's present system, that company could not be expected to take a deliberate part in bringing ruin to its own seaport line, and, when over-building, land speculation, and the high cost of transportation began to make their effects felt in the West, we need not be surprised that the company took an early opportunity of repudiating its bargain. As the cost under the special Commission appointed to carry out the work ran up to three times what was expected and as the Grand Trunk was to pay rental on the cost of the road that company had good reason to ask for a modification of terms. And since then the Grand Trunk has gone further and has asked the government to relieve it of the Grand Trunk Pacific as well. The National Transcontinental Railway has been cited by some to discredit public ownership. It certainly constitutes a warning of the evils of extending the old methods of party patronage—or as the Americans would say, the pork barrel system —into the field of railway work. But the facts here recounted will show that the inception of the Grand Trunk Pacific and the Transcontinental were simply the crowning evidence of the mastery which private railway interests—through first one company and then another—had obtained over Parliament, involving both political parties in the shame of surrendering public rights for private profit.

CHAPTER X

The Genesis of the Canadian Pacific Railway—The Roman System of Tax-Farming Worked Out in Canadian Politics

The story of the Canadian Pacific Railway and the Canadian Northern system is, in most respects, chapters two and three of the history of the Grand Trunk already sketched. Of those who now control all three systems it would not be just to say that they are men of purposes less worthy than the rest of the community. Many of the heads of departments of these railways are to-day showing a statesmanship worthy of any government in the way they are carrying out schemes for the material advancement of the regions which they control. Such for instance, are the irrigation works of Alberta, the demonstrations of re-foresting, the settlement of men on ready-made farms, experiments in the chemical industry, etc. However admirable may be the work of individuals under the wing of these companies, the moral wrong remains of allowing any private corporation to exercise a sovereign prerogative without direct accountability to the nation to whom that right belongs.

Before the Canadian Pacific Railway company came into existence there was a natural presumption of public ownership in connecting the provinces

by a national railway. British Columbia, as well as Nova Scotia and New Brunswick, agreed to come into the confederation on this assumption, for her bargain was not with any private company, but with the Dominion of Canada. It was when the Dominion government placed the crown of its authority in private keeping that the Canadian Pacific was born, and this company was thereby conceived in the iniquity of the scandal which brought defeat to a great ministry and to Canada its greatest shame.

The great Pacific Railway scandal would not have been possible under government ownership. In the first place, in the machinery and workings of the public departments there was not the opportunity, if there was the temptation, to take directly from the regular public services the large amount of money for bribery which the morals of that time justified. But it could be done by handing over the administration of the country's highways to a corporation to whom might be given both public funds and the public domain under cover of national requirements and colonization, the consideration from the private corporation being a liberal subscription to the fund for maintaining the party in power. In the second place it was the private monopoly of the traffic of Ontario and the West, and the improper use of that monopoly, which led to the demand for the Canadian Pacific. At that time there was no such thing as regulation or control of rates by the Railway Committee of Parliament. Grand Trunk influence in the House of Commons held the Intercolonial back where it could not reach the growing

traffic of the West, and the Grand Trunk's interest lay in keeping the through traffic away from Halifax or St. John, and sending it to Portland, for Portland was its own ocean terminus.

In those days the theory of competition was believed in as the only remedy for unreasonable railway rates, and opposition to the Grand Trunk was urged as a public duty. The more so was this urged when the charter of the Hudson's Bay Company had been surrendered, and the Red River Settlement had been erected into the Province of Manitoba and become a part of the Dominion in 1870, and when British Columbia also was being invited to join the confederation. The speedy linking of the eastern provinces with the great Golden West by the spinal column of a transcontinental railway was the aim of Sir John A. Macdonald, as first Premier under the new union. His anxiety as to the dangers of delay was apparent in one of his letters to C. J. Brydges in 1870 in which he wrote: "It is quite evident to me, not only from the conversation, but from advices from Washington, that the United States government are resolved to do all they can, short of war, to get possession of the western territory, and we must take immediate and vigorous steps to counteract them. One of the first things to be done is to show unmistakably our resolve to build the Pacific Railway." When British Columbia joined the confederation it was on condition that a railway would be built to the Pacific coast within ten years. As before stated it was a natural assumption that this railway would be constructed as a gov-

ernment work, in consistency with the policy of the Intercolonial; and, after the defeat of Sir John Macdonald, the administration of Alexander Mackenzie, who succeeded him, actually did commence it as a government work, having 264 miles west of Fort William completed, or partially completed when Sir John returned to power in 1878.

The causes already stated and the private railway influences so powerful in Parliament account for the surrender of this national road to private control; but it is only fair to Sir John to explain that when the terms of the union with British Columbia were drawn up and adopted he himself was in Washington negotiating the Fisheries Treaty and that the acting Premier was Sir George E. Cartier, whose affiliations with private railway promoters were well known. In a letter to the Governor-General, Lord Dufferin, giving his version of the Canadian Pacific scandal, Sir John thus refers to the British Columbia compact: "Sir George Cartier, who led the house in my absence, in order to carry the union (with B. C.) was obliged to promise that he would submit a resolution that the road should be built through the agency of an incorporated company, as I have mentioned. I think it probable that had I been present I would have persuaded the House to accept the union without this condition."

At this period the great volume of ocean freight and passenger traffic from Canadian seaports to Europe was in the hands of one company, the Montreal Ocean Steamship Company, at the head of which was Sir Hugh Allan. The Allan brothers had

controlled this sea traffic during the period of transition from sailing vessels to steamers, but the Grand Trunk for years had diverted to Portland a large part of the traffic which in the summer might have gone out by the St. Lawrence. In the winter the Grand Trunk monopolized the inland provincial traffic, the Intercolonial being kept at arm's length, even the trade of Quebec being taken west and south to Portland. The antagonism between Sir Hugh and the Grand Trunk grew, and when rumours became current that the Grand Trunk would start a steamship line, he determined to secure his interests by going into the railway business. This he set about, with characteristic energy and unscrupulousness as to the means employed. He first took up the Northern Colonization Railway from Montreal to Ottawa and then the North Shore from Montreal to Quebec, north of the St. Lawrence; and a third project was a line westward to Toronto, these three afterwards becoming sections of the present Canadian Pacific Railway system. Sir Hugh then obtained a charter for "The Canada Pacific Railway Company," and D. L. Macpherson, a prominent railway contractor of Toronto, got a charter for a company called "The Inter-oceanic Company." Efforts were made to get the Ontario and the Quebec group together, but Macpherson and Allan quarrelled over the chairmanship, as the latter insisted on the control being in Montreal. Difficulties arose also because of the prominence of American financial and railway men in Allan's company. Counting upon being able to smooth over these objec-

tions, Sir Hugh pushed his efforts into the political field and, having made a truce with Sir George E. Cartier, promised Sir John a contribution of $100,000 to the party funds for the election of 1872, if the railway charter were granted to him and his friends. The election contest proved to be very close, so much so that Sir John, whose love of power was intense, threw his usual caution away and made appeals by telegraph for more money, until before election day, Sir Hugh had put up a total of about $350,000—a huge sum for those days.

Sir John and his party were elected, but then occurred the theft of telegrams and letters which proved in Parliament the truth of the charges of corruption in connection with the charter, and he resigned. Few thought he could ever be restored to the confidence of the people, and this restoration —even allowing for the lowered standard of political morality and the economic distress which caused them to look to him as a political saviour—remains one of the remarkable events in Canadian history.

From the new "Canadian Pacific Railway Company" that was formed on the re-election of Sir John Macdonald in 1878, the names of Sir Hugh Allan and his American associates disappear. George Stephen, a Montreal wholesale drygoods merchant (afterwards Lord Mount Stephen), Donald A. Smith (afterwards Lord Strathcona), and others, including J. J. Hill, of St. Paul, Minn., but a Canadian by birth, come into prominence. Smith, whose casting vote in the House of Commons was the immediate cause of Sir John's resignation, was

an old employee of the Hudson's Bay Company, and then a member for Selkirk, Manitoba, in the House of Commons. As a friend of Hill he had watched the development of the American West and intuitively realized what wealth might be obtained by getting control of the transportation of the Canadian prairies. One of his biographers, W. T. R. Preston, in *The Life and Times of Lord Strathcona,* recognizing his mental endowments and power of self-control, believes that had his aim in life been for greater things than money he might have been a John Wesley, a General Booth, or a Joseph Howe. We cannot sit in judgment on his inner motives. We can state only the fact that he and Hill and their friends obtained and held for many years a monopoly of the communications of the people of the West on both sides of the line; that according to a memorandum laid before the United States Interstate Commerce Commission, he and J. J. Hill received in twenty-seven years $413,000,000 in the form of interest from securities resulting from this control, apart from the annual dividends from their railways; that when the Canadian Pacific Railway established an Atlantic line of steamships, an agreement was made with the Hamburg-American, the North German Lloyd's, and other foreign steamship companies by which rates for passage were raised to such an extent that the increase alone paid by the struggling immigrants in thirteen years amounted to $44,000,000; while the freight rates between Canada and Great Britain were increased fourfold, these increases taking place while Lord Strathcona

was High Commissioner. It is true that the marvellous fertility of the western prairies has made thousands of farmers and merchants prosperous since the Canadian Pacific was built, but it is also true that other thousands of farmers, especially those who settled at distances from the railway lines, have been baffled and beaten in the struggle on the prairies, where they would have succeeded, but for the toll of high railway costs taken out of all they raised and the sur-tax added by the same cause to all they had to buy. Lord Strathcona, Lord Mount Stephen, and the other controllers of the Canadian Pacific were no worse than other men who hold a franchise which carries with it the power of public taxation. The crime is in the system; and when we hear the saying passed around that "politics corrupt the railways and railways corrupt politics," we must admit that in giving a public right to a private person legislators themselves have torn down the wall that would have shielded them and the people from the corruptionists.

In the minds of many people a legend has grown up around the Canadian Pacific Railway, that this is a great national work forming in some way an arch in the structure of the British Empire, but yet that it was a self-created institution, or at least that it was the product of the money put into it by its private owners. A few facts will correct this misconception. The actual beginning of construction work on the system was in 1874, and during the four years of the Mackenzie ad-

ministration, and for over a year after the return of Sir John Macdonald to power in 1878, it was carried on as a government work. When the government in 1880 handed over the work to the Canadian Pacific Syndicate, which was succeeded by the Canadian Pacific Railway Company in the following year, the company received as a gift 710 miles of line in various stages of construction, which had cost $30,818,414. Then the government gave it a cash subsidy of $25,000,000 and 25,000,000 acres of land; with exemption from duty on most of the imported materials of construction, the government granting lands for right of way; with perpetual exemption from taxation on its property; and later on when the company came back for more help, loans and guarantees of interest costing the country $35,000,000 to $40,000,000 were made. Bonuses were given to the Canadian Pacific Railway short line to the Atlantic—which had the effect of taking away much of the revenue from the government's own line, the Intercolonial—amounting to three or four millions. The company started out with the ambition of monopolizing the traffic of the West, and to this end got the government to consent to refuse a charter for twenty years to any line south of its main line except in a south-westerly direction[1]; and with the same object they got possession by various means of a number of independent local lines that had meantime been built. Some of these lines were bought on the bargain counter, some of them taken

[1] Agitation in Manitoba in the eighties forced the surrender of this feature of the monopoly, but at a cost to the people of a money guarantee amounting to $25,000,000 in bonds running for half a century.

over in a state of insolvency, but all of them having previously been aided by cash subsidies, by gifts, by land grants, or by loans, some of which were never repaid.

The Crow's Nest Pass Railway for instance, had been built to get competition with the Canadian Pacific Railway—now it is a branch of that system. The Manitoba and North Western Railway, after being bonded for $22,000 a mile, when it could have been built for $12,000 a mile, passed into the hands of a receiver, and then passed into the hands of the Canadian Pacific Railway.

In a pamphlet published in 1897 and now out of print, Sir John Willison gave a faithful warning of conditions that were coming on the country if private railway promoters were permitted to control the public resources. Describing some stages in the evolution of the Canadian Pacific Railway, he says: "The history of the Qu'Appelle, Long Lake and Saskatchewan Railway is faithful to the details of American railway methods. More than $3,500,000 was received from the sale of these bonds. The cost for construction, etc., was probably $2,500,000. The road had also received a land grant of 1,400,000 acres and a cash subsidy of $80,000 a year. It was leased to the Canadian Pacific Railway for six years without rental." The promoters thus got a million out of the scheme and the Canadian Pacific Railway got the road and its lands to be added to their other estates.

The Calgary and Edmonton Railway Company was incorporated in 1890. For its 340 miles of line

the promoters got the usual land grant of 6,400 acres per mile and a mail subsidy of $80,000. Many of its promoters and contractors were closely associated with the Canadian Pacific Railway. The road obtained bonding powers of $25,000 a mile, and immediately the road went under the control of the Canadian Pacific Railway Company, who at the session of 1891 got permission to substitute its own debenture stock for that of the company. At that time 295 miles had been built at a cost as alleged by the company of $3,717,882, or $13,000 a mile. With a roadbed poorly laid on the prairie Sir John states that it did not cost more than $7,000 a mile, at which rate the cost would be $2,065,000. Now the land grant alone for the whole road at $3 an acre would be worth $6,528,000, not to speak of the money raised thereafter by high freights which it put into force, or the "unearned increment" of the stock.

No computation has been made officially or otherwise of the gifts, unrepaid loans, rights of way, and other aids given by municipalities, or the public assets obtained when these various local railways and other property were acquired; but the aggregate of traceable items make a total of $175,000,000 in cash or property convertible into cash, and this does not include the value of the public land grants. The original land grant from the Dominion was 25,000,000 acres of the best land in the North-West, some of which became townsites of a value beyond present calculation. Although 1915 was a bad year for land sales on the prairies, yet the Canadian Pacific Railway got $6,126,108 for the 390,715 acres it

sold that year. It has 7,870,056 acres of agricultural, mineral, and timber land still in its possession, classed as "inactive assets" and conservatively valued by the company itself at $127,000,000. This gives an average value of $15 an acre, but the original land grant does not include all the public lands it put into its possession. The twenty-five million acres alone would be worth, on the basis of the company's own estimate of about $15 an acre, $375,000,000, so that we have here the sum of $550,000,000 as the traceable part of a larger but at present unknown aggregate of public assets given into the hands of a private corporation to build and maintain a national toll road.

The company now owns about 8,000 miles of railway and leases 5,000 miles in Canada, besides lines leased in the United States. Assuming that the leased lines are operated without loss to the company or burden to the community, the people of Canada have contributed, on the mileage owned by the company, enough to build the entire 8,000 miles at $70,000 a mile, which is more than it cost.

The Canadian Pacific was organized with an original capital of $100,000,000, and it was stipulated by the government that if at any time the profits of the company should exceed ten per cent., the excess would be returned to the nation. At eight different times the company has got increases in its capital for the purpose of creating subsidiary companies such as hotel, express, telegraph, supply, and other subsidiary corporations. These increases not only provided market values in stocks for a favour-

ed few, without putting in more than a nominal amount in fresh cash, but they had the effect of sponging up the surpluses that would otherwise have been paid back to the people in the excess of profits over the ten per cent. It will be seen from all these facts that public credit and public funds, and not private capital, was the real foundation on which the superstructure of this railway was reared to the glory and enrichment of a few men as the primary end, and to the service of the state as the secondary end. There is no uncharity in making this deduction, because if service to the nation had been the first object of the promoters of the company they could have demonstrated this motive by reducing the rates and foregoing the profits, by returning the loans and gifts, or at least giving back to the people the excess of profits as promised. The company has done none of these things; but on the contrary has maintained its rates of public taxation at a higher level than in corresponding regions of the United States and has covered Ontario and Quebec with lines paralleling the Grand Trunk for the purpose, not of giving cheaper rates in the name of competition, but of extending the scope of its taxing powers at the same high rates.

Two questions naturally come up here. If we take away the portion of the company's profits due to the public money advanced; take away the illegitimate profits of the express business—which ought to belong to the parcels branch of the post-office; take away the profits of the other subsidiary companies; and wring out the water put into the

capital from these eight successive stock expansions, where would be the brave financial showing which the Canadian Pacific now makes?

Which would have been the wiser policy, the national ownership of the system and the reduction of rates to the cost of the service, in such a crisis as this, or the maintenance of the present high cost of transportation and the obligation of buying back the inflated stock already once paid for? This is a problem the Canadian people still have to face.

All the watering of stocks by the increases of capital permitted at these different times since the Canadian Pacific Railway came into being, are simply a method of capitalizing, for the benefit of a few wealthy men, values which were first obtained from the Canadian people and have since grown out of their labours. By all moral right the Canadian Pacific Railway still belongs to the people who created it, and without whose industry and labour it could not exist for a month. The company has certain natural rights arising out of administration and the cash contributions of its shareholders, but the attempt made by its controllers to dissociate the profits of the company and the increased value of shares from the people from whom these profits are taken, and who gave the shares that increase is counterfeit logic.

CHAPTER XI

The Canadian Northern and Its Financial Methods

The physical and financial history of the Canadian Northern took the same course as that of the Canadian Pacific; but the Canadian Northern was founded to a still greater extent upon the subsidies, guarantees, and other public aids, federal, provincial, and municipal, which gave the enterprise its credit. The railway contracting firm of Mackenzie and Mann purchased the charter of the Lake Manitoba Railway and Canal Company in 1895, and this was the nucleus of the road which the ambitious contractors developed into the third transcontinental railway system maintained by the people of Canada, but owned by a private corporation. The men who control the Canadian Northern are the same who are at the head of the contracting firm to whom the construction contracts have been chiefly awarded.

By the time this railway began to develop, one would have thought that the years of experience with the Grand Trunk and Canadian Pacific would have shown the danger to the common weal of allowing a private corporation to sit as a tax collector on the nation's highways, but we find the federal and provincial legislators giving the country's endorsements in the form of government guarantees

to the extent of over $225,000,000 to the Canadian Northern; and this apart from the land grants and the construction subsidy of $6,400 per mile; and when in 1913 the company's promoters came before the Dominion for further help to the extent of $15,-600,000, the wrongs of the past by which millions of public money and millions of acres of the public domain were taken from the nation are quoted by the government, not with any intention of demanding restitution, but to justify further alienation of the national assets. Then in 1914 the Dominion government is again approached and makes a guarantee of $45,000,000 of debenture stock, in return for which the Government was given stock to the amount of $40,000,000 in the capital stock of the company which is $100,000,000. But forty shares in one hundred still leaves the private individuals in control. Once again in 1916, in spite of the protests of people and press, the Dominion Parliament is again approached and hands over $15,000,000 more, after a series of lobbies, which undoubtedly have lowered the respect of the people for the body of men who act as their trustees in Parliament.

In another chapter an account is given of the genesis of the Temiskaming and Northern Ontario Railway, built by the government of Ontario and operated in the interests of the people. Contrast the results already achieved by government ownership in Northern Ontario, with the inevitable effects of the wholesale alienation of land proposed in favour of the private railway exploiters. Unless the authorized grant is cancelled for default, the

government of Ontario will give for the C. N. R. line from Port Arthur to Sellwood Junction through the great clay belt, a land grant of 2,000,000 acres (4,000 acres per mile for 500 miles) taken cunningly in alternate blocks, after the model of other railway land schemes, so that the prospective value of the lands would be enhanced through the toil of individual settlers in the homestead areas, who would take on themselves the double servitude of paying this share of the railway tax while labouring to increase the value of lands allotted to the corporation.

After the Canadian Pacific had gorged itself with public funds and lands, it is instructive to recall the speech made in the House of Commons in 1899 by Sir Edmund Osler, one of the large shareholders of that company, in opposition to the earlier applications of the Canadian Northern for more subsidies. With a detachment that could recognize exactly what was in the public interest when another set of men were bringing their influence to bear upon Parliament to use a sovereign right for personal profit, Sir Edmund said: "There is no necessity for bonusing these roads, but there is every necessity for stopping the bonusing of any road, unless it may be in the North-West or in the Yukon, where some great public interest requires it. . . . I differ with my leader and with the leader of the government (Sir Wilfrid Laurier) when they agreed that these railway subsidies were not sources of corruption. I contend that they are a main source of corruption in elections, such as we are

now having exposed. It is from such subsidies that the money is supplied to pay the men who have been engaged in ballot stuffing and the election frauds which we hear so much about. These men are not committing these crimes for nothing. They are paid with the money of the people."

With increasing experience the Canadian Northern and other companies learned to favour government guarantees rather than subsidies. They have a softer sound than hard cash, but yield the same reality of endorsement on the national credit to perpetuate private profits. These authorized guarantees to all the roads now amount to $409,869,165. The curious thing about the provincial guarantees and subsidies is that they are given in respect to railways which have all become integral sections of interprovincial and transcontinental systems. A railway charter may be granted by a province, but when it becomes a part of an interprovincial system it is declared in law to be "for the general advantage of Canada" and comes automatically under the authority of the Dominion. Hence these provinces and municipalities have given their endorsement to bonds over which they have absolutely no individual control. The function of railway transportation in British Columbia is linked with the same function in Prince Edward Island by links of a kind that cannot be broken by either province, except to its own damage. Even if this self-infliction were attempted the intervening provinces could not permit it. But Prince Edward Island, having only government-owned railways, and having escap-

ed the attentions of the subsidy-hunting companies, is free of such uncontrollable endorsement, nor owes a dollar of interest thereon, while British Columbia has made herself liable to the railway companies to the extent of $80,932,000 of guarantees, in some cases amounting to $42,000 per mile, or a liability of about $180 for every man, woman, and child in the province. To state it in another form, the people of British Columbia are liable to an annual interest bill of over $3,600,000 for the work of two companies, whose rates they cannot control, whose property they dare not seize, because the chief security for the debt is beyond the provincial boundaries. Even if the government were foolish enough to sever communication with the other provinces, it would only be cutting its own nose off to the damage of its face. And all the while British Columbia and the prairie provinces are paying taxes to the other provinces to the extent that the railway rates imposed on them exceed the general average of rates throughout Canada. Even the railway dividends—furnished in part by British Columbia's labour and industry—go to foreign (that is non-Canadian) capitalists in the proportion of $9 to $1. At the other end of the scale is Prince Edward Island, with one system of government-owned railways on which the rates are about one-third those of British Columbia, and not one dollar of liability incurred to secure that kind of "competition," whose only effect is to increase the cost of service.

What has been said of British Columbia is true of Alberta, Saskatchewan, and Manitoba, with varia-

tions in the amounts. The railway bonds guaranteed by Manitoba amount to $25,221,580, by Alberta to $59,410,450, and by Saskatchewan to something over $41,625,000.

The fallacies by which the clever railway lobbyists have been able to jockey the provincial governments into these endorsations are no longer accepted, for, apart from the financial burdens they have laid on the people in interest charges, etc., some at least of the provincial statesmen now realize that in these endorsements they have been giving an indirect subsidy to the other provinces.

Mr. McLean, one of the Railway Commissioners, estimated that by 1913 there had been given to the railway companies of Canada in cash $208,072,073, of which the Dominion government had contributed $154,075,235, the provincial legislatures $35,945,515, and the municipalities $18,051,323; that the guarantees voted by Dominion and provincial governments had amounted to $245,070,045; and that the land grants to the railways by both sets of governments made a total of 56,052,055 acres. These are from official returns, but the official returns do not tell the whole story, and no one has yet made any computation of the actual total either in the United States or in Canada. This much is certain, that when any fair estimate is made of the present value of the land, it will be found that the people of both countries have given much more than the actual cost of the railway systems to a few men who still administer the machine by which the greatest of all public taxes are raised.

CHAPTER XII

The Intercolonial Railway—Its Origin and Purpose—Private Ownership vs. National Policy —Joseph Howe on Railway Control

The Maritime Provinces of Canada were the first political divisions of America to adopt definitely and maintain consistently the principle of public ownership of railways, and a state-owned railway, the Intercolonial, afterwards became the economic basis of the confederation by which Nova Scotia and New Brunswick were united to the inland provinces of Upper and Lower Canada (now Ontario and Quebec), thus forming the nucleus of the Dominion which now extends from the Atlantic to the Pacific.

As soon as George Stephenson's inventions assured the success of railways the idea of connecting the British American provinces became an aspiration to many public men in these colonies. It was advocated in New Brunswick and Nova Scotia from 1827 onward, and it was not many years before the British government became interested, Henry Fairbairn having in the *United Service Journal* in 1832 called the attention of the British public to the value of such a railway for colonizing and commercial purposes, if not as a means of defence. The last named aspect seemed more to move the Imperial mind, for by the preliminary surveys made by Brit-

ish officers the line was carried through districts far away from the United States border, and it was only because the "Trent affair" threatened war at the very moment when a delegation of the colonial statesmen was in London seeking a subvention for the railway that the Imperial government was at last brought to the point of making a loan for the line.

In 1835 a project to build a railway from St. Andrew's to Quebec was endorsed by the Legislatures of New Brunswick, Nova Scotia, and the now united provinces of Upper and Lower Canada, and the British government granted £10,000 for the survey, but leading United States newspapers attacked the scheme as involving "the most important political consequences" and it was their attacks which suggested the American claim to a section of territory through which the survey was made. The project on this account was still-born. The piece of territory in question was that which was afterwards awarded to the United States under the Ashburton Treaty.

In 1844 the British government began the survey which was completed in 1848 by Major Robinson. The people of Nova Scotia were so anxious for railway communication with the other provinces that the Legislature in the following year granted from the crown lands a strip of ten miles wide on each side of the surveyed line and voted £20,000 as interest on a loan, but the British government would give no aid. The people of New Brunswick were equally anxious for a railway, but opinion in that

province became divided between the immediate commercial advantages of a connection with the United States and the advantages, political and commercial, of a connection with the upper provinces. In the latter case the commercial advantages would be longer in developing and would be attained at greater cost. Such at least were the arguments put forward by capitalists who were pushing private railway enterprises in New England, confident that Boston and Portland would be the leading seaports in the new railway era. Already these enterprising men had been bringing all their influence to bear to persuade the commercial men of Montreal and Quebec to support a line direct from Lower Canada to the New England seaboard, and these efforts resulted in the opening of the line from Montreal to Portland in 1853. Representatives of these men established a promotion office in St. John, N.B., and succeeded so well that they won over the leading newspapers of the province.

The year 1851 became the year of fate in the railway and political history of British America. In that year the battle of the gauges was fought out in favour of the present standard gauge. In that year the completion of various short lines had given a connection between Canada and Boston. In that year Joseph Howe began the great crusade in favour of linking up the whole of British America by a government-owned railway which would have made the Canadian Confederation an almost immediate fact with momentous advantages, the loss of which is falling on the present and coming generations.

In that year Howe's crusade was defeated by the intrigue through which private interests were substituted for public interests in the development of the railway, and this defeat delayed the confederation for such a length of time as permanently to deflect to the New England and other United States seaports the trade which would have built up the seaports of the Maritime Provinces.

In 1850 Howe had yielded to the desires of those in New Brunswick who favoured the line to Portland, but only because he saw in it the only means of getting the neighbour province to help the greater design of connection with the western provinces. But when the two provinces had become agreed, the Imperial government dampened their expectations by refusing to aid any line other than that surveyed by Major Robinson, and this brought Howe back to his original conception.

No statesman in the history of Canada ever accomplished so many legislative reforms in the provincial sphere, or has left a deeper impression on the whole of British America than Joseph Howe. Although the world was still young in railway experience when his public life began, he saw from the first the true relation of the state to the railway. He was not awed into a slavish submission to a precedent, but as early as 1850 he foresaw the troubles that would arise in Great Britain and the United States from private ownership. In a speech advocating the appropriation of £330,000 of public money for a railway from Halifax to Windsor, N.S., he said: "There are things that they (the government)

should not control, but the great highways—the channels of communication—should claim special consideration, and when I am told that we should hand over for all time to come this great western railway to a private company I have to such an assignment a serious objection. All our roads in Nova Scotia, made by the industry and resources of the people, are free to the people at this hour. The toll bar is almost unknown, and this railroad, which will be the Queen's highway to the western counties in all time to come, should be the property of the province, and not of a private association. The roads, telegraphs, lighthouses, the standards of value, the administration of justice—these are the topics with which a government is bound to deal. There was a time, in the feudal ages, when every baron administered law to his tenants and retainers according to his own will, but the progress of civilization swept this system away, because men found it inconsistent with liberty, and because they found that all those modes of dealing with that which belonged of right to the state, led to tyranny. . . . . The government of Great Britain erred when it surrendered to private companies the control of the highroads of the land. The little state of Belgium acted in a far wiser manner. In Belgium the railways, radiating from a common centre, reach every section of the country. They are all owned and have been constructed by the government. In my judgment, of all the nations of Europe, not one has shown more wisdom in the construction of railways than this little state. . . . . There is greater

unity of action, greater power for good, in a government than in a private company."

In another speech he said: "I believe that if all the railways of England had been made by the government it would have saved millions of pounds to the country," and he added that the depression and bankruptcy that prevailed throughout Great Britain in 1847 were due to the railways "constructed by private associations." Owing to the wholesale discharge of men by the railways there was a great exodus in 1847, and 17,445 persons died on the passage to Canada and New Brunswick, or in quarantine or in hospitals, on arrival—a grim proof of the statesmanship of private ownership.

What the railway could accomplish for British America he comprehended with the mind of the prophet. In a speech in Halifax in 1857 he said: "I believe that many in this room will live to hear the whistle of the steam engine in the passes of the Rockies and to make the journey from Halifax to the Pacific in five or six days."

By a sure intuition Howe put into a single sentence the proper duty of a state to its railways, when he said, in one of his Halifax speeches: "It is the first duty of a government to control the great highways of the country." By an equally sure instinct his audience endorsed his definition, as recorded by a public man who heard the speech: "We never saw anything like the unanimity and enthusiasm with which the new policy thus propounded was received by this great meeting. Men who had not spoken to Mr. Howe for years were loudest in

their expressions of approbation, and his friends were, of course, gratified at this new proof of his boldness and sagacity." Sir John Harvey, the hero of the battle of Stoney Creek, then governor of Nova Scotia, reported to Downing Street his entire approval of the policy of making the railway a government work, as the "highest and most legitimate functions of a vigorous executive."

The reader is here reminded of the fact that the local railway lines of both Nova Scotia and New Brunswick, which, at Confederation, went to form the Intercolonial system, were projected and built under provincial ownership, and that these lines and the Intercolonial main line were carried through without any public scandal, or the fraudulent construction work which marked the history of the Grand Trunk and other Canadian lines under private ownership. In regard to the influence of the railway as a political bond, everything now depended on the extension of the backbone westward as a national work.

A convention had been held at Portland in 1850, to which delegates from the provinces were invited —among those present being the Hon. John A. Macdonald (Sir John)—and contractors and promoters working in private interests had been busy here and in the Canadian provinces. These promoters professed their readiness to build the whole system through the British provinces—provided liberal grants of money were forthcoming and contracts given to them without competition. To keep the railway under public control Howe, who was now

Premier of Nova Scotia, renewed his efforts with the Imperial government, through whom only the provinces could raise money at a low rate of interest. Earl Grey, then Secretary of State for the Colonies, evidently did not encourage the idea of Imperial help for the line to Portland, and wrote to Lord Elgin, Governor-General of Canada, suggesting a conference among the provincial representatives. This suggestion was made in March, 1851, and in the summer of the same year of fate the conference was held at Toronto, Howe representing Nova Scotia and E. B. Chandler New Brunswick. Unfortunately the latter province had already committed itself to a contract with the company of private contractors, to whom they had to pay a heavy penalty later on to obtain a release, and it developed that this province had misunderstood Earl Grey's despatch. Where he had meant that, in connection with the interprovincial plan, he would sanction the branch to Portland, the New Brunswick government thought he would give financial aid. The jealousy between the cities of Halifax and St. John thus early appeared to raise obstacles to the greater good, and those in the western province who were seeking private advantages out of the railways were ready to turn it to their account. The people of Halifax did not propose that their province should stand its share of the cost of constructing a line that would first reach the sea at St. John; and the people of St. John were not enthusiastic about a line carried from Halifax round the shores of the Gulf of St. Lawrence, especially when the other

route would give New Brunswick 100 miles less to pay at her own individual cost. These difficulties led to further conferences with delegates from Canada, and differences were only partially composed in a proposal for a joint deputation to England for a conference with Earl Grey, to be held in 1852. Earl Grey, while approving of the visit, would not commit himself to any change in the original route without further information.

The British government and people had without doubt been powerfully influenced by Howe's recent crusade in England in behalf of the plan of uniting all of British America by a railway. He interviewed Members of Parliament, editors of newspapers, mayors of cities, members of chambers of commerce, showing the prospects of the new land as a home for the thousands of emigrants who were compelled to leave the British Isles and Europe, and as a means of commercial development under the British flag. He said he would disapprove of the line to Portland, if that line alone were to be constructed under the control of American capitalists, as it would increase the sentiment for annexation, then so much talked about. When objections were made to Imperial aid he pointed to the fact that the British government had already given direct aid to railways in the West Indies; and that money could be had in this way at 3 1-2 per cent., whereas the cost of private capital would be six. The single-handed championship of Howe had completely converted the leading men and the press of Great Britain, and through them had brought the pressure

of public opinion on that stronghold of private railway interest—the British Parliament. The one thing lacking was the alignment of Canada with the policy of national ownership.

When the delegates to the interprovincial conference of 1851 arrived in Toronto they found the Legislature still in session, with Sir Francis Hincks as Premier. At this session a bill was passed for the construction of a main trunk line with conditional provincial aid. The bill contemplated aid from the Imperial government on the plan offered by Earl Grey, and it was expected that this aid would cover the line from Quebec city to Hamilton. In such event this trunk line would be undertaken by the province as a public work. The bill provided that if this guarantee were not given by the Imperial government, then the province would undertake the work on its own credit, if the municipalities would bear half the expense; and if both these plans failed, then private companies were to be allowed to try their hands. Representatives of these companies were already on the spot, as Howe discovered, and an indication of what these contractors were counting on could be noted in the provision that if the road was built by private companies, the aid could be advanced when half the cost was expended instead of when half the length of line would be finished.

Howe reported at this conference that Earl Grey would use his influence to obtain aid to the extent of a loan of £7,000,000, instead of the £3,000,000 which had before been counted on. No one knows

whether this was a pure misunderstanding on the point of the New Brunswick main line, or whether after the enthusiasm created by Howe's visit to England had cooled off, the fine hand of the great railway contractors had made itself felt in high quarters, but a despatch from Earl Grey in the following year revealed the difference. In the same month we find Chandler writing to Hincks, who was then at Halifax, informing him that he was expecting a proposition from "eminent capitalists in England, who have been largely engaged in railway contracts" offering to construct both the Halifax-Quebec line and the European and North American line (to Portland) under a private British charter, if the provinces would grant £90,000 to £100,000 a year for twenty years and three to five million acres of land. Hincks consulted with Howe and replied that the offer "would not be entertained for a moment." In his speech at Halifax in 1852 Hincks said he favoured railways by governments, because private companies could not raise enough money. He was then speaking to an audience that was not tolerant of private ownership of public rights, but if he believed this he did not act on the belief in his own Legislature, and he was soon shown by the contractors and financiers how easy it would be to add the national capital to private capital for a private enterprise, if one could control the Parliament that acts as trustee of the national funds.

The firm of Peto, Brassey, Betts and Jackson was the undisputed king among railway contracting firms in Europe at this period. They had built the

most important railways in the British Isles and at one time had ten railway building contracts in England and the same number in hand at the same time on the continent. One of his biographers stated that Thomas Brassey[1] of this firm had at one time an army of 75,000 men in his employ in executing contracts involving £36,000,000. Sir S. M. Peto, who was shortly after this made a baronet, was a Member of Parliament at this time; and not only were their financial and business associates represented in both Houses, but influential directors of the railways which the firm had built were their personal friends, and now sitting in Parliament. The firm had obtained contracts for the building of the first sections of the Grand Trunk, in which Sir Francis Hincks was personally and politically interested, as told elsewhere, and before they ended they had secured contracts for 1,100 miles of that railway. Their agents, chief of whom was Charles S. Archibald, had been sent to the Canadian provinces and the United States to educate the people on the merits of the ownership of railways by private individuals, and it was these agents who were already busy promoting the New Brunswick-Maine line and the extension of the lines in Canada under private control. Archibald came out to Canada with promises and prospects as unlimited as Col. Sellers in proclaiming his eye-water. He was prepared to show how the provinces would be taken into partnership with the contractors and how "the lucrative offices

[1] He was the father of Lord Brassey. Many honours came to him unsought, and there is no evidence to show that he was personally concerned in the corrupt work in Canada.

and lavish expenditures of a great company" could be made more attractive to members and their friends than the ordinary civil service—"provided the contractors could have the entire contracts for all the contemplated lines without competition."[1] The proposal was made to appeal to the mind of the least imaginative person by the confident prophecy that very soon "the countless millions of the Indian Archipelago, China, and Hindostan" would be seen travelling over the British American railway when finished. (Wm. Annand, *Speeches of Howe.*)

When Howe and Chandler went to Toronto for the conference of 1851, Archibald went also. When details of his scheme were discussed informally, Archibald could show no authority to make a specific offer. Negotiations with him were then dropped, but the resources of the contractors were not exhausted, and when the New Brunswick delegates returned home Archibald turned up in St. John with a credit at the Commercial Bank to back his proposals. This incident not only brought around some of the New Brunswick newspapers to support the private offer again, but raised new opposition to Howe's policy in the Nova Scotia Legislature itself.

In an open letter to Archibald and his friends, Howe showed with relentless logic the difference between public and private control. "When I succeeded in obtaining the promise of aid in England and it was known that so large a sum, advanced

[1] The reader can apply this candid reasoning to the argument that government ownership means corruption.

or guaranteed by the Imperial government, was to be expended in the colonies, the question 'who should spend it' became deeply interesting. It is deeply interesting now. The interest we have in it is this: having got the money cheap, to make it go as far as possible. Assuredly it is not to embarrass ourselves with companies and associations who shrank from us in our extremity, but who appear to be very anxious to aid us now that we can do without them. . . . . If they come as contractors, I see no reason why they should not expend, for their advantage and ours, the whole seven millions. If they come as co-partners we shall be at their mercy, and involved in complications which I wish to avoid." Then, addressing Archibald as to the case of New Brunswick, he wrote: "Put all your friends together, unite their entire fortunes and resources, and as our neighbours quaintly say, they could not 'begin' to buy the homestead of New Brunswick. They could not purchase the property on a single river. Yet we are told that the people who own the whole, cannot risk the construction of these railways, which can easily be accomplished by those whose resources are insignificant in comparison." After stating other objections he concluded: "My last objection touches higher interests than pounds, shillings and pence. Show me the state or province that ever willingly granted five million acres of its territory, with all its minerals and appurtenances, to a private association. Nova Scotia would not make such a grant if she never had a railroad. The man who proposed it would sit alone in our Assem-

bly. New Brunswick may be less particular, but such a grant, once made, to any association, with all the patronage, expenditure and revenues of her two great roads, and a power would be created in her midst which would very soon control both her government and her Legislature."

The terrible significance of this warning was to be revealed before many years, and a disease was to reach that stage where the condition which Howe had thought inconceivable—the alienation of vast areas of the nation's best land for the aggrandizement of a few private franchise holders—would be taken as a matter of course. Indeed, the time was to come when these despoilers of the national heritage would be held up by not a few as angels of light whose sole mission was the advance of the people to economic freedom.

The delegates nominated to meet Earl Grey in England early in 1851 were Hincks, on behalf of Canada; Chandler on behalf of New Brunswick, and Howe for Nova Scotia. Hincks arrived first; Howe did not go at all. The hero of this long fight for public rights appears to have failed in not giving notice of his inability to attend; or he may have anticipated the inevitable outcome of the underground influences at work on both sides of the ocean. At all events Hincks took care to send word back to Canada that Howe had failed to keep his appointment. Howe denied that he had ever engaged to meet Hincks there. E. M. Saunders in *Three Premiers of Nova Scotia,* states that, in addition to the burden of his public work at home, Howe

had just been unseated through the act of a political agent in Cumberland, was facing a midwinter campaign, and was moreover in poor health from overwork.

Whatever the true explanation of this matter, the historical facts were that from 1827 up till 1851 the Imperial government was appealed to almost times without number by provincial governments, by individuals, and through the press to aid in the plan of joining the British American provinces by a railway system; that none of these efforts succeeded, while the plan of constructing as a public work was followed; that while in London ostensibly waiting for Howe, Sir Francis Hincks had conferences with the great contractors; that through these contractors he obtained money to make extensions of the trunk line railways of Upper Canada under private ownership, that the inter-provincial plan of which these extensions would have been an integral part was not aided by the government; and further, that Hincks made no attempt to carry out the second alternative in his own railway bill—that is, to build the Grand Trunk as a public work in partnership with the municipalities.

It should be mentioned that when Hincks arrived in London he found that Earl Grey had been succeeded in office by Sir John Pakington. Hincks quarrelled with Sir John over the question of the route and it is charged (Thomas C. Keefer, C. E., in *Eighty Years' Progress*) that the Canadian envoy broke off negotiations at the instigation of the contractors "who had already been at the Colonial

Office as competitors with the colonial governments for the privilege of controlling an expenditure of such magnitude." As related elsewhere, when the deal was made with the contractors they presented Hincks with shares amounting to £50,400, which he converted into cash,[1] and it should be noted also that when the bargain was made with the contractors he subtly changed the conditions so that while the road should be financed by government bonds instead of the company's bonds as first proposed, it should remain more or less under private control.

The late George Johnson, the Dominion statistician, himself a Nova Scotian and intimately acquainted with the events of the time, says of this deal with the English contractors: "It shelved the Intercolonial. It created in Mr. Howe's mind a bitter feeling against Canadian public men which bore fruit in after years, when the prospect of confederation came into the arena."

This period and these events mark the ascendancy of the private company interests in British North America. It was only the violent shock of alarm over the "Trent affair," bringing Great Britain and the United States to the brink of war that stirred the British people to compel private railway promoters to stand aside, in order that the Maritime Provinces might be brought into closer union for defence. The "Trent affair" coincided

1 Commenting on this, Mr. Keefer, while Sir Francis Hincks was still living, had the courage to write: "Canadians have cause to blush at the spectacle of men filling the highest offices in their province, with a seat at the council-board of their sovereign, accepting fees and favours from contractors and officials of a railway company, between whom and them there should have been a gulf as wide as that which separates the Judge of Assize from the suitors before them."

with the visit of one of the confederation delegations in 1861.

The work was under way when the Confederation Act of 1867 came into force uniting Nova Scotia and New Brunswick with the two Canadas. The resolution of the Nova Scotia and New Brunswick Legislatures agreeing to the union made the building of the railway a specific condition of the federal compact. Before that, in 1864, when the convention was held at Quebec to discuss the scheme of confederation, one of the resolutions adopted declared that "the general government shall secure, without delay, the completion of the Intercolonial Railway from River Du Loup, through New Brunswick, to Truro in Nova Scotia." Sections from Halifax to Truro and from St. John to Moncton had been built in the fifties by the two Maritime Provinces as government undertakings. The Quebec resolution was endorsed by the Legislatures of Canada, Nova Scotia, and New Brunswick in 1865-6. At the same session at which the British North America Act was passed by the Imperial Parliament an Imperial Act was also passed guaranteeing the interest on a loan of £3,000,000 for the construction of "a railway connecting Quebec and Halifax."

Section 145 of the British North America Act, the Magna Carta of Confederation, sets forth the obligations of the federal government to this road in terms that cannot be evaded. The first clause of the section reads: "Inasmuch as the provinces of Canada, Nova Scotia, and New Brunswick have joined in a declaration that the construction of the Inter-

colonial Railway is essential to the consolidation of the union of British North America, and to the assent thereto of Nova Scotia and New Brunswick, and have consequently agreed that provision should be made for its immediate construction by the government of Canada; therefore . . . . it shall be the duty of the government," etc.

To have taken a profit out of the operation of the Intercolonial and used it as Federal revenue, would be Federal taxation, and would be a violation of the confederation compact. So strongly was this idea held throughout the Maritime Provinces that in the Mackenzie administration, during a period of great depression and of large deficits in the Intercolonial, the Premier attempted to reduce these losses by raising the government railway rates, but so incensed were the people of the Maritime Provinces that they boycotted the railway and did their hauling by wagon, and re-established the old stage coach system wherever possible, till the government was compelled to restore the old rates. These facts explain why repeated attempts of the Canadian Pacific, Canadian Northern, and Grand Trunk to secure some kind of control of the Intercolonial in order to bring the blessing of high railway rates to the whole of Canada have ended in failure. It cannot be done if Confederation is to survive; and this is a sufficient reason why the case of the Intercolonial is quite irrelevant in any discussion of the commercial success or failure of government ownership as a general policy.

CHAPTER XIII

Why the Intercolonial Has Not "Paid"—A Comparison Without a Parallel

Something remains to be said in answer to the sneer flung at the government road: "The Intercolonial has never paid." This sneer cannot be brought just now for the Intercolonial has had a surplus for the year just closed of $2,363,000. The explanation ready to hand is that this is because the management has been taken out of party politics and the road run as a railway should be. Quite true; and therefore that explanation is an argument, not against the national control of a national right but against the present party patronage system, which is the blight and black-rust of our public services in all other departments. When other countries have taken over private railways, they have found it is unwise to allow each Member of Parliament to set himself up as a railway director and subordinate the national service to the exigencies of his own constituency, and sooner or later the better methods are adopted. Time and the abandonment of past corrupt influences will bring in these better methods.

But from the standpoint of the people's interests is there any reason why a railway should pay? If a railway exists for the purpose of transporting

their persons and goods from place to place then, when the cost of this service is covered, what more is needed? It has already been shown that railway rates are public taxes, and surpluses or profits not used for colonization or like purposes are super-taxes.

Tracing back the stream of railway history under public ownership and that under private ownership, no one can doubt that if the national railway policy advocated by Howe and supported by Nova Scotia from the start had been adopted, so that the stream of traffic which private interests diverted to Portland and Boston, to Buffalo and New York, and to other cities, had been directed to the Canadian ports, the cities of Halifax, St. John, and many another seaport of the Maritime Provinces would have been great entrepots of commerce, where they have barely maintained the population they had in the lifetime of the great advocate of public rights.

But there is more to be said. The Intercolonial, since the private railway influence began to govern Parliament, has always been beheaded at a point short of that from which the great volume of traffic of the West could be secured. For years it ended at Rivière du Loup on the St. Lawrence. Then it reached Quebec. Private railways held it there as long as possible while their own lines were monopolizing the traffic from the great immigration movement to Western Canada. It was only a legislative fluke, synchronizing with the impending collapse of two local lines in the central counties of Quebec, that enabled the Intercolonial at last, at

the turn of the century, to reach Montreal, and there it has stuck, while the traffic of Ontario and the growing West has been controlled by the private railways on their own terms. When private railway interests sneer at the Intercolonial because it has not "paid," they do not realize that they are proclaiming their own wrong-doing. They first use Parliament to wrong the nation for their own personal gain, and then, like the wolf in the fable of the wolf and the lamb, use the fact of that wrong as a reason why the government road should be destroyed.

Of Canada's total population of 8,000,000 only one-eighth or less live in the Maritime Provinces, the whole population from the sea up to Quebec City being less than that of the single city of Philadelphia. The mileage of the Intercolonial is 1,828 miles out of a total of 37,434 miles for the whole of Canada. The volume of traffic is thus very small and has to be shared with a private railway under unfair conditions. These facts must be taken in connection with a fact still more vital in railway revenues—that Parliament permits the private railway to charge higher rates for the traffic it takes from a relatively larger population, with the added privilege of taking a share of United States traffic also at higher rates, which are denied to the Intercolonial. In many classes of goods the rates permitted to the private roads in the West are double those of the Intercolonial, although it has been proved that the cost of construction and of operation are less in the prairie regions than in the terri-

tory of the Intercolonial. This one fact, with its own internal evidence of injustice to the people of Canada, disposes of a mountain of statistics designed to disparage the government road.

It will surely be admitted that a man who pays the freight on a car load of goods from Halifax to Vancouver pays the share which yields the profit to the private road as well as the share carried by the government road without a profit. This shipper, who pays this unequal tribute to a railway for some private person's gain, is Everyman in Canada, for there is not a soul in the country who does not pay his share of tribute to transportation, whether he uses a railway personally or not.

The editor of *The Railway Age-Gazette,* an organ of the private railway interests of the United States, has recently, in an article entitled, "The Failure of Government Ownership in Canada," made some comparisons between the cost and service of the Intercolonial and the Canadian Pacific Railway, to the disparagement of the former. The unfairness of such comparisons has already been shown, and it is satisfactory to note that the author (S. O. Dunn) has since silently withdrawn some of the sweeping statements he made, based on a misreading of Canadian history. The comparison with the Canadian Pacific would be unfair for other reasons. The building of the Intercolonial was made possible by a loan from the Imperial government, but this loan was advanced on condition that the route to be taken would be substantially that surveyed years before for strategical purposes, and this route was kept

as far away from the United States border as practicable. If the route had been taken for purely commercial ends, the line would have been shorter by some several hundred miles.

If the Intercolonial were a transcontinental system, as the C. P. R. is, and paralleled that system under like conditions, there might be some value in a comparison; but, the Intercolonial does not parallel the Canadian Pacific even in the Maritime Provinces, for while one-third of the mileage of the Intercolonial is in Nova Scotia the Canadian Pacific does not own a mile in that province.

Moreover, the people have suffered another injustice at the hands of the corporations who have succeeded in using the government road to enlarge the extravagant profits of their private express systems, and the Canadian Pacific has obtained free running rights over a third of the Intercolonial system, to enhance private profits at the national cost. The Intercolonial has besides the natural handicap of water competition along the gulf for seven months in the year.

The discrimination in the express matter means that if the Intercolonial Railway exercised such a taxing franchise over the territory of the Canadian Pacific alone—not to mention the Grand Trunk and the Canadian Northern—on the same terms as granted to the Canadian Pacific over the Intercolonial, the amount that would have been added to the government railway surplus from this source alone would have been over $3,000,000. These discriminations and inequalities demonstrate not the

"failure of government ownership in Canada" but the failure of self-government in Canada.

With regard to the effects of the discrimination permitted to the private railway as against the government railway and at the cost to the whole community, J. L. Payne, comptroller of statistics of the Department of Railways, makes an analysis which is worth study. Mr. Payne avoids discussion of the principle of government ownership, but maintains that "the Intercolonial is a first-class line in every respect, is economically conducted, and if it enjoyed the passenger and freight rates of the Canadian Pacific would show even better operating results than does that exemplary railway." He then proceeds to give proof. Taking 1913 as the best year the Canadian Pacific has had, and as being a clear year before the war, Mr. Payne says: "According to sworn returns made to the Minister of Railways for the year 1913, the Canadian Pacific earned from the carrying of passengers $34,995,156 on a per passenger mile rate of 1.983 cents. The Intercolonial from the same source received $3,438,447 on a rate of 1.617 cents. The Canadian Pacific rate was 22.6 per cent. higher than the Intercolonial rate, and the Intercolonial rate was 18.5 per cent. lower than the Canadian Pacific rate. It therefore follows that if an exchange of rates had taken place the Intercolonial would have earned $777,089 more and the Canadian Pacific $6,474,104 less. From freight the Canadian Pacific had earnings amounting to $88,101,523 and the Intercolonial $8,028,760. The former averaged a rate of .784 cents per ton per mile and

the latter .570 cents. If rates had been traded it is incontestibly true that the Canadian Pacific would have earned $24,051,716 less, while the Intercolonial would have earned $3,010,784 more. The significance of the foregoing figures will be seen when they are applied to the year's operations. The Intercolonial, instead of balancing income and outgo, would have had a surplus of $3,787,873; the Canadian Pacific, in place of net earnings amounting to $43,049,764, would have a credit balance of only $12,523,944. The Canadian Pacific, on a cost of $475,370,064, would have earned precisely 2.6 per cent. while the Intercolonial, on a cost of $97,127,091, would have earned within a shade of 4 per cent. Viewed in still another light, the net earnings of the Intercolonial would have been equal to $2,540 per mile, while the Canadian Pacific would have had but $969 per mile. The Canadian Pacific net would have been barely sufficient to meet fixed charges, and a dividend on stocks would have been impossible. In fact, if the Canadian Pacific had been tied down to Intercolonial passenger and freight rates in 1881 it would inevitably have been in the hands of a receiver many years ago."

In asserting the superior efficiency of a private railway, Mr. Dunn gives the following instance: "The fiscal year 1915, was a period of acute business distress in Canada. There was a heavy decline in railway traffic. How much more freely and energetically the management of a private railway company can act in such an emergency than the management of a state railway, subject to political pressure, is

indicated by the fact that while the Intercolonial suffered a loss of total earnings per mile of 12 per cent. and reduced its operating expenses 11 per cent., the Canadian Pacific eastern lines, with a loss of 20 per cent. per mile, reduced their operating expenses 25.7 per cent."

We must thank Mr. Dunn for showing us how "much more freely and energetically" a privately owned company can act to save the profits of its dividend seekers at the cost of aggravating the distress of the people at large. On the outbreak of the European war a sharp contraction in business and a heavy decline in values took place in Canada, as thousands remember to their grief. Railway traffic declined also; and, as Mr. Dunn says, the Canadian Pacific acted "freely and energetically" by the wholesale discharge of its employees, loading on to many of its remaining hands the extra work involved in the change. What did this mean to the general public? It meant that this sudden and wholesale discharge of railway employees by the private companies intensely aggravated a problem that was only too grievous already, and we now know that had it not been for the providential calamity of the war, bringing in due course a large demand for munitions and military supplies, Canada would have been plunged into a panic equal to that memorable financial panic caused by the reckless operations of private railway builders of former days. But behold what followed! While the distress and the industrial disturbance were most ominous in every city, the greatest harvest ever gathered in

Canada was ripening on the western prairies, and by the time it was ready to reap the private railway companies, who had acted so "freely and energetically" in turning their hands adrift to face destitution, found themselves confessedly helpless in dealing with the sudden revival of traffic, and more particularly in moving the tremendous crops of 1915. As a fact, large quantities of 1915 grain remained in some districts to the close of 1916 for lack of rolling stock and train staffs to move it. Every few days an embargo had to be declared at terminal points because of the difficulty of getting freight handlers, and the public have been thus suffering in the midst of apparent plenty. As everybody is aware, the high price of coal—in so far as it is not due to the rapacity of the private United States railway companies who control the eastern anthracite mines—is due to shortage of labour, and we find the Canadian railway companies taking a hand in the wholesale importation of negro labour from the Southern States, contrary to the labour law, to fill up its gaps. How much better would it have been, in the long run, for these private railway companies to have given some thought to other questions than dividends, and to have kept their men employed on part time on car and locomotive building, on reconstruction and equipment, thus alleviating the common distress, and being ready to handle the traffic when business revived, as the Intercolonial actually did with happy results.

Here was a situation where the needs of the nation required us to put out of sight every thought

of present profit in order to keep the wheels moving, and that is what was done on the Intercolonial. But the Canadian Pacific, exercising the same national function with the primary object of profit, ignores the national needs when dividends are in danger. A more convincing demonstration could not be given of the constitutional inability of a private company to interpret and fulfil a national function where personal profits are the moving motive.

Since Mr. Dunn admits that the people at large contribute the revenues that are made by both private and state railways, he has yet to show how the payment of high rates on the private roads "will better promote the material welfare of the public," while the low rates that are afforded by the state railway are a public misfortune. It is what the people pay in the aggregate for their railway transportation that matters; and until Mr. Dunn is able to show that the high rates and their accompanying private profits are manufactured, like the spider's web, from the insides of the railway companies' boards of management or are distilled by some new chemical process from some foreign source and not drawn out of the pockets of the Canadian public, the argument that the great end for which a highway is built is a private profit to someone will have a diminishing appeal.

For the comfort of those who are disposed to be scared by the bogey of the dreadful possibilities of corruption under national ownership of railways, it should be here set down that the railways of Nova Scotia and New Brunswick began under public own-

ership and developed into the Intercolonial without a single public scandal of the kind that has been the birth-mark of the private systems. It is true that in later years frauds were perpetrated in Intercolonial work, in which the criminals had the assistance of individual Members of Parliament, but these frauds were sporadic and not general; they never involved the corruption of a whole Cabinet or Parliament, and the records are there to show that compared with the public robberies by private corporations they were as the doings of a counter sneak-thief to the operation of a bank-looter or a train bandit.[1]

1 Portions of this chapter were originally contributed to *The Journal of Political Economy*, published by the University of Chicago.

CHAPTER XIV

The Express Business as a Tax-Collecting Machine

In all of Europe and in most other countries the light freight and package business of the people is carried on under national ownership as a branch of postal work known as the parcels post. For long years this service in America has been the monopoly of private companies called express companies, whose profits were found to be more extravagant, in proportion to the actual capital invested, than any form of public taxing franchise in modern times. In the United States a few years ago an exposure of the methods of these express corporations led to the establishment of a parcels post system, to the great advantage of the people and incidentally to the great improvement of the service which the private companies were compllled to render at lower rates. The three great Canadian railway corporations each own express companies. In Canada also, following the movement in the United States, a parcels post has been established, but on a zone system which gives a large appearance of competition with the private companies, but a modest amount of reality in benefit to the people at large. As an example of how this reversion to the Assyrian tribute system has blessed the people of Canada

take the Dominion Express Company. This company is owned by the Canadian Pacific. Its original cost was $5,800, and an investigation by the late Mr. Mabee, the Railway Commissioner, showed that it had been able to pay into the Canadian Pacific out of its operations no less than $13,409,240 at a period when only $24,500 in cash had been put into the express company itself, though it was capitalized at two million dollars. It now owns real estate and equipment worth $2,834,000 and it has paid $3,500,000 in dividends.

The Canadian Pacific, in its original charter, bound itself to refund to the people of Canada any profits it made in excess of ten per cent., and it owns this company. As Mr. Mabee said, in commenting on the relations of the two corporations and the claim that they were independent, "Of course, no such thing could have happened between two corporations dealing at arm's length." His decision made it quite clear that the express charges were railway charges; and that the rates were grossly in excess of rates ruling for like distances in the United States. Especially were these excesses evident in the prairie provinces and British Columbia, and they were framed, Mr. Mabee said, on this idea: "What are the heaviest tariffs we can obtain from the public for the least service we can give?"

As the foregoing figures show, it is almost literally true that the assets of these express companies were built up simply on the power to levy a system of taxation at rates of their own planning and limited in past years only by the competition of the

post office in that class of mail matter for which the rate was a cent for each two ounces. That is, the railways, through their express companies, were charging, for the conveyance of light freight, rates equal to the postal rates on maps, prints, drawings, plans, and valuable manuscripts. Between the Canadian Parcel Post and the rulings of the Railway Board a few modifications have been made in these rates, but not enough to alter materially the situation; which leaves these companies in possession of a taxation franchise for which the people of Canada now pay from ten to twenty times the cost of like service in portions of the United States and in European countries where practically all express business is carried on by the post-office.

To give an air of moderation, the profits of the express companies can be reduced by the simple device of increasing the charges made by the railways for the carriage of goods. Thus the reports they furnish to the government show that their combined "transportation expenses" have increased from $3,871,901 in 1911 to $4,981,846 in 1915. By charging its other self the insignificant sum of $3,234,715 for "express privileges" the Canadian Pacific brings out the Dominion Express Company with a net loss of $158,606 for 1915, in spite of the fact that its express receipts were $6,220,542. And all this on a capital on which $24,500 was paid in cash. Though the profits vary, the same remarks apply to the Canadian Express Company owned by the Grand Trunk, and the Canadian Northern Express Company owned by the Canadian Northern.

By the consent of the government the public revenue that should go to the Post Office on small remittances of money is generously shared with these needy express companies in the issue of money orders.

The Canadian Pacific and the Dominion Express Companies have attempted to deny the facts or conceal them by clever devices of bookkeeping, but the attempt failed, and silence has since been thought a better defence than subterfuge.

It may be mentioned that while these exploitations of the public's sovereign functions were thus being converted into tangible private property, and while the process was being concealed by expert accounting, one of the express companies was refusing its employees a small increase in wages. These employees, who had families, and whose cost of living had gone up thirty per cent., were then receiving $46 a month.

The economies effected for the general advantage in government ownership of the express business have been mentioned. The present loss to the public on the mail service is important. When railway traffic had fallen off in Canada at the outbreak of war the companies endeavoured to escape from the conditions from which the rest of the people were suffering, and decided to ask an increase in the charges for carrying the mails. The case was so presented as to appeal to the sympathies of the Postmaster-General, and the result was that at the recent session of Parliament a general advance was allowed which will increase the national tax for this

purpose by about $1,100,000. It can be shown—not, of course, by the expert evidence of the companies, but by an independent analysis of costs—that the carrying of the mails at the former rates was very profitable work. Whatever this profit actually is, it is clear that if the government owned the railways it would be carrying its own mails and having the profit for the public, as Australia, New Zealand, South Africa and India do, and the operating costs would be a matter of bookkeeping between the departments, to determine the costs without the private profit. If Canada had adopted the policy of nearly all other countries in making the express business a parcel post business, and the express companies' staff and equipment were thus added to the Post Office, the country would have now a vastly more comprehensive service, and the people would to-day have the $20,000,000 or more that have been sponged up by a few individuals since the express system was devised. This $20,000,000 would have gone a long way in extending the good work of the Post Office, and in reducing the cost of the country's means of intercourse.

CHAPTER XV

The Remarkable Record of the Ontario Government Railway

There is a great gulf between the conception of a railway created to serve the common need of all the people and one in which the interests of the people are subservient to the purposes of the persons owning the railway. The private owner will not build a railway out of which he cannot expect a profit at least in his own generation, whereas the enlightened state looks first to the public benefit, often disregarding entirely the question of direct profit in operation, as was the case with the Intercolonial. Hence we find that it is the deliberate policy of many governments to do away with surpluses by reducing rates so as to give the cheapest transportation consistent with covering the cost of running the roads. This was the policy of Belgium, whose railway record is reviewed in another chapter.

But we need not go outside of Canada to find an example of the practical results of this contrast in conception. About twenty years ago the Ontario government began a systematic survey of the wilderness of Northern Ontario. The survey parties reported the existence of a wide tract of land of high fertility, with a climate as moderate as that

of the region around Lake Ontario. To-day that area, which had been almost forgotten since the explorer Champlain touched its southern borders just three centuries ago, is famous as a farming country, no less than for its cobalt-silver mines, its gold mines, and its pulp, paper, and lumbering industries. Any one of these developments would have attracted the attention of the world, but they were all due to a government-owned railway. The "Great Clay Belt" of Northern Ontario, an immense plateau of 20,000,000 acres, into which Vermont, New Hampshire, Massachusetts, and Rhode Island might be placed and still leave three thousand miles uncovered, is now the home of thousands of settlers and many local industries, whose establishment there is regarded only as the advance guard of a vaster colonization movement into this northern empire.

When the natural resources of the great Clay Belt began to be talked about, the private railway companies had every opportunity of doing a public service by opening up the territory. The southern boundaries of this northland were already touched at North Bay by both the Grand Trunk and Canadian Pacific, and there was, moreover, a liberal bonus ($6,400 per mile) from both the Dominion and provincial governments, awaiting such an enterprise in this region. But the railway companies were not interested in this opportunity of public service, because there were no prospects of dividends till the land could be colonized and industries created. At this period they were too busy in beguiling the

Provincial and Dominion Parliaments into voting public money and public credit for lines in districts where they might impose taxation on communities already established, with traffic all to hand, duplicating and triplicating roads at a cost which the whole country must ultimately pay, and all in the name of a "competition" which has brought no reduction in rates.

But this was not the conception of the Ontario government, as trustees for the people. The administration of that day had the courage to break through the tradition that a people's government should not trust themselves with the exercise of their own rights. They started to build a railway to the Clay Belt as a government work. Thus began the Temiskaming and Northern Ontario Railway in 1898, the undertaking being commenced as a branch of the Department of Public Works. Afterwards, to free it from the suspicion of being managed for political party purposes, it was placed in the hands of a Commission, composed of a competent railway engineer and three business men; and the results attained are such as to challenge the attention of students of public affairs in other countries. Starting from North Bay, 227 miles from Toronto, the line has been extended 253 miles almost straight north, till it joins the new Transcontinental Railway at Cochrane, and it has now five branches or spurs, making a total of about 330 miles, those east and west branches being the commencement of a system which will soon cover the Belt with roads will be the people's servants, not their masters.

The history of the Intercolonial was here repeated, in so far as this road was projected for a state purpose—the colonization of a new land, and this purpose was not determined by the question which would have been uppermost in the minds of private promoters—that of direct profit in operating. But before the road had reached the shores of Lake Timiskaming, the construction gangs cut into a mineralized rock which disclosed the peculiar bloom of cobalt and gave the town of Cobalt its name. The cobalt-silver mines opened upon this discovery have already produced silver to the value of $130,000,000, and the annual output of these mines is now one-eighth of the world's supply of silver. These silver areas, with their by-products of cobalt and nickel, have paid the cost of the whole system seven times over. Then followed the gold discoveries of the district which have placed Ontario in the lead of all the Canadian provinces in gold production. Afterwards the great pulp and paper mills, one of them among the largest on the continent, were established near the lines, in locations where large water powers and forests of pulpwood tempted the enterprise of manufacturers. Cochrane, the northernmost limit of the line, is only at the waist, so to speak, of the twenty-million acre plateau, and 125 miles more of main line will bring the government's railway to the shores of James Bay, that coast which will some day enable the inhabitant of Ontario to smell the sea breeze in the heart of his own continent more than a thousand miles from either of the great oceans. What resources may

here be drawn upon for the benefit of the whole of America we cannot estimate, but whatever they may prove to be, we may be sure that their transportation will not be subjected to the sur-tax involved in private profit.

The rates on this government road are somewhat lower, on the average, than those of the privately-owned lines in the same province, for both passengers and freight, and they are decidedly below the rates ruling on the private lines in the western Canadian prairies, where costs of construction and operation are lower than in Ontario. It is efficiently managed, and the record of its construction has been absolutely free from those scandals, frauds, and political intrigues that have marked the records of private railways of Canada. It has been carried through a rough country at a cost of about $58,000 per mile or about $12,000 per mile less than the people have given in subventions to a railway which, after all, they do not own.

There comes to mind the adage, "Politics corrupt the railways and railways corrupt politics." Whence the source of this corruption? The reader may judge for himself when he learns that in 1904 the Ontario government, in order to extend the people's railway, asked for the usual subsidy allowed to private lines, but the Dominion government refused it, though the line was of special help in carrying in supplies for the Transcontinental. The attempt was renewed in 1912, when a new government was in power at Ottawa, but the proposal was again thrown out by the Senate.

Yet this people's railway has redeemed from wilderness conditions a vast region which will be the home of millions, but which would have been a wilderness still if operating profits had been its only inspiration.

CHAPTER XVI

The Effect of a Bad Example on Canada—The Provincial Railway Taxation Policy and Some of Its Curious Results—The Canadian Railway Commission

Without reflecting upon the consequences, the Canadian provinces have imported from the United States the vicious policy of taxing the railways, and the authors of these Tax Acts have been hailed for their achievements, as if they had been some great generals returning from a campaign with spoils taken from the enemy. They never seem to have realized that this loot was being supplied by their own estates, and the greater the loot the greater would be the robbery of their own property. Let us show how the provincial tax on railways, instead of being an inspired act of retributive justice visited on the railway companies, is either an act of self-robbery, or a system of mutual pillage of the provinces, sometimes both. All the provinces (and many of their municipalities) except Prince Edward Island, tax the railways, the total in 1916 amounting to $3,321,801, and the aggregate is increasing year by year. Suppose then, that only one province, say Ontario, levied the whole of this impost of three millions a year. Would it not be plain that as each citizen individually pays his share of the whole cost

of Canadian transportation in accordance with the amount of his purchases of goods that have been shipped over any railway (as shown in a former chapter), and as each province shares the burden in the ratio of its population and trade, then Ontario is taxing indirectly all the other provinces.

As all railway revenues are derived from the people, the effect of this tax is to raise artificially the cost of transportation, and in this respect it makes no difference whether the roads are owned by the companies or the government—the amount of the provincial tax must become a part of the cost of operation. It makes no difference to the railways how the tax is raised—for they pass it on to the people in any case—but it does make a great difference to the people where it falls. If Ontario alone gets the tax and the people of the whole Dominion pay for it in increased cost of transportation, then Ontario is bleeding all the other provinces through the railways. In other words, Ontario would be erecting a railway toll-gate by which she levies toll on all the traffic that passes through her territory, east or west. And this is the actual fact to the extent that Ontario's share of the tax, which is now $1,510,007, exceeds that of the other provinces according to population. Even if every province levied the same tax in the same proportion, the people of Canada would not be advantaged to the extent of a cent by withdrawing from a railway a surplus which they themselves have put into it. On the contrary, they are worse off to the extent of the cost of the legislative and clerical machinery

needed to enforce the act. Of all the fallacies "bred and born" in the field of government through private railway ownership, this of provincial taxation of railways is the most self-hypnotic.

Even if the tax were imposed by the Dominion government and then handed over to the provinces in equitable proportions, the result would be equally futile, for no money could be collected out of a railway by the Dominion any more than a province, unless and until that railway company had first collected it from the people in passenger and freight rates.

The private railways of Canada are allowed to collect higher rates from the people of all the provinces than are imposed by the Canadian government's own road, and because of this the provincial railway tax, illusory as regards its internal effect, has this curious reflex, that the people of Canada have for many years been paying taxes to various American states, notably Michigan, where the deficits on the Michigan lines of the Grand Trunk are caused in part by the abnormal assessments made upon the road in that state.

Happily for Canada the provinces have not drifted so far into the maelstrom of taxation and conflicting modes of regulation as in the United States. Of provincial railway commissions Ontario only has such a body exercising control of railways, and even in this case its activities are confined in practice to electric railways and municipal systems. What is wanted, in view of the national administration of main line railways which is inevitable in Canada as

elsewhere, is a round-table understanding among the provincial governments to abolish this self-stultifying handicap on the people's means of communication, and leave all matters relative to inter-provincial railways to the federal government.

CHAPTER XVII

Canal and Lake Transportation of Canada in Relation to Railways—An Illusory Competition

The Board of Railway Commissioners of Canada has no jurisdiction over the canals and inland lake navigation; but the traffic of these waters is as essentially a part of the transportation problem of Canada as the railways. In the early days the streams of colonization were determined by the lakes and the river courses, and water competition was the only regulating influence relied on to restrain the railways when railways succeeded wagon roads. Though the waterways system of Canada presents a problem of scarcely less importance than that of railways, it is a subject to which public men have given but little thought. Born and educated, as this generation has been, under the conception that the only defence against the exactions of a railway company is the rivalry and competition of some other company, we look upon water transportation only as a summer regulator of railway rates. Years ago this competition was effective, and summer passenger and freight rates went down on the railways when navigation opened on the lakes and canals. That was at a time when many of the railway managers really believed in the effectiveness of

competition, especially by some who used it to inflict a direct loss upon a rival and gain a little popularity for themselves. It was such an idea that led the West Shore Company to carry immigrant passengers from New York to Chicago for ten cents, as they did in 1883, the people of Canada paying for this experiment by the loss involved in the Grand Trunk portion of the route from Buffalo to Chicago. But when the companies had time and experience to reflect that "in the long run the people pay the rate," they saw it was more profitable to co-operate in maintaining rates. The next step was to apply to traffic on lake, river, and canal the same plan as on land. This was accomplished by the gathering of the various lake units of steamships into one control, which could the more easily be done by the larger companies, who together had practically a monopoly of the docking and warehousing accommodation in the canal, lake, and river ports. This control of terminals and merging of steamship lines has been effected silently during the last three or four years, and now we have in Canada the "greatest system of inland waterways in the world," controlled by a syndicate working in such harmony with the railway corporations that one can only compare it to the happy rhythm of the motion of the heavenly bodies, which, in the simple belief of the ancients, produced the music of the spheres.

In former years railway rates in the summer came down to the water level, but now water not only finds its own level in accordance with natural law, but rises practically to the level of the rails;

with this financial result, that the Canada Steamship Lines, Ltd., at its annual meeting (March, 1916) made a net profit of $662,151, after allowing for interest charges, depreciation, doubtful debts, etc. There is no blame to the directors of the Canada Steamship Lines, Ltd., for doing this. They are endowed with a charter to exercise a public transportation function, and in the absence of any restraint or prohibition they have the right to assume government approval.

But the natural enquiry is: How is this company able to navigate its boats from salt water to the upper lakes? Only because there is a system of canals to overcome the rapids of the St. Lawrence, Niagara Falls, and the rapids at Sault Ste. Marie. Who gave steamship owners this advantage? The people of Canada at a total cost, for the original canals and subsequent enlargements, of $113,971,000. On the basis of the figures of 1915 it costs the people of Canada $1,644,000 a year to maintain this right-of-way for steamship owners. No tolls have been charged to vessel owners since 1903, and the total canal revenues amount to less than $500,000 a year, of which about two-thirds comes, not from navigation interests, but from the lease of water powers. No account is here taken of the lighthouse and life-saving services and the maintenance of the St. Lawrence Ship Channel, costing a total of over five millions annually, of which the lake vessel owners get the benefits; nor have we considered the new Welland Ship Canal, on which the expenditure so far

has been over $5,000,000, with fifty millions yet to be paid by the people.

So the people of Canada provide at this huge outlay navigation facilities, and permit private steamship companies the free use of these costly channels, with the privilege of charging the public what freight and passenger rates they list. It is precisely as if the government, without a dollar of private capital, had built the Grand Trunk, the Canadian Pacific, and the Canadian Northern Railway Systems, equipped their stations, provided rolling stock and operating staffs, and then given the companies the right to run trains over these roads at the public expense and at rates fixed by themselves.

Contrast this with the policy of Belgium, Holland, Germany, and other countries, where canal navigation is not carried on to provide profitable franchises to private persons at the public expense, but to co-ordinate water transportation with rail transportation, so that each would help the other, to the end of giving the amplest service at the cheapest rate.

Since the war the British government has brought the whole mercantile marine under state control, portions of it under state operation, and other portions under state ownership. Seeing the national advantages of this, there is every probability that after the war, state-owned lines of ships will be more in evidence on the ocean, and there would be nothing revolutionary if Canada took over with the present railways enough steamers to make

one efficient line on the Atlantic and one on the Pacific. Such a step, with the reduction of the transcontinental railway rates to the lowest possible terms, and the control of the inland waterways traffic, would direct into Canadian channels a vast volume of trade between the east coast of Asia and the west coast of Europe. Thus state ownership, if applied on land, and lake and sea, would advance the foreign trade of Canada, at the same time re-peopling the central provinces under better conditions than the people have ever had. Moreover it would relieve the Canadian ocean lanes from the handicap of those discriminating imposts levied by the steamship and marine insurance corporations so damaging to the foreign trade not alone of Canada but the people of the United States.

Since the foregoing paragraphs were written, the Commonwealth of Australia has led the rest of the Empire in this direction, by purchasing a line of ocean steamers, to be operated and owned by the government; and considering to what extent South Africa has been held in the grip of a shipping ring, there is little doubt that those Dominions will follow Australia.

CHAPTER XVIII

"Competition" and Its Cost to Canada

Canada has the largest railway mileage per unit of population of any country in the world. The estimated population is 8,000,000 (at the beginning of 1917 it is probably actually less), and its total mileage of approximately 37,434 miles of line gives one mile of railway to each 214 inhabitants. Australia comes next with 252 inhabitants to one mile of line. The United States has 389 people per mile, Great Britain 2,000, Russia 4,000, and Germany 1,730.

The lead in railway mileage has not infrequently been a boast of Canadians, but like many other statistical facts this may be viewed from another angle with quite a different significance. If one looks at it from the standpoint of cost and of resultant benefits, it means that whereas in the United States the earnings of 389 people are combined to maintain a mile of railway, the same burden in Canada falls upon 214 people, with the added difference of a greater cost for each mile. If we separate the Intercolonial—out of which, quite properly, no national revenue is made—from the private railways, the showing as to cost is that much worse.

But this is not the least striking feature of the obverse side of this medal. There is no country in the world whose railway system as a whole is so

unbalanced as that of Canada. In the centre of the country, lying between the Great Lakes and James Bay, there lies a block of land approximately 700 miles wide, with only two or three patches in any way developed. This has been called the wasp waist of Canada, at present barren—whatever the future may disclose—and across this waist the railway companies have been permitted to build three lines where the country's present needs would have been served by one. In Ontario and Quebec and in the prairie provinces and British Columbia the three corporations, by permission of Parliament, have built three railway systems, mapped out, not to spread settlement over the widest possible area, as would be done under a nationally conceived policy, but to those cities and districts already built up. When traffic outgrows the cost of operation the solution of the problem in the national interests would be a reduction in rates. The private corporation's solution is "competition"—that is, competition at the old rates. But it costs more—for the value of land taken for the right of way and city entrances is greater as population has increased—to build a second line to these places than the first, and then the third line comes in at another increase of cost. And after they are built who bears the annual cost of their operation? The whole country, including those remote communities whose struggle is a losing fight because they are deprived of the facilities of civilized life for which nevertheless they are still doomed to pay, through the enhanced cost of all

they buy and the toll which long haulage by wagon takes out of all they sell.

Let us illustrate this by the situation between Toronto and Montreal. Here we find three lines owned by three different companies, each with trains leaving each city about the same hours of the day, and for many miles running within a few hundred yards of each other; and although the Canadian Pacific and the Canadian Northern were each built to bring the blessing of "competition" to the people, the rates are slightly higher on all three lines on the average than when there was only the Grand Trunk running between the two cities. The result of this is that the whole Dominion pays three expropriated rights of way and the permanent waste of land, three sets of stations en route, three sets of employees of all classes—not to mention three sets of the adjuncts of express service owned by each company; and three terminals in Montreal, involving in the case of the Canadian Northern a needless tunnel through Mount Royal. This tunnel, cut through three miles of nearly solid rock, will cost between $3,500,000 and $5,000,000, while the terminal station, if built on the scale and plans now outlined, will cost another $1,500,000 to $2,000,000, not to speak of the cost of land for the city approaches. Thus, in the sole matter of entering Montreal with this third line, there will be an expense of at least $7,000,000, a share of which with its annual cost of maintenance will fall on the remotest hamlets of Canada, for that tunnel and terminal has become a portion of the annual cost of

the Canadian Northern system, and that corporation can recover that cost only by the taxes it is permitted to impose on the whole country. All such wasteful duplication was protested against by the Grand Trunk when the Canadian Pacific was reaching out for profits into the cities of Ontario. All that the Grand Trunk people urged against the process as a needless expense to the public was true, but with this qualification, that the Grand Trunk was protesting, not with the aim of national economy, but to preserve its own monopoly and the maintenance of its own revenues. If the nation had owned and operated the Grand Trunk, then when the traffic of the line from Montreal to Toronto outgrew the cost of maintaining it, the natural thing would have been either to reduce the rates or use the surplus to build branch lines to the struggling back districts. Meantime instead of running three sets of trains each way at about the same hours of the day, the same trains could have been run at different times in the 24 hours to the greater convenience of the public.

Is the duplication of lines a light matter? If any reader thinks so let him trace its effects. Returns published by the Bureau of Railway Economics, at Washington, show that, according to reported capital investment, the railways of the United States cost $71,000 per mile. On this basis, making only a small allowance for the tunnel and city approaches, the second and third lines between Montreal and Toronto have cost the country over $60,000,000. It is true the cost of the Canadian third line would

work out on the basis of capitalization at about $60,000 per mile, but the Canadian Northern is not a finished line in having permanent structures and standard equipment, but if we were to take the Canadian cost per mile the total would be over $54,000,000, allowing for tunnel and terminals. It cost in round numbers $148,000,000 to operate the railways of Canada in 1915, at which rate the cost of operating the second and third line to Montreal will be $3,435,000 a year. What, then, is the situation? While 850 miles of needless railway are maintained by the people, a stretch of territory north of Lake Ontario equal to some European states—at least as large as Belgium and Holland combined, which have normally a population of 12,000,000—lies waste for lack of transportation facilities, although it has fertile areas, much timber, many valuable water-powers and minerals.

Here is a trinity of evils—economic, political, and social—which are perpetuated wherever second and third lines are built between the same places to the deprivation of other regions. The Member of Parliament representing rural interests who permits this misuse of a public right is doing an injury to his own constituents, while the whole body of legislators who sanction it are consenting to the surrender of this primary right of self-government. But the social and moral evils created are of graver consequence. We have the congestion in large cities of population which ought to be spread over the whole country; and we have the settler baffled in his long struggle in the back settlements and driven by pov-

erty to send his uneducated offspring to the cities to aggravate the social evils. Investigators have recently examined the conditions in some of the districts of Ontario and Quebec referred to. One of the investigators, a professor in an Ontario university, and another a railway official, tell us of a situation as revolting to the moral senses as the atrocities of the war. After years of toil hundreds have had to abandon their homesteads, while the remnant live on under conditions of poverty, ignorance, and immorality that are a disgrace to the remotest Turkish vilayet. What else can be expected where a man is planted forty or fifty miles from a railway, with all the loss of time, wear of implements, and the isolation and other handicaps which rough roads and distance from railway service mean?

These manifold handicaps on rural development do not cease with the building of the unrequired roads; it is permanent and cumulative in its effects. See how these inequalities have been carried through the Canadian West and with what consequences? There, as in the east, the Grand Trunk Pacific and the Canadian Northern, aiming first at reaching those communities from whom taxes may be collected, have carried their taxing machinery thither, while vast stretches of country remain waste for want of access by rail and road. The late J. J. Hill well said that land without men is a desert. Resources to which there is no access remain as fallow as if they never existed; but with a cheerful confidence that railways would follow them everywhere, settlers attracted by the alluring booklets of the

railway companies flocked in and settled by the thousands at distances of twenty, thirty, forty, and even fifty miles from a railway. Vast numbers came from the western States, attracted by the cheapness of the virgin land. But after some years those who took up land at these distances from the railways found that because of the railway rates—which were higher than in their own country—and the cost of haulage, nearly everything they had to buy became more expensive, and the same causes left them with a less net surplus on all they produced, so that the advantage of cheap land was at once more than cancelled. This largely accounts for the fact that during the past year, according to official United States immigration statistics, over 100,000 people migrated back from Canada to the United States, while one-third of that number of persons came hence to Canada. These facts may as well be faced now, with their present consequences. as later on with worse consequences. Baron Shaughnessy, president of the Canadian Pacific, already has a partial vision of the scene. With one eye he beholds the paralysis that must lie on an isolated land, and he urges the government to see that no settlers are encouraged to go upon land more than a few miles from a railway, but the other eye is blind to the problem that yet remains after the railway has reached the settler's neighbourhood—how much toll is levied by that railway upon all that the farmer can produce each year. He does not give an opinion on the question, whether, if the Canadian Pacific had been operated by the

nation purely for public service and all the dividends that have been paid to private individuals had been returned to the western people in the form of reduced rates, while the Grand Trunk Pacific and Canadian Northern had been spread over other territory, the reflux of American settlers might have been stayed. His advice to the government is excellent as far as it goes, but it stops short of the problem that most affects the prosperity of the individual settler in the West.

How much more evenly wealth would have been distributed, and especially how much greater would have been the opportunities of rural life, if the railway and colonization policy had not been determined by the question of profits in operation, but by the ideal of service such as governs the postal policy, each reader may conceive by taking a map of Canada and after erasing all the existing railways, reconstructing an ideal railway system based on the simple requirements of its known natural resources. It is within the bounds of probability that ten times the present area of land would be in profitable use that now lies fallow for lack of communications.

Look then at the map of Australia, of New Zealand, of South Africa, of India, and the other British Dominions where state interests and not private advantages have governed the railway policy. If there are such advantages in "competition" on which private ownership grounds its need of duplicating railways to the same centres, why are there not three railway lines running from Cape-

town to Johannesburg, from Wellington to the other cities of New Zealand, from Melbourne and Sydney to their sister cities in Australia, and from Bombay to Benares in India? If, from the standpoint of the general interest—which is surely the proper view-point—such a proposition in those Dominions would be a wicked waste, by what transmutation does it become wise and sound in Canada?

CHAPTER XIX

The World Movement Towards State Ownership —Remarkable Changes in Public Opinion

Encompassed in almost every step of his daily life with the facts and the philosophy of private ownership, the average citizen of Canada and the United States—including many of the legislators who are his political guides—have little idea how far the rest of the world has travelled in advance of him in comprehending the actual relationship between himself and the railway.

Of sixty-five principal countries in the world having railways on a considerable scale, in how many are these railways operated, or owned and operated, by governments? The usual answer to this question is five to ten. A return laid before the British Parliament on this subject in 1911 shows there were then fifty out of the sixty-five. This was before the war brought the British railways under state operation, and the return did not recognize as separate entities the various British colonies, most of which carry on railways as public works. And yet it is a fact that in the matter of mileage more than one-half of the railways of the world are still under private ownership. This is because the United States, the last really great stronghold of private

ownership, has itself a far larger mileage than any other country. In a return for 1913 the United States Bureau of Railway Economics estimated the total railway mileage of the world at about 665,000 miles, of which the United States had 253,470 miles, or rather more than three-eighths of the whole. This movement towards state ownership runs parallel to the history of the world's post offices, but is more remarkable because public ownership of railways has marched to its present achievements from the single example of one little country, Belgium.

In this world-wide movement there are three features that will arrest the attention of the most casual student:

First, the slowness of the change in the past fifty years of railway history, and then the rapid swing of the movement since. In 1880 according to one return, the world's mileage showed only 10,000 miles under government ownership. Now there are, in round numbers, 255,000 miles under government ownership and operation, exclusive of the large total of military lines built since the war began, all of which are necessarily under government ownership. Of the four thousand miles of new road built in various countries outside of America in 1916 all are under government ownership.

The second feature of this movement is that since it has attained its momentum, there has been no backwash towards private ownership. It is a striking fact that there are only five cases in the world of even conditional abandonment of state

ownership. These are Cuba, Peru, Newfoundland, Guatemala, and Paraguay. The case of Peru, however, is qualified by a condition that at the end of a stated period the Peruvian government may exercise its option of resuming possession; and in the instance of Cuba it is interesting to learn that within the last few months the Cuban government has decided to appoint a commission to consider the purchase of the privately owned lines of the island. In the case of Newfoundland, the railways were owned by the government but constructed and operated by a company. After purchasing the lines from the colonial government, the company sought to make the purchase irrevocable by an advance cash payment of a million dollars, but there was such an outcry against such a perpetual alienation that public opinion forced the government to annul the contract and the million dollars was returned. The condition now is that at the end of fifty years the government of Newfoundland may resume possession of the railways.

A still more impressive feature of this is that state ownership has been brought about in countries of the most diverse forms of government, varieties of race, and conditions of people. It has been adopted under the absolutism of Turkey, in Russia under the autocracy, and in countries of the other extreme of popular government, such as the referendum-ruled country of Switzerland and the highly responsive democracies of Australasia. It has succeeded as well with the diversified races and peoples of India as with the unified and industrially trained

peoples of Europe. Its adoption in various parts of the British Empire is a splendid testimony to the discernment and the saving sense of British administrators when given the opportunity to decide matters solely in the interests of the people, unfettered by precedent.

There are twenty-three crown colonies and protectorates under administration by Great Britain, and of these no less than eighteen operate their railways under government ownership. These are: British Honduras, Ceylon, Cyprus, East African Protectorate, Gold Coast, Hong Kong, Federated Malay States, Jamaica, Johore, Malta, Mauritius, Northern Nigeria, Southern Nigeria, Rhodesia, Sierra Leone, Straits Settlements, Trinidad, and Uganda Protectorate. The only five which operate their railways by private companies are: Barbadoes, British Guiana, Nyassaland, Bechuanaland, and Labuan. Rhodesia is classed among the government owned, because that territory is administered by a Chartered Company, and the railway company is in effect a department of the Chartered Company. A small line in British North Borneo might be added to the state-administered list.

Of the self-governing British Dominions, Australia, New Zealand, and South Africa carry on all their main lines under government ownership. The principal railways of India are state-owned, and the private lines are subject to state policy to such an extent that the whole body of railways is essentially a state system.

There are various degrees and forms of public ownership and administration, such as those where the state owns and operates the roads, where they are privately owned but state-operated, and where they are state-owned but privately operated. Of 42 foreign countries reported on, 32 own and operate their railways wholly or in part. Of these 32 there are groups of countries where the private lines, though continuing to exist, are comparatively insignificant, others where the private lines form a larger minority, and again others where the private lines are still in the majority. The main fact which emerges from the records given in this return is the growth of state power over the railway systems of the world. The following are the only countries in the world in which the railways are in the sole ownership of private individuals or companies: Abyssinia, Bolivia, Guatemala, Salvador, Ecuador, Haiti, Luxemburg, Montenegro (27 miles), Paraguay, and Spain. The United States has been taken out of this list by the ownership of the Panama railway and the project of the railway system in Alaska; Uruguay has been removed from the same catalogue by the government scheme of light railways, and Greece has been taken out of the private line list by the events of the war.

Is Canada to remain in the list with Abyssinia, Salvador, Haiti, etc., or march with the other nations?

CHAPTER XX

The Great Example of a Little Nation—The Wonderful Record of the Belgian State Railways

There was one country in Europe which not only appreciated at the start the transformation which the modern railway would make in the people's daily life and social intercourse, but apprehended as by instinct the true relation of government to the new means of transport. Of this country and its immediate neighbour, Young, the historian, says: "In their devotion to the arts and industries of peace they have long set an example to the world as needful as the mighty struggle for freedom which is identified with their progress and with the advancement of humanity." This was Belgium, and the prompt decision of this brave little state to control and determine the laying out of its railway system was chiefly due to the insight of Leopold I., for whose statesmanship Queen Victoria had such a profound regard. Belgium was the first country in continental Europe to build railways and the first in the world to adopt state ownership. The results, both as regards the internal development of Belgium itself and its influence on the rest of the world, are so remarkable that as a matter of theory put into practice the case for state ownership can be fully

demonstrated by that country alone, though the world might not have profited by the example. But, as we have seen, Belgium has led nearly all nations to achieve self-government in the ownership of its roads.

In the same year in which the Liverpool and Manchester Railway was opened, Belgium was undergoing a political revolution and separated from Holland, and in the following year Leopold was chosen king. By this separation Belgium lost the mouths of the River Scheldt as an inlet and outlet for its commerce with Germany, by way of the Rhine through Holland, but king and people determined to compensate themselves by making the utmost use of the new means of transport. It was decided to distribute the advantages of the railways as equally and widely as possible, and that ideal has been adhered to ever since, with this outcome, that at the date of the German invasion no country in the world had so well distributed a system, or so many miles of line per square mile of territory, nor had any country such cheap fares or so flexible a system of passenger rates.

In order that the achievements of Belgium may be better understood, it may be mentioned that in the early years of railway construction there the rates were fixed too low to provide state capital for extensions, and it was decided to allow private companies the opportunity of building more lines. But experience proved that the private lines could not give efficient service at the moderate rates of the state lines. The manufacturers, merchants, agricul-

turists, and working people again and again importuned the government to buy up these private lines on one good and intelligible ground—that the people of districts which were ill-served by private lines at high rates of transportation were being crippled in the struggle, while communities in the districts served by the government lines were thriving. When at last it was proposed to take over the Grand Central, the chief of these private roads, a report was made to Parliament by Mr. Helleputte, a member who was a strong partisan of the corporations, who said: "It is not necessary to seek any other explanation of the favour with which the public has received the rumours that most of our private railways are going to be taken over by the state. A comparison between the transportation facilities offered to the public by the private railways on the one hand, and by the state railways on the other, is altogether to the advantage of the latter." Mr. Helleputte added that while the trains and stations were better equipped and the speed of trains greater on the state railways, the railway employees of the private lines were required to do more work at lower rates of pay, so that the change to state ownership proved to the advantage of the railway employees as well as the people at large.

When Belgium first took up the traffic problem, it was thought that commerce could be served by a large canal connecting the Scheldt with the Rhine, but this plan was superseded by the swifter method of a main line railway from the sea and the river Scheldt to the Rhine; and this plan developed into

the system which, radiating from Malines and from Brussels, reached eastward to the boundaries of Germany, north-east to the Dutch boundary, and south and west to France; and these lines were coordinated as far as possible with the canals, so that the cruder materials of commerce could be more cheaply transferred by water. Instead of railways being used as a power to destroy the service by water, the canals were used in the common interest to cheapen and amplify the service of the railways.

The railway problem as viewed by the Belgian Minister of Public Works in 1838 could be considered from three standpoints: First, as a public service making no claim to recover from the people the expense of the railway; second, as a financial asset, requiring a constant excess of receipts over expenses; third, as a service which should neither be a national charge or a fiscal expedient, but should be required to cover its expenses by its earnings. The third conception was the one adopted, and the law under which the railway system was planned specifically debarred the state from making and accumulating profits in the operation of the system. Evidently the statesmen of Belgium had not been blind to the dangers that were looming up in other countries for the House of Representatives in its report on railway policy set forth that it was "undesirable to abandon the undertaking to the caprice and greed of private interests."

Belgium did not prohibit a private company from building—in fact at one period private lines were encouraged—but they were generally confined

to branch lines. In the first eight years 559 kilometres of double track state lines were built involving twenty tunnels, and while over 700 kilometres of private lines were authorized only ten were built. Between 1840 and 1870 a number of concessions were granted to private lines, but for the reasons stated the government was at the latter period compelled by the people, who had had experience of both systems, to repurchase the main property that had been alienated.

It is not to be imagined that the Belgian railways had achieved perfection or that they were free from criticism by the people. Taking advantage of these criticisms, various attempts have been made by private capitalists to obtain possession, but public opinion would not tolerate the surrender of the railways to private persons. Such surrender, in the words of a recent Prime Minister, "would provoke a revolution."

One of the features of the railways of Belgium springing naturally out of the completeness of state control is the system of light railways of narrow gauge which serve as feeder roads to the main lines. These are owned by co-operation of the communes (municipalities) and the provinces, with the national government, and, as in the case of the main lines, are conducted with the aim of mutual service rather than profit. At the outbreak of war there was a network of these light railways, and their effect on the general prosperity is beyond question, for they have transformed many districts where land could not previously be used or industries flourish. Like the

canals, they have helped, not hindered, the traffic of the main lines.

The situation at the beginning of the war was that of standard gauge lines, Belgium had 2,932 miles all but 217 of which were owned by the state. Of railways of all kinds including the light lines, Belgium has 5,284 miles, or 47.2 miles of line per 100 square miles of territory. Great Britain, the next in comparison, has less than 20 miles of line per 100 square miles. In 1912 the Belgian railways carried more tons of freight per mile of line and earned a greater freight revenue than any country in the world. In addition to giving such cheap freight rates, the government holds itself responsible for damage or loss of goods in transit, and for any unreasonable delay in delivery.

They also carried more passengers per mile than the railways of any other country, the figures being about 1,046,614 passengers per mile of line, or one and a half times more than Japan, and ten times that of the United States. And yet, though the passenger rates are so wonderfully cheap, the revenue per mile from this source is exceeded only by that of Great Britain. The average passenger fare in Belgium is a shade over seven-tenths of a cent per mile (we speak of things as they were just before the war). There are three classes of fares, the highest being 3 cents a mile, the second 2 cents, and the third 1-2 cent. The larger percentage of people, however, use special tickets, and there are many forms of special reductions, such as for school children, travelling salesmen, etc., and special trip tickets,

with rates according to distance and number of trips. For instance the twelve-trip tickets, intended for a week's use between farm and city, or to factory and home, enable the holder to travel daily a distance of thirty miles (60 m. for the round trip) at forty-five cents for the whole week, or about an eighth of a cent a mile. Season tickets are also used allowing the holder to travel at will for five to fifteen days, the price of the fifteen day ticket being $6.50. That is, one might travel all over Belgium, night and day, for fifteen days for $6.50. Then there are very cheap combined rail and water rates. Belgium was the first country in the world to introduce season tickets, and workmen's cheap tickets were adopted as early as 1869. These cheap rates have secured for the people what no other country has accomplished in relieving the congestion of cities, by enabling urban populations to get the benefit of rural life. To sum up, the Belgian policy is to make rates low and public privileges so generous as to promote the freest flow of commerce, and the result of the purchase of the private main line railways was a general reduction of rates. By this policy, the Belgian railway system has eclipsed both Europe and America for volume of traffic, cheapness of rates, economy of operation, and efficiency of service. It has a smaller annual average of accidents than any country in Europe, and in this connection it should be noted that the government has no difficulty in getting and keeping labour for the railways.

It is not alone what they have done to reduce the cost of living and develop internal intercourse

that made the Belgian railways famous and enabled the country to support a denser population than any nation in Europe, but what they have accomplished in attracting and holding international trade. It was by the low rates and good service made possible under state ownership, and by no other means, that Antwerp has become, since the railway era, one of the most important seaports in the world. The prosperity of Antwerp was such that it excited the covetousness of Germany, and the lust for its trade was no doubt one of the contributing causes of the war. The creation of the artificial seaport of Zeebrugge on the sand dunes of the Belgian coast was also made possible by the low railway and canal rates.

CHAPTER XXI

Railways in Various Countries

The Case of Switzerland

The case of Switzerland is instructive as a proof of the futility of carrying on a national function by the divided counsels of sectional control. Private ownership was found unsatisfactory, and government regulation was relied on and experimented with for nearly half a century. The cantons of Switzerland, corresponding to the states and provinces in America, were tenacious of their "state rights," but railway regulation by these authorities made private ownership still more unsatisfactory, because some of the cantonal governments failed to enforce their own regulations, and the regulations themselves differed, as happened under the State Commissions of the United States. The result was chaos, and by 1871 it was seen that unified control was the only hope, and the law of 1872 transferring railway regulations from the cantonal to the federal government brought immediate improvement. The success of federal control brought a demand for public ownership as well as control, and a referendum taken in 1897 resulted in a vote of two to one for nationalization.

The results of nationalizing the railways of Switzerland are thus reported on in a state paper laid

before the British House of Commons: "The financial results of the purchase of the railways are described as satisfactory. Till the present time the revenue has been sufficient (1st) to cover working expenses, (2nd) to pay interest on the purchase money, and (3rd) to pay for sinking fund on the debt incurred in the purchase of the railways. Apart from the financial question, the purchase of the railways has been an unqualified success. Both passenger and goods rates have been reduced, and the railway service has improved."

The Case of Italy

When Italy was constituted a kingdom in 1860, it had 2,189 kilometres of railway, all in private hands. In the sixties, three of the four main lines were taken over by the state, but such was the influence of the companies in Parliament that the roads were leased to companies for sixty years with the right of repurchase by the state at the end of any twenty-year period. The terms of lease were distinctly against the nation and in favour of the companies. Private management, nevertheless, proved unsatisfactory. In anticipation of state acquisition, the roads were allowed to deteriorate, and when the main systems were taken over finally in 1905, it was found that it would be necessary to spend £72,000,000 on reorganization and re-equipment, and in the meantime the dilapidation which had been caused by the neglect of the companies was used as an argument for surrendering the roads again into private hands. Nationalization was

brought about under peculiar circumstances. Owing to increasing complaints of the wretched service of the companies, a royal commission was appointed, and this commission presented a mass of evidence of the wrongs suffered by the Italian people under twenty years of company management; yet, after giving all these damning facts the commission ended by recommending a renewal of these conditions for another period of twenty years. It was this commission which, in view of what it had disclosed, gave currency to the adage: "Politics corrupt the railways and railways corrupt politics." It would appear that some members of this commission were guided by the example of Great Britain, where the theory of the advantage of leaving everything to private enterprise then prevailed. At all events public indignation rose against private management, and a great railway strike brought matters to a climax by a political crisis, which ended the dominion of the private railway company over people and Parliament.

When the railways of Italy were under company control the delays and losses were so numerous that an association of business men was formed, called the "Railway Reclamation Company," whose special purpose was to issue claims against the companies for such losses. The association was quite a success at first, but when the railways of Italy were taken over by the government the improvements in management were such that the "reclamation" business diminished until the association was voluntarily dissolved. To ascertain the facts, Emil Davies,

chairman of the Railway Nationalization Association of Great Britain, wrote to Milan, and received the following reply: "The reason for the formation of the Reclamation Company was owing to delay in delivering the goods, also the bad condition of same when delivered, because the companies did not engage sufficient employees or have enough wagons (cars). The general opinion is that they (the railways) are much improved, both for passenger and goods service, and that is my opinion. Railway employees are now better paid and do not work so many hours as before, under the companies."

The Experiments of France

In France railway building commenced in 1833, but the policy of state operation did not begin till 1878. In the meantime, though the location of the lines was scientifically planned, the unscientific method was adopted of having the permanent ways, the bridges, and the stations owned by the government, and the rails and rolling stock, with control of the staffs, under private ownership. At the same time the state granted subsidies, and to make the responsibility sit still lighter on the companies guaranteed interest at nearly 4 3-4 per cent. on all the capital put into the railways by private companies. Concessions were granted for 99 years, but in case a railway was taken over the company was given the right to demand a price, not according to the actual value and earning power, but according to the amount spent on it. The relations between the state and the companies were governed by a set of regu-

lations and conventions, and the system was further complicated, when a state policy was adopted, by an elaborate division of control into seven departments according to geographical position and the subdivisions of the general railway authority into a "commercial control" and a "financial control." It is not surprising to find that such a system of divided responsibility got the state into financial difficulties, which have been freely cited as an argument against state ownership. These difficulties were aggravated by the fact that because of the number of small investors in such enterprises in France, absurdly high valuations were allowed as a form of charity or generosity. This generosity to a few was bestowed at the cost of the many, and the mistake is pregnant with warning to those in this country who would enable the railway promoter to grasp millions under the cloak of protection to the small investor, the widow and the orphan.

Pierre Leroy-Beaulieu, a member of the Chamber of Deputies, indicates the reforms that are needed to put the railways of France on a smooth working basis. After explaining that the poor financial results are due to the causes mentioned and to the unwise guarantees of interest pending purchase of the private lines, he states that while a company cannot build a new line or even augment its rolling stock without state authority the state itself cannot compel the building of a new line. A change in rates cannot be made without the sanction of the Minister of Public Works, yet the Minister himself cannot impose a change upon a company. All chief

railway officials change at the will of the minister, and the whole system is cramped by red tape and want of consideration for the commercial needs. In spite of clumsy legislation and clumsier administrative methods the railways of France have some excellent features, and without doubt the experience of the war will bring the sweeping reforms which the French people are capable of when brought to the test. Meantime the case of France shows it is possible for national control to fail in putting into practice its own ideals.

It must be remembered that the legislative and administrative difficulties of French railways were an inheritance transmitted from the period when the private companies were able to shape the laws of France. What Howe foresaw of the surrender of public rights in Canada, Lamartine foresaw in France. That scholar and statesman, speaking in the Chamber of Deputies in 1838, said: "What will be our condition when, according to your imprudent system, you shall have constituted into a unified interest, with industrial and financial corporations, the innumerable stockholders of the five or six billions which the organization of your railways will place in the hands of these companies? You, the partisans of the liberty and enfranchisement of the masses—you, who have overthrown feudalism and its tolls, its privileges of the past, and its boundaries —you are about to allow the railways to fetter the people and divide up the country among a new feudality. Never a government, never a nation has constituted outside of itself a more oppressive

money power, a more menacing and encroaching political power, than you are going to create in delivering up your soil, your administration, and the five or six billions of securities to your private railway companies. I prophesy with certainty that, if you do this, they will be masters of the country in ten years."

Railway Development in Germany

In Germany the building of railways, as far as Prussia was concerned, was governed by the law of 1838 which gave the right to the government to purchase any railway at the end of thirty years from the opening of the road, at a price equal to twenty-five times the average dividends of the last preceding five years. About 1850 the government, not satisfied with the progress of companies, began building railways, but it was not till the close of the Franco-German war that, under the hand of Bismarck, state control of railway development was inaugurated. When the federation which was made from the states of the German Empire was constituted in 1871, the various states bound themselves to accept the railways as a unit, and the existing regulations of Prussia were adopted by all the states, the private companies also being required to accept their regulations. It has been the policy of Germany to make canal transport fit into railway transport and to harmonize the rates of the two in order to develop foreign trade. This would tend to make very low rates on certain commodities and in certain directions. While deductions from a compari-

son of rates and profits with other countries would therefore be misleading, the fact remains that the railways of Prussia and other German states have been made a source of profit to such an extent that new lines have been largely financed out of the profits of the lines. This has not only been the case, but in a recent year three billion marks were taken from the railway surplus of Prussia for use for other state purposes. Such a surplus could have been used either for railway extensions or the cost of transportation reduced to the extent of the three billion marks. And yet it is not apparent from the debates preliminary to state acquisition that there was any intention of using the railway as a means of raising taxes. It has been said that the railways of Germany were designed for military purposes and as a means of aggression. No doubt the railway system was adapted, and to a certain extent converted, to strategical uses, but the fact that most of the early lines were built by private companies shows that in the main the foundations were laid in the needs of internal commerce. Bismarck, however, was well aware how a private railway company might for its own purposes thwart a national purpose, whether that purpose might be benevolent or malevolent to another nation. When framing the imperial railway policy he said: "It is impossible to carry out a customs tariff policy independent of a railway tariff policy," which meant that a railway company might break through any wall which a customs tariff might erect. What helped to bring about state ownership in Prussia was that the in-

dustrial west of the state had advanced beyond the agricultural east. The east had not the private capital to develop railways and agriculture and the state was brought to the alternative of carrying on its own lines at a loss, or taking over the whole main line system. The change in Germany had one noteworthy effect. While the railways were in the hands of private companies the canals were neglected, as in Great Britain. When the state took control the canals were enlarged and their traffic vastly developed to co-operate with the railways, and this development continued till the canal system of northern Germany became the most extensive in Europe. Before state acquisition there were 600 different railway tariffs, and upon making the change it was discovered (in 1886) that eighty secret tariffs still existed involving unfair discriminations in claims, demurrage, storage, free passes, etc. These discriminations were swept away, and the general rates reduced as a result of unification, and standardization of railway work resulted from it.

Austro-Hungarian Railways

Austria-Hungary started to nationalize railways at a much later date than Germany, and a peculiarity of the railway policy of this dual monarchy is the large mileage of roads still owned by private companies but operated by the state. That is, state operation is almost complete, state ownership only partial. The position at the outbreak of war was that three-quarters of the railways of Austria-Hungary were owned or worked by the government. The

noticeable effect of state control has been the lowering of rates, and the more equal distribution of lines throughout the country. Passenger rates are arranged on the zone system, the fare per mile being lowered as the distance increases. In the early days of railways liberal subsidies were given to the private railways, but so notoriously bad was the character of construction that when one man wanted to insult another he would not use the term "liar" or "blackguard" but called him a "constructor" (the equivalent of "railway contractor"). The result of such work was the same as with private construction in some other countries. There was a panic and commercial prostration, and then the state, after having sold out some of its own lines at half their cost, had to re-assert its authority and return to state ownership, which in the case of Hungary had never been wholly abandoned.

Scandinavia

The Scandinavian countries were slow to adopt railways, and the beginnings in Norway, Sweden, and Denmark were under private ownership. In each case private construction, looking to sectional traffic and personal profit, failed to fulfil the general expectations and the state took charge. The railways of Sweden help to pay interest on the public debt, leaving a net surplus, and the surplus on the Norwegian railways is used to ensure the cost of building new lines. There is still a greater mileage of private than of state lines in Sweden. The fares are cheap in Denmark and its roads have a

high reputation for safety and good management. All the main lines are under state ownership in these three countries, but a small mileage of branch lines still remains in private hands. In the case of Denmark state construction was abandoned in 1879, and subsidies were given to private lines, the government retaining a minor share of stock; but this was found to be unsatisfactory and the government repurchased the lines.

Russia

The railways of Russia are chiefly state owned, but private companies have done a considerable share of building. The railway policy of Russia has not looked to profit in operation, commerce and the unification of the country being the main purposes. A striking example of this has been the Trans-Siberian railway, opened in 1905, with a stretch of 6,677 miles, connecting the capital with the Sea of Japan and giving in Asia one-third of the mileage of that continent. Like Scandinavia, Russia was late in railway development, one-half of its present mileage being built within the past twenty years. Of over 40,000 miles in Russia at the opening of hostilities, about two-thirds are state-owned. The private lines are obliged to conform to the state railways in their rates and general regulations, and an interesting peculiarity of their operations is that their managers are nominated by the Minister of Ways and Communications from candidates offered by the companies. When appointed they rank as government officials, but without the right to pen-

sions. The companies, however, are required by law to establish pension systems of their own. A certain percentage of the capital of private railways is guaranteed by the state, but concessions to companies are granted only for fixed periods, and at the end of that period, usually 81 years, the property reverts to the state without compensation. The war has caused Russia to appreciate the immense advantage of co-ordinated railways and she has been quick to learn the lesson. Railway building is now going on at a tremendous pace and the present programme calls for the construction of 65 new lines with a total length of over 20,000 miles, under state control, to be completed in ten years.

Japan's Unique Plan of Nationalization

The people of Japan were for a long time violently opposed to railways, but when a rice famine occurred in 1869 with great loss of life, Sir Harry Parkes, the British Ambassador, showed how life could be saved by a railway if another such calamity occurred, and in 1872, in the face of fierce opposition, an 18-mile line, built by the government, was opened by the Mikado from Tokyo to Yokohama. The working of the road gained converts, and in a few years the Japanese were not only building their own railways, but also making their own engines and rolling stock and even rolling their own steel rails. For a time private companies went ahead of the government, but the war with Russia taught Japan that to get the best results from its railways they must be unified under national con-

trol, and in 1906 seventeen of the chief private lines were expropriated on a plan which kept in view the inherent rights of the people to their means of intercourse. The nominal capital of the companies was not taken as a basis of price, but an investigation of the actual physical value was made, account being taken of the profits of past years, but in no case was the price to exceed the cost of construction. The actual terms were these: the amount to be paid to each company was to be "a sum equal to twenty times the amount produced by multiplying the cost of construction at the date of purchase by the average ratio of profit to cost of construction" during the three preceding years, added to "the sum obtained by converting the actual cost of articles in store, at current prices, into public loan bonds at face value, except in the case of articles purchased out of loans." The government also passed a law for a system of light feeder lines, as in Belgium and India, and the present situation is that the government owns about 5,500 miles of railway and private companies only 294 miles of standard gauge lines, and 232 miles of light railways.

In taking over the private railways, the hotels and other subsidiary interests were taken over, and travellers from America and Europe admit that the government railway hotels of Japan are admirably conducted at very modest charges. In the scheme of nationalization the railway accounts have been kept in a separate budget. The railway bonds bore interest at five per cent., and so successful have been the operations that the expected profits have been

more than attained. In 1911 the railway profits had reached 20,970,742 yen, and in the past year they have been reckoned at 31,520,000 yen, which will cover an appropriation of ten million yen for new extensions and a large sum for improvements to the system. In his work, *Japan, the New World Power*, Richard P. Porter, an avowed opponent of state ownership, confesses that Japan has "carried out a policy of nationalization on a plan of unexampled economy and efficiency." The railways of South Manchuria, which are controlled by Japan and under state direction, earn a guarantee of 6 per cent.

Railways in China

In China in 1912 the length of lines under government ownership was 3,110 miles. It is now about 6,000, and 2,300 miles under construction. This includes the privately-owned lines, which make about 2,800. In this private mileage the Chinese Eastern Railway and the South Manchurian Railway were officially reckoned; but, as is now known, the Eastern Chinese Railway is in territory that is now in fact Russian, and South Manchuria is under Japanese control. As a matter of fact both these railways are in government direction, so that the railway system of China proper is in the main a state-owned system, and the provincial companies are being steadily pressed to come under one control, both as to future building and operation.

An imperial edict of May, 1911, ordered that all trunk lines under construction or projected should be taken over by the government, while branch lines

were "to be allowed to be undertaken by the people according to their ability." The political unrest that was abroad came to a head in October of the same year by the revolution, and the railway policy of China, on which the revolution had a direct effect, cannot be said to be settled as yet. As regards the financial operations of Chinese railways it is interesting to note that the Peking-Mukden Railway, one of the state railways built by Anglo-Chinese capital, had in 1912 an income of $13,183,638 with expenses of only $3,820,657, which beats the world's record of profits, whether on state-owned or private lines. With regard to the development of means of communication two economic facts will illustrate the vast reach of Chinese civilization. The first is that the Chinese were first to use artificial water channels, the Grand Canal of China having been built in the sixth century before Christ, and they were the last to take the postal service out of private hands, the imperial Chinese postal system having been established throughout the country only in 1896.

Indian Railways

The foundations of the railways of India were laid in state ownership, but as the systems grew there was developed a combination by which the main lines were maintained in the control of the central government and branch lines and light feeder lines of narrow gauge in control of the various Indian states and territories, private companies also being allowed a share in the work. In a number of cases railways were constructed by private

companies and then purchased by the state, the purchase policy having been inaugurated in 1868 by the acquisition of the Calcutta and South-Eastern, and continued up till now, the most recent important transfer being the Indian Midland. There are three gauges in the railways of India, the broad gauge of 5 feet 6 inches, the metre gauge of 3 feet 3 3-8 inches, and the narrow gauges of 2 feet or 2 feet 6 inches, known as mountain lines. The first class forms what may be called the imperial or transcontinental system now in evolution. These are worked and owned by the Indian government, or else owned by the government but operated by boards whose directors are partly or wholly in England. One is owned by a native state. Three of these roads have also some mileage of metre gauge. The mountain lines are built under conditions laid down by the state, and the state takes power to possess these roads and convert them to broader gauge. The whole railway system is under a railway board with which the boards of directors of companies co-operate through an official agent. The railway board is an Indian body, and the financing is done through the government of India.

The report on Indian railways for 1914-15 shows that there are 35,285 miles of railway, of which 17,827 are broad gauge, 14,552 metre gauge, 2,402 of 2 feet 6 inches, and 504 of 2 feet. The net earnings of all the Indian railways range from 4.33 per cent. to 6.77 per cent. on the capital invested, the latter figure being reached in 1912. In point of safety the railways of India surpass the world. In

1915, the number killed was 16, or one fatal accident for each 28,190,000 persons travelling. In 1910 the fatal accidents were only three, or about one in a hundred and twenty million. The average passenger rates are four-tenths of a cent per mile, and the average freight rates seven-tenths of a cent per ton per mile.

The South African System

In South Africa the first champion of responsible government—J. C. Molteno—was also the first champion of government ownership of railways. Mr. Molteno saw that self-government could not be real until there was complete public control of the public highways. He had previously opposed construction work by government, but only because of the character of the men who had been in power. He became the first Premier under responsible government in Cape Colony in 1872, and one of his first moves was the purchase of the pioneer railway—the Cape Town-Wellington line, which he carried through in the same year in spite of the strongest opposition from private railway influences in the Cape Assembly. This settled the principle of railway ownership, not alone for Cape Colony, but for the Orange Free State, the Transvaal, and Natal. The effect of Molteno's policy in raising the standards of political life in the Cape was witnessed to by the late Hon. J. X. Merriman, one of the keenest critics of public affairs in South Africa, who wrote years afterwards of the railway policy: "It is not too much to say that no one else could have hoped

to get such a measure through a Parliament composed largely of small landowners in a country divided by local jealousies and having just emerged from a period of financial distress which left them extremely suspicious of any new schemes which proposed to add to the burdens of the people. That railways would have come is certain, but they came through him a generation before their time. And he carried out his railway schemes at a time when colonial borrowing was not so much in favour in the English money market." Along with railway building a system of government telegraphs was established, which also led the way for government telegraphs in the neighbouring colonies. Both were so well administered that much new work was paid for out of the net revenues of the existing lines. The reasons for state administration have been set forth from the South African view in one of the handbooks as follows: "The administrative work of government which, in any country, is its largest business, depends on cheap and regular communication. Another motive for government control of communications is the desire to protect itself and its citizens against monopoly, as private monopolists are apt to exact extortionate charges and become too powerful a subject of the state. In new countries like South Africa government railways are able to develop vast and thinly populated areas where immediate commercial returns would not be expected and private investors would not go, and by government administration the whole traffic of a district is handled by one system, and therefore

at a less cost. That this theory has been proved to be sound in practice is to be seen by a map of these colonies, where there will be found no costly duplications of lines between any two cities or traffic areas; and the history of railway development shows none of those great scandals which in other countries have been due to the usurpation of government functions by private individuals. Though the colonial governments have not made profits their main object, yet the financial results have been very satisfactory, the returns on the capital appropriated being in some years over seven per cent. The passenger earnings for the three years ending 1912 increased 32 per cent., the net total earnings in 1912 after allowing £1,866,000 for interest charges being £4,373,000. The miles of line open in 1912 were 7,847, and when the lines under construction are finished the total length will be 9,318, of which 560 miles are under private ownership. By the Act of Union of the South African colonies the railways of each colony and state were placed under one administration, the government lines being carried on by a Board of three Railway Commissioners, with the Minister of Railways acting as chairman. Hitherto the net profits of the railways have been frequently turned into the general revenue, but by the provisions of the Union Constitution these surpluses are to be devoted to a reduction of freight and passenger rates. The war is having a far reaching effect on railway administration over the whole of the African continent, and when peace comes there will be a wide extension of state ownership. German

South West Africa, now under British control, has 1,319 miles of railway, owned by the German government before the war, and now carried on as an adjunct to the government railways of the Union, the government also taking over 315 miles of private narrow gauge lines.[1] The lines in German East Africa are being state-managed as that territory is being subdued and these two systems with those of the other two German African colonies will add over 4,000 miles to the government system of the continent. The railways of Egypt being already government-owned, the completion of the Cape-to-Cairo line, the railway backbone of Africa, will put public ownership in practical control of all Africa.

Australian Railways

By a happy misfortune the colonies that now comprise the great Commonwealth of Australia were not sufficiently advanced in wealth and numbers in the first years of the railway era to attract the franchise hunter, and they built their first railways because the colonies only could furnish the credit. The first Australian railway was opened in 1855, but because of the scattered population and the difficulty of borrowing money little progress was made for twenty years. There was, however, as in the case of New Zealand and South Africa, a clear

1 Since the above was written returns of the "South African Railways and Harbours" to December, 1915, are to hand, showing that there were then operated in South-West Africa, 1,404 miles of lines, of which 328 miles were of 2 ft. gauge and the balance 3 ft. 6 in. gauge, showing a considerable increase since the British occupation of German S. W. Africa. In the Union of South Africa the mileage in operation at the same date was 8,924 miles, an increase of 438 miles over 1914. The average cost of all the railways of the South African Union was £9,803 per mile. The total net surplus of earnings was £4,335,248, yielding in 1915 a profit of nearly 5 per cent. The standard gauge of South African Railways is 3 ft. 6 in.

perception of what was involved in losing public control of the country's means of intercourse, and the principle of public ownership became the accepted policy with the city tramway systems as well as the railways of every colony. The general conviction was expressed in an issue of the *Commonwealth Year Book*: "The anticipated advantage in building these lines has been the ultimate settlement of the country rather than the direct returns from the railways themselves, and the policy of the state governments has been to use the railway systems of the Commonwealth for the development of the country's resources to the maximum extent consistent with the direct payment of the cost of working and interest charges." Though state ownership was the aim of each state, private railway companies were not excluded, and it is a significant fact that the diversity of gauge which is the only physical handicap to Australian railways to-day, was due to the action of two of these private companies in the formative days of railway building. How this came about is recorded in the current issue of the *Year Book of Australia*. This has left Australia with three gauges on the main lines—5 feet 3 inches in Victoria and part of South Australia, 4 feet 8 1-2 inches in New South Wales, 3 feet 6 inches in Queensland, and the same in Western Australia and Tasmania. Besides these there are some light railways of 2 feet and 2 feet 6 inch gauges. In the early days, when the chief settlements were scattered along the sea coast of the island continent and intercolonial traffic was largely carried on by water, the diversity of gauge was not

felt, but now that Australia is one Commonwealth the breaks of gauge are a serious hindrance, and it is only a question of time when a standard will be agreed on by the different states, and when the control of at least the main line railways will be brought under the federal authority. This will come about the more naturally as the two great transcontinental trunk lines—one linking the eastern tier of states with Western Australia and now in course of construction, and the other projected to cross the centre of the continent from the south to the northern sea coast at Port Darwin—are of common interest and utility. Conferences have already been held on unification of gauge, and at the last conference in 1914 the matter was referred to the new Interstate Commission for report as to costs and the share of such cost to each state. The mileage of Australian railways, state and private, in 1916 was about 22,800 miles. In 1914 there was one mile of line to each 252 inhabitants. There are 2,197 miles of privately owned railways, but the greater proportion of these have been built not for public service in freight and passengers, but by private individuals and companies for the purpose of hauling timber, coal, ores, stone, etc., and are more of the character of tramways. As the methods of presenting statistics in the various states are not uniform, it is not possible to give exact comparisons with other countries as a whole, but general results are clear enough. Although the deliberate policy of Australia was public service and not operating profits, there has been a net surplus varying from 3 per cent. to 4.43 per

cent. on capital cost. The average cost of railway per mile of line open has been reduced from £24,561 in the period of 1855-72 to £9,614 in the period of 1903-12. Passenger, freight, and parcel (express) rates differ in each state. The average first-class passenger rates are given officially in sterling at 1.78d. per mile for a journey up to 50 miles, and 1.77d. for a journey up to 500 miles. Second-class rates average 1.12d. per mile up to 50 miles and 1.10d. per mile up to 500 miles. This is for a single trip, the return fare bringing the rate down to a penny a mile second-class. These are ordinary rates, but there are reduced rates for working men, school pupils, and others, and special rates from cities to suburbs; so that while the general cost of living is normally higher than in Canada, the cost of travel is less. If the reader will look at a map of Australia he will find that the people of that Commonwealth, regarding the railway from its aspect of public service, have not three systems of railway between Adelaide, Melbourne, Sydney, and Brisbane, but have one trunk line with lateral branches opening up the interior regions. The combined population of those four cities exceeds the combined population of Montreal, Ottawa, Quebec, and Toronto by about 300,000, yet the "efficiency" of private railway control in Canada requires three lines between those Canadian cities where one serves in Australia.

New Zealand Railways

The ownership of railways by the government has been adopted in the Dominion of New Zealand

for the same general reasons as in Australia and South Africa. To quote the words of the official *Year Book*: "The railways of New Zealand have been looked upon more as an adjunct to the settlement of the country and the development of its natural resources than as an investment from which large profits should directly accrue." For many years a profit of 3 per cent. was regarded as sufficient, and any excess over this percentage was followed by a reduction in passenger and freight rates. In 1911, however, a profit of 4 per cent. was taken. In 1914 New Zealand had 2,917 miles of railway, or one mile per 375 white inhabitants. The mileage under construction will bring the total up to over 3,000 miles, of which only 164 miles are privately owned, and these are practically all tramways used for haulage of material in private industries. The New Zealand railways are 3 feet 6 inch gauge. The total capital cost of the state railways is a little over £36,133,000, or about £12,000 per mile. This is considered a very low cost considering the mountainous nature of the country and the irregular contour of the islands. There were some remarkable engineering obstacles overcome in the construction, and railway builders have stated that the physical conditions are without a parallel in any country. Owing to the straggling settlements there were only 46 miles in operation by 1870, although the first line of seventeen miles had been opened in 1860 between Christchurch and Lyttleton. In 1876 the provincial administrations were abolished, and the railways were transferred to the new central government.

The New Zealand railways are in the hands of three Commissioners and are free from political party control, though of course subject to Parliament. The work of the Commissioners is relieved by a Board of Appeal created to hear labour disputes and other disputes arising out of railway operation. Passenger fares average 2 1-2 d. first class and 1 2-3 d. second class, but commutation tickets are issued as low as 7-8d. first class and 1-2d., or 1 cent a mile, second class. One writer on the history of New Zealand gives the opinion that "as private undertakings are to a great extent controlled by the expectation of immediate returns, there is little doubt that had the building of railways been left to private enterprise the colony would not at this date have been so well supplied with means of communication."

Whatever the defects of the system the people of New Zealand would not on any account yield up to a private corporation either the ownership or administration of their high roads. This is clear from the statement of Sir Joseph Ward, the Premier, who in giving evidence before the Irish Railways Commission in 1907 said: "The smallest man in the country is able to obtain the same rate for his goods as the largest user of the railway. There was a return fare at a single rate over all the railways. We carry the children free of charge to and from the nearest school. If we had not adopted that policy we should have had to build the schools closer together. They believed in New Zealand that no one could afford to take as little out of the railways as the state. They preferred to keep low rates for the benefit of the

producers and the traveling public rather than keep up high rates and retard the development of the country. In his opinion nothing had done more to make New Zealand prosperous than an efficient system of railways affording cheap rates to the people.

The Philippines and South America

The railways of the Philippine Islands have just been taken over by the government as the first experiment of this kind under the suzerainty of the United States. They are calculated to earn a guarantee of four per cent.

The railways in South America are of comparatively recent date. In some cases they began with private ownership, in others with state ownership. In some instances there has been a combination of state ownership with private operation under leases. In the case of Brazil the majority of mileage is under federal state ownership and operation, but about a third of the total of ten thousand miles has been built by the different states of the Brazilian Union, some of which operate the lines through private companies. Private schemes are now being pushed for a grand continental trunk line from the Panama canal zone to the foot of the continent. The effect of such an enterprise will be to co-ordinate the railways of the various states and the natural tendency of such co-ordination will be to unify the systems of management and bring all the state systems more under public control and finally to eliminate the element of private profit from all.

CHAPTER XXII

The War as an Argument for State Control

The events of the present war will impress the least thoughtful of us with the commanding influence of the railway on the organized life of a nation; and it will become an accepted truism that not only this tremendous conflict but every war since the American Civil War has been determined by the railway as the instrument for moving and maintaining armed forces. Much instructive information has been given by E. A. Pratt in a work entitled *Rise of Rail Power in War and Conquest*, published in 1915. The author has written a good deal on railway questions and for us his evidence is the more illuminating as he is a partisan for private ownership. He shows, what the world knows, that the railway system of Germany was developed, if not originally laid out, as much for purposes of war as for peace. At the outset of railway construction German generals were greatly impressed with the fact that a British regiment in 1830 was conveyed over the Liverpool and Manchester Railway in two hours, a distance—34 miles —that would have taken them two days on foot. With a wider experience Von Moltke was able to say: "Our general staff is so much persuaded of the advantages of obtaining the initiative at the outset of war that it prefers to con-

struct railways rather than forts." The troubles, mistakes, and losses in the Civil War, the Franco-Prussian War of 1870, the Russo-Japanese and other wars since the railway era were chiefly due to the lack of mutual understanding and co-operation between those operating the railways and the military forces, as Mr. Pratt shows by many instances. These troubles were due to a lack of unity of control which could secure these advantages: 1—The control of rail transport as a whole; 2—The supervision of supplies to be forwarded; 3—The proper distribution and use of rolling stock; 4—The prompt unloading and return of cars; 5—The harmonious linking of the military and railway management.

Taking these factors of success, the author shows that Russia lost the Japanese War because her transport system over the Siberian railway failed to do its work; and it was held by the writer of a military work, *Principles of Strategy,* by Bigelow—that "without railways the siege of Paris would have been impossible, because the old idea of living on the country invaded cannot be carried out."

All through the work one is impressed with the enormous advantage possessed by Germany and her ally in having their railways under one control and operated for one main purpose in union with the work of the armies. And what Germany did her opponents, including Great Britain, had to do also to obtain a like co-ordination of military and transportation forces. Now the question for Mr. Pratt and other advocates of private control to answer is

this: If all this has shown the over-mastering advantages of a unified control of railways in the hands of a nation for the necessities of war, why will not national control be equally of advantage for the necessities of peace?

And if ownership by private companies on the competitive basis and each operating independently is theoretically sound why did Great Britain abandon it when the war came, and why has not some one of the European nations reverted to the method of obtaining the increased efficiency boasted of?

CHAPTER XXIII

Railway Rule in the British Parliament—The War Brings the Downfall of Company Domination

It took the British people a long time, and the governing bodies still longer, to learn that competition as a means of controlling rates and reducing the cost of transportation was ineffective. Before the railway operators had gained a wide experience and while the railway system was made up of a large number of short lines, competition acted as a check, but amalgamations and working agreements widened the power of the growing corporations to overcome this check. If rates were too high in one part of the country the law made it as expensive as possible even for a company to reduce its rates, and would force upon the local community the remedy of a rival charter for which the whole country must in the end pay. Thus a local wrong in excessive rates must be remedied by inflicting increased cost upon the whole nation. Then the municipalities and other local bodies were given authority to tax the railway companies, in the vain conceit that nobody paid these assessments except a few wealthy railway shareholders who drew their profits as the chemists draw nitrates—out of the air, and not from transportation costs which every soul must pay.

The railway department of the British Board of Trade was created to check the abuses of the companies, but for the last fifty years its activities have tended to develop and strengthen the abuses it was expected to abolish, while the method of granting charters through Private Bills Committees has kept a door wide open to the corrupt influences that are always operating where a public service is prostituted to private profit. A foreign critic said of this Private Bills system for railways: "You have two mobs to fight through and you have to bribe half of them." No comprehensive plan of national railway development was ever traced out, and as James Morrison, chairman of one of the committees of enquiry in the early railway days said, "the best mode of communicating the benefits of railways to the country as a whole is only incidentally considered." For this reason he urged that "railways were essentially matters for public legislation and not for private bills," and the appeal was so far effective that an Act was passed in 1846 constituting a Railway Commission, but its reports were ignored, and after a short life it went the way of the first controlling body, the Dalhousie Board. Strong committees of enquiry were afterwards formed from time to time with eminent statesmen on them, but when it came to putting their recommendations into law they were dealt with as in the case of Gladstone, and their regulations made as ineffectual as the glow-worm's fire. The railway branch of the British Board of Trade has had a theoretical control over railway policy, but in that matter which most concerns the

economy of the nation, the cost, its influence is a disservice to the people. What else could be expected when it is known that each member received £500 a year from the private railway companies for a directorship and any other gifts which the railway companies chose to make them? "By arrangement" a new member of this body does not come into the active performance of his powers till he has been approved of by the railway companies. Who, therefore, controls?

Of recent years the actual conduct of the railways of Great Britain rested in the managers; but the directors up till war time still met in the traditional manner at board meetings, which were luncheon functions where railway matters might hardly be mentioned, and yet in the last 50 years £20,000,000, according to A. W. Gattie, have been levied on the people by these functions. Under this drift of things the receipts of all the British railways between 1869 and 1912, increased 200 per cent. while the expenses increased 290 per cent. But for the illusory notion of competition the expenditures which are now £87,000,000, would be £47,000,000. Mr. Gattie charges that to make the tonnage rates appear less unreasonable shipments are counted in the Board's returns three or four times over on a long haul, so that a rate of 2s. 2d. per ton mile is made to appear where in reality the rate is 9s.

On the false basis of a competition which does not exist it has come about that in London alone before the war there were 74 goods (freight) stations in and out of which 700 trains a day were moving

doing nothing but transfer goods, ninety-nine hundredths of which would have needed no transfer if all the railways were operated as a unit. Thus it resulted that the average goods locomotive occupied 62 out of 76 hours of its time in needless work; while of the 1,400,000 goods wagons (freight cars) on the railways of Great Britain less than one out of a hundred, according to Mr. Gattie, were in use at any given time. An analysis of the Board's own returns shows that 97 per cent. of the goods wagons were idle all the time, while of the remaining 3 per cent. 2 1-2 are engaged in hauling empty trucks in this "competitive" transfer work. The seventy odd needless goods stations of London occupy 4,500 acres of land valued at £50,000,000. Speaking of the waste involved in the present system, Roy Horniman has calculated that if the British railways were operated as one, the annual saving would be £350,000,000 a year. There would be the saving by doing away with duplications of stations and staffs, the saving by delivering goods by the shortest instead of the longest routes; the saving by keeping rolling stock almost constantly at work instead of almost constantly idle; the saving in the now multiplied executive staffs; in the cost of disputes; and the saving in the time taken up by Parliament and the huge but unknown costs of the parasitic legal agents and other agents.

While these enormous wastes have been going on we need not wonder that the freight rates in Great Britain are the highest of any country in the world. Before the war the cost of shipping steel products

from Sheffield to the nearest English seaport was three times that paid for shipping the same products from Essen, Germany, to the same English port; and there were cases where the rates for a distance of 40 miles in England was greater than for 400 miles on some of the continental roads under state ownership. While the good fruit of the English orchards has to lie rotting on the ground because the railway carriage would exceed the price of the fruit in market towns only 20 or 30 miles away, inferior fruit of the same class is delivered from across the ocean to towns near the coast at a fraction of the cost. It costs twice as much to send domestic meat from Cheshire to Sheffield as it does to ship foreign meat from across two oceans to the same city. There is no need to go into the intricacies of rates and rate making, but the situation before the war was well illustrated by H. M. Hyndham, who made comparisons of freight rates with Australia, New Zealand, India, America, and Argentina, and who states (*Nineteenth Century,* February, 1916) that on the basis of the average rates those countries are on an equality in the London markets with districts only 35 miles from the metropolis. The motor lorry has actually beaten the railway in hauling heavy goods long distances in many districts in England. This handicap in high inland transportation explains why many classes of British manufactures have for years been losing ground in the markets of the world. Those who have been stickling at the letter of free trade have thus been allowing themselves to be submerged by the most

oppressive system of protection in favour of the foreigner that any nation has ever laboured under.

Why has no British statesman from Gladstone to Asquith succeeded in recovering the state right that was surrendered when such prodigious powers of taxation were handed over to private corporations? The conditions already described are an explanation which becomes clear when we learn that over 100 Members of the House of Commons are railway directors, and probably an actual majority in both Houses are either directors or are shareholders or owners of railway debentures. In the House of Lords there are, besides many shareholders, forty-eight railway directors including Dukes, Earls, Viscounts, etc. These members vote in a solid body when private railway interests are in question, and however anxious the better elements of Parliament are for reform, it is almost impossible for a government to carry any measure which would affect their hold upon the country.

So matters might have gone on for a generation, but where the appeals to reason and humanity have failed, the earthquake shock of the war has moved the country. The Railway Act of 1871 provided that in case of war the railways might be operated by the government. On August 15th, 1914, this was carried into effect by an order-in-Council which placed the railways of England and Scotland under direct government control, "for the purpose of ensuring that the railways, locomotives, rolling stock, and staff should be used as one complete unit in the best interests of the state for the movement of

troops, stores, and food supplies." This single sentence—from the order-in-Council—may be taken as a concise statement of the national right to the control of transportation, and of the fact that the railway service is a function that should not be divided against itself but operated as a unity. And the argument for this unity is as strong for the purposes of peace as for war.

Under this order-in-Council a Railway Executive Committee composed of the managers of the different companies, representatives of the Board of Trade, and certain officers of the War Department, took charge, the executives and staffs and employees of the companies to the number of 740,000 going on with their duties as if nothing had happened. The financial arrangement, as modified in 1915, was that in consideration of the use of the railways for war purposes the government guaranteed that the aggregate net receipts of the railways for the period during which government is in possession shall be made up to the aggregate net receipts for corresponding periods before the war, the companies bearing a quarter of the cost of the war bonus granted to employees. This secured each company from loss by the unification. The amount advanced to the companies up to the end of March, 1915, was £6,851,957 which would mean a cost to the government of a little over ten million pounds a year for the use of the railways for military and naval purposes. This is a very small outlay compared with the cost of military service for the railways of the United States during the Civil War.

It is state operation without state ownership. It is not yet possible to give proofs in statistical form of the success of this change, for the War Office has consistently declined to publish any information concerning its work, but general results are evident, as will appear from some random facts. Four days after the war began the government had requisitioned 350 trains of thirty cars each, and for three weeks thereafter 73 trains a day poured troops into the channel ports. This traffic was confined within the space of fourteen hours of the day, but almost without exception the trains came in on time, landing troops, horses, munitions, and guns at the docks. Over the London and South Western alone 15,000 special troop trains ran in the first year of the war, besides 2,500 ambulance trains, and the trains carrying soldiers on leave. The military demands bore with varying weight on the different lines. For instance the Great Eastern line ran 870 military trains in one month, the Great Western 2,200 trains in the same month, while the London and North Western ran 7,000 in six months or 1,667 per month. The civic traffic was of course often interrupted and sometimes suspended for short intervals on some lines, but the striking result of state operation is that ever since the war the requirements of civil life have been met by the British railways, some of the inland districts being scarcely affected by the war, so far as transportation was concerned, while troops by the million and supplies by millions of tons have been added to the traffic of these same railways.

It was the consistent claim of the advocates of state ownership in Great Britain that if all the roads were operated as one the waste suffered through idle coaches and wagons, the loss of men's time, the wear of rolling stock in running almost empty trains in the competition of private companies, and the many other forms of waste under the competitive system, would be saved, and the cost of transportation reduced. Now the performance of this prodigious military feat, and the maintenance of the traffic of civil life, have demonstrated this claim beyond question. So patent is this to the man in the street that the partisans of private ownership have been driven to confess it, but the explanation they give is that the feat is due to the fact that the government retained the managers and staffs of the private roads. But this is what is usually done when governments purchase railways heretofore owned by private companies, and there is no case where a government has made the transfer by a wholesale discharge of old employees. If this revolution wrought by state operation is due solely to the fact of the retention of the old managers—in other words that it is to be credited to private ownership—then why did not private ownership accomplish before the war, in the interests of the British public, that which has since been performed under state compulsion? As a matter of fact the new national railway control has, owing to the unprecedented circumstances, had to face this very problem of recreating the operating staff, for such was the loyalty and self-sacrifice of

the railway men that up to the middle of 1916 no less than 120,000 employees from the different lines had joined the colours, and these men had to be replaced by new and untrained men and women. Under such conditions the testimony for the efficiency of state operation is all the greater. On the point of efficiency one other doubt concerning national administration has received an answer. It is continually asserted that men under the orders of a private company will show greater efficiency and loyalty than if the government were their employer. But to a man who loves his country and seeks to serve his fellow men surely the claims of a nation make a stronger appeal than the claims of any individual or company of men. The industry, the endurance of long hours and hard labour, "the splendid patriotism and self-sacrifice," to use the words of King George, shown by the railway men under government administration have given proof of this.

Whether the British railway policy after the war will be a complete nationalization or some kind of partnership between the nation and the companies, melting afterwards into state ownership, it is certain that the inland transportation of the country can not be allowed to go back from the economies effected by working the railways as a unit to the wasteful and expensive divisions prevailing before. H. W. Thornton, a former official of the Pennsylvania Railroad, now manager of the Great Eastern Railway, and a member of the National Executive Railway Committee, when asked by a correspondent of the New York *Times* as to whether the old con-

ditions would be restored, replied: "Never. The position will be different after the war. Exactly what it will be no one can tell. It is in process of working out. . . . . We ought to work out something that has all the advantages and none of the disadvantages of government ownership." The remarks of Bonar Law, the present Chancellor of the Exchequer, in the House of Commons in December, 1916, indicate the opinion of the new government on the new railway control. He said: "It was a good bargain for the state. It was good, not merely from the point of view of the convenience—the immense convenience—which central control gives, but it has run good also financially." It was his opinion that the grant of the war bonus to the railway employees would be covered by the surplus under the new unified control. That it has made for harmony as well as efficiency is evident from the fact that when a strike was threatened in December, 1916, on the Irish railways—which were exempted from the national control scheme on the outbreak of war—and when the companies declined to meet the request of the men for an increase to cover the cost of living the government decided to take control of all the Irish railways, although the labour trouble was only on two of the railways. No sooner was the announcement of government control made than the men withdrew the strike order.

CHAPTER XXIV

Influence of Private Railway Control in the United States—Creation of the Interstate Commerce Commission—Government Ownership Inevitable

Let me own a country's railways and I care not who makes its laws! This paraphrasing of an old saying will be found to be as true of the railway power as of the power of song, if one studies the career of men like Vanderbilt, Jay Gould, Russell Sage, E. H. Harriman, and other railway monarchs who, by corrupt means, not only obtained virtual control of State and Federal Legislatures, but through this control were able to determine the composition of the courts by which laws were interpreted. The literature of state and federal legislation is permeated with the malign influence of the private corporation as an exploiter of the public resources, and the records of the scores of investigating committees would set the railway corporations in evil eminence in these records. In Gustavus Myers' *History of the Great American Fortunes*—which is not a railway book, but an analysis of the origin of the immense fortunes obtained by the wealthy Americans—556 out of 852 pages are taken up with records of the frauds, thefts, briberies, and other crimes against the public by the lords of the Ameri-

can highway. In the latter half of last century money to the extent of hundreds of millions of dollars raised by public taxation was turned over to railway corporations, and little was ever returned in cash. Along with the money went still more valuable gifts of land. The Federal Congress alone, between 1850 and 1872, gave over 155,500,000 acres which became the private property of the owners of these roads. Of all the grants forfeited by the companies only 607,741 acres were ever restored to the public, and much of this remnant was taken away again by decisions of the courts. Acts were devised for the express purpose of turning public property into the hands of railway owners. Under the Swamp Lands Act, for instance, lands not valuable for present cultivation could be taken up at a nominal price for the benefit of settlers, and under this Act millions of acres, classified as swamp lands by frauds in the surveying, proved to be the richest agricultural lands, and were known to be so by the railway owners who got possession. There was an interdict against taking up mineral lands under this Act, but the St. Mary's Falls Land Company got rich copper areas out of these swamp lands, which now form part of the wealth of the Standard Oil Company; while the famous Calumet and Hecla mines were located on other sections of the alleged swamp lands.

So it was done with the Coal Lands Act, the unconcealed purpose of which was to enable railway companies to get possession of coal deposits not already in private hands. President Roosevelt in a message protesting against this filching of the

nation's resources, stated that already probably one-half of the area of high-grade coals in the west had passed into private control, and that the private holdings of lignite and anthracite aggregated thirty million acres.[1]

Describing the methods by which the New York Central was built up under Vanderbilt, Myers says: "Great sums of money were distributed outright in bribes in the Legislatures by lobbyists in Vanderbilt's pay. Supplementing this, an even more insidious system of bribery was carried on. Free passes for railroad travel were lavishly distributed; no politician was ever refused; newspaper and magazine editors and reporters were always supplied with free transportation for the asking, thus insuring to a great measure their good will and putting them under obligation not to criticize or expose plundering schemes."

The sway exercised at the expense of the masses by the railway magnates was well sumarized by Lord Bryce, in the *American Commonwealth*: "They have more power—that is more opportunity to make their will prevail—than perhaps anyone in political

1 A monograph just issued by Geo. Otis Smith and C. E. Lesher, of the United States Geological Survey, shows that in the article of coal which is essential to every citizen, but most of which is now the private property of railway corporations, "the transportation cost is necessarily a large part of the country's fuel bill," that "in the inter-state traffic, both rail and water, bituminous coal probably pays an average freight of nearly $2 per ton," and hence "the transportation costs more than the product and, as some parts of the country are just now learning, is sometimes more difficult to obtain." The average freight on anthracite is higher than on bituminous coal, though both are used for like purposes. One of the coal trusts charges a royalty amounting to $1 a ton on the output. "Whether such a royalty is excessive or not, the fact remains," says Dr. Smith, "that this is the tribute paid to private ownership." A century or more ago the public rights in the coal lands of Pennsylvania were turned over to private parties at $2 to $4 per acre. Now $3,000 an acre has been paid for virgin coal lands, and for some the railway companies would refuse $300,000 an acre rather than give up the toll levied on a raw material that ought to be as free of private tribute as the water brought to our houses.

life, except the President or the Speaker, who, after all, only hold theirs for four years and two years, while the railroad monarch holds his for life. When a railroad magnate travelled, his journey was like a royal progress. Governors of states and territories bowed before him; legislatures received him in solemn session; cities and towns sought to propitiate him, for had he not the means of making or marring a city's fortunes?"

When the railway companies of the United States had reached such power that they believed they could control both State and Federal Legislatures in defiance of the will of the people, when "the public be damned" theory of railway rule seemed safe, and when charging "all the traffic would bear" was the guiding principle, only departed from when some new rival had to be crushed by a sweeping reduction of rates, a revolt, led by the Grangers and supported by merchants and manufacturers, swept over the country. This revolt, showing the need of some new controlling power, gave birth to the Interstate Commerce Commission in 1887, but unfortunately for the country it had given birth to the state taxation-of-railways policy (a majority of the states having already created railway and public utilities commissions by 1887), and to the State Commerce Commissions, which have multiplied, until now every state in the Union except two have State Commerce Commissions. And the various states without exception impose taxes on railways on every variety of plan. These things were the natural sequence of the era of revolt and anger caused by the exactions of the rail-

way oligarchy, but the retaliation of the people as carried into effect by the Legislatures was like the revenge of Samson. In bringing down the pillars of the grand stand which destroyed the Philistines they wrought injury to themselves.

In one instance after another the State Commerce Commissions put into force regulations as to operation and as to freight and passenger rates which utterly failed to accomplish the purpose aimed at. In some cases this was because the law could not be made effective without identical laws by other states; in other cases an order regulating roads would have the effect only of injuring industries within the state itself, and the law would in the end be repealed. Many of these laws it was physically impossible for the railways to obey, and there are cases where no railway could conform to the law in one state without falling foul of the law in the adjoining state. The laws regulating head-lights and coloured signal lights are known to have caused more accidents than the authors intended them to avoid. But this friction at least brought the people to realize that they could not do without railways, and the most insolent of the railway companies realized that they could not do without the patronage of the people. Out of this confusion the work of the Interstate Commerce Commission developed with far-reaching effects, because its rulings were at least consistent with itself, and the more statesmanlike of the railway managers welcomed its influence. The majority of the companies became reconciled to it, not only for the reason given, but

because their growing experience taught them that the unjust discriminations, the rebates, the making of new rates out of the whim of a traffic manager or to despoil a rival, the wholesale granting of passes which had become a menace to their own interests, and many other abuses called for a remedy beyond the power of an individual state, and certainly beyond the power of an individual company. But state commission systems had got too well established and rooted in other local needs besides that of railways, and the railway taxation system had also become a fixed habit as taxation schemes are apt to do; and what has been the outcome? The aggregate of the state taxes imposed on the railways of the United States has increased year by year from a few hundred thousand dollars a year to over $140,531,575 in 1914. In 1915 the total was $139,298,167, but whether this slight recession is an evidence of returning sanity among its State Legislatures remains to be seen.

It is not alone these special taxes which fall upon the people, but in the end the same people must pay the cost of its Interstate Commerce Commission and all the costs of the company of State Commissions piled upon its back.

The special railway laws of New York state make a volume of 782 pages, those of Pennsylvania 699 pages, with other states corresponding; and in five recent years (1902-7) over 800 state laws regulating railways were put on the statute books in all the states. In the work of the Interstate Commerce Commission, whose decisions have all the effect of

laws until upset by the courts, these decisions up to 1909 filled sixteen large volumes. In the one session of the Federal Congress of 1909-10, 119 bills relating to railways were introduced, and of those that passed some had a far-reaching effect on the working of the railways. So important is the effect of new federal laws, and so unexpected may be the effect of state laws, that as most of the railways operate in more than one state, they have found it necessary to unite in maintaining a department called the "Committee on the Relation of Railway Operation to Legislation," whose special work is to study and report upon the practical effect of new laws. This committee's records show that in the five years ending 1915 no less than 3,592 bills affecting railway operation were introduced in the different states, and of these 442 were enactd into law. Then the orders and decisions of the State Commissions often have the force of law, and have to be watched and reported, because a breach of any of them may mean a heavy fine.

If it were not for the State Commerce Commissions the problem of effective national control would be simple, but the old fallacy of private right to the nation's highways dies hard. For long years Congress had questioned its own powers over interstate traffic. It is curious how early in the history of federal legislation Congress was convinced of its power to control its foreign trade relations, but how long it sat in doubt about its authority over traffic within its own borders! It was only in 1910 that the Interstate Commerce Commission was able

to regulate rates upon its own judgment and without complaint of aggrieved persons. It now has power to inspect companies' accounts, make new classifications, to prescribe forms, to order block signals, make valuations of property, etc. In fact, the whole tendency of its expanding powers is to secure administrative control of all those railways that extend from state to state.. But when this control becomes complete, what will be the position of the directors and managers of the railway companies? To men of human instincts what will ownership amount to when bereft of control? It will mean either the old chaos again or that the ownership will go to the authority which exercises control. Of this we can be sure that in a country where the people must ultimately obtain the substance, as well as the form, of self-government, the present unbalanced conditions cannot go on indefinitely.

It seems to the writer that the whole tide of affairs in the United States is sweeping towards such a levelling of rates and tightening of control that private ownership will eliminate itself by the elimination of private profits. And here is the reason: Of the exports of the United States—amounting in 1916 to about five billion dollars—more than half have been for the last three years in manufactured goods. These exporting industrial interests, no longer confined to the coast cities but extending to the heart of the continent, are dependent not merely on stable and equitable railway transport, but on railway rates which must be forced down rather than up, when slackness of domestic trade

requires that the major interest of foreign trade be more strenuously pursued. The force of this new impulse will cause the agricultural, the financial, the commercial, the industrial, and labour interests to unite to keep the cost of transportation down, because now for the first time it has become plain that every one of these interests will be directly imperilled by higher costs of railway transport, and promoted when railway rates are reduced to the cost of the service.

If the United States had from the beginning owned the whole railway system, there would have been no reason to create either the State or Federal Commissions to abolish these wrongs, for they would never have existed but for the fact of private ownership. The Federal government, which is the sole authority to regulate commerce, would have governed the whole situation by its own general laws, only a railway department with a board of control being necessary.

CHAPTER XXV

The Lions in the Path

That the influence of a profit-seeking corporation upon a country's legislation is a source of evil, "and that continually," is admitted, but there are lions in the way of reform—monsters of a frightful mien. At each succeeding bridgehead there stands a lion of more frightful aspect than the last. And yet it is remarkable that the fifty-odd countries that have reasserted the primeval right to their highways have met and overcome every variety of beast which the railway kaisers have set up to scare the timid. In overcoming these monsters some nations have made mistakes, some have even failed and temporarily relapsed, but yet made good recoveries, others have succeeded from the start. The position now is that when Canada and the United States shall have taken their public communications out of private hands, practically the whole world will have achieved in its railway services what it has already done in the postal service.

It would be foolish to expect, however, that when Canada shall have attained this further stage in self-government, perfection shall have been reached. Improvements and new conditions will bring new problems, but what has been done by peoples not claiming high rank in education, wealth, or experi-

ence in public affairs can be done by Canadians.

One of the lions in the way is the financial problem. The mere mention that a billion dollars will be required to convert the private lines to public ownership is intended to paralyze the common man. But do the private railways not obtain their revenues from the same source as would a state-owned system—that is, from the whole people? And is it not true that the whole is at least equal to the sum of all its parts? And if the various private lines can maintain their service and extract from the people a profit besides, surely the same people can maintain the same service where the private profit is not subtracted. Note that the interest on railway guarantees, and on dividends, amounts to a round sum of fifty million dollars annually, and the same people whose earnings furnish that interest also make up the deficits of $68,000,000 incurred by two of the companies whose efficiency is alleged to be superior to that of the state. The earning power of all railway companies has its source in the people, and it is absurd to say that the people are financially unable to do for themselves what in fact they have been doing all along for the private companies. However, the railways, when taken over by the government, would not be paid for in cash, as many suppose, but by a transfer of securities. This bogey of financial difficulty is answered by the logic of accomplished facts, and railway history shows that there is not a case in the world where, once the decision was taken to nationalize the railways, the money has not been found; and in most cases at a lower

rate of interest than had been obtained by private companies.

In the main, the cost of living is the cost of transportation. This is not an abstract theory of government, but a matter which governs our daily life. The man who lives on the western prairie will find, on weighing it all up, that his year's returns for all his labour is a certain sum from which the items to be subtracted can be rolled up into one grand total formed by the cost of obtaining at his nearest station the things he must buy, and of delivering to distant consumers the products of his toil. His savings depend entirely on what is left after his outgoing and incoming transportation bills have been paid. The same is true of his brothers all the way to the Atlantic or Pacific coast whose interests are linked with his. The higher cost of keeping in touch with his brothers east and west, the heavier the toll taken from his and their earnings. That is surely self-evident. The less the cost of this transport both ways the greater can be the volume of his transactions or the larger the balance left to himself. If he as a citizen is a shareholder in his nation's ownership of the means of transport, what signifies it to him whether there is a surplus over the cost of working that transport system? If he wishes to have it so, then as a shareholder in his country's business he participates in the surplus.

But the advantage of the cheapest possible transport is not alone for the prairie farmer or eastern manufacturer. The conditions which thus leave him a larger margin will attract new neighbours who

are glad to share like advantages, and the larger the distribution of population the easier the burden on each, because of increased traffic. The greater the restriction on transportation by high rates, the harder will life be for him, and the less attractive will be the surroundings to newcomers. The only sure means of repeopling an abandoned area is to lessen the transportation tax whose heavy load drove the settlers away.

Since the war has brought its tidal waves of disturbance in the financial as well as in the political world the cry has gone up: "Let there be economy —let us have production, and more production," and at every one of the annual meetings of the banks the instruments have vibrated with this one note, economy, production, and more production. But to what end shall there be economy and production? That out of the sum total of values which would result from this increased production by the man who farms the land there shall be taken the same toll for the man who farms the transportation taxes? Has a single bank manager in his annual sermon even suggested those reductions in the cost of transport, which alone would attract people back to the land and induce a voluntary effort at greater production? The philosophers of the banks have put forward every remedy for our economic troubles except that which would affect the dividends of the lords of the highway.

The assertion that public ownership would corrupt the public life is entirely disproved by private ownership's own record in Canada, the United

States, and Great Britain. The failures and wrongdoings of a public service are subject to continual exposure and reproof in Parliament and the press, but the internal affairs of a private corporation cannot be corrected in the same way, though the public suffer all the same by suppression of the truth. The wrongs that are incident to public ownership are self-corrective in the nature of popular government, for no people are benefited by corrupting or wronging themselves. All the arguments that can be brought against the public administration of railways can be brought with equal force against the public administration of the post office, inland revenue, customs, education, and all other services. But because here and there a post office clerk steals letters or an occasional official proves a defaulter, do such incidents lead to a general demand for recommitting the post office or other public work into the hands of a corporation? Such cases become a concrete argument, not for abandoning popular control, but for such reforms of the civil service and methods of appointment and administration as will ensure greater efficiency. In advancing the corruption argument the partisans of private ownership insinuate that the people of foreign countries have a moral status that would make state ownership safe, but such a venture for Canada—. Are Canadians who have all these years administered their postal, customs, trade and commerce, and other public services with fair honesty and efficiency, willing to admit that individually they are less honest in purpose, less public-spirited, or that as a nation they

are utterly incapable of doing that which has been done for many years by the people of Australia, New Zealand, South Africa, India, Belgium, Switzerland, and numbers of other nations?

It has been said that nationalization of railways would, by reason of the immense number of employees, put too great a power in the hands of a government and make it impossible to depose a corrupt government. If this fear were well grounded, then all our present public departments, including our systems of education, which, when added together, make a body of public servants more than equal to the railway service, would have already had that effect. But the thoroughness with which corrupt parties have been swept from power in Canada is a proof that the great body of the electors will not always tolerate dishonesty. As a matter of actual experience, changes of party, in the countries of Europe and South America, and in Australia and New Zealand, where railways are state-owned, are more frequent than in Canada.

To the argument that state ownership would create greater dangers from strikes and labour troubles, it can be answered that strikes and labour agitations have prevailed both before and since railways were introduced. While it cannot be claimed that state ownership would end them, it can be shown that difficulties are more easily adjusted under public than under private management, because a government is a juster employer than a private individual. There is never wanting a champion in Parliament for a body of men who may be wronged, and the remedy for such wrongs may be more direct-

ly applied. The very fact of the relative unresponsiveness among private firms to legitimate complaints of employees was the cause of the creation of the Canadian Department of Labour, with its arbitrative powers. The continued existence of this department is in itself a proof that the confidence felt by employees in a government is greater than in a private company. Who ever heard of general and recurring strikes among post office employees or customs clerks? As a fact of history, strikes have been much less frequent or serious on state than privately owned railways. Provisions are made in the state railways of Belgium, Switzerland, Germany, and many other countries, for the representation of employees on the government advisory boards or councils, so that grievances are automatically adjusted. In any case, whether the railways are publicly or privately owned, it must be obvious that a general suspension of the railway service would bring famine and privation in a week and the public interest could not permit it. It is stated that in the British railway strike in 1911 a thousand babies died in Liverpool and its environs for lack of milk. The revelation of the wage conditions of railway employees which were the cause of that strike bear witness as to whether private ownership is a cure or cause of labour troubles.

Is state management as efficient as private management? The answer to this question is, first, a counter-question: What is to be the standard or measure of efficiency? Is it the production of profits? If so, then private roads are more efficient,

because large profits are obtained by using all the rate-taxing powers obtainable, and at the same time by economies obtained too often by the denial of the reasonable claims of the mass of employees. Directors of companies often pay lordly salaries to a general manager or high officer just because of his cleverness in recouping them by exactions from the thousands under him, and by economies gained often at the cost of human life. It has been notorious in private railways of the past that life-saving appliances have been introduced only by compulsion of government, or by the force of the example of a rival, and usually one of the first changes made when governments take over a private system is the spending of money on improving the safety of the roads and reducing the excessive hours of the operating staffs, as well as reducing the passenger and freight rates. It is plain that all these advantages cannot be given to the public and profits increased at the same time. But if efficiency is to be measured by loyalty to the public and a desire to give the best service under reasonable treatment, then surely the average man or woman will be more powerfully moved by the thought of serving the whole nation than a private company. Our common experience does not show that a man who is devoted and faithful to a private corporation is immediately transformed into a thief and idler when he becomes a servant of the nation. Happily for humanity there is no such evil transformation in personal character when a man changes his employer. However, there is no dead level of uniformity, either in public or

private control. There are state-owned enterprises that are poorly managed at times, and there are private companies that are ill-managed, as the long record of receiverships and bankruptcies of these undertakings in many countries will show.

Many people have assented to the financial aid recently given to the railways from the public funds because of the fear that if a railway company is allowed to go into the hands of a receiver the credit of Canada will be seriously damaged. This is a groundless fear. In the United States in the year 1910 there were thirty-nine railways in the hands of the receiver; in 1913 there were forty-nine; in 1914 there were sixty-eight, and in 1915 no less than eighty-five. The mileage of these roads in 1910 was 5,257, and in 1915 it was 23,834. In this period, therefore, the number of bankrupt railways more than doubled in number and their mileage was over four times greater, yet the national credit of the United States was never higher than in 1915. Such a theory, therefore, does not fit into the facts. The real danger to Canadian national credit lies in quite the opposite direction—that is in the continued endorsement, on the nation's credit, of a private corporation exercising a public function, while yet permitting this corporation to remain in financial control. The continuance of such a reckless method of endorsement would damage any private firm's credit, and no nation which places the public funds in private control can escape a like reflection upon its judgment.

CHAPTER XXVI

Conclusion

The foregoing chapters were written before the publication of the report just issued by the "Royal Commission to enquire into Railway and Transportation in Canada." This commission was composed of A. H. Smith (chairman), president of the New York Central, of the United States; Sir Henry L. Drayton, chairman of the Board of Railway Commissioners of Canada, and W. M. Acworth, a well-known British writer on railway questions, who had succeeded to Sir George Paish, the original appointee from Great Britain.

The commission has made a majority report signed by Sir Henry Drayton and Mr. Acworth, and a minority report signed by Mr. Smith. The majority report recomends that the Canadian Pacific Railway be left alone because it is in "a strong financial position" and pays a steady dividend of ten per cent. They recommend, however, that the Grand Trunk, the Grand Trunk Pacific, the National Transcontinental, and the Canadian Northern, along with the Intercolonial, be transferred to a board of trustees, under the name of the Dominion Railway Company, whose functions would be to carry on those systems in the name of the people, mainly because the present proprietors of the roads do not

obtain revenues enough to make ends meet. The minority report recommends that the companies that have failed to pay their way be relieved of their "embarrassment" by the government, and that all the railways be continued under private ownership.

Seeing, therefore, that the commissioners advise Parliament to uphold the ancient wrong which is surely corroding the public life of this country, it is idle to discuss the details of the methods by which that wrong is to be maintained. If one is to be beheaded, it is useless to argue with the executioner as to whether a broad-axe, a saw, or high explosives are to be used in the decapitation.

The five propositions set forth in a previous chapter are either sound or unsound. If they are unsound, let their fallacy be shown. If they are sound, then it follows that the railways of Canada are its highways, their service a public service, and the rates levied on the people for their maintenance are taxes.

Now the right of the people to determine and control the taxes they pay was obtained in the Magna Carta, and later on reasserted and wrested from King Charles. It was obtained by the people of the United States through a bloody revolution. Are the people of Canada capable of exercising this ancient right, in the most important sphere of their public affairs? If not, and if a public service is to be privately owned for personal profit, does it not logically follow that we should also give over the administration of the customs, post office, education, and other public functions to private corporations

on the basis of the ten per cent. obtained from the people by the Canadian Pacific?

The people of Canada are to get transportation on the Intercolonial at or near the cost of the service—which is in truth the ideal of a people's railway service—but on what ground are they to be taxed, in the wide territory covered by the Canadian Pacific Railway, at a rate that will take from them a profit of ten per cent., plus the profits taken by that corporation's subsidiary companies? Would any government dare to ask the people of Quebec to pay a customs sur-tax of ten per cent. on imports while allowing Ontario to import the same goods free? Yet this is precisely what the commissioners suggest when they propose that the people of the West shall pay an impost which furnishes this ten per cent., plus other profits, while localities in the East get railway service at cost.

Yet the two commissioners, in more than one place, state as plainly as the conventionalities of a parliamentary document will admit, that a democracy should not trust itself with the ownership and operation of its railways. One reason is "because special interests obtain concessions at the expense of the community." Those who have read these pages may judge whence these "special interests" arise and how they operate upon legislation.

Mr. Acworth himself, in his book *The Railways and the Traders,* summed up the world movement in railways in these words: "From China to Peru, the nations of the world have, after somewhat more than half a century's experience, finally decided either

that their governments shall own and work their railways, or at least that, in return for a generous measure of state support, their railways shall accept an equally ample measure of state control." In a later work he wrote: "The conclusion, therefore, that I most reluctantly arrive at is that we (Great Britain) cannot go on as we are; that there is little hope for the establishment of an adequately and clearly thought out system of state control, and that, therefore, the only alternative—state ownership—is inevitable. I can see on the political horizon no force to stop it."

How, then, do the commissioners propose to decide the conflict between private railways and democracies? Is it so desirable that private railway companies should be sustained in the seat of power that democracy should be demolished, if necessary? If Mr. Acworth sees no force in the democracy of Great Britain to stop state ownership, how does he expect by pronouncing incantations to stop it in the democracy of Canada? The commissioners seem to conclude that if either the private railway or democracy must yield, then down with democracy!

The commissioners lament the waste of capital and energy in the triplication of railways to the leading cities of Canada. To what is the waste due? Is it not due to the fact of private ownership which sought dividends rather than state service?

The commissioners see an obstacle to state ownership in the 7,000 miles of Canadian railway in United States territory. But in either case lines in the United States must submit to United States

sovereignty, as they have done all along; and, moreover, these extra territorial lines are already separated by the articles of incorporation under American laws.

The jurisdiction of the United States government over railways now owned by Canadians in that country, or the jurisdiction of the Canadian government over railways in Canada now owned by citizens of the United States will neither be diminished nor increased in the least by state ownership. At any time either country could sell the lines outside of its own boundaries, which lines in any case must be subject to the laws of the country in which they are located, for they were all incorporated under local laws. Interchange of traffic in the postal services of the United States and Canada goes on under state ownership without any serious complications; and during peace times there is no interruption of traffic between European nations where state ownership prevails. A moment's reflection on these facts will show that the international danger of state ownership is just a *loup garou.*

The position of the shareholders in the railway companies is much discussed and there is great anxiety in some quarters that Canadian railway shareholders should be protected against loss in the settlement of future ownership. Each person took these shares and bonds as an investment. But so did the man or woman who bought first and second mortgages on a house and lot, or shares in a gas company, or a half interest in a farm or factory. When the war came millions invested in these forms

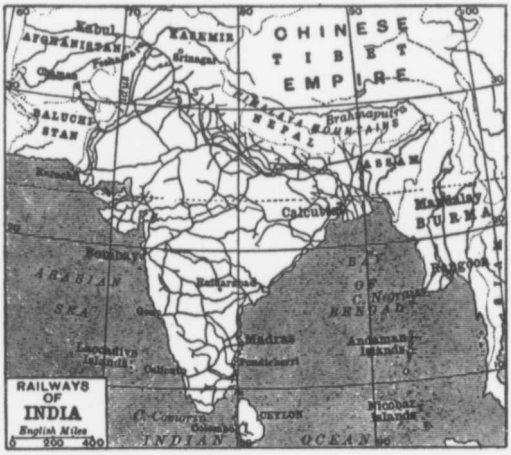
of property were lost, and thousands of Canadians were ruined by foreclosures or depreciation of land. Has the government been asked to secure these sufferers against their loss? Was the plea of the poor widow raised in behalf of the woman who had lost her all in these investments? The reader's own sense of right will tell him that one form of investment is no more sacred than the other. They are both personal ventures and both made at personal risks. Yet we hear an outpouring of appeals to protect the investor in these railway stocks, with not a thought of the loss which the whole people are asked to suffer by the failure of the railway management, and the load which high railway rates will add to the cost of living.

The taxes that will be levied as the result of the war will be hard enough to bear. It will be the duty of legislators to cheapen the cost of transportation to the utmost, thus not only cheapening the cost of living, but encouraging the re-settlement of vacant lands.

If the present wicked and unpatriotic "party-patronage" system of making civil service appointments were abolished, as is being done in the United States, the whole tone of the civil service, including the railway service, would be raised. Then Canada, as an American statesman said of his own country, would have the purest government in the world.

APPENDIX A

Railways in India and the British Dominions



FROM HARMSWORTH'S CYCLOPEDIA

India is veined with railways, and though the veins are closely interlaced in the north, this is because of the density of population and productiveness of that area. The motive in railway planning in India is the greatest service to the whole country, and here, as in Australia, New Zealand, and South Africa, there is no waste of land and money in

doubling lines to the same cities, though these cities have vastly greater population than the cities of Canada, where millions of dollars have been squan-

dered and valuable lands misused in needless duplications by private companies.

The above sketch map of Australia indicates, in dotted lines, the projected transcontinental lines, one connecting the eastern states with Western Australia, the other to traverse the centre of the con-

tinent, north and south, reaching to Port Darwin. It will be noted that though there are many lines spread over the settled areas, like veins in a leaf, there is not a single duplication of a trunk line between the chief cities. Yet Melbourne and Sydney

NEW ZEALAND RAILWAYS

SOUTH ISLAND

NORTH ISLAND

have greater populations than any two cities in Canada.

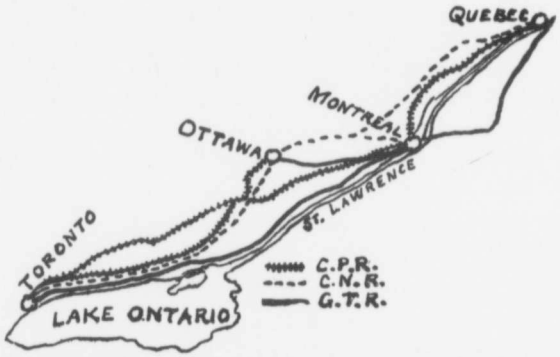
As in Australia and South Africa, the railways of New Zealand are planned by the state for the most equitable service to the people, and there is no

waste of the people's money and resources in building two sets of roads to the same centres.

South African Railway System

The railways of South Africa are remarkably well distributed, but there is no duplication of trunk lines between any important chain of cities. As in India, many of the feeder and branch lines are

economically built, narrow gauge roads. See description of the origin of the Cape railways under government ownership.



The above map of the railway situation between Toronto, Ottawa, and Montreal illustrates the private ownership conception of national service. Three parallel competing lines between these cities have brought no reduction of rates. If the second and third lines not needed by the people had been built into the north of Ontario and Quebec thousands of square miles, now untenanted, would have been accessible, adding new resources to the country. Compare this map with those of the other British dominions and India, where railways are planned in the interests of the whole state. This wasteful duplication is the fundamental wrong of private ownership on a competitive basis.

APPENDIX B

In its report the Royal Commission on the railway question gives the following as the sums advanced by the people of Canada to the railways in the form of subsidies, loans, guarantees, and lands already converted into cash:

——	Subsidies	Proceeds of lands sold	Loans outstanding or investment	Guarantees outstanding	Total.
	$	$	$	$	$
Canadian Northern ...	38,874,148	34,379,809	25,858,166	199,141,140	298,253,263
Canadian Pacific	1 104,690,801	123,810,124	.....	.....	228,500,925
Grand Trunk Railway	13,003,060	.....	15,142,633	.....	28,145,693
Grand Trunk Pacific .	726,320	.....	70,311,716	43,432,848	114,470,884
Grand Trunk Pacific Branch Lines	.....	.....	.....	13,469,004	13,469,004
National Transcontinental	.....	.....	159,881,197	.....	159,881,197
Intercolonial	.....	.....	116,234,204	.....	116,234,204
Prince Edward Island .	.....	.....	9,496,567	.....	9,496,567
Total	157,294,329	158,189,933	396,924,483	256,042,992	968,451,737

"Not counting the loss of interest for many years upon the investment in roads operated by the government, it appears that for the eight systems, in which the public is most interested, the people of Canada, through their governments, have provided or guaranteed the payment of, sums totalling $968,-451,737. This works out at over $30,000 per mile of road. But even this is not all. In addition, they have granted great areas of land as yet unsold and

unpledged. They have undertaken the construction of other lines whose cost will be an important addition to this large outlay. Further, in the case of some of the companies included above, to which they have given or lent large sums of money to meet pressing needs, unlike private lenders, who would naturally have demanded a security charged in front of all previous investment, they (the people) have voluntarily accepted a charge ranking after the bulk of the private capital already put into the undertaking."

The above paragraph is the commissioners' own comment on the table presented.

INDEX

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