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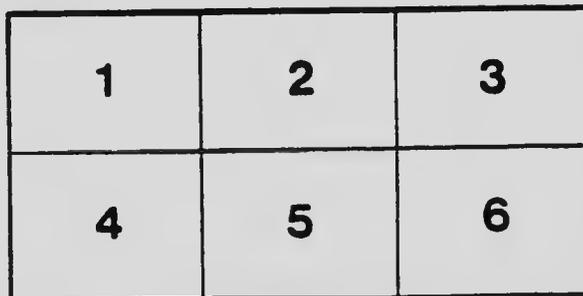
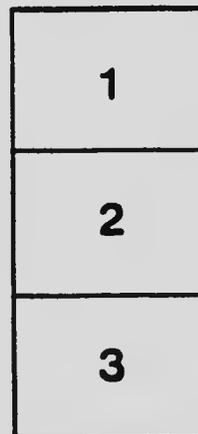
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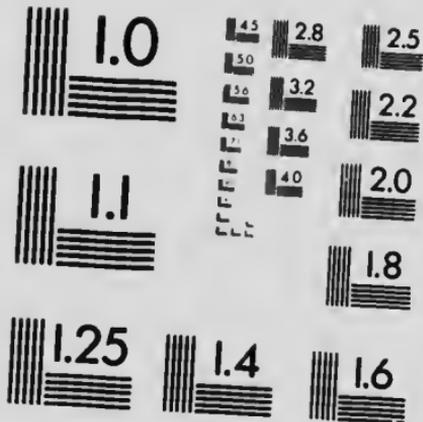
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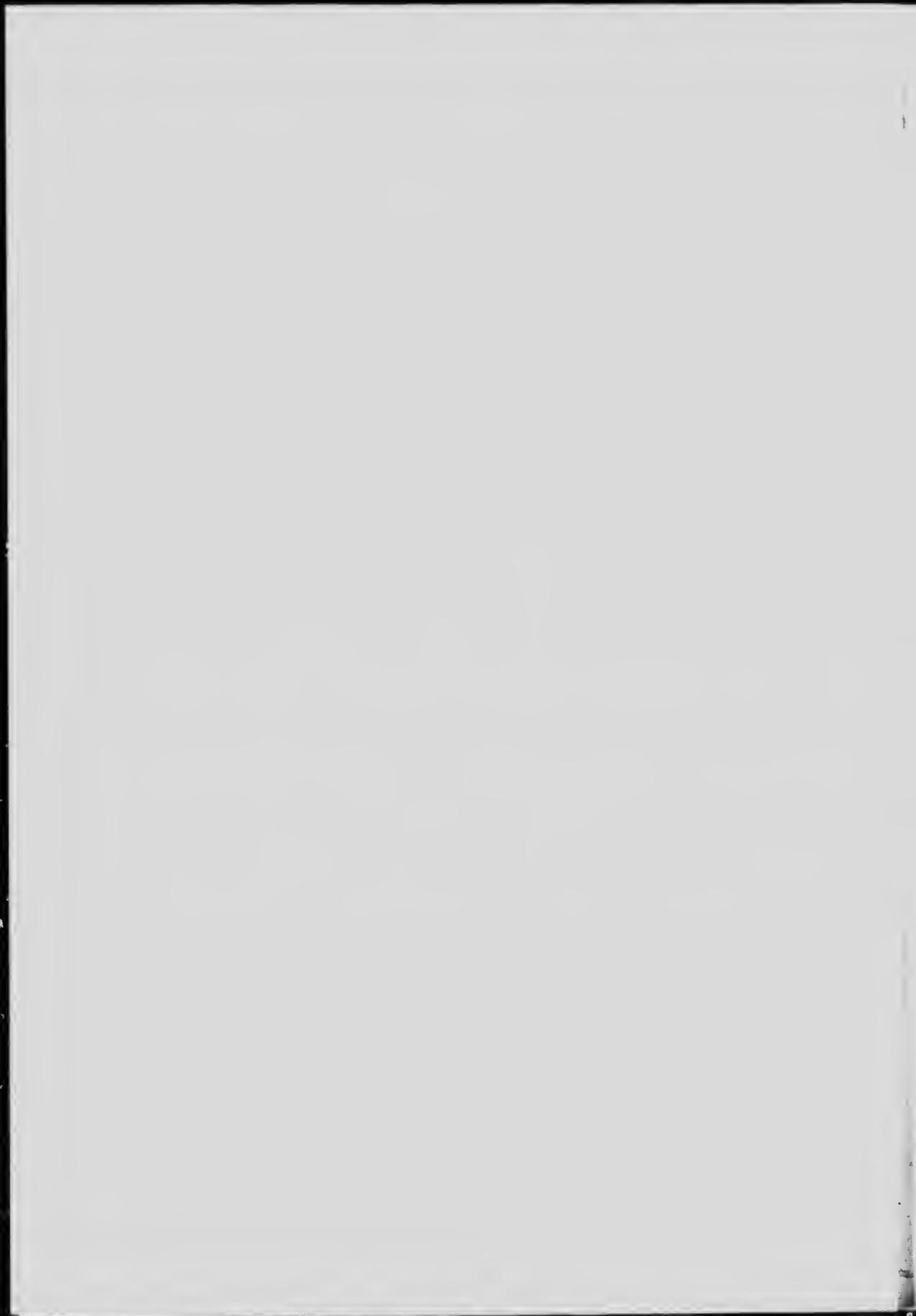
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## GOVERNMENT OWNERSHIP V. PRIVATE OWNERSHIP OF RAILWAYS IN CANADA

The state ownership of railways was first definitely adopted in America by the maritime provinces of Canada, and a state-owned railway afterward 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. To tell how the current of this policy was turned awry and left the present Dominion with a state railway unequally yoked to three privately owned trans-continental railways is to unfold an instructive tale of history, bringing into light the fundamental contrast of state ownership and private ownership of railways. We have here illustrated in the same country the effects of legislation on railways and the influences of railways upon legislation.

Before giving a brief outline of the railway history of Canada let us try to clear away some of the fog which has gathered around the railway question. This is needful because the present generation was born and bred under private-company ownership and consequently that condition is so familiar as to seem like one of the laws of nature. The great majority have no knowledge of the revolution in the viewpoint toward railways that has come about in the last half-century in lands outside of America. If any ten Americans of average intelligence were told that sixty-five countries in the world have railways on a considerable scale and then were asked how many of these carry on their railways by government ownership or operation the majority would answer, from five to ten. They are surprised when told that fifty-one of these sixty-five nations now nationally control their railway systems by ownership, or operation, or both. It is indeed hard to realize that of all the nations in the world which count for anything in civilization the United States and Canada stand practically alone in having their modern highways, or the great majority of them,

under the control of private corporations. The average man will be still more surprised when he learns that in the early years of railway building there was but one nation (Belgium) that maintained the immemorial principle of the state's sovereignty over the highway and applied it to the railway as the new supplanter of the highway.

This theory of state domination of railways has spread in a remarkable way in the last forty years, and this advance is noteworthy in two respects. In the first place, since it has attained its momentum there has been no backwash toward private ownership. It is singular that in the whole world there have been only four cases of even partial abandonment of state ownership: Paraguay, Cuba, Peru, and Newfoundland. 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.

The second and still more impressive feature of the movement toward state ownership is that it 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 (now happily melted into the new Russian constitutional administration), and in countries of the other extreme of popular government, such as the referendum-ruled country of Switzerland and the highly responsive democracies of Australia and New Zealand. It has succeeded as

well with the diversified races and peoples of India as with the highly 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 seventeen crown colonies and protectorates in the British Empire, and of these no less than twelve operate their railways under direct government ownership. If the four German colonies now occupied by Great Britain are retained, they will make the total in this group sixteen. Of the self-governing British dominions, Australia, New Zealand, and South Africa all have adhered to the principle of government ownership, and to these we add the Indian Empire and Canada, for while the latter has the majority of mileage under private ownership, the principle of government ownership of the Intercolonial cannot be abandoned, for reasons which will appear. And lastly, Great Britain herself, the parent of private ownership, brought her railways under state control, literally in a day, upon the outbreak of the war. Those who know the British people best know that this control will never be abandoned, and for one good reason, that the waste of time, labor, money, and material in the illusory "competition" of the private companies, which the state-ownership advocates have preached about so long, has been demonstrated beyond question in the marvelous achievements under the unified national control.

If there is any reason in the nature of things why the railways of the United States and Canada should continue under private ownership, how do we account for the steady march, without any retreat, of the rest of the world toward government ownership and control? And how do we account for the correlative fact that the postal service—which is of the same nature as that of the railways in being the medium by which the people's communications are carried on, and having a light-freight business in the parcel post—that was once in all European countries carried on by private companies, has in one country after another in the last two centuries been taken over by the state, until now no civilized nation in the world permits its post-office to be run by a private firm?

These and other questions may best be answered by defining a railway and stating some propositions as to its relations to the people and the state.

A railway is the successor to the highway. The railway train differs from a wagon or automobile in running on metal tracks instead of a paved roadway, but it fulfils exactly the same function in modern life that the wagon and stagecoach did in former times, only improving on its work by carrying greater traffic and giving swifter communication. Many courts have so defined the railway, but if no court had ever so defined it, nothing could alter the fact that the railway is related to the life of the community in precisely the same way as the old highway. But in all times and among all nations there has been an instinctive recognition of the public right to the highway.

The true relation of the railway to the people or 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 labor and money furnish the traffic.

Fourth: By the division of labor in modern civilized life every one 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.

From these premises conclusions are to be drawn of the highest importance to the economic life and to the government of a country. One is that all revenues raised from railways in excess of the cost of building, operating, and maintaining them are a supertax on the

people, whose earnings create the traffic. Another is that any diversion of these supertaxes 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. Another is that, the railways being the country's main highways and their operation a function of sovereign power, the people through their government should own and control them and should direct the national railway policy; the more so since all railway revenues, whether in excess of the cost of conducting them or not, are derived from the labors of the people applied to the natural resources of the country.

One other deduction from these premises, as will appear from a study of the political history of Canada and the United States, is that of all the causes of corruption in the public affairs of these two countries the private ownership of the nation's railways is chiefest and most dangerous. This corruption grows naturally out of the surrender 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.

The words "rates," "tariffs," and "tolls" all signify taxes in their ordinary meaning, and if the term "railway rates" could be twisted to bear a special meaning we should still be faced with the truth behind the term. That truth is that no one can purchase or use the simplest article without paying tribute to transportation. If we follow any article back to its beginning, we shall find that transportation, and not labor or materials, makes up the chief elements of the cost in most cases. It is near the truth to say that the cost of transportation is the cost of living.

Take, for instance, a pair of boots. 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 a 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 could 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, or Tibet, or of South Africa and South America contribute to the finer footwear, while for other special classes of leathers the manufacturers draw material from the kangaroo of the Australasian islands 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 colors, etc., which must be furnished by transportation. It seems a modern marvel that six continents must unite their products in a factory in Montreal or Lynn 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 the retailers. When this same analysis is applied to all the thousand and one 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, and it is not possible to bury one's self so far in the wilderness as to be beyond the demand of its assessments.

Now if the propositions before set out are sound, it follows logically, not only that the ownership of railways is a sovereign

right, but that railway rates are not a commodity which a company may sell like merchandise, but are public taxes, and the taking of a private profit out of a national function is an alienation of the public resources and a violation of the principle of representative government.

Why has every civilized country in the world taken its postal service out of the hands of private companies; and why has one nation after another done the same with regard to its railway service? It is simply the revindication of an elementary right of representative rule. That the people of Canada and the United States are at the tail of the procession is only a proof of the difficulty of driving private interests from the main-line trenches in the seats of legislation. The form of self-government was achieved long ago, but its essence is bought by long, hard struggles, in which victory is not yet won.

The premises being admitted, it follows that the ownership of a country's railways is not a proper subject for private profit. Confessedly a private profit and not the public service is the primary purpose of a privately owned railway. If it were not so, on what ground would a railway promoter appeal to investors to put their money into such an enterprise? Did ever a promoter invite people to invest in a railway for the sole purpose of giving the utmost service without regard to the prospects of an income? It is this motive of profit which causes a privately owned railway company when projecting a new line to look, not where the general interest would show that communication is needed but where traffic already exists in paying quantities.

Coming now to the railway history of Canada, we find the truth of our premises exemplified. Just in proportion to the vastness of the money involved and the magnitude of the other interests affected has the power of the private railway corporations been used to thwart the will of the people and to control for their personal gain the legislature and the laws therein made; hence of all springs of corruption of public life none are to be compared with those having their source in the private ownership of railways. They "overtop the skyish head of blue Olympus" and make the Ossa of all other sources of bribery like a wart. The difficulty in

telling it is to compress the ugly mass of evidence into a small compass, but one fact may indicate its extent. In the first volume of Gustavus Myers' *History of Canadian Wealth*, which may be called a textbook of the sources of questionably gotten individual fortunes, more than half the space—or, if the career of the Hudson Bay Company is included, more than two-thirds—is taken up with the exploitations of the public resources and the corruption of parliament by private railway promoters and railway-franchise operators, and yet all the later history remains to be dealt with in the second volume. It was so with the same author's *History of the Great American Fortunes* and the *History of the Supreme Court*. In the former work 556 out of 852 pages are occupied with accounts of the frauds, thefts, briberies, and other public crimes of the lords of the American highways. The reader is referred to these works, not only because the evidence is based on public documents and reports of investigating committees, but because the works do not purport to be a history of railway frauds but of the sources of all wrongfully obtained wealth.

The very first railway of Upper Canada, the London & Gore, chartered in 1834, was organized by Allan MacNab (afterward knighted) and a group of other prominent provincial politicians, who used their positions in parliament to advance their private railway enterprise. For some time Sir Allan was chairman of the railway committee of the House and in that capacity was able to shape the laws in favor of the railway schemes in which he was heavily interested. The London & Gore line became the nucleus of the Great Western Railway. Sir Allan, who afterward became premier, was its president, and while chairman of the railway committee he tried to get a vote of public money for his railway to the amount of £770,000 under the guise of a loan. He used his influence to induce the legislature to endow the Great Western with a monopoly in railways in that part of the province, and would have succeeded had not the Grand Trunk Railway risen to power with another set of politicians caballing in parliament against him. Sir John Rose, one of the Grand Trunk group, became minister of finance, and proved that the promoters of the Great Western had misappropriated \$1,225,000 of the public funds to build a line in the

United States (the Detroit & Milwaukee) in violation of its charter, and that altogether four millions of its capital was thus illegally used. The Great Western contingent in parliament had organized the Commercial Bank for the more effective exploitation of its railway interests, and that these interests stood first and the public concerns second in the minds of the bank directors became clear when the large loans it had illegally made outside the province were wiped out by the foreclosure of a mortgage on the Michigan line, causing the first banking disaster in Canada. The next great bank failure in the province, that of the Bank of Upper Canada, was due to the same cause—advances made to the Cobourg & Peterboro Railway and other railways contrary to law, but at the instance of members of parliament who were shareholders in the road. Although millions of public money had been granted to aid the Great Western, it was wretchedly built and its operation was notorious for accidents. The most memorable of the early railway accidents took place on this line at the Desjardins Canal near Hamilton, where a whole train plunged into the canal. One of the first of the sixty bodies recovered from this disaster was that of the contractor to whose scamp work the accident was due.

So far from being an exception to the methods of promotion and quality of construction work, the record of this road was a type of railway building by private companies in the early days.

The Great Western was afterward merged into the Grand Trunk, and what was the genesis of the Grand Trunk? In the Canadian railway act of 1850 it was contemplated that the Grand Trunk would be built as a public work. Why was it not so carried out? Among the MacNab group who had used the legislature to further their railway schemes was Francis Hincks, a member of the railway committee and now inspector-general, or, as we should say, minister of finance, in the government of the provinces of Upper and Lower Canada, now united in one legislature. While the movement for uniting the four provinces by a railway was taking shape, Hincks went to England, ostensibly to forward this intercolonial plan, for which Joseph Howe, the great Nova Scotia statesman, had already by his eloquent plea secured the first definite promise of help from the imperial government. The Grand Trunk interests, now dominant in the legislature, had secured control of two local

lines, giving them a continuous road from Montreal to Toronto, and had laid plans for extending west to the Detroit River in case they could not secure control of the Great Western. Hincks was personally as well as politically interested in the Grand Trunk, and it may be said that the railway destiny of Canada was then in his hands. If the westward extension of the Grand Trunk had been made a part of the great federal scheme, a trunk line from the Atlantic to the upper provinces and eventually to the Pacific Coast under government ownership, the Canadian confederation might have been a fact and not an aspiration at this early period. Hincks used his influence to enable the Grand Trunk to extend as a private corporation, and because of the difficulty of raising large sums of money in those days his decision delayed indefinitely the Intercolonial scheme under government ownership. To what extent he was a voluntary agent in this or was used by others can never be known, and it is only fair to Sir Francis Hincks—who had good public work to his credit—to explain that the men composing the firm of Peto, Brassey, Betts & Jackson, with whom he got into touch, were the most influential in the railway-contracting field in Great Britain. More than one of the firm besides Mr. Brassey became a member of parliament, and they had strong influence with financial friends, both in and out of parliament, in connection with English railway enterprises, all of course under private control. As will appear when we come to the Intercolonial, all the influence of this firm was exerted to extend the power of private control in the railway system of Canada, and to thwart government ownership, which would lessen their chances of profit.

It seems as if Hincks himself was conscious of his breach in the spirit of the railway relationship with the other provinces, because when he concluded his bargain with the British firm the financial plans were so drawn up that while the railway would seem to be a government work it would in reality be under private control. Four years afterward it was discovered that Hincks had made a deal with the financiers and contractors by which they gave him stock to the amount of £50,400 in the new company in which he was already interested as a promoter, and that before he left England these shares were converted into cash at par. Meantime it came out that he and several of his colleagues had taken advantage

of their official knowledge to get possession of lands which would become very valuable when the line should be located. Charges against Hincks were made in the House, and although the speaker of the House, Hon. John Ross, was himself president of the Grand Trunk, the public indignation was so great that the charges could not be ignored. Hincks, who was afterward knighted, was now premier, and considering that of the nine directors of the Grand Trunk which the government then had power to nominate, eight were known to be merely representatives of the contractors, it is not surprising that the parliamentary committee appointed to investigate failed to find evidences of corruption. As often happens to conspirators, the record furnished one of those undesigned "evidences" which the committee had failed to discover, for while the committee reported that the stock had been put to Hincks' credit "without his knowledge," Hincks himself had explained in another place that he had taken the stock "in trust for allotment to parties in Canada who might take an interest in the company." If this was correct, then he was speculatively holding stock the value of which would depend on legislation in his own control as prime minister.

The late Thomas C. Keefer, a president of the Canadian Society of Civil Engineers, and one of the most careful and truthful men in the profession, has left proofs that cannot be questioned as to the scandalous work that marked the construction of the Grand Trunk and its constituent lines from its very beginnings. Sums totaling £3,111,500 sterling were voted to this road out of the public funds to make good the failures and frauds. When one of these sums was being voted, the votes of two members were challenged because they were railway contractors and shareholders. The motion was voted down by a majority which comprised a number of cabinet ministers and members who were themselves shareholders in violation of parliamentary rules.

In later years, when British Columbia joined the confederation on condition that the Dominion government should build a railway to the Pacific Coast, the project of Canada's first transcontinental railway was given over into private hands in contravention of the spirit of the compact with British Columbia. The result was the

worst public scandal in the country's history, bringing the downfall of a great administration and casting a deep shadow on the public record of one of our ablest statesmen. Of the latest transcontinental railway, the Canadian Northern, it is sufficient to say that the parliamentary lobbying by which the public resources were jockeyed from the nation by the promoters of the road has not been surpassed in shamelessness in the railway annals of any country.

Let us now consider the Intercolonial Railway. This, though the chief, is not the only railway of Canada under public ownership. There are two other publicly owned lines in Canada, each operated on different plans and forming a political experiment of great interest to the rest of the world.

The first noteworthy feature of the Intercolonial Railway was that it was created for a public and national service and not to make money out of its operation. It was designed as a bond of political, social, and economic union for the British-American provinces as then existing and yet to be brought into being, and when the movement for the federal union was under discussion we find in the great confederation speeches scarcely a reference to the question of profit in the railway which was to be the medium of the union. We know that with statesmen whose purpose was great enough and whose vision was wide enough to found a new nation there would have been no Intercolonial and no Dominion of Canada as we know it today if the problem of confederation had been narrowed down to the probabilities of a profit in running the road.

As soon as George Stephenson's inventions assured the success of railways the idea of connecting the British-American provinces began to take shape. 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* called attention to the value of such a railway for colonizing and commercial purposes and as a means of defense. The last-named aspect seemed more to move the imperial mind, for the preliminary surveys were made in 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 brought to the point of making a loan for the line.

The man who in pre-confederation days had more personal influence than all others in creating the atmosphere of confederation and in urging the railway of which it was the instrument was Joseph Howe, the great Nova Scotia statesman and orator. He had a prophet's prevision of the control which the railway was to have over the physical life of the whole people, and he saw more clearly than anyone its power in nation-building. In a speech in 1851 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." 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 its railways. He was not awed into a slavish submission to a bad precedent; but as early as 1850 he foresaw what troubles 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, Nova Scotia, 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 countries 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, 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 to be 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 England. The little state of Belgium acted in a far wiser manner. In Belgium the railways, radiating from a common centre, reached 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.

Howe had publicly urged the trunk railway to Canada and the West as early as 1835; under his influence the railways of Nova Scotia were constructed as public works and the private exploiter was kept at arm's length; and in 1851 his single advocacy, in pamphlets and speeches in England, had almost persuaded the British government to go ahead at once. In fact Lord Grey, the secretary of state for the colonies, had given through Mr. Howe his informal promise of the £7,000,000 loan asked, but afterward withdrew on the ground that New Brunswick proposed to apply a part of its share of the loan to building a road to Maine, and a route by the St. John Valley, instead of on the original survey away from the boundary. It is true that the imperial government had insisted on its route, but since the difficulty with New Brunswick could have been arranged, we must look for some other explanation. That explanation is to be found in the action of Sir Francis Hincks. Whether the £50,400 taken by Hincks was obtained by his blackmailing of the contractors or their bribery of him, the fact was that the amounts paid by the contractors to Hincks and others were recovered many times over through the liberties they were allowed to take in the prices charged and the character of the work done. But these embezzlements and frauds were committed at the cost of the people for whose service the road was supposed to be created and then the people had to pay for the reconstruction.

To many students of Canadian history it seems mysterious that Joseph Howe, after devoting his splendid gifts to the unification of the peoples of British America, and having so consistently advocated the Intercolonial to this end, should have become the strongest opponent of confederation and have roused an antagonism against it in his own province which lasted for more than a generation. In the light of these transactions it should no longer be a mystery, for Howe clearly foresaw the calamities that would overtake a country that surrendered the essentials of self-government into the control of men not of its own choosing.

The English contractors had sent an agent to Canada and to New Brunswick as an "expert" to advocate the advantage of construction and ownership by a private company. He was instructed to show the New Brunswickers the importance of a connection with Maine and the other New England states, and in Toronto he was

to hold out to Upper Canadians the great commercial gains to come from a line to Detroit. Both these lines were to be built by private capitalists, and if they were built with English money their construction would mean the defeat of the people's line, for the time at least. Without saying much on the question of whose money was to furnish the traffic after the private lines were built, he spoke of the vast resources of the contractors. In an open letter to this agent Howe wrote:

Put all your friends together, unite their entire fortunes and resources, and as our neighbors 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 millions of 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 assembly. 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 truth of the warning was to be revealed in after-years, and railway control of parliament was to reach that stage where the thing which Howe thought inconceivable—that the alienation of vast areas of the nation's best land for the enrichment of private individuals through railway franchises would be taken as a matter of course—occurred. Indeed, the time was to come when the despoilers would even be held up as the saviors of the national estate.

The "Trent affair" brought strength to the movement for the Canadian union, and the Intercolonial Railway was seen to be a necessity to this union. The British North America act, the charter of the confederation, came into force in 1867, and section 145 of that act acknowledged it to be the duty of the government to build and maintain the railway. Moreover, the resolutions of the Nova Scotia and New Brunswick legislatures agreeing to the union made

the building of the railway a specific condition of that agreement. It was nowhere provided that if the road did not yield a dividend the union was to be abrogated.

The various sections which had already been built as government works were taken over and continued as federal government works, under Sir Sandford Fleming, and the line was opened in 1876. As railways went in that time, the line was not only substantially built at a moderate cost, but the construction record of the sections already built by the provincial government, and the record of the Intercolonial system under Sir Sandford Fleming, stand out in conspicuous contrast with the history of the roads in the western provinces under private ownership. There was not a single scandal in the railway work of either provincial or Dominion government of the character that marked the régime of the private-charter monger and of the promoters who built roads for the avowed purpose of making a personal profit out of a national function. It is true that in later years frauds were perpetrated in government railway work, in which the criminals had the assistance of equally guilty members of parliament, but these frauds were sporadic and not general, and, measured with the frauds and public robberies by the private corporations, they were only the doings of a counter-sneak thief compared to the operations of a bank robber or a train bandit. We will have to admit that the later frauds in the construction of the National Transcontinental line are truly of the train-bandit magnitude, but it must be borne in mind that this road, though built under government auspices, was an adjunct to the privately owned Grand Trunk, which controlled the Grand Trunk Pacific, and the Transcontinental was intended to be transferred to that system. It was built in the last days of an administration which had become corrupt, and by a parliament that had long been subservient to private railway interests, the main stream of the defilement of parliamentary life being due to these very influences. The National Transcontinental was a bastard offspring of the illegitimate influence of private railway owners on parliament, for it was a scheme to preserve to the Grand Trunk the expected profits of the Grand Trunk Pacific in the fertile prairie regions while getting the government to pay the cost of

bridging the unsettled stretches of country between Manitoba and Eastern Canada.

It was just analogous to the methods by which private railway interests have succeeded in using the Canadian government road to maintain their personal profits at the cost of the people of Canada. The situation is this: 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 Riviere du Loup on the Lower St. Lawrence. Then it reached Quebec. Private interests held it there as long as possible while the private 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 wrongdoing. 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 the city of Quebec being less than that of the single city of Philadelphia. The mileage of the Intercolonial is 1,730 miles out of a total of 35,582 miles for the whole of Canada. The total source of local traffic is thus very small, and the people are of less than average wealth—though they have the greater asset of physical and intellectual vigor and of long life—and even this limited local traffic 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 construc-

tion and of operation is less in the prairie regions than in the territory 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 carload 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 every man in Canada. The people of the maritime provinces have heretofore succeeded in their protests against the raising of freight and passenger rates on their national railway, because to take a profit would be against the spirit of the federal compact; they have not been successful in getting the same benefits for the rest of the Dominion where the good old Roman system of farming out the taxes to publicans is still applied in the realm of transportation.

In the recent article in this *Journal* on the "Failure of Government Ownership in Canada," Mr. S. O. Dunn aims to show that the service of the Intercolonial costs the people more in proportion than that of the Canadian Pacific, and this he does by taking into account the provincial taxes which the government railway does not pay, the operating deficits of the past, interest on the deficits, and other items to show the actual capital and its usurious value which the people of Canada have put into their own railway. This is quite right so long as we are allowed to take the same method of getting at the financial substructure of the private railway with which he makes the comparison. Let us then dig to the foundations of the capital which the private owners have put into that railway. In the first place, the Canadian Pacific company received from the government of Canada \$25,000,000 in cash and the gift of 700 miles of completed road, with a large stretch of partly finished road built by the MacKenzie government at a cost of \$30,000,000 before government ownership was abandoned in the West. Further, the Company got between three and four millions more contributed toward the short line to the east, which had the effect of depreciating the revenue of the Intercolonial, the total cost of these lines handed over to the C.P.R. being officially reported

as \$37,785,319. This refers to the original C.P.R., but as time went on the Canadian Pacific obtained possession of many local lines, some of them bought on the bargain counter in a condition of insolvency. Most of these lines had been aided, not only by cash subsidies, but by gifts and loans, some of which were never repaid. These amounts cannot be determined; but the cash bonuses given by the Dominion government to the constituent roads which now comprise the C.P.R. system make a total of \$24,113,302, exclusive of the original \$25,000,000; the cash subsidies given by the various provincial governments were \$9,682,297 and those given by the municipalities \$4,025,538, making a total of \$37,821,137 in bonuses in cash, not counting the miscellaneous loans of \$4,229,574, some of which were never repaid. Apart from this grand total of \$104,836,030 stand the huge values in the land given, not only by the Dominion, but by the provincial governments and municipalities in rights of way and free sites. The first gift of land by the Dominion government to the Canadian Pacific was 25,000,000 acres of the best land in the West, some of which became town-sites and city property of a value that cannot be calculated. The company's report shows that it sold last year 390,715 acres for \$6,126,108, and while the original value of the land was a dollar or two per acre several thousand acres of it sold last year at over \$50 per acre. The company still has 7,870,056 acres of agricultural, mineral, and timber lands classed as "inactive assets" and conservatively valued by themselves at over \$127,000,000.

A word by way of parenthesis on the Dominion Express Company. This company is owned by the Canadian Pacific. Its original cost was \$5,800, and an investigation by the late Judge Mabee showed that it had been able to pay in to the C.P.R. 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 \$2,000,000. It now owns real estate and equipment worth \$1,000,000 and it has paid \$3,500,000 in dividends. When the express company's profits become too noticeably inflated, an appearance of moderation can be given by the simple device of increasing the charges made by the railway company for the carriage of express goods. So by charging its child the insignificant sum of \$3,234,715 for "express privileges,"

the C.P.R. brings the Dominion Express Company out with a net loss of \$158,606 in 1915, in spite of the fact that the express receipts were \$6,220,542. And all this on a capital on which \$24,500 was paid in cash. It will be seen from these facts that the assets of this express company were built up by capitalizing a privilege. This in effect is a license to levy taxes at rates of their own planning and limited only by the competition of the post-office in that class of matter for which the rate was one cent per two ounces. This rate works out in practice at ten to twenty times the cost of like service in portions of the United States and in European countries where such goods are carried by parcel post.

If the Intercolonial exercised such a taxing franchise and if it covered the territory of the Canadian Pacific—not to mention the Grand Trunk and the Canadian Northern, both of which own express companies—on the same terms as the C.P.R. itself pays over to the I.C.R., the surplus of the government road last year would have been over \$3,000,000 from this source alone. The revenues of express companies, as in the case of the railways, are derived solely from the rates paid by the people. Is the circumstance that this form of taxation is not imposed upon the people through the Intercolonial a proof of the "failure of government ownership in Canada," or is it proof of the success of private ownership in controlling legislation for private profit?

Since the Canadian Pacific Railway was first organized it has made nine increases in its capital, and in each of these transactions certain shareholders increased the value of their shares without putting in fresh money. Wring out the water and the "unearned increment" from those stocks, and weigh out the public funds and land values, and leave the company with only the actual cash put up by its promoters and shareholders, and where would be the brave showing it now makes in comparison with the government railway? The road would be bankrupt thrice, and after the third receivership there would be no hope of a dividend, for all the money put in from private sources would not construct and maintain one-tenth of the present mileage.

Through the revenues they supply to the privately owned railways the Canadian people now pay an annual interest bill of \$50,000,000, of which nine-tenths go to foreign shareholders; and

of the total assets on which this capitalization is based, taking all the railways into account, nineteen-twentieths are furnished out of the public resources of Canada in the various forms mentioned. Hence the parliament of Canada permits a number of individuals to own privately the railway capital, nearly all of which is founded on the credit and public resources of the people of Canada. Having permitted these gentlemen to capitalize these public resources in their own name, the Canadian parliament permits them to impose transportation taxes at far higher rates than are permitted to the people's own railway, and moreover permits them to use the government railway for the imposition of express rates, which are high beyond comparison with the parcel post of any civilized country. Surely this is not the "failure of government ownership in Canada," but the failure of self-government in Canada. It is clear, therefore, that the service of the Canadian Pacific, as of the other private roads, costs the public much more in proportion than the Intercolonial, since the people furnish the revenues that yield the dividends on shares whose value was built upon the public resources.

Since the foregoing paragraphs were written I have been able to verify the statements here made by some data furnished by Mr. J. L. Payne, comptroller of statistics of the Department of Railways, at Ottawa. 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 C.P.R. 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 0.784 cent per ton

per mile and the latter 0.570 cent. If rates had been traded it is incontrovertibly 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 \$43,040,764, 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.

The private railways of Canada, like those of all other countries, act strictly in their own interests with a view to profits, but this is a sectional interest and is often contrary to the general interest. On the outbreak of the European war a sharp contraction of business took place in Canada, and Mr. Dunn proves how "much more energetically the management of a private railway can act in such an emergency" than a state railway by showing that the Intercolonial on suffering a loss of 12 per cent of its traffic reduced its operating expenses only 11 per cent, while the Canadian Pacific when its earnings dropped 20 per cent on its eastern lines cut its operating expenses down 25.7 per cent. What did this mean to the general public? It meant that the sudden and wholesale discharge of railway employees by the private companies aggravated a situation only too grievous already, and we now know that had it not been for the providential calamity of the war, bringing a heavy demand for munitions and supplies, Canada would have been plunged into a panic equal to that caused by the reckless operations of private railway builders of former days. But what followed? While the distress and industrial disturbance was most ominous in the cities, the greatest harvest ever gathered in Canada was ripening in the prairie provinces, and the private railway companies which had acted so "freely and energetically" in the wholesale discharge of employees from the lines and in the carshops found themselves confessedly helpless in coping with the traffic situation and especially in moving the crop of 1915. As a fact,

quantities of the 1915 wheat still remain in some districts for want of rolling stock and train staffs to move it. Mr. Dunn could not have cited a simpler proof of the constitutional inability of a private railway company to take a national view of a railway problem. How much better in the long run would it have been for these railways to have kept the men employed on part time on car and locomotive building and reconstruction, thus alleviating the common distress and being ready to handle the traffic when trade revived, as the Intercolonial railway actually did with happy results, for its surplus for the past year is \$2,000,000.

There was a time when railway managers argued that railway rates were a commodity which a company sold as a merchant might sell his goods, and the argument held till the various states began to take their toll out of this commodity by levying imposts upon the railways. Then there was a bitter outcry against the state taxes on the railways, and the companies warned the state governments that the railway rates would have to be raised to cover these taxes. In reality the states were taxing themselves, as the railway companies contended; for under either private or government ownership all railway revenues are equally derived from the people who pay the cost of transportation, to which every soul contributes. Was there ever then a more self-stultifying method of raising revenue? How can a state withdraw from a railway, and call it a people's revenue, that which the same people have already put into it as transportation rates? And whatever is imposed as state taxes must be added to the cost of conducting the railway and must be balanced by increased rates if the same dividends are to be maintained. Most of the state legislatures imposed the taxes on railways in retaliation for the exactions and unjust discriminations of the private companies. And the effect of this has been like the revenge of Samson. In bringing down the pillars of the grand stand upon the Philistines they have wrought a full measure of injury upon themselves. These taxes have grown in the United States from a few hundred thousand dollars per year to \$136,000,000 in 1914, all of which must have been provided by the people from whom the railways got their revenues.

If this state taxation of railways were only a fallacy with no worse results than a confusion in accounting, it might pass as one

of the humors of legislation, but it is bound to become a serious difficulty in interstate relations. The problem can be illustrated by the present situation in Canada. We have adopted the vicious policy of the American states in imposing provincial taxation on railways, and while we have not drifted so far into the maelstrom that we cannot pull out, we have laid the foundation for future revenue troubles. All the provinces except Prince Edward Island tax the Canadian railway companies. The total tax in 1915 amounted to \$3,049,727 and is increasing every year. Now suppose that only one province, say Ontario, levied the whole of this three millions. Would it not be plain that as each citizen individually pays his share of the cost of transportation in Canada in accordance with the amount of his purchase of rail-transported goods, and that, as each province shares in the whole charge, Ontario is taxing all the other provinces by the amount it levies on the railways? It makes no difference to the railways how the tax is raised, but it does make a difference to the people where it falls. If Ontario alone collects the tax, and the people of the whole Dominion pay for it in increased cost of transportation, as they must, then without doubt Ontario is bleeding all the other provinces with the leech of its railway tax. In other words, Ontario is erecting a railway tollgate by which it takes toll on all the traffic that passes through its borders, east or west. And this is the actual result to the extent that, of the total tax, Ontario's share, which is \$1,404,933, exceeds that of all other provinces in proportion to the population. Even if every province levied the tax in the correct proportion, the whole people of Canada would not be benefited to the extent of a cent, since they only withdraw from the railway a surplus which they themselves have put into it. Indeed, the people are worse off, because the cost of the legislation and the clerical machinery needed to enforce the act has to be paid for.

This is another of the unwelcome offspring left on the national doorstep by the private control of a country's transportation. And still another is the system of state railway commissions, often running counter to, and confusing, the work of the Interstate Commerce Commission. Various authorities estimate the cost of these commissions in the United States at \$200,000,000 to \$300,000,000 a year. This heavy cost with the lamentable waste of labor and

talent involved would never have developed but for private railways, whose past outlawry forced the states to establish the commissions. If the federal government had controlled the railways from the beginning there would have been no call for state railway commissions. How is it that we have no state postal or customs or excise commissions? Because of the simple fact of federal government control. If the Canadian or United States post-offices were now managed by private postal companies, as once they were all over Europe, or if the customs duties were farmed out to private individuals, as they were in the good old Roman days, the United States would undoubtedly have needed an interstate postal service commission and forty-eight postal regulation commissions, for we should have found that one postal company had got control of the Pennsylvania coal fields and was forbidding the mails to a rival postal company in Montana whose patrons wanted cheaper coal: and that an Illinois postal commission was called into being because another company was carrying newspapers from New York to Joliet at lower rates than those at which its own state company was taking Chicago papers to the same city.

Out of the fallacy of state taxation of railways has developed the curious result that for many years the people of Canada have been paying taxes to the various border states to make up the deficits of the Grand Trunk on its United States lines, caused in part by the abnormal assessments made upon that road, notably in the state of Michigan. The Grand Trunk Railway paid last year on its various American lines taxes to the amount of \$909,149, or \$188,076 more than was imposed on all its large mileage in Canada.

It is only a logical consequence that these and many other evils which might be characterized have flown out of the private ownership of railways. It is because of the enormous material interests involved, giving opportunities to the evil-disposed and temptation to the weak in political life, and because a function which affects every soul in the commonwealth and therefore belongs by its nature to the nation is exercised by a few individuals for their personal profit. The state ownership of railways may not immediately realize the ideals of popular government; but it will at least fulfil one idea long fought for, and that is that the people who

pay the taxes shall control the proceeds of those taxes. The history of the administration of the customs, the post-office, and other departments of public service is a chronicle of improving efficiency, and if in the first years of the coming era of the state control of railways in Canada and the United States the septic poison of irresponsible private ownership is not entirely eliminated from the public organism, the fact of the lingering virus will not be a reason why we should abandon efforts for good government, but rather the strongest reason why we should improve our methods and controlling machinery and purify the whole civil service.

The influence brought to bear upon the municipalities by the railways for private profit was yet more degrading to the public life of Canada; for where the railway promoter could not succeed by bribery or a plausible appeal to the spirit of progress he gained his end only too often by threats and blackmail—a method he dare not openly use to a parliament. A city or town would be plainly told that if it did not give a bonus the new road would leave it off the map. Everywhere the impression was left that the benefits of a railway would be local and that only those municipalities that gave the bonus would get the blessing. Thus the clever railway lawyers and paid advocates would go up and down the country soliciting bonuses for railways over whose rates and policy the municipalities never did, and never could, exercise the slightest control. Indeed, the effect of building a new line, as we know by many experiences in America, was sometimes to cripple local industries and bring decay in addition to municipal debt. Typical cases of this class were those of Port Hope and Cobourg. These two towns on the north shore of Lake Ontario had each a population of about 7,000 and carried on a large lake traffic as well as a lumber trade with the inland districts. The railway boomster appeared, with the result that Port Hope borrowed \$680,000 and Cobourg \$500,000 and handed these sums over to the Grand Trunk. When the railway got under way the lumber trade and much of the local traffic was carried past these towns, and the shipping trade was taken away by the railway, leaving the population of both towns less by several hundreds each at the census of 1891 than they had been before the bonus was given thirty years before. In all these

weary years of struggle under such burdens the Grand Trunk has never given the people of Port Hope or Cobourg the slightest consideration in low rates in recognition of the borrowed money so confidently placed in the company's hands. The proceeds of these bonuses have, of course, gone into the general expenses of the company and have been necessarily distributed all the way from Portland, Maine, to Chicago, some of them going to pay the princely salaries at headquarters in London.

Under the fallacies propagated at that period the municipalities in what was then known as northern Ontario yielded their necks to the yoke of heavy bonuses to the Hamilton & North Western Railway to get what they felt to be 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.

To make the municipal gold bricks more tempting the railway interests secured the passage of an act creating a municipal loan fund on which municipalities might draw for needed public works. Once the fund was created, there was nothing easier for these railway touters to show than that of all public works the first need was a railway at their doors; and the councilors were persuaded that in borrowing money at 6 per cent, with 2 per cent added for a sinking fund, they would get a return of 10 or 12 per cent from the railway, and thus they would make a profit out of the loan besides reaping the vast prosperity due to the railway. Under such illusions the city, town, and county councils of Upper and Lower Canada were talked into taking from this fund in the decade of 1857-61 a total of \$6,520,340 for railway purposes alone, and at the end of that period arrears of interest were \$2,700,000. Then \$3,000,000 more were raised by municipalities which did not draw from the fund. Their defaults in interest were due at that time less to inability to pay than to the connivance of government. As Thomas C. Keefer, president of the Canadian Society of Civil Engineers, before quoted, 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."

In the official *Railway Statistics* of Canada for 1915 it is shown that the municipalities of the various provinces have given cash

bonuses of nearly \$18,000,000 to the railway companies, the provincial governments over \$37,000,000, and the Dominion government over \$183,000,000. If we count in the loans of former days which were written off as bad debts or converted into gifts, and if we add the cash aid to the amount of \$23,000,000 granted at the last session of the Dominion parliament to save the Canadian Northern from bankruptcy and the Transcontinental from collapse, we have a total of \$300,000,000 given by the Canadian people into the hands of private corporations, a large proportion of which in the past has not gone toward reduction in the cost of the people's transportation, but to swell the fortunes of a few private individuals.

These grants, enormous as they are for a country like Canada, do not comprise any of the guaranties given by the Dominion and provincial governments on the bonds of the private companies, the guaranty so far authorized amounting to \$409,869,165. These guaranties have a softer sound on the public ear than hard cash, but they yield the same reality of indorsement on the national credit to perpetuate private profits. The preposterous feature of these provincial guaranties and municipal loans—which must be amusing to the railway lawyers and financiers who secure them—is that they are given in respect to railways which have all become integral sections of interprovincial and transcontinental systems; hence these provinces and municipalities have given indorsements on properties over which they can neither exercise any individual control nor obtain any effective security in case of default. The function of railway transportation in British Columbia is linked with the same function in Prince Edward Island by links of a kind which cannot be broken by either province, except to its own damage. Even if such a self-wounding policy were attempted, the intervening provinces could not permit it. But note the contrast in the situation of the two provinces named. Prince Edward Island, having a government-owned system and no private lines, has escaped the flattering attentions of the bonus and guaranty hunters, stands free of such uncontrollable indorsements and the burden of interest on them, and has none of that kind of "competition" whose only effect would be to increase the rate of taxation of the province which had a second and third set of roads to maintain. Finally, the railway rates in Prince Edward Island are

about one-third of those of the western provinces; and, incidentally it may be added, there is no province of Canada where the average span of human life is so long, where there is so little poverty, and such even distribution of the comforts of life. Look at British Columbia at the other end of the scale. This province has pledged her resources to the owners of the private railways to the extent of \$80,932,000, these guaranties amounting in some cases to \$42,000 per mile, or a liability of \$180 for every man, woman, and child in the province. The annual interest bill is now \$3,600,000, which the province has to pay to two companies in whose management she can have no voice and over whose rates she can have no control, since these companies, under the Canadian constitution, are declared to be "for the general advantage of Canada," and are thereby brought under federal jurisdiction. And all the while British Columbia and the prairie provinces are enjoying the "benefits of competition" by paying railway rates from twice to three times as high as those of the maritime provinces, and are paying taxes to the eastern provinces to the extent that the rates imposed on them exceed the general average rates.

The transportation problem of Canada differs from that of the United States in that Canada has within her own borders an almost complete trunk-line waterway in her lakes and large rivers. A glance at the map will show the wonderful possibilities of these waterways. Educated as this generation has been under the conception that the only defense against the exaction of a railway company is the rivalry of some other company, we have looked upon water transportation as a special check, by competition, upon the extortions of the railways. Years ago this competition was effective, and summer passenger and freight rates went down on the railways when navigation opened up on the lakes and canals. That was at a time when many of the railway managers really believed in the effectiveness of competition, especially when they could 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 enough to reflect that "in the long run the people pay the rate," they saw that it was more profitable to co-operate in keeping up rates, for that would maintain profits to all the companies. The next step was to apply to the traffic on the lakes and canals the same policy as on land. This was accomplished by the gathering of the various lake units of Canadian steamships into one control, which could the more easily be done by the larger companies, which, taken together, had practically a monopoly of the docking and warehousing accommodations in the canal, lake, and river ports. This control of terminals and this merging of steamship lines have been silently effected 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 movement of the heavenly bodies which, in the poetic idea of the ancients, produced the music of the spheres.

In former years the railway rates in summer fell to the water level, but now water not only finds its own level, but rises to that of the rails, with this financial result, that the Canada Steamship Lines Ltd., at its last annual meeting (March, 1916), made a net profit of \$662,151, after allowing for interest charges, depreciation, etc. Without suggesting that there was anything more criminal in the affairs of this company than in any other corporation similarly endowed, the natural question is, How is this company able to navigate its boats from tide water in the St. Lawrence to the upper lakes with the historic rapids and Falls of the St. Lawrence, Niagara, and the Sault blocking the channels? Only because there is a great system of canals to overcome these obstacles. Who gave steamship owners this advantage? The people of Canada, at a total cost for the original canals and their subsequent enlargements of \$113,971,000. On the basis of the returns of 1915 it costs the people of Canada \$1,644,000 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 come, not from traffic, 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 a year, of which the lake-vessel owners get the benefit, and without which they could not carry on their trade; nor have we considered the new Welland ship canal, on which the expenditure so far has been over \$5,000,000.

So the Canadian people, at this huge outlay, provide navigation facilities, and then 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, for the Canadian Board of Railway Commissioners has no jurisdiction over the canal or lake traffic. It is precisely as if the government had built the Grand Trunk, the Canadian Pacific, and the Canadian Northern systems, equipped the stations, and then given the private companies the right to operate trains over the roads, the companies charging what rates they chose to levy, while the government maintained the road free of charge.

Contrast this with the policy of Belgium, Holland, Germany, and other countries, where canal navigation is carried on, not to provide profitable franchises to private persons at the public expense, but to co-ordinate water transportation with rail transportation, so that each shall supplement the other to the end of giving the amplest service at the cheapest rate, and without any regard to whether that service gave a profit in itself.

The history of transportation in Canada illustrates the great gulf that exists between a railway created to serve 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 is not interested in a railway enterprise out of which he cannot expect a profit, 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 from the first, and the railway act of that country expressly forbade the accumulation of railway surpluses, but devoted them to new extensions and reduction of rates, and at the outbreak of war no country in the world

could compare with Belgium for cheapness of rates and equitable distribution of railway and canal facilities. Nevertheless there are numbers of countries owning their railways which do derive a profit while giving moderate rates and efficient service. India, Japan, South Africa, Australia, New Zealand, Germany, and other countries may be cited. On the Pekin-Mukden Railway, which is now a state-owned railway of China, the receipts in 1912 were £13,183,000 and the expenses £3,820,000, which surpasses the world's record for profits, whether for private or state-owned roads.

But we need not go outside of Canada to give an example of the significant contrast in the conception of the state and the private owner in regard to the true purpose of a railway. 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. Today 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 square miles uncovered, is now the home of thousands of settlers and many local industries whose migration there is only regarded 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 the Canadian Pacific, and there was, moreover, a liberal bonus, from both the Dominion and the 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 credit for lines in districts where they might impose taxation on communities already established, with traffic ready to handle, duplicating and triplicating lines at a cost which the whole country must ultimately pay, and all in the name of a "competition" which has brought not a cent of 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 the people with the exercise of their own rights. It started to build a railway to the clay belt as a government work. Thus began the Temiscaming & Northern Ontario Railway in 1898, the undertaking being commenced as a branch of the Department of Public Works. Afterward, 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, especially those of the United States. 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, these east and west branches being the commencement of a system which will soon cover the whole of the fertile belt.

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 Temiscaming 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 over \$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. Afterward 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 surtax 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 the 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 and have left the slime of corruption on the parliamentary life of Canada as upon the United States. Finally, the Ontario government railway has opened up for settlement a vast region which will be the home of millions, but which would have been a wilderness today if it had been left to the profiteering policy of private exploitation.

Besides the two government roads mentioned, there is a third experiment in public ownership of great interest to students of political economy, of which a fuller account may perhaps be given to readers of this *Journal* at another time. This new adventure in economic legislation is in the field of municipal ownership and is known as the Hydro Electric Commission of Ontario. It involves the control of electric power in the interests of Ontario municipalities as its primary object, but is now also developing a federalized

system of electric railways under a combination of municipal and provincial control. Its first essay in railway ownership has been the acquisition from the Pere Marquette Company of a short but unprofitable line running from London to Port Stanley, on Lake Erie, a distance of 23 miles. In the first year's operation (1915-16) the Hydro Electric Commission has renewed the rolling stock, doubled the number of trips per day, reduced the running time of all the trains, and comes out at the end of the year with a surplus of \$15,000.

Of the three different types of publicly owned railways in Canada—federal, provincial, and municipal—it can be confidently said that all have been successful from at least three different standpoints; that is, honesty of administration, lower rates to the people than are given by private companies, and freedom from the legislative corruption that has followed the surrender to private persons of a national prerogative carrying with it the power of public taxation. To charge the Intercolonial with failure because it does not take from the public more than is required to maintain the service is to misinterpret Canadian history. By the simple step of raising the rates to the level of those of the private railways—which would be mere justice—or even by the device of expropriating the express business now monopolized by the private railways, the Intercolonial could be made to yield a large profit this very year, if that were not a violation of the covenant made with the maritime provinces at confederation. Would the advocates of private ownership have the government of Canada remove the reproach of cheap service by repudiating its constitutional pledges, or would they have justice done by reducing the private companies' rates to the level of the government road?

In postal work the ideal of nearly all the nations of the world is the widest service at the cheapest rate, and scarcely any country seeks to make its postal service a means of profit or public revenue. In the growing company of nations that own their highways the ideal toward which they are striving is that of the postal service rather than the notion of raising surplus taxes by railway profits.

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