

 Canada
and
The Grand Trunk



1829

to

1924

H. A. Lovett

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Canada and The Grand Trunk

1829-1924

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The genesis of railway construction in British
America and the story of The Grand
Trunk Railway Company of
Canada from its inception
to its acquisition by
Canada.

BY

H. A. LOVETT
One of His Majesty's Counsel

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CANADA AND THE GRAND TRUNK

PREFACE

That part of the following narrative relating to the conditions under which railway construction was commenced in Canada is in the main taken from Professor Skelton's excellent books on Canadian Railways and on the life and times of Sir A. T. Galt and from Hon. Mr. Justice Chisholm's "Speeches and Letters of Joseph Howe."

The main body of the story containing the history of the Grand Trunk enterprise including its relations with Canadian Governments is based on the records of the company and on public documents. Those sections dealing with the more important problems of the company and their treatment are largely made up of quotations from such records and documents.

The word "Canada" in the narrative refers to the United Provinces of Upper and Lower Canada in the description of events between 1841 and 1867 and to the Dominion of Canada in the history of the company after 1867.

Prior to 1841 British America from the head of the Great Lakes to the Atlantic was divided into the provinces of Upper Canada, Lower Canada, New Brunswick, Nova Scotia and Prince Edward Island. In 1841 Upper Canada and Lower Canada were united and thereafter known as Canada. In 1867 the province of Canada was divided into the provinces of Ontario and Quebec and those provinces, with New Brunswick and Nova Scotia were formed into a federal union known as the Dominion of Canada. Since 1867 the Federal Union has been enlarged so as to include the whole mainland area of British America from the Pacific to the Atlantic.

I am indebted to my friends the Hon. R. B. Bennett, P.C., and the Hon. Mr. Justice Russell for many valuable suggestions as to sources of information and otherwise.

H. A. Lovett.

Montreal, February 4th, 1924.

CANADA AND THE GRAND TRUNK

Chapter I BEGINNINGS OF THE RAILWAY AGE 1829-1849

It was only 95 years ago in 1829 that the road of iron with its steam locomotive first appeared on the industrial horizon. Stephenson's Rocket had made its world startling run in England.

Twenty years later Britain and the United States were each equipped with thousands of miles of railways. In England, after the Liverpool and Manchester was opened in 1830, railway development proceeded steadily and soundly. In 1840 about 1,300 miles had been constructed. The extortionate prices set on land by the great proprietors and the heavy cost of getting a bill through Parliament had prevented a more rapid expansion. After 1840 the pace quickened. George Hudson, a merchant of York, who had been successful in promoting a local road embarked on wider schemes and soon became a power in the land. The influence which the landed proprietors had brought to bear on Parliament to block railway proposals was now exerted to carry the bill of any and every company which had seats on its board and gold to fling for its right of way. The capital which Parliament authorized railway companies to raise was in 1842-43 £4,500,000; in 1845 £60,000,000. In two days Hudson obtained approval of forty bills involving the expenditure of ten million pounds. The scrip of a company which stood at four pounds a share went up to forty pounds three or four days after he joined the directorate.

In a single week in 1845 in three newspapers eighty-nine new schemes were announced requiring eighty-four million pounds capital, and still the issues poured forth. Every hotel in London was jammed with the witnesses brought down by Counsel for rival lines, and the committee rooms and lobby of the House of Commons presented a scene such as they never witnessed before or since.

The flood of speculation came to an end in 1846. The disclosure of Hudson's fraud in the Eastern Railway project brought the collapse which was inevitable but which might otherwise have been delayed. Thousands of

scrip holders were ruined in the smash and those who could still draw back hastened to do so.

In the United States during this same period a strenuous rivalry had begun between the various United States ports for the trade of the rapidly developing west. New York had gained a great advantage by the building of the Erie Canal but Baltimore and Philadelphia and Boston hoped to conquer the canal by the railway. Boston had already tapped the Erie Canal at Albany by its Western Railroad, and by 1848 every United States city on the Atlantic seaboard was backing a railway designed to give it as great a proportion as possible of this growing traffic. There was overbuilding in the United States, great loss to scrip holders in many cases and many a heart break when the rosy dreams of promoters failed to come true, but the iron road was growing and working marvels in the industrial prosperity of the young republic.

Prior to 1848 that half of the North American continent remaining in the possession of Great Britain and known as British America had no railways unless the summer portage road spanning the sixteen miles between Laprairie on the St. Lawrence and St. Johns on the Richelieu is considered a railway.

The leaders of her two million odd people, the larger portion scattered along the Great Lakes and the St. Lawrence and the smaller portion settled on the shores of the Atlantic and divided from their compatriots by a thousand miles of wilderness, had tasks in hand so vital to the foundations of national prosperity and so difficult of accomplishment as to keep even railway construction in the background.

Politically they were engrossed in the earlier years in resisting enticing inducements to join the new, free and prosperous republic to the south and in beating off the armed invasions of their frontiers designed to obtain by force what could not be obtained by entreaty.

In the later years they were engaged in a long and bitter struggle with Downing Street and the "Family Compact" to obtain for Britons on this side the water the most precious possession of Britons in the old land,—Responsible Government.

In that struggle rebellion showed its head in the provinces along the St. Lawrence and the Lakes but found so little support as to become ludicrous while in the provinces by the sea under the leadership of Joseph Howe, the son of a loyalist and the most beloved and commanding figure in the public life of British America, victory was achieved with not so much as the breaking of a single pane of glass.

Industrially they were engaged in completing on the St. Lawrence and the Lakes one of the finest canal systems in the world and in building up in the maritime provinces a mercantile marine whose sails whitened every sea.

These tasks, political and industrial, were not completed till 1849.

There were, however, eager individual colonists in the forties busy with plans for the introduction of the *Chemin de fer* into the provinces.

Many projects were framed and charters issued, but political unrest, lack of capital and of leadership, and the absorption of public interest and public funds in the building of canals prevented any progress. The real initiative and the crucial experience which led to the rapid development in the fifties came from the Eastern Townships experiments with which A. T. Galt, afterwards Sir A. T. Galt was connected.

Midway as the Townships were between Montreal and the New England coast, bound to the one by political ties and to the other by the origin of its early settlers, it was natural that the idea should take shape of a road from Montreal to Boston or Portland, traversing the Townships.

Montreal was much less interested. Itself a seaport, it could see no necessity of building hundreds of miles of railway to reach the New England coast. The miracle-working canals, when completed, would make it the market place, the distributive centre, (the "emporium" as the newspapers liked to put it,) not only of Western Canada, but of the Western States. The differential duties imposed by Great Britain further assured a substantial monopoly of the import trade. And even had the will to build been present, the power seemed lacking. The Montreal of those days had neither the capital, the promotion instincts nor the railway experience of Boston.

The seed planted by Boston missionaries who visited Canada fell on stony ground in Montreal but on fertile soil in Sherbrooke. In February, 1843, a meeting of the inhabitants of the St. Francis district was held at Sherbrooke, and the proposed railway heartily commended to the attention of the British, Canadian and United States governments. Galt was absent in England at the time but on his return threw himself into the project with enthusiasm and energy. He became chairman of a provisional committee, visited Boston and interviewed the leading railway men, and prepared a prospectus of "Statistical Information relative to the proposed Rail Road from Montreal to Boston via the Eastern Townships." But to no avail. Boston's efforts were distracted by the rivalries of different companies and different routes, and Montreal remained aloof.

Her aloofness suddenly ended. Hitherto the practice of importing goods in bond over foreign soil had been unknown in America, but in 1845 a Drawback or Bonding Bill was passed at Washington. In the interest of United States ports and railways it permitted free passage in bond to Canadian imports or exports. At once Montreal saw its monopoly threatened. Canada West would import its British wares by New York or Boston, particularly during the months when the St. Lawrence was sealed with ice. The establishment in 1840 of the Cunard line of steamers, plying between Liverpool and Boston, and heavily subsidized by the British Government, had already tended to make Boston a distributing point for the province, and the new measure would hasten this development. Montreal must itself seek railway communication to the sea, if it was not to be side-tracked for six months of the year.

At the same time a rival claimant for the Atlantic terminus appeared. Portland, a sleepy little town in Maine, threatened with the loss of what population and trade it had by the irresistible attraction of Boston, had yet two assets of importance, one a good harbor, the most northerly on the United States coast, and the other the enthusiasm of John A. Poor. Poor, a young lawyer practising at Bangor, had early become fired with enthusiasm for railway building. In 1843 he made public two schemes which had a lasting influence on the railway progress, not only of Maine, but of the British provinces on either border. The first was for a road from Montreal to Portland, which would be much shorter than any possible route to Boston, and the second for a road from Portland to Halifax which would connect with the Montreal to Portland road and with the New England and New York Railways. Galt and his Sherbrooke friends soon decided to throw in their lot with Portland rather than with Boston, mainly because it was becoming apparent that if Boston won, a southerly route by Burlington and Lake Champlain, thence northward, would be chosen, and the Eastern Townships left out in the cold.

The Canadian legislature in March 1845, incorporated Galt and his associates as the St. Lawrence and Atlantic Railroad Company, with power to build from the St. Lawrence opposite Montreal to the New Hampshire border, there to join the Atlantic and St. Lawrence, running to Portland, and chartered by Maine and New Hampshire. Its capital was put at £600,000, Halifax currency or \$2,400,000.

The provisional directors included Peter McGill, William Molson, George Moffatt and John Torrance, prominent among Montreal merchants, John Fotheringham of the City Bank, A. N. Morin, then in parliament and

later to be joint premier, Samuel Brooks and Edward Hale, members for Sherbrooke town and country, A. T. Galt and others.

The terminus chosen and the charter secured, the next step was to obtain the capital.

In March, 1845, the provisional directors applied to the Provincial Government for a bond guarantee but the application failed.

Failing government backing they were compelled to rely on the merits of the plan and their own skill as prospectus writers. In bringing the investment before the Canadian public, provincial hopes and local fears alike were appealed to. The railway was "to be considered as the completion of the Canadian efforts to obtain the trade of the west," and the only means of averting the disastrous blow to the important interests of Montreal that would come "by diverting the supply of Western Canada to New York and Boston." The settlement of the Eastern Townships and the development of large local traffic were also emphasized. With all these persuasives, the total subscription in Montreal and the Townships amounted to only £100,000 currency, or one-sixth of the capital required.

To secure the remainder, the committee determined to send Galt to London, and accordingly he spent the summer of 1845 learning the ways of the English investor. The St. Lawrence and Atlantic was the first Canadian enterprise to appeal for English capital.

The time seemed propitious. England was in the grip of the Hudson railway mania. Galt reached London when the pandemonium was at its height. He was not without influential friends in Lombard Street. The shareholders and directors of his Land Company included many men prominent in finance, Edward Ellice, Alexander Gillespie, Robert McCalmont and others, and both because of the Company's interest in the upbuilding of the Townships and their confidence in the judgment of the Commissioner, they gave the plan their sanction and went on the London committee.

The bulk of the capital was subscribed at once and small deposits paid down. The young financier and his fellow directors in Montreal were delighted. The rejoicings did not last long. The Hudson bubble burst and Galt's English subscribers refused to pay up the calls and endeavored to recover their deposits.

The building of the road seemed further away than ever. When Galt returned to Canada, he found the committee uncertain whether to go on. His own vote was for pressing forward. The majority of the committee came to

the same conclusion, and in April 1846, the definite organization was effected. George Moffatt, member of parliament for Montreal, was elected president, and the directors included A. N. Morin, John Torrance, Thomas Stayner, Peter McGill, Samuel Brooks and A. T. Galt.

Under an able engineer, A. C. Morton, surveys were at once begun, and by wide canvassing, the stock subscribed in Canada was increased to £200,000; about £35,000 remained uncanceled in London, and the contractors for the first section from Longueuil to the River Richelieu, took the same amount of stock in part payment. Little was secured from London even after lawsuits established the stockholders' liability. Montreal subscribers were hard hit by the commercial depression following the repeal of the Corn Laws, and incidentally, of the preference which Canada-milled flour had enjoyed in Britain. In time, however, the bulk of these subscriptions were paid up.

Even if all stock subscribed had been paid up the Company's capital would still have fallen far short of the estimated cost. It was determined to attempt to float a loan in England, in the hope that bonds would appeal more strongly than speculative shares, but London declined even to nibble at the opportunity and Galt returned empty-handed.

These resources failing, the directors turned to the quarter which was to prove for two generations to come the last and often the first hope of the railway promoter—the state. The prospects of securing government aid were more favourable than they had been some years before. The canal system which had absorbed all the funds and all the attention of the province was practically completed. The constitutional struggles which had marked the past quarter century were nearly over, and men were glad to turn to other issues. Politicians of the Hincks and Macdonald type were taking the place of the Baldwins and LaFontaines. In Canada West an influential group, headed by Sir Allan Macnab, were equally anxious to secure Government backing for the Great Western project from Hamilton to Windsor, and they joined forces with the Montreal backers of the St. Lawrence and Atlantic.

During 1848 the government gave no sign of aid, though a Committee of the House, with Macnab as Chairman, recommended guaranteeing the stock of these two roads. Construction was pushed slowly along with existing resources, and on December 7 the road was opened to St. Hyacinthe, thirty miles from Longueuil, opposite Montreal.

From Quebec to Halifax even less progress had been made.

In October 1845 some gentlemen in London proposed to form a company to build a railroad from Halifax to the St. Lawrence, and communications were sent to the Provinces interested inviting co-operation.

In the following year the provinces interested voted the funds for a joint survey of the line to the St. Lawrence and in aid of the enterprise.

The survey of Major Robinson of the Royal Engineers and Captain Henderson followed, and their report and plans were submitted to the colonial legislatures in 1849.

“During that session the right of way, with ten miles of Crown land on either side, and £20,000 sterling per annum for ever or until the road paid, were granted by the Legislature of Nova Scotia. Grants, proportional to their resources and interest in the work, were also made in the Upper Provinces and New Brunswick. The belief was general that substantial aid would be given by the British Government; and sanguine and apparently well-founded hopes were entertained in all the Provinces that a work, recommended by a royal Commissioner, countenanced by governors and secretaries of state, which had been surveyed at a cost to the colonies of £10,000 and in aid of which £60,000 per annum and ten thousand acres of land had been granted by the colonial legislatures, would be considered of sufficient importance to command the attention of Parliament. This had been the general belief of many from 1846 to 1849. When the surveys were completed, and the legislative grants were given, a railroad from the seaboard to the St. Lawrence, upon British territory, appeared to be un fait accompli.

“The disappointment was universal, when a report from a captain of the Royal Engineers, addressed to the Colonial Secretary, and by his Lordship transmitted to the Provincial governments, dashed all the high hopes that had been raised, and left the people of North America to digest their disappointment as they could; wondering, as no doubt they did, at the facility with which one Royal Engineer officer could construct a great scheme of national improvement, after two years of careful inquiry and at a cost to them of £10,000 which another officer of the same corps, but of inferior rank, could scatter to the winds.”

British America had not received much aid or encouragement from the British Government or from the English subscribers to the St. Lawrence and

Atlantic up to 1849.

Chapter II

THE RAILWAY POLICY OF BRITISH AMERICA

1849—1851

In 1849 Francis Hincks, Inspector General in the Baldwin-LaFontaine ministry, introduced in the legislature of Canada a bill entitled “An Act to provide for affording the guarantee of the Province to the bonds of Railway Companies on certain conditions and for rendering assistance in the construction of the Halifax and Quebec Railway.”

The Act which became law on the 30th of May, 1849, contained two main provisions and other provisions incidental to the proper working out of the statute.

The main provisions were as follows:

“Whereas at the present day, the means of rapid and easy communication by railway, between the chief centres of population and trade in any country and the more remote parts thereof, are become not merely advantageous, but essential to its advancement and prosperity; And whereas experience has shown, that whatever be the case in long settled, populous and wealthy countries, in those which are new and thinly peopled and in which capital is scarce, the assistance of Government is necessary and may be safely afforded to the construction of lines of railway of considerable extent; and that such assistance is best given by extending to Companies engaged in constructing Railways of a certain length under Charter from, and consequently with the approval of the Legislature, the benefit of the guarantee of the Government, under proper conditions and restrictions, for loans raised by such Companies to enable them to complete their work: Be it therefore enacted by the Queen’s Most Excellent Majesty, by and with the advice and consent of the Legislative Council and of the Legislative Assembly of the Province of Canada, constituted and assembled by virtue of and under the authority of an Act passed in the Parliament of the United Kingdom of Great Britain and Ireland, and intituled, An Act to re-unite the Provinces of Upper and Lower Canada and for the Government of Canada; and it is hereby enacted by the authority of the same, That it shall be lawful for the Governor in Council, on behalf of this Province, to guarantee the interest on loans to be raised by any Company chartered by the Legislature of this Province for the construction of a line of railway, not less than seventy-five miles in extent, within this Province, on condition,—That the

rate of interest guaranteed shall not exceed six per cent. per annum,—that the sum on which interest shall be so guaranteed shall not be greater than that expended by the Company before the guarantee is given, and shall be sufficient to complete their road in a fitting manner, and to the satisfaction of the Commissioners of Public Works, provided always, that no such guarantee be given to any Company until one-half of the entire line of Road shall have been completed,—that the payment of the interest guaranteed by the Province shall be the first charge upon the tolls and profits of the Company, and that no dividend shall be declared so long as any part of the said interest remains unpaid,—that so long as any part of the principal on which interest is guaranteed by the Province remains unpaid, no dividend shall be paid to the Stockholders, until a sum equal to three per cent. on the amount so remaining unpaid, shall have been set aside from the surplus profits of such Railroad, and paid over to the Receiver General under the provisions hereinafter contained as a sinking fund for the redemption of the debt on which interest is guaranteed as aforesaid, and that the Province shall have the first hypothec, mortgage and lien upon the Road, Tolls and Property of the Company for any sum paid or guaranteed by the Province, excepting always, the hypothec, mortgage or lien of holders of bonds or other securities on which interest is guaranteed by the Province, for the interest so guaranteed and the principal on which it shall accrue.

“And whereas the proposed Railway between Halifax and Quebec will be a great national work, linking together the several portions of the British Empire on the continent of North America, and facilitating the adoption of an extensive, wholesome and effective system of Emigration and Colonization, and it is right that Canada should render such assistance as her means will admit of towards the accomplishment of a work as important and promising results so beneficial; Be it therefore enacted, That if Her Majesty’s Government shall undertake the construction of the said Railway, either directly or through the instrumentality of a private Company, it shall be lawful for the Governor in Council, on behalf of this Province, to undertake to pay yearly, in proportion as the work advances, a sum not exceeding twenty thousand pounds sterling towards making good the deficiency (if any) in the income from the Railway, to meet the interest of the sum expended upon it, and to place at the disposal of the Imperial Government all the ungranted lands within the Province lying on the line of the Railway, to the extent of ten miles on each side thereof, and to undertake to obtain, pay for and place at the disposal of the Imperial Government, all the land required within the Province for the line of the Railway, and for proper Stations and Termini.”

The St. Lawrence and Atlantic Company made strenuous efforts to avail themselves of this Act. The city of Montreal had already agreed to aid the road by taking £125,000 preferential stock, giving its bonds in exchange. Galt's Land Company and the Seminary of St. Sulpice were each induced to take bonds to the amount of £25,000. To bridge the remaining gap, a contract was made with Black, Wood and Company, of Pennsylvania, who had built part of the Canadian line, and were to build all the Maine portion, by which they undertook to build the whole road. The price per mile agreed upon was £6,500 or \$26,500. The contractors agreed to accept part of their pay in stock which was at a discount of fifteen or twenty per cent. and the rest in provincial bonds, when secured.

Eventually the Company took the contract from Black, Wood & Company and completed it by daywork, under the efficient supervision of the new Chief Engineer, Casimir S. Gzowski. The second section of the road, from St. Hyacinthe to Richmond, was opened in October 1851, and the third section, from Richmond to Sherbrooke, in September 1852.

The Great Western with a projected line from Hamilton to Windsor was also pushing forward.

Progress was slow but the parties behind both projects were exhibiting indomitable perseverance.

In the maritime provinces, while the people were endeavoring to reconcile themselves to Earl Grey's July 1850 despatch informing the Lieutenant Governor of Nova Scotia that Her Majesty's Government "was not prepared to submit to Parliament any measure for raising the funds necessary for the construction" of the railroad from Halifax to Quebec, an invitation was received from Portland inviting delegates from Nova Scotia and New Brunswick to attend a railway convention in that city. The convention was held on the 31st July 1850 and determined that a company should be formed to build a railroad from Halifax through Nova Scotia and New Brunswick to Portland to be known as The European and North American Railway. The Nova Scotia portion would be one hundred and thirty miles long, the New Brunswick section two hundred miles and the Maine section ninety miles. The estimated capital required was \$12,000,000. The road would connect at Portland with the Atlantic and St. Lawrence to Montreal and with the American lines converging at the Maine seaport.

The report of the Nova Scotia delegates was submitted to a public meeting in Halifax on August 24th. It contained no practical suggestion on the all important question of raising the \$12,000,000 and the meeting was

about to break up with a windy resolution appointing a large committee to co-operate with the people of Portland when Mr. Howe then a member of the Nova Scotia government stepped to the platform.

He reminded the meeting of how many years had been wasted in the vain hope that the road to the St. Lawrence would be built by a company; of the season which had just been wasted in the fruitless endeavor to raise only £167,000 to construct the road to Windsor; of the millions which had been wasted by companies in the United States endeavoring to accomplish great undertakings with insufficient means. He showed that the general revenues of Maine belonged to the general government; that her state revenues were surcharged by the annual expenditure; that ninety miles of the European line must be made within her territory, while the funds of her capitalists were barely sufficient to complete the roads for which they had already been pledged. He argued that if Nova Scotia found it difficult to raise the tenth part of a million of money by subscriptions of stock, she could not raise a million; and that New Brunswick, which would require a larger sum and had a less population by one hundred thousand, could not be more successful. To expect capitalists in England to embark \$12,000,000 in an enterprise of which they knew little, and in aid of which those who knew the most were unable or unwilling to make large contributions, would be scarcely rational; and to tempt them by false representations to do so, would be dishonest and unfair. The naked facts of the case had not been presented, or had been studiously veiled amidst the fascinations and excitements of Portland. If the road was indispensable, there was only one way in which it could be built with integrity and in a reasonable time. It was the duty of the Government to provide roads for the people. If a railroad was the best road they should provide that. The only way in which Nova Scotia and New Brunswick could construct this or any other railway for a long time to come was by their Governments assuming the responsibility, pledging their public revenues, issuing debentures either with or without the guarantee of the Imperial Government, borrowing the money honestly and expending it faithfully, under the restraints which their constitutions would stringently impose. He concluded by moving this resolution:

Resolved, That as it is the first duty of a government to construct and to control the great highways of a country, a respectful address be prepared and presented to the Lieutenant Governor, praying that his Excellency would recommend the Provincial Parliament to undertake the construction of that portion of this important work which is to pass through Nova Scotia on a line between Halifax and the frontier of New Brunswick.

On August 29th the following despatch was on its way to Downing Street:

“My Lord,—Your Lordship is aware, from the correspondence which has passed between the North American Governments and the Colonial Office, that for some time past a deep interest has been felt by the people of these Provinces in the promotion of railways.

“So long as hopes were entertained that Her Majesty’s Government would aid in the construction of the line between Halifax and Quebec, public attention was concentrated upon that. As the prospects of its accomplishment became less definite and assured, other objects, either local or intercolonial, were discussed; and resolutions or laws, having relation to these, were passed during the recent sessions of most of the colonial legislatures.

“The construction of the electric telegraph, which not only connects Halifax with the chief towns of New Brunswick and the State of Maine, but forms the most important link in the chain of communication between the old world and the new and the success which has attended that appropriation of the public funds has attracted public attention to the practicability and importance of placing a railroad beside the telegraph. This would give to Nova Scotia and New Brunswick a noble highway through their territory, connect them by railway with all the principal cities on this continent and secure to the port selected for the eastern terminus commercial advantages with which no seaport within the republic could ever successfully compete.

“While these views were pressing upon the minds of the leading men in the Provinces the subject was taken up in the State of Maine, and a convention, to which the colonists were invited, was called to meet at Portland on the 31st of July. The proceedings of the convention I have now the honour to enclose, together with the reports made by the delegates who attended from Nova Scotia to the communities or committees by which they were severally appointed.

“On the return of those delegates the public mind in Nova Scotia became very highly excited, particularly in Halifax, and in those counties through which the road would pass. Under those

circumstances my Government were required to deal with the question thus raised, and to decide whether they would stand aloof from this movement, and allow a great highway, which in peace would be a thoroughfare of nations, and in war might be of vast importance, to be constructed and controlled by foreign capitalists; or should at once grasp the enterprise and by the aid of the public funds and credit, discharge towards the country the highest and most legitimate functions of a vigorous Executive. The latter determination was arrived at, and the opportunity was afforded to declare their policy at a public meeting held in the metropolis on the 24th instant, the proceedings of which will be found reported in the papers transmitted by this mail.

“This movement, which meets my entire approbation, has been received with great satisfaction by all parties. The address of the City Council, with my answer, I have the honour to enclose. The details of this measure have yet to be adjusted, and it may be necessary to send to England some members of my Government to communicate more at large with your Lordship in reference to them. In the meantime I should be glad to be informed whether, upon such pledges as have been regarded as satisfactory in other colonies being given, Her Majesty’s Government would be disposed to aid Nova Scotia with its guarantee of such funds as she may find it necessary to borrow in England in order to construct this road. These would not exceed £800,000 sterling, and would probably be secured, not only on the general revenues of the Province, but upon the road itself. Such a guarantee would enable the Province to enter the market upon the best terms, and effect a large saving in the accomplishment of the work. The revenue of Nova Scotia is about £80,000 sterling, her debt but £87,892 sterling, of which £47,892 is represented by Province paper, on which no interest is paid. The permanent and indispensable charges are about £40,000, leaving about £40,000 of surplus revenue available for public improvements. The revenue has increased £4,400 within the present year. The increase on the whole will probably be £10,000. If, therefore, as I anticipate, the Legislature sustains the policy of the Government, they will have the means at their disposal to pay the interest promptly on any loan they may require to effect.

“I shall be very much gratified by an early communication of the decision of Her Majesty’s Government on this point, and of the

terms, and nature of the securities required.—I have, &c.,
(Signed) J. Harvey”

In October the following reply was received:

“Downing Street, Sept. 21st, 1850.

Sir:—I acknowledge your despatch No. 190 of the 29th ult. On the subject of the projected line of railway from Halifax to Portland, in Maine, I have to express my entire approbation of the degree of support and encouragement given by yourself and the Provincial administration to this important undertaking.

“I regard the work as one calculated to be of the highest service to Nova Scotia and New Brunswick, and instead of considering it as likely to endanger by competition, the still more important scheme which has been proposed for connecting Halifax with Quebec, I believe that it is likely to prepare the way for the execution of the latter and that it will contribute to the same end—namely, that of rendering Halifax the great port of communication between the two continents of Europe and America.

“But, while I am most anxious to promote the success of this enterprise I regret that the same reasons which have hitherto prevented Her Majesty’s Government from recommending to Parliament any measure for affording pecuniary assistance towards the construction of the Quebec railway, will probably stand equally in the way of their advising the guarantee of a loan for the scheme now in contemplation.—I have the honour to be &c.,

“(Signed) Grey

“Lieu. Governor Sir John Harvey.”

It was decided by the Government that one of its members should interview the Home authorities and Mr. Howe was selected for the task. He arrived in England in November 1850.

Governments harassed with a thousand questions are not facile institutions with which to do business and the British Government with which Howe had to deal was no exception to the rule. What one unaccustomed to dealing with governments would think should not have

taken six days to settle took six months in the hands of the ablest man in British America.

The arguments marshalled in support of the application by Howe's letters to the Colonial Secretary, Earl Grey, make those letters possibly the greatest state papers ever penned by a colonial statesman and they with the speech of their author at Southampton convinced not only the government but the people of the old country of the justice and advantage of the action proposed.

The result obtained was much larger than the immediate object of Howe's mission. The argument covered the whole trunk line for the three provinces as well as the European and North American Railway and he obtained an official memorandum from the Home authorities dated March 10, 1851 committing the British Government to the guarantee of a loan raised by all three provinces to construct a road from Halifax to Quebec, not necessarily by the Robinson route if a shorter and better could be found and approved. "It is also to be understood" the official memorandum continued, "that Her Majesty's Government will by no means object to its forming part of the plan which may be determined upon that it should include a provision for establishing a communication between the projected railway and the railways of the United States." The amount to be raised and guaranteed was estimated at £7,000,000 sterling.

On the 13th of March, 1851, Howe reported to the Nova Scotia government as follows:

"I have now the honour to enclose a copy of a letter addressed to me on the 10th instant by Mr. Hawes, in which the Lieutenant Governor will be gratified to perceive that my mission has resulted in the determination of Her Majesty's Government to propose to Parliament to advance or guarantee the funds which may be required by the three North American Provinces, to make a railroad from Halifax to Quebec or Montreal, **including a line of connection across New Brunswick with the railroad lines of the United States.**"

A copy of that report was immediately placed in the hands of Earl Grey and no question was raised as to its being a proper representation of the bargain arrived at with the Home Office.

On the 15th of May, 1851, Mr. Howe submitted the proposal of the Imperial authorities to a public meeting convened at Mason's Hall in

Halifax. His speech set out in detail what the offer was intended to cover and made it plain beyond controversy that so far as New Brunswick was concerned the amount of £7,000,000 to be guaranteed included the funds necessary for the New Brunswick portion of the line to Portland, as well as the New Brunswick portion of the line to Quebec and Montreal.

A copy of the speech with the accompanying resolution was forwarded to Earl Grey on the 28th of May and on June 12th Earl Grey replied "I received your two letters of the 28th of May but I have little to say beyond thanking you for them and expressing the gratification your report of what is going on has given me. I think all you have done about the railway very judicious and without flattery I may say that I do not know when I have read a better or abler speech than that which you made at the public meeting. I feel very sanguine of the ultimate assent of New Brunswick to the measure as proposed and that we shall succeed in getting this most important work destined as I believe to effect a change in the civilized world accomplished."

Mr. Howe then proceeded to New Brunswick where there was every willingness to back the Portland line but great distrust of the wisdom of pledging the revenues of the Province for that portion of the Quebec line passing through New Brunswick. To carry through the conditions of the guarantee, New Brunswick must pledge its resources for both lines. Howe had a hard fight but by conferences with Mr. Chandler the premier of that province and by public speeches to its citizens, he won New Brunswick and transmitted to Earl Grey his speeches and reported the result.

The delegation of Nova Scotia and New Brunswick then proceeded to Canada stopping at Portland on the way to explain their plans. They arrived at Toronto on the 15th of June and conferred with the Governor General Lord Elgin and with the Government of the Province of Canada.

The conference agreed:

That the line from Halifax to Quebec should be made on the joint account and at the mutual risk of the three Provinces; ten miles of crown land along the line being vested in a joint commission, and the proceeds appropriated towards the payment of the principal and interest of the sum required.

That New Brunswick should construct the Portland line, with the funds guaranteed by the British Government, at her own risk.

That Canada should, at her own risk, complete the line from Quebec to Montreal, it being understood that any saving which could be effected,

within the limits of the sum which the British Government were prepared to guarantee should be appropriated to an extension of the line above Montreal.

That on the debt contracted, on the joint account of the three Provinces being repaid, each should own the line within its own territory.

It was also understood that Canada would withdraw the general guarantee offered for the construction of railways in any direction, and that her resources should be concentrated upon the main trunk line, with a view to an early completion of a great intercolonial highway, on British territory, from Halifax to Hamilton; from whence to Windsor, opposite to Detroit, the Great Western Company of Canada had a line already in course of construction.

The proceedings were reported to the Home office and the government of the three provinces proceeded to draft and submit to their respective legislatures, the legislation necessary to carry through the policy dictated by the Imperial Government and now agreed in by the three provinces.

The legislation was promptly enacted and British America was prepared to construct its whole Trunk line from the lakes to the ocean as a Public work with the aid of the Imperial guarantee proposed by the Imperial Government to a loan of £7,000,000 secured on the railway on ten thousand acres of land and by a first charge on the revenues of the provinces.

At this stage a blow was dealt to British America the motive for which was incomprehensible to her people at the moment and from a source the most unexpected. The Colonial office suddenly declared there was no ground for the assumption that the guarantee would cover the loan for the European and North American.

When Howe's despatch forwarding the memorandum at the time it was given and approved by the Colonial office, his speech at Halifax commended by Earl Grey, and the reports at every step of the negotiations received by the Colonial office were referred to making it clear beyond cavil that the assumption was grounded on as explicit an undertaking as could be framed in language, insult was added to cruel injury by the reply in Earl Grey's name that—"I can only account for my having failed to perceive this by supposing that, owing to the very great length of these papers, I must, in reading them have overlooked the particular expressions to which my attention is now directed."

No litigant would have had the hardihood to put forward such a justification for repudiating an obligation however trifling, and that it should

be presented as a reason for dishonoring the word of Great Britain to her own sons beyond the seas filled our fathers with dismay.

British America proceeded to revise its plans and to eliminate the matter which the Colonial office asserted it had overlooked. The European and North American was eliminated and one line through New Brunswick substituted running from Point Levi opposite Quebec down the Saint Lawrence to River de Loup, thence through New Brunswick in the valley of the St. John River to the city of St. John, thence through New Brunswick to the Northern boundary of Nova Scotia on the isthmus between the Bay of Fundy and the Gulf of St. Lawrence and thence through Nova Scotia to Halifax.

The British Government promptly declined to consider the matter further and British America was left to cherish one more evidence of the regard in which its sons were held by the government of the mother land.

Chapter III

THE RAILWAY SCHEMES OF ENGLISH CONTRACTORS, PROMOTERS AND FINANCIERS CULMINATING IN THE GRAND TRUNK RAILWAY COMPANY OF CANADA 1851—1852

When the British Government struck down the Railway policy of British America the Province of Canada (now Ontario and Quebec) stood in the following position in respect to its Railways.

There were charters outstanding covering the whole trunk line from Lake Huron in the west to Quebec and Portland in the east. The Great Western under construction would bring the line to Hamilton and with a short extension to Toronto, The Kingston and Toronto and Montreal and Kingston Railway Companies (Galt charters) when their finances could be arranged and their charters declared in force would take the line from Toronto to Montreal. The St. Lawrence and Atlantic another Galt Company with construction well advanced would continue it on the opposite side of the St. Lawrence from Montreal through Richmond to Portland and the Quebec and Richmond Railway Company (whose charter was owned by Quebec interests) would complete the link between Richmond and Point Levi opposite Quebec.

The provincial aid provided by the statute of 1849 quoted in the preceding chapter was applicable to the Trunk line. Galt and his associates, men prominent in the business life of Canada were ready and anxious to proceed with financing and constructing the lines from Montreal to Kingston and from Kingston to Toronto where they would be met by the Great Western.

The British guarantee was withdrawn and Canadian business men and Canadian enterprise were debarred the opportunity to complete her trunk lines for reasons which lie on the surface of events now well known.

In the years immediately preceding 1851 the contracting firm of Brassey, Betts, Peto and Jackson had secured great prominence and influence in high quarters in England and partners in the firm were members of the House of

Commons and supporters of the government. They had been the middlemen in the construction of one-third of the railways in England and had carried through great railway projects in Germany, India and other countries. Their immense organization and reputed wealth gave them a commanding position with bankers and the public authorities in England and they were persona grata with Messrs. Baring and Messrs. Glynn, prominent London bankers, who were also agents for the Canadian government in London.

When Howe described the resources of British America and unfolded the picture of its future to the government and people of England the members of the Brassey firm and their associates were impressed with the possibility of railway construction on the new continent on a large scale. If the matter were carried through as proposed by Mr. Howe, the money raised by government loans at a cheap rate and expended under construction contracts awarded on tenders and with careful scrutiny and safeguards, the situation held no great prospects for Messrs. Brassey & Co. On the other hand if the control of the whole situation could be obtained by Messrs. Brassey and their associates and the construction and other contracts made with a company controlled by them the possibilities of profit were such as to inspire dreams akin to those entertained by a famous German general in respect to the City of London.

Messrs. Brassey let no grass grow under their feet. The provincial premiers when they met at Toronto in 1851 were disturbed by the appearance of one Charles D. Archibald, the agent of the Brassey firm. All that the capitalists he represented desired was "the entire contract of all the contemplated lines without competition." When asked to be a little more precise, he offered to build the roads for an annual subsidy of from £90,000 to £100,000 for twenty years, together with from three to five million acres of crown land. The premiers declined to entertain the proposition for a moment and Archibald with other agents commenced and continued a campaign intended to destroy the confidence of the people in the policy being executed by the governments of British America.

The campaign of these agents was ineffective but that was immaterial to Messrs. Brassey when their friends, the Imperial government, withdrew the guarantee. In 1852 Hincks arrived in London. He was allowed to satisfy himself that Downing Street would not give the guarantee in any circumstances and then he was taken in hand by Messrs. Brassey. His entertainment was not such as to raise doubts of the affluence and influence of his hosts. In May William Jackson, afterwards Sir William, one of the partners and a prominent member of the House of Commons, concluded an

agreement with Hincks that a company should be organized to build the section of the Grand Trunk line between Montreal and Hamilton. The Company was to issue bonds for eight-tenths of the cost. The Provincial Government was to take five-tenths of these bonds in exchange for government bonds leaving three-tenths to be floated. The remaining two-tenths required was to be supplied by a stock issue of which Mr. Jackson's firm were to have fifty per cent. in the first instance and the construction contract would be made on such terms and with such contractors as the company, (which could be controlled by Mr. Jackson's firm through the purchase of one additional share,) might determine.

When Galt and his associates learned what was contemplated they determined to fight.

Jackson and Hincks sailed together for Canada. During the trip Jackson framed an amended plan to eliminate Galt and his Canadian friends from the situation. Friend Hincks was to direct a royal proclamation bringing into force the suspended Montreal and Kingston and Kingston and Toronto Companies and Jackson was to promptly subscribe a controlling share of the stock. Hincks procured the proclamation on the 7th of August but when Mr. Jackson appeared to subscribe the stock he found every farthing of the capital authorized subscribed.

The subscriptions were:

J. Torrance, Montreal, 20 shares.....	£	500
William Molson, Montreal, 20 shares.....		500
John Rose, Montreal, 20 shares.....		500
H. N. Jones, Montreal, 20 shares.....		500
G. E. Jacques, Montreal, 20 shares.....		500
William MacDougall, Montreal, 20 shares.....		500
Thomas Galt, per attorney A. T. Galt, Montreal, 20 shares.....		500
A. T. Galt, Sherbrooke, 7,940 shares.....		198,500
L. H. Holton, Montreal, 7,960 shares.....		199,000
D. L. Macpherson, Montreal, 7,960 shares.....		199,000

This stroke compelled a change of tactics upon Hincks' and Jackson's part. A bill was introduced to charter a new company, The Grand Trunk Railway of Canada, to run from Montreal to Toronto—the Great Western

having meanwhile acquired the charter for the Toronto-Hamilton link, thus making it necessary to accept Toronto rather than Hamilton as the western terminus. The capital authorized amounted to £16,000 currency, a mile. Holton as President and Galt as Vice-President of the Montreal and Kingston, protested against this attempt to override them and a battle royal began before the Railway Committee.

Hincks used all his influence to push the Jackson contract through, and Jackson himself displayed all the powers of a railroad lobbyist in a degree rare even in America. He talked of millions as the awed provincials talked of thousands, and claimed that he and his fellow contractors possessed a power of “open sesame” in the London money markets. So great were their resources that the provincial guarantee was merely a form; in the act as finally passed a solemn clause was actually inserted permitting them to renounce this aid—for why should they consent to pay six per cent. on the provincial debentures exchanged for the company’s bonds, when London was overflowing with money unable to find investment at three per cent.?

Such arguments dazzled the legislators, but the promoters were not content with merely dazzling the eyes; they made assurance doubly sure by filling pockets where it was advisable. A well-known contractor of the day, who had come from Pennsylvania a few years earlier to take a contract on the Welland Canal, and had stayed to become the first boss in Canadian politics, lent his influence for an interest in the contract, which he soon wisely commuted for a cash sum of £12,000 sterling.

On the other hand, Holton and Galt vigorously asserted that there was no occasion to bring in these London wizards. Of the five sections into which the Grand Trunk line from Quebec to Windsor might be divided, two, the St. Lawrence and Atlantic, and the Great Western, were under construction; a contract had been made for a third, the Quebec and Richmond, and they themselves stood ready to complete the Montreal and Kingston section. The Kingston-Toronto link would doubtless also be begun shortly. So far as the Montreal and Kingston road was concerned, they anticipated no insuperable difficulty in financing its construction. True, they did not intend to retain all the stock they had subscribed, but would keep it until a fair bargain had been assured. Between the provincial guarantee, subscriptions by every municipality but one along the line, and especially substantial aid by Montreal, and partial payment of the contractors in stock, they had no doubt they could secure the funds required. They believed, further, that they could build the road for a third or more less than the English contractors. Already three tenders had been submitted from responsible contractors. They were

prepared to receive a tender from Jackson and his partners, and, if it was lowest, to award them the contract. What more could fairly or honestly be asked? The interest of the province was certainly identical with the interest of the company in getting the work done at the least possible cost, and this could not be attained by a “sham company formed merely to homologate a foregone bargain with outside contractors.”

“The railway policy of the country was settled,” Holton and Galt declared before the Committee, “and important sections of the Grand Trunk line in course of construction long before Mr. Jackson was heard of in connection with our railroads. The action of the government in proclaiming the charter was alone wanting to secure a vigorous commencement of the remaining sections. That action had hardly been taken, when it is all at once discovered that nothing can be done without Mr. Jackson, and it is accordingly proposed that our previous legislation be reversed, our established policy abrogated, and existing charters cancelled, in order to meet the views and secure the services of that gentleman. Is the instrumentality of Mr. Jackson and his associates so essential for procuring loans of English capital that they shall be paid from thirty to fifty per cent. over the cash value of their work, merely for the facilities they are supposed to possess as money brokers, or is it pretended that a little knot of railway jobbers hold the key of the great money market of the world?”

Both Holton and Galt protested strongly against the assumption that mere colonists could not carry through the undertaking. In words that bear the mark of Holton’s impetuosity rather than Galt’s tact, they protested against being asked to withdraw in favor of “strangers and foreigners.” “We feel strongly on this subject,” they continued, “not merely from our direct interest, but because as colonists, we desire to see the public men of this country promoting provincial enterprise. We desire to see the standard of self-reliance raised. We deny the inferiority of our resources. We assert that a permanent injury is done by repressing every effort to act for ourselves, and we repudiate most solemnly the necessity for calling in foreign aid, to do that which we are amply able to do ourselves.” Here was a declaration of financial independence in words which foreshadowed the declaration of industrial independence that was made half a dozen years later with the establishment of the Cayley-Galt Tariff.

They were careful to discriminate. It was outside control, not outside capital, to which they objected. “It is argued that because the Montreal and Kingston Railway Company do not consider the employment of Mr. Jackson on his own terms essential to the construction of our great line of railroads,

they are therefore opposed to the introduction of English capital into the country. Nothing could be more unfounded, more unjust. It is admitted on all hands that it is not only desirable but absolutely necessary that English or foreign capital should be obtained for the construction of all our great public works. The question is mainly one of instrumentalities There can be no doubt that a great leading thoroughfare, such as our Trunk line is designed to be, would be managed more in consonance with the wants, the habits and the whole genius of our people, by a local company than by an association of speculators residing abroad, having no interest in the Company beyond the punctual receipt of the largest dividends that can be wrung from it We can construct a railroad in less time, for about one-half the declared capital, and with a smaller amount of aid than the parties applying for the charter in question. Our enterprise, if it fail, will not be burdened with the complaints of the confiding and ruined shareholders in England. If we succeed we shall still be connected with the work, we shall always stand open to the criticism and rebuke of the public, and our profits will be those derived fairly and honestly from the correct appreciation by us of a vast public work, and by an economical and judicious application of the resources at our command in constructing it.”

Opposition appeared vain. The government was definitely committed to the Jackson agreement. The Governor General, Lord Elgin, gave it his blessing. The rank and file of the legislators felt it would be quixotic to refuse the offer of these great capitalists. Some members of parliament stood by Galt and Holton, including George Brown and the member for Kingston, John A. Macdonald, but Hincks had the majority both in the House and in Committee and all seemed over. Jackson sailed for home, assured of a charter and contract not only for the Montreal-Toronto section, but for a part of the Canadian end of the Intercolonial from Quebec to Trois Pistoles.

But Galt had still a trump card to play. As President of the St. Lawrence and Atlantic he proposed to that company to amalgamate with the Montreal and Kingston, a proposal which the directors at once accepted. This assured strong Montreal support and gave control of an essential link in the Main Trunk line. Alarmed at this stroke, Hincks telegraphed to Galt asking him to go down to Quebec again, stating that proceedings on the Bill would be stayed until his arrival. In the discussion which followed, Hincks stated that if opposition to the Grand Trunk-Jackson’s road were withdrawn—he would urge that it should amalgamate with the St. Lawrence and Atlantic, and, further, that it should build the bridge across the St. Lawrence to connect both roads, and thus fulfil a project of which Montreal long had dreamed. The proposal meant that Galt and Holton must give up their own personal

interest in the road, but the odds were against them in any case. Their opposition had already led Jackson to reduce his demands for aid from a guarantee of bonds equal to half the cost, whatever that might be, to a guarantee of £3,000 sterling a mile. If the new company had such command of millions as was assumed, co-operation would help the St. Lawrence and Atlantic, which was still in need of funds for the last strokes, and the building of the bridge would certainly be a boon to Montreal. Accordingly all opposition was withdrawn.

The English promoter contractors and their financial associates in London had won all along the line and for eighty years no Canadian had any effective part or lot in the direction of the policies governing the construction and operation of the Grand Trunk Railroad.

Chapter IV

THE ORGANIZATION AND FLOTATION OF THE ENGLISH CONTRACTORS' COMPANY

1853—1854

On the 10th day of November, 1852, Mr. Jackson's legislation was brought into effect by three statutes.

The first statute,—“An Act to incorporate the Grand Trunk Railway of Canada” provided for the construction of a railway on a gauge of five feet six inches from Toronto to Montreal. The authorized capital stock was £3,000,000 sterling and the proceeds were to be applied in the first place “for and towards the payment, discharge and satisfaction of all fees and disbursements for obtaining and passing this Act,” a useful provision for Mr. Jackson considering the methods by which the legislation had been obtained.

The guarantee of the province was to be limited to three thousand pounds sterling for every mile in length of the railway, such guarantee to be given by issuing and delivering to the company provincial debentures for the amount to be guaranteed in exchange for the bonds of the Company. Then a provision was inserted, (possibly to amuse Jackson's partners,) enabling the company to renounce the guarantee.

While the guarantee was outstanding the government might place on the board composed of eighteen directors nine persons who need not be shareholders. It was obviously intended that those gentlemen should see that the fifteen thousand dollars a mile contributed by the Province was honestly expended. When the province was relieved of the guarantee the right of appointment ceased.

There was also reserved to the government a right of purchase after twenty-one years “upon payment of a sum equal to twenty years' purchase of the annual profits divisible upon the subscribed and paid up capital stock of the said railway estimated on the average of the seven then next preceding years,” subject to certain provisoes.

The second statute, “An act to provide for the incorporation of a company to construct a railway from opposite Quebec to Trois Pistoles and for the extension of such railway to the Eastern Frontier of this Province,”

contained similar provisions to those embodied in the first statute except that the guarantee was not to extend to the section from Trois Pistoles east and in lieu thereof the company was to receive one million acres of Crown land.

The third statute contained provisions for the amalgamation of all the companies forming the trunk line from the lakes to the eastern limits of Quebec and repealed the Montreal and Kingston and Kingston and Toronto charters upon payment by the Grand Trunk Railway Company of Canada of preliminary expenses for surveys and otherwise.

Galt came to an agreement with Jackson as to the terms on which the St. Lawrence and Atlantic and the Atlantic and St. Lawrence should come in and Jackson had already made arrangements with the owners of the charter of the Quebec and Richmond. The only outstanding interest was the Great Western from Toronto to Windsor and negotiations were opened with that company. The Great Western however, with lines constructed and projected in a rich country, balked at the terms proposed for the other interests and the negotiations broke down. Jackson, for prospectus purposes, was determined that the picture should cover a line from the lakes to the ocean and when he found that Galt and his associates had a charter for the Toronto and Guelph Railroad Company which gave that company power to build from Toronto to Guelph and by subsequent legislation to extend the line to Sarnia on Lake Huron he substituted the Toronto and Guelph for the Great Western.

A Company called the Grand Junction Railroad Company had been incorporated by James Ross and associates at the same session for a line from Belleville and Peterborough to Lake Huron. The charter gave power to appropriate stock subscriptions to preliminary expenses and Ross and Jackson had intimate relations.

By an Act passed on March 17th 1853 the inclusion of this company in a Grand Trunk amalgamation was authorized. The Act extended the provisions of the amalgamation Act to "any Railway Company whose Railway intersects the Main Trunk Line."

On the same date a further act was passed authorizing the construction of the Victoria Bridge across the St. Lawrence at Montreal.

The legislative machinery for the amalgamation Jackson and his associates desired was now complete. The agreement embodying the scheme would be in form an agreement between various companies but in substance and fact an agreement between Jackson and Galt under which Jackson's firm with their Liverpool and London associates would take over all other

interests in the name of the Grand Trunk Railway Company of Canada and vest in the English contractors, promoters and financiers the launching of the Grand Trunk undertaking.

The agreement bearing date the 12th day of April 1853 provided in substance as follows:

That all liabilities of the respective companies amalgamated should be assumed by the Grand Trunk. That the shareholders in the respective companies should receive like holdings in the Grand Trunk. That the shareholders of the St. Lawrence and Atlantic should be paid £75,000, about \$375,000 for back dividends which had been neither earned nor declared. That the Toronto and Guelph shareholders should be paid £2,000 or \$10,000 for dividends in the stock of a company which had as yet no railroad. That the Grand Trunk Company should pay interest on the debentures and shares to be issued from the date of the amalgamation until the final completion of the works and in default of earnings should pay such interest out of capital. That the Grand Trunk should take a 999 years' lease of the Atlantic and St. Lawrence from Portland to the Canadian border on the basis of paying a yearly amount equal to 6% on the capital stock of \$1,700,000 and the interest and sinking fund charges on \$3,000,000 of bonds and debentures, the Grand Trunk to assume all other liabilities of the Company.

The Grand Trunk then gave a contract to Mr. Jackson's firm for the construction of the line from Montreal to Toronto at £9,000 per mile, for the section of the line from Richmond to Quebec at £6,500, per mile for the section of the line from Quebec to Trois Pistoles at £8,000 and for the Victoria Bridge £1,400,000 and a contract to Gzowski, Holton, Macpherson and Galt, the contracting firm formed by Galt, for the construction of the section from Toronto to Sarnia at £8,000 per mile. The contractors were to pay 6% interest on the cost of construction till completion.

The contracts allotted to Mr. Jackson's firm constituted six-sevenths of the whole.

Messrs. Brassey now being in control the British government was approached and received favorably a proposal for an Imperial guarantee of a loan for an extension of the road from Trois Pistoles to Halifax and for securing a Cunard service to the Nova Scotia seaport. The war with Russia loomed up before the arrangement was completed and it fell by the wayside.

Mr. Hincks saw that the amalgamation agreement received a blanket confirmation by an act passed on December 18th, 1854 and provided in the act such additional facilities and powers as the English contractors and their

friends desired, including a provision reducing the government representation during the guarantee to one-third of the Board.

The next step was to settle a prospectus of such a character as to secure public subscriptions to the debentures and shares.

In preparing the prospectus someone other than the contractors who controlled the company with which the contracts were made and by which their execution was supposedly to be checked, had to be put forward. The difficulty was in part solved by the provision in the legislation that while the provincial bonds exchanged for company bonds were outstanding, the Government was to appoint one-third of the directors on the Board. These were elected to the Board.

Thomas Baring, George Carr Glynn, Robert McCalmont, Kirkman Hodgson and Alderman Thompson, men of high standing in London financial circles were added and the rota completed with the names of Benjamin Holmes Vice-President of the St. Lawrence and Atlantic, Hon. Peter McGill of Montreal, George Crawford of Brockville, W. N. Ponton of Belleville, W. Rhodes of Quebec and E. F. Whittemore of Toronto.

The Engineer in chief, the man who would be in charge of the companies' interests in the execution of the contracts was Mr. A. M. Ross up to that time acting with Mr. Jackson in the promotion of the enterprise.

The prospectus explained that the capital was £9,500,000 of which £2,254,000 had been expended or reserved for the companies owning the roads, actual and projected, forming the amalgamation; that one-half of the balance of £7,246,000 had been agreed to be taken by the contractors leaving £1,811,500 in shares and £1,811,500 in debentures for subscription. The net earnings on the shares from the completion of the roads were "conservatively" estimated at £338,100 or 11½% on par. The conservative character of the estimate was emphasized by pointing out that the net revenues from the relatively small sections to be completed in 1853 "will not fall short, at once, of £304,000 per annum, nett, allowing 40 per cent. for working expenses, and, deducting £60,000 for lease of Portland line, would leave nearly equal to the charges for the entire mortgage debt of the company and thus from actual present earnings securing to the bondholders their interest on all the capital intended to be raised by debentures."

In fact the total net operating receipts before rentals or fixed charges were only £35,000 in 1854, £23,000 in 1855 and £31,000 in 1856, less than one-half of the rentals. On the face of the prospectus all the moneys to be raised from the total securities would be absorbed in payments to the

contractors, with the exception of a comparatively small amount for contingencies and if the traffic receipts did not at once meet the fixed charges and supply working funds the whole undertaking would be on the rocks.

The shares and debentures offered under this prospectus were applied for twenty times over and went to a high premium.

Chapter V

THE DIFFICULTIES ENCOUNTERED BY THE CONTRACTORS' COMPANY. FURTHER PROVINCIAL AID. THE DESCENT OF THE COMPANY INTO BANKRUPTCY

By 1855 the subscribed moneys were nearing exhaustion through payments of progress estimates and the expenditure of some \$7,000,000 to make the St. Lawrence and Atlantic and the Atlantic and St. Lawrence into a railway on which it was possible to operate trains and to supply rolling-stock and shops to maintain trains to operate. The only reserve made by the promoters for the purpose of completing the Portland section was £250,000 and that had been expended several times over and more would have to be expended. The whole venture was in danger of collapse within a few months and Messrs. Brassey's Board turned to the Legislature to close the breach. The provincial government thereupon (1855, 18 Vict. Ch. 174) handed over to the Company £900,000 of Provincial bonds by way of additional aid.

The Act provided that "the total amount of the aid which the Company shall have received by means of the Provincial Guarantee under the provisions of any former Act or Acts and the loan hereby authorized shall never exceed fifty per cent. on the sum then actually and with due regard to economy expended by the company in work or materials delivered on the ground or both conjointly."

The 1855 report of the directors naively states: "The directors have not hesitated to avail themselves of the assistance thus considerably and opportunely afforded and they feel assured that in this they will have the ready concurrence and sanction of the shareholders." The Brassey firm then secured an amendment to their contract by which the proceeds of these bonds or the bonds themselves were allocated to the construction work immediately in hand and they agreed to a postponement of such parts of the works as the Company was not in funds to proceed with.

By 1856 all funds were exhausted and long sections of the road involving a contract expenditure of about £2,000,000 had not been built. The Contractors' Board then proposed to the government that the money should be raised by authorizing the company to issue £2,000,000 of preferential

bonds which were to take priority of the provincial bonds which had provided fifty per cent. of the whole expenditure and the province in addition was to provide the interest on the provincial bonds for five years and take common stock for the interest payments. The money raised on the preferential bonds was to be applied to the uncompleted sections and left the operation of the completed sections and the Portland road to be carried on out of earnings relieved for five years from any fixed charges on provincial bonds.

The legislature again acceded and the act was assented to on July 1st, 1856. It provided as follows: "WHEREAS it is expedient to grant facilities in aid of the Grand Trunk Railway Company of Canada, for objects and under conditions hereinafter mentioned: Therefore, Her Majesty, by and with the advice and consent of the Legislative Council and Assembly of Canada, enacts as follows:

"1. For the purpose of enabling the Grand Trunk Railway Company of Canada to complete their undertaking, the Governor in Council shall be and hereby is authorised to carry into effect the arrangement provisionally entered into between the Government of Canada and the said Company, based upon the following terms, viz.:

"The said Company shall be authorized to issue Preferential Bonds to the extent of two millions of pounds sterling. The holders of such bonds to have priority of claim therefor over the present first lien of the Province.

"Such issue shall not take place until the Railway of the said Company from St. Thomas, in Lower Canada, to Stratford, in Upper Canada, shall have been finished and in operation.

"The proceeds of the said Bonds shall be deposited with the Provincial Agents in London, and released to the Company on the certificates of the Receiver General, upon proof to the satisfaction of the Governor in Council of progress of the several works hereinafter mentioned.

"The said proceeds shall be appropriated to the aid or construction of the following works and apportioned as hereinafter stated, and released to the Company as the said works are severally proceeded with:

The Railways from St. Mary's to London and Sarnia.....	£450,000
The Railway from St. Thomas, Lower Canada, to Riviere du Loup.....	525,000
Victoria Bridge	800,000
Three Rivers and Arthabaska.....	125,000
To enable the said Company to assist the Port Hope, and Cobourg and Prescott Railways as subsidiary lines.....	100,000
	£2,000,000

“The St. Mary's and London branch and subsidiary lines
shall be completed by the 1st September, 1857.

Stratford and Sarnia, 1st September, 1858.

Arthabaska and Three Rivers, 1st September, 1859.

The Victoria Bridge, 1st January, 1860.

“The St. Thomas and Riviere du Loup Line as follows:

From St. Thomas to Riviere Ouelle, 1st January, 1859.

From Riviere Ouelle to Riviere du Loup, 1st January,
1860.

“In order to restore to the Trois Pistoles Road, the guarantee diverted from it by the Act of 1854 (18 Victoria, Chapter 33) and expended on the Toronto and Stratford section, there shall be reserved from the proceeds of the Preferential Bonds as they are paid over to the Provincial agents, such a portion for the section of the Road from St. Thomas to Riviere du Loup, as shall ensure its progress equally with the other works above mentioned.”

“II. Provided that the proceeds of the said Preferential Bonds to the amount aforesaid, be deposited with the Provincial Agents, the interest accruing on the Provincial Debentures issued to the Company shall, during the period of five years, (being the time necessary for the completion of the works and for the development of the through traffic), be advanced by the Province, and such advances, as they are made, shall be repaid to the Province in share capital of the Company, and the lien of the Province, subject

to the preceding conditions shall rank, as to dividend or interest, with that of the Company's bondholders."

The Brassey firm then made a reduction in the contract price of the Victoria Bridge from £1,400,000 to £1,250,000 but instead of receiving the balance of the contract price in bonds and shares in accordance with their contract, the bonds and shares were left on the hands of the Company and Brassey and Company who had already received £214,957 in cash on the works constructed to date certified at £323,530 and bonds and shares for the balance were to be paid £650,000 in cash, £69,100 in bonds and credited with £207,370 to make the shares which they had subscribed fully paid up. The contractors still had a liability for calls amounting to £114,057 in respect to 4,562 B shares and in order to make a clean sweep it was further provided that this sum was to be paid in extras if extras happened to be required and if they were not required, these shares were to be delivered up to be cancelled and the amount credited as paid up on them was to be transferred to the remaining 4,562 B shares held by the contractors, so as to make them fully paid shares. In consideration of these alleged concessions, made by the contractors, the company abandoned its claim against them for interest on the amount from time to time expended on the bridge.

The condition of the undertaking was, however, so obviously bankrupt as to make even the large gratuities given by the Act of 1856 ineffective. In 1857, the Government was informed that the pressing liabilities of the Company amounted to £1,220,000, that it was of no use to raise £2,000,000 on preferential bonds to complete the road and have the company put in liquidation for these debts which it could not meet, and that the Government would either have to take the road under its first mortgage, (a course the proprietors considered indefensible in morals,) or wipe out the whole fifteen odd million dollars represented by provincial bonds. This latter alternative might be modified, if the Government desired, by postponing any liability of the company to the Government to a time when six per cent. had been paid on all the bonds and stock of the company present or future, at which time the Government might share in surplus earnings to the extent of the interest on its bonds.

It was apparent that the bargains made by the contractors and promoters could not be carried out and that such money as had been invested was irretrievably lost if the company's obligations to the Government created on the terms desired by its promoters were enforced.

By Chapter 11 of the Acts of 1857, assented to on May 27th, the Government directors were dispensed with and the application of the Grand Trunk for relief was granted. Section IV provided:

“On condition and provided that the said Company by means of the Preferential Bonds mentioned in the Act of 1856, chapter one hundred and eleven (for granting additional aid to the said company), or by means of any other loans effected or to be effected for such purposes, complete their Railway from Riviere du Loup to Stratford, and thence by St. Mary’s direct to Sarnia, including the Victoria Bridge and the other works, undertakings and engagements mentioned in the said Act of 1856, and supply the said Railway with sufficient plant, rolling-stock and appliances to work the same efficiently, within the limits of time named in the said Act of 1856, or within such extension thereof as is hereinafter stated, and so long as they maintain and work the same regularly, the Province foregoes all interest on its claim against the Company, until the earnings and profits of the Company, including those of the Atlantic and St. Lawrence Railroad Company, shall be sufficient to defray the following charges:—1. All expenses of managing, working and maintaining the works and plant of the Company; 2. The rent of the Atlantic and St. Lawrence Railway, and all interest on the Bonds of the Company exclusive of those held by the Province; 3. A dividend of six per cent. on the paid up share capital of the Company in each year in which the surplus earnings shall admit of the same;—And then in each year in which there shall be a surplus over the above named charges, such surplus shall be applied to the payment of the interest on the Province Loan accruing in such year; The bonds and share capital herein mentioned shall be held to include and consist of all loans and paid up capital which the Company have raised or may hereafter raise bona fide under the authority of any Act of the Provincial Legislature passed or to be passed, for any purpose authorized by any such Act.”

The prospective traffic it was urged would be greatly increased by cheap ocean transport to Portland and Quebec and to obtain such transport the Government put through legislation in the same year granting a subsidy of £50,000-\$250,000-a year for a weekly line of Fast Screw steamers from Liverpool to Quebec in summer and to Portland in winter.

In the Act of 1856 the proceeds of the preferential bonds had been allocated to the extent of £450,000 to the aid or construction of railways from St. Mary's, nine miles west of Stratford to London and Sarnia the distance to London being twenty-two miles. The construction of the line marks the commencement of the long war with the Great Western.

The London and Grand Trunk Junction was incorporated in 1855 with power to build the 22 miles from St. Mary's to London, a nominal amount of stock some £10,000 paid up and a contract entered into with the Gzowski firm for the construction of the line for £214,133.6.8. On October 1st, 1857, this Company was amalgamated with the G.T.R. on the basis of repaying the shareholders the £10,000 accepting in lieu thereof anything left in the Treasury, the G.T.R. assuming the Gzowski contract.

In 1858 the directors secured from the legislature Chapter 52 which conferred power on the G.T.R. to modify or enlarge their arrangement with the Atlantic and St. Lawrence in any way they saw fit, to increase the preferential bonds, to issue stock and securities in their discretion, and to pay interest on the loan, stock and share capital out of the present or any future capital of the company "until the completion of the authorized works of the undertaking of the Company," with a proviso that dividends on the stocks and shares were not to be paid out of capital after May 1st, 1860.

Then followed clause 5 which provided as follows:

"that subject to the rights and powers of the Atlantic and St. Lawrence Railroad Company under the said recited lease as to the portion of the undertaking thereby demised, the earnings of the Company, after deduction of working expenses, shall in each half year be appropriated and applied as follows: First, in and towards the payment of the interest upon the amount which for the time being shall have been raised by the issue of preferential bonds as herein mentioned: Secondly, in and towards payment of the interest upon the loan capital of the Company for the time being raised and subsisting upon and in respect of the several classes of bonds and debentures hereinbefore mentioned, other than the said preferential bonds; And thirdly, in and towards payment of a dividend at the rate of six per cent. per annum on the Stock and shares of the company,—And after payment of such dividend, then, in or towards the payment of the interest on the Provincial Debentures issued in aid of the Company from time to time, to the extent of three million one hundred and eleven thousand five

hundred pounds sterling in all; and after payment of such interest, the surplus, if any, shall be applied in payment of a further dividend upon the stock and shares of the said Company.”

Section 9 gave authority for any arrangement the shareholders might sanction for leasing or purchasing or establishing a railway in the State of Michigan from or near Port Huron to Detroit, and by Chapter 53 of the same year authority was taken to construct a railway bridge over the St. Clair River at Sarnia.

In 1857, Mr. T. E. Blackwell was selected by the London Board to act as Managing Director in Canada. In Mr. Blackwell's report to the directors dated September 30th, 1858 he shows that the Province had up to that date put into the enterprise £3,111,500 that the receipts on account of capital in shares of other companies and in cash amounted to £7,807,000 and of this amount £1,000,000 had been paid back in interest. In other words, up to date the Government had contributed about one-third in cash against two-thirds in share certificates, debenture certificates and cash by all other interests and any return on the Government contribution had been postponed to full interest returns on the par of all securities and shares held by other parties and to all such further securities and shares as might be issued in the future. The report also shows that the annual interest charge of the company in 1858 was £353,676 on the bonds of the Company and £73,000 for the rent of the Portland section; a fixed charge of £426,676 to which has to be added 6% on £3,281,600 of share capital made payable out of capital by the legislation above referred to till 1860.

On the revenue side the total operating revenue before fixed charges for the half year ending June 1858 was £458 less than nothing. Mr. Blackwell gives the following reasons for the shortage in revenue during that half year and previous years:

“The works, inclusive of the plant, buildings, etc. have been all constructed under contract, but in many places from a want of the necessary information and experience in regard to what was required, the line was left incomplete in many important points of detail at the stations and termini, from the want of which facilities it might be fairly said that the traffic has not yet had adequate opportunities of development. For example, whilst a communication had been established with the shipping at Pointe Levis (opposite Quebec) there was no railway connection with the commercial portion of Montreal, the terminus, owing to the

location of the Victoria Bridge, being placed two miles distant from the business parts of the city. The stations at Kingston, Cobourg and Port Hope were so located that access to the watercraft at these ports without branch lines, was an impossibility. The line at Toronto was so inconveniently arranged, owing to the corporation originally prohibiting a track being carried through the city that up to the present time, two distinct locomotive and station establishments have had to be maintained; and the terminus at Sarnia, as located according to the company's charter was on the bare shore of the lake without any means whatever of intercepting any of the western traffic passing down the Lake St. Clair, and to which all the original calculations of the promoters of this enterprise must have had considerable reference. Thus it will be seen that although the company had projected a main trunk line nearly 1,100 miles in length, there were such hindrances to a proper development of the traffic that the deficiency in our past receipts can scarcely create surprise."

It also appears from Mr. Blackwell's report and the directors' statement that the Government agreed to relieve the Company from the construction of an unremunerative section at the eastern end of the system by defining Trois Pistoles to mean the village of Fraserville, the Company agreeing in lieu thereof to secure the construction of the Three Rivers Branch and to assist by subscription the Ottawa and Prescott, the Cobourg and Peterborough and the Port Hope and Lindsay lines running at right angles to the G.T.R., and constituting important feeders.

The Directors say this programme was carried out at a cost of £225,000. The lean section east of Fraserville was left to be constructed by the Government at a later date as part of the Intercolonial.

Notwithstanding the action of the Government in wiping out a fixed charge of \$15,000,000 and leaving the company free to raise new money on preferential bonds, the directors say they have "found it necessary to meet current demands to convert £500,000 of the consolidated stock of the company into seven per cent. debentures upon stockholders subscribing for a like amount of the new capital."

It further appears from the Engineers' reports attached that on the 421 miles west of Montreal which had been accepted from the Brassey firm as a fully completed and equipped line, it had been necessary to spend on capital account during the year to make it reasonably usable as a railroad, £332 per

mile on 88 miles, and £281 per mile for 333 miles, and the engineer estimates a further capital expenditure on the 88 miles of £60 per mile and a capital expenditure of £18,000 on the 333 miles to make the road safe. He further reports capital expenditures to make the Portland line usable from Island Pond 149 miles at £438 per mile and on the Canadian section 149 miles £411 per mile and he estimates that another £120 per mile over the whole must be spent in the current year.

In the spring of 1860 the Chicago, Detroit and Grand Trunk Junction Railway, spanning the sixty miles from Sarnia to Detroit and projected by individuals connected with the directorate of the Grand Trunk, was leased for 999 years on the basis of an alleged cost of £450,000—£225,000 in 8% debentures and £225,000 in shares. The terms of the lease also covered the payment of interest on £450,000 at eight per cent.

By June of the same year the line from Sarnia to Portland and Riviere du Loup had been taken over from the contractors. It afterwards appeared that on the sections taken over other than those constructed by Gzowski & Co. the ballast was largely of sand, the ballasting really remaining to be done, and that the equipment and station accommodation were entirely inadequate, notwithstanding the large amounts expended by the Company in supplementary construction. The gauge was a different gauge from the standard gauge employed in English and American Railways and the iron rails were of such consistency as to have an average life of less than one year in the Canadian climate. The railroad, looked at from the standpoint of user, must to a large extent yet be built.

On the financial side the situation was even more desperate. There was a deficit in the revenue account of \$924,668.75. There were loans outstanding to Baring and Glynn, the Province of Canada, and others aggregating \$7,577,612.41 and nothing in sight to meet them with. Interest on the debentures was in arrear to the extent of \$655,417.81; the rentals on the leased lines could not be met and there were bills payable of \$2,749,473.52.

The condition of the Company was described by a committee of the bond and shareholders appointed to report as “an undertaking overwhelmed with debt, wholly destitute of credit and in imminent danger of lapsing into utter insolvency and confusion.”

The corporate offspring of English contractors, promoters and financiers, begotten in the manner related in earlier chapters was ripe for dissolution.

Chapter VI

THE REORGANIZATION OF THE COMPANY AND THE PASSING OF CONTROL FROM THE CONTRACTORS' TO THE PROPRIETORS' BOARD

If matters had been then allowed to take their course operations would have ceased, the lien of the Province for the \$15,000,000 advanced would have revived, the junior securities and shares which were represented by no actual values would have been wiped out and the senior securities relegated to their proper place as representing a contingent interest in the future possibilities of a reorganized undertaking.

What actually happened was this:

The English debenture holders and shareholders who had subscribed on the basis of the contract of the great Brassey firm, and the prospectus put forward by Messrs. Baring and Messrs. Glynn, London bankers, whose endorsement of any investment was followed by the multitude at that time, through their Committee represented to the Canadian legislature that they only followed Baring and Glynn because they were described in the prospectus as directors on behalf of the Canadian Government; that the real inducement to the subscription was the presence on the Board of members of the Government coupled with a despatch of Lord Elgin, the Governor General, as to the commercial position and prospects of Canada and that the Canadian Government and people were, on every principle of British fair play, bound to make good all the losses incurred.

The facts were that the Government directors were placed on the board in pursuance of the direct provisions of the incorporation act to protect the interests of the Canadian Government which was advancing large sums of money and which money the Canadian people were entitled to have honestly expended; that the Governor General was the appointee of the British Crown and, as the Committee was well aware, that the scheme had not been forced on the British public by the Canadian Government as they claimed but had been promoted, fought for and secured by English contractors and bankers who had been given the preference over colonial business men because they

professed to be ready to furnish all needed capital and to be better equipped than any contractors in the world to carry out whatever bargain they made.

The petition showed great ability as a matter of special pleading but would not command a high place for honesty of statement or of intention and its innuendoes could not be regarded otherwise than as a gross insult to a people who had again and again increased the aid they had agreed to give this enterprise until what at that time was a vast sum had been converted from a first mortgage loan into a bad debt with no security whatever.

As if this were not sufficient indignity to visit on a free Parliament and people two or three members of the House of Lords, two or three commoners in the Lower House, one professor of a University and two or three editors of English newspapers took the position that Canada was really so corrupt and demoralized that it should be cut away from the skirts of Britain.

The character of the attack may be judged from the fact that it elicited from Joseph Howe, one of the most ardent Imperialists in the Empire, the following rebuke:

“But then we are told by some of these learned lords and erudite commoners and able editors in England that Canada has become so corrupt and politically demoralized that it ought to be abandoned. Suppose for a moment that this is true, is it a charge for the gentlemen on the other side of the water to bring, who ought to remember what Sir Robert Walpole said of them all, that every man in England had his price? The gentlemen on the other side of the Atlantic ought to read their own history first and ours afterwards. Do we not know that English statesmen, on one occasion, bought an entire Parliament when it suited their convenience? I do not think, then, that it lies in their mouths to talk to us about corruption until, at all events, we have sold a colonial Parliament at least once in our history. Do we not know that until very recently English constituencies were bought and sold by wholesale like cattle in the market, and that some of them are so bought and sold still? Do we not know that there is corruption and demoralization enough in the public affairs of England fully to engage the attention of the erudite gentlemen who chose to criticise colonial public men and find fault with the corruption alleged to exist in Canada? I think I could mention the names of a good many members of the House of Commons who

have bought their seats. I think I could find the names of a good many noble peers in England who would not allow a railway bill to pass until a pretty good price had been paid for their own lands. And suppose that some of the farmers in Canada did make the railway companies pay too much for their lands, suppose that some of the commoners of Canada in dealing with railway bills were influenced by personal considerations, what then? Is the whole Province to be slandered for that? I venture to say that I can find for these noble lords more examples of personal corruption among public men of the mother country, than could be charged against all the British provinces, put together.

“It may be said that the instances of corruption in England are of old date, that there was rascality among the public men of England only in Walpole’s time. Why! Have these noble lords and learned gentlemen forgotten that King Hudson sat in the House of Commons but a few years ago, and that noble lords, earls, and dukes dined with King Hudson when he was scheming and bargaining, and corrupting and socially destroying the whole railway world of England? If Canada has had her afflictions with King Jackson, England has had her afflictions with King Hudson, and I think they should not trouble themselves so much looking after the cleanliness of our skirts on this side of the water, until they have cleaned their own. Who are directors in the British bank? Members of the House of Commons, and yet the whole concern was a swindle from beginning to end? But what would be thought of me, or of any other public man in these provinces, if I were to stand up and charge that against the House of Lords, or the House of Commons, or the British people? Surely then what would be indelicate and unjust in us must be indelicate and unjust in them when they pursue that course towards this colony. Do we not know that in the Crimean war a great fleet of gunboats was built at an enormous expense, under the surveillance of the Admiralty, and that it is now ascertained that half of them were rotten? Who handled the contracts for building those gunboats, and who pocketed the money that must have been pocketed in that barefaced robbery of the British treasury? If that had been done in Canada, some noble Lord would have charged it against the whole Province, but it occurred in England. But do we charge it on England? God forbid! We charge it on the swindlers and fraudulent knaves who cheated the British government.

“I am rather an old politician, and for more than five and twenty years I have been pretty familiar with the public affairs of the lower provinces and of Canada also, and I will say this, that in the earliest times the Legislature of Canada was pure. I do not agree in many things with what Papineau has said and done, but I am bound to say, as one who in early life had marked his course, that, whatever might have been his faults or his errors, no man had ever dared charge Papineau with corruption. And, whatever might have been the mistakes or blunders of Mackenzie, no man could ever charge Mackenzie with corruption. He might have been wrong—he might have attempted a revolution which was impossible, or he might not; but I will say now that he is dead, what I would have said in any man’s presence when he was living, that I believe Mackenzie was above all considerations of personal pecuniary advantage. I have had the honour of knowing personally Robert Baldwin, Rolph, Lafontaine, Morin, Viger,—the old men who fought out the hard battles of self government in this colony, while I and others were fighting the hard battles of self government in the colonies below. Did any man ever lay to the charge of any one of these men, or could the allegation have been proved if it had been made, that any one of them in his public course ever cared for his own purse or his own pocket, or would have sold his own influence or the influence of his party in the Legislature, or done any act whatever from a corrupt and venal motive? And now I will ask a question which perhaps some of the noble lords on the other side of the water may be able to answer. When did we first hear any charge of corruption made against the public men of Canada? It was not made—and I am not going to say whether truly or not—it was not made till Mr. Jackson a member of the British Parliament set his foot in Canada, and with the power and influence and large expenditure of a combined body of contractors at his back, began to operate on the Legislature of Canada. Never till that hour was the taint of corruption imputed to the public men of this Province. There are a good many people in England who have lost a great deal of money in the Grand Trunk; and I believe there are a good many people in this country who sympathize with them, and a good many are trying to find out how they are to get their money back—a very interesting subject of inquisition.

“But I wish to refer now to the inception of the Grand Trunk scheme. I wish to refresh Lord Grey’s memory upon one or two points in the history of colonial railroads. In 1850 I went to England as a delegate from Nova Scotia. My object was to get the guarantee of the Imperial Government, and upon that to bind the Colonial Governments and Legislatures to make a great highway from Western Canada to the ocean through British territory, at a moderate expense, to be owned by the three Colonial Governments. I laboured for six months to get that policy adopted by the Cabinet of England, and after six months’ labor I got Lord Grey and the British Cabinet to understand what was wanted, and to promise to carry it out. Under this arrangement, we were to get the money at $3\frac{1}{4}$ or $3\frac{1}{2}$ per cent., the Provinces giving their bonds and becoming answerable for the repayment. The policy agreed upon was also to include a line connecting Halifax with Portland, giving the British Provinces the control for ever of a large portion of the passenger and mail traffic of the United States, giving to Canada the outlet to the sea which she required, and giving to the empire a great line, which would be as necessary for purposes of defence in time of war as it would be valuable to us in time of peace. In 1851 I came to Canada, and found its whole Government favourable to embarking in that policy. I had to spend but three or four days in Toronto, before a minute of Council was passed pledging the Government of Canada to carry out that policy. I went to New Brunswick, and, after removing some misunderstandings, got the Government of that Province into line. In my own Province an extra session of the Legislature was called, and the necessary bills were passed. But when all this had been done, it was suddenly discovered by Lord Grey that there was a mistake; the guarantee was withdrawn and the British Provinces were left to drift hither and thither at the mercy of English contractors. Lord Grey, then, I will say, is the last man who ought to raise his voice to argue anything with these North American Provinces. It was his failure and the failure of his Government to carry out the policy arranged in 1851 which has led to all the corruption, if corruption there has been, and all the waste which has been witnessed in connection with these railways, from that hour down to the present time. Had the scheme been carried out, the money would have been got at a low rate of interest, which the Provinces would have punctually paid, the roads would have belonged to the people, and there would have been no jobbery or

corruption at all for persons on the other side to criticise. Mr. Jackson, having succeeded well in Canada, came down to Nova Scotia, and made there the same sublime offers which misled everybody here. ‘Oh,’ said Mr. Jackson ‘do you propose to make the railroads as Government works? Fie upon you! Don’t you know any better than that? Are you going to encumber your public revenues in that way? Just allow me for the good of the country, to make the roads for you. I will make all the railroads in Nova Scotia, New Brunswick and Canada. You have only to pass the bills and they will all be made at so small a cost that you will hardly know who built them.’ Having been in England, I happened to learn something of the history of Mr. Jackson and his partners, and I thought the best thing Nova Scotia could do was to keep Mr. Jackson out of it. And I succeeded, although it cost me a winter or two’s hard fighting, for his promises were so seductive and so hard to put aside. We finally beat him off, however, and built our railroads as Government works. The necessary money we borrowed in England, and have paid the interest honestly, and there have been no charges of corruption or dishonesty in connection with the railroads of Nova Scotia. And why? Because we got rid of Mr. Jackson. In New Brunswick they were not quite so fortunate, for there they entered into an arrangement with him and his friends and he came, surveyed the road, and made contracts, and the result was that they had to buy him out at a cost of £90,000 before they could get rid of him.

“In Canada he got his own way, and if there has been corruption in Canada, it came here when English members of Parliament visited Canada to carry out their own railway schemes. . . .

“I will not imitate the bad example that has been set on the other side of the Atlantic; I will not charge that Mr. Jackson’s system of corruption extended to that side of the water, but I will say that the black history of that railway transaction has not yet been written, and perhaps it may not be written in our time. But, if ever all the facts should be brought to light, I believe it will be shown that by some astute manipulation the British Provinces on that occasion were sold for the benefit of English contractors and English members of Parliament.

“I would remind those men who have used offensive language towards these Provinces, that people would sometimes submit to a great deal of injustice who would not bear a taunt or an insult, and I would warn them that they ought to discuss these questions with a spirit of greater manliness and generosity. If they were as familiar with these Canadian forests as I am, they would know that a single nipping frost could convert all the beautiful verdure we see today into vermilion tints of a very different complexion. They ought not, then, so to presume on their high positions as to throw taunts upon us, and to blame British North America for not doing what British North America does not see fit in her own wisdom, to do.”

When the fireworks subsided the government appointed a commission to investigate and report and the Committee of the Bond and Shareholders secured Mr. Edward W. Watkin, the General Manager of the Manchester, Sheffield and Lincolnshire Railway to proceed to Canada to investigate and report.

Mr. Watkin reported that he had applied to the Government to greatly enlarge the contract sum for carrying the government mails, that the government should capitalize this yearly payment to an amount which would represent the payment for 25 or 30 years of the service on the enlarged scale. As preliminary to further negotiations he reported an arrangement with the Government to submit the question of the amount to be paid in the future for the postal service to arbitration. He pointed out that at Montreal the station had been constructed two miles from the centre of the city and that he had arranged for the use of the Bonaventure station of the Lachine Company on payment of a mileage toll. He adverts to the wasted expenditure in constructing the whole section west of Toronto which was better served by the Great Western but that section having been built necessarily entailed the further construction to Detroit. He reports that the Detroit and Port Huron had been capitalized at a high cost for such a district and that the rental of eight per cent. must be reduced, if the Grand Trunk is to continue a line whose local traffic does not meet the operating expenses.

In conjunction with the directors and the Bond and Shareholders' Committee and, after meetings of the Bond and Shareholders, Mr. Watkin submitted to the Canadian Parliament, a bill which afterwards became law in June 1862, entitled “An Act for the reorganization of the Grand Trunk Railway Company and for other purposes.” The scheme as submitted by Mr. Watkin was made law with the single alteration of the period of suspension

of legal rights of creditors and security holders which was increased from four to ten years. Mr. Watkin, when interrogated as to this change at the subsequent meeting of the bond and shareholders, admitted that it was made with his concurrence as he could see no reasonable prospect of the undertaking being placed in a position to answer the claims suspended within a shorter period. The Act provided that whatever was finally agreed to be paid for the postal and military service might be capitalized and mortgaged by the company and that the bonds or the proceeds of the bonds so created should be paid to creditors other than bondholders. They were to receive that as a dividend and the difference between such payment and their full claims was to be paid and liquidated by the issue to them of fourth preference stock carrying a 3% dividend to 1872 and thereafter a 5% dividend with a contingent increase to 6%. The dividends up to 1872 if not earned were to be paid out of capital by further issues of fourth preference stock.

That cleaned up the creditors' judgment and others.

Next there had to be sidings, wharfage, station and storage accommodation, rolling-stock and other plant provided if this "fully stocked" railway was to earn any money, and the act authorized a prior lien mortgage on the undertaking for £500,000 to take care of this difficulty.

The first preference bondholders were, at their election, to have first preference stock but in any case they were to receive five per cent. interest for ten years and, in default of earnings for that purpose, they were to be paid by further issues of fourth preference stock.

The operation of the Act in regard to the conversion of the bonds and the capitalization of arrears of interest due to December 31st, 1862, as explained by the President in a note to his report of June 30th, 1863, was as follows:

Arrangements Act,—1862.

Proposed financial reorganization as of December 31, 1862.

First Preference Bonds—par value	\$2,000,000.00
Convertible into First Preference stock at	115.00
Second Preference Bonds—par value	1,111,500.00
Convertible into Second Preference stock at	116.10
7 Per cent. bonds 1862—par	500,000.00
Convertible into third preference stock at	119.50
(a) Ordinary bonds—par value	3,190,800.00
(b) 7 per cent. bonds—par value 1867-1872	1,000,000.00
(c) Quebec and Richmond Bonds—par value	100,000.00
Convertible into Fourth Preference stock at	
A	118.00
B	119.50
C	116.10
{For principal	\$7,902,300.00
New Issues {	
{For deferred interest	1,054,886.00
	\$8,957,186.00

“Under the arrangement with the Company’s bankers and announced to the proprietors at the meeting in June last by which the July coupons of the 1st Preference Bonds might be cashed in advance of the receipt of the Company’s accounts for the past half year, subject to a deduction of one shilling in the pound to cover the income tax and interest charges, upwards of £30,000 due have been paid. So much of the interest in the other classes of the Preference Bonds and Stocks as should be found at the close of the current year not to have been earned will be entitled under the provisions of the Arrangements Act, 1862, to interest certificates representing such arrears.”

The Act further provided for the transfer of the Executive of the Company to London if desired.

Under the Act the values which had never existed or had been lost were to be represented by interest bearing securities and to be further increased by capital issues to cover all back interest and future interest at the rates mentioned in the Act for the succeeding ten years. In addition to this the immense load of unsecured debts, judgment and otherwise, was added as fourth preference stock, with ten years' dividends to be issued in further fourth preference stock.

In that load was included the cost of what Mr. Watkin described at the meeting of bond and shareholders as "various subsidies and arrangements, some of them too shameful to be mentioned."

On October 18th, 1862, Mr. Watkin reported that the way was clear for putting the administration in the hands of an English Board, that negotiations were proceeding for the increase of the postal subsidy paid by the Province under contract, that a commencement had been made in procuring grain elevators at Toronto, Montreal and Portland and that a traffic arrangement had been made with the Ottawa and Prescott Railway to which the Grand Trunk had advanced £45,000 under the Relief Act of 1856. He explained that the Ottawa and Prescott gauge was 4' 8½" and that an alternate gauge would have to be made.

The money of the Canadian tax payer was gone and the Legislature overawed by the grandiose reorganization schemes of London financiers enacted the legislation they asked although it offended the common sense of many of the members.

Chapter VII

THE WATKINS ADMINISTRATION

1862-1869

The new board elected in 1862 was an exceptionally able board with Mr. Watkin, a man of large experience in the conduct of railways and of high standing and great ability, as President, and with Mr. Brydges, a man of almost equal standing, in direct charge in Canada. Some people in Canada asserted that Mr. Brydges entertained a profound contempt for “those dem’d colonials” but even they did not question his ability.

Indeed, no one can go through the history of this corporation without being impressed by three facts:

First,—that from 1862 down to the Smithers-Chamberlin regime, the Company has always had the advantage of an exceptionally able and devoted executive.

Second,—that even with their best efforts they were not able to cope with the enormous load which was put on the undertaking by capitalizing at par all the claims on a hopelessly insolvent venture and by further capitalizing interest and dividends on that load for a long period of years.

Third,—that by section 19 of the Act of 1862 put through by the Bond and Shareholders, as amended by Chapter 53 of the Acts of 1863, it was provided that “the earnings of the Company other than those earnings in the first section of this Act mentioned” (earnings from carrying mails) “after deduction of working expenses defined **shall** in each half year . . . **be appropriated and applied**” in payment of interest and dividends on all classes of bonds and shares, thus leaving the Company incapable of ever making a reserve out of good years against impending conditions of an adverse character however apparent.

The principle embodied in this legislation was continued from 1862 down to the end leaving this large undertaking year after year with no reserve except such few pounds as could not be divided into fractions small enough to give the class entitled a dividend even in pence. The Directors in their December 1887 report, say:

“It may have appeared to some proprietors hardly worth while to declare so small a dividend on the second preference stock but

it will be understood that the Directors had no option in this matter. They are unable to carry forward at the end of any year a material divisible balance, because they might possibly in such case deprive the second preference stockholders of money absolutely due to them, but which might thus come to be allotted to other interests in a future half year.”

By 1862 there had been charged to capital approximately \$15,000,000 for back interest and in 1863 \$370,000 was paid in cash for interest, leaving an income balance for the year of \$2,500.

On the application for the increased postal subsidy Mr. Brydges persisted in the representations formulated by the Committee of the bond and shareholders in the petition preceding the reorganization of 1862, and they are dealt with in the following extracts taken from the report of the Hon. Sir Oliver Mowat, then Postmaster General of the Province of Canada, dated August 12th, 1863.

“The Company’s representatives state in their correspondence ‘that the Grand Trunk Railway was brought before the public of England, and their subscriptions asked towards its cost as an undertaking guaranteed by the province of Canada;’ that ‘the statements of the prospectus were put forth by the authority of the leading statesmen of this country,’ confirming the assertions that the capital was practically guaranteed by Canada; that ‘this was done for the purpose of inducing Englishmen to find the money for building the road’; that ‘by representations and upon official authority’—representations which were echoed throughout the length and breadth of Canada, both in the columns of the public press and in the halls of Parliament, ‘Canada induced English capitalists to find that money which the country itself, by its Acts of Parliament, had undertaken to find; and it can hardly be seriously urged that the province, which has reaped such vast benefits from the outlay connected with the building of the Grand Trunk Railway, should now seek, in defiance of every pledge and promise, to avoid all responsibility for the official statements by which third parties were induced to subscribe their money’.

“But an examination of the ascertained facts seems to the undersigned to demonstrate that the claim is not well founded on the part of any known portion, small or large, of the present shareholders and bondholders; that Canada has done everything it

undertook to do; that no representation was made in the prospectus that the capital was ‘guaranteed’ or even ‘practically guaranteed’ by the province; that no authorized representation to that effect was made anywhere; that there was no pledge or promise by the Parliament or Government of the province before the stock was subscribed which has not since been more than redeemed; that the prospectus, even had it afforded any solid ground for the claim in case the province had been responsible for that document, was not prepared under the sanction of the Canadian Parliament, nor by the Canadian Government, and in fact was not prepared in Canada at all but was prepared in England by gentlemen in whom, with a knowledge of the facts, the company has, up to this moment, entire confidence.

“What the province did guarantee—what the province did undertake to do—what promises it did make—what pledges it did give—are all set forth in legislative enactments, the meaning of which is obvious and undisputed; and from these it distinctly appears, that the policy of Parliament and the country was merely to lend the credit of the province in the building of railways, and to do even this to a limited extent only, and upon the security of a first lien on a railway. Nothing more than this was contemplated; no guarantee to shareholders of their stock, nor to bondholders of their advances, was thought of.

“To make out, in view of all these plain and positive enactments, that Canada is under the responsibility, ‘moral and equitable,’ for which the Grand Trunk officials contend, it must be assumed that, under a parliamentary Government, Statutes, however explicit, are nothing; that a member of the Cabinet or a few persons who are not even members of the Cabinet, may, of their own will, set aside every restriction, every condition, every enactment of the three branches of the legislature; may, on the most important matters engaging public attention, reverse the policy deliberately adopted by Parliament and recorded in the statute-book, and impose on the country an unrestricted, unconditional ‘responsibility, moral and equitable’—however illegal and unconstitutional—to any amount however enormous, that they may choose; and even to an amount, as in this case, many times greater than that which alone Parliament would or did sanction, even conditionally—an amount equal, in fact, to several years’ purchase of the gross revenue of the country, from all

sources. Then as to the prospectus itself. It really contains no such representations as are alleged. If it speaks of the guarantee of the province, it tells also of the extent and condition of that guarantee. The total capital required for the works contemplated is said to be £9,500,000, and of this sum the amount to be raised is put at £7,250,000. One of the items constituting this sum is a provincial aid, amounting to £1,811,500, which is said to be in the form 'debentures convertible into bonds of the Government of £100 each.'

"Again, in Lord Elgin's dispatch, which was printed in the appendix to the prospectus, it is distinctly stated that the 'Provincial Act, 12 Vic. c. 29, provides that the sums advanced on the credit of the province shall in no case exceed one-half of the amount actually expended on the work, and that the whole resources and property of the Company shall be pledged for the redemption of the bonds and for the amount of the interest thereon.'

"It is further said, as enhancing the 'grave responsibility, moral and equitable' which Canada was thus assuming by means of the prospectus, that the representations, affirmed by the company's advocates, to have been made in that document, were also echoed both in the columns of the public press and in the halls of Parliament."

"But the truth is that there were great differences of opinion expressed in the Canadian Parliament and in the 'columns of the Canadian press,' as to the whole scheme. Some were of opinion that the whole line, taken together, would be more profitable than the detached portions; some hoped it would be; whilst others argued, both in Parliament and in the press, that the whole undertaking would prove a commercial failure; and for that reason and other reasons they opposed it. Of those Canadians who imagined that the road would pay, the undersigned has not been able to find that any one stated, either in Parliament or in the press, a belief that the profits on the outlay would amount to the sum stated in the prospectus, viz.: 11½%. The calculations from which that result was worked out appear, from all the evidence there is on the subject, to be those of experienced men in England, who, having looked closely into the matter, were so well satisfied with the undertaking as to invest in it a considerable portion of their

own means. It can hardly be supposed, however, that any speeches in the Canadian Parliament, or any articles in the Canadian newspapers, are seriously relied on as sustaining the claims of the company on this point, or as sufficient, 'morally or equitably' to reverse the policy determined upon by the three branches of the legislature and distinctly embodied in Acts of Parliament.

"The entire groundlessness of these strange statements appears on a simple reference to the Statutes. To listen to such idle clamours in one instance would but encourage a repetition of them in others."

"In making these statements the agents of the company kept out of view that by the Act of 1849 the province was not to advance one shilling unless it was well secured; that there was to be no guarantee until half the entire road was first completed by the company itself; nor unless the amount to be guaranteed would then be sufficient to complete the road; that the payment of the interest on this amount was to be the first charge on the tolls and profits of the whole road; that there was thus to be, for the Government advance or guarantee, the security of works worth twice the amount; that on this condition only was any offer made by Parliament to find half the capital by provincial funds; that so far from this being now the position of the advances we have made, we have on the contrary given the company provincial bonds and not a mere guarantee; and further, we have given up our lien for this amount; so that instead of making advances on the security of a railway worth twice the amount of them, we have made our advances, without any security, on a railway which is declared not to be paying, and we have postponed our lien even to dividends to the shareholders.

"Canada, in fact, never thought of expending on railways one-third of the amount which, whether through extravagance, mismanagement, or otherwise, the Grand Trunk Company has managed to sink in the undertaking, and the province has now a larger investment in the line than the Acts in question contemplated assuming even had the railway extended to Halifax."

In 1864 Mr. Brydges concluded an agreement with the Buffalo and Lake Huron Railway extending from Buffalo to Gooderich, 162 miles, and

crossing the Grand Trunk at about midway between Toronto and Sarnia. By the agreement the working of the line passed to the Grand Trunk on a division of net earnings for 21 years, with an option to the Grand Trunk for purchase. The road was bankrupt and the agreement provided that the security-holders' rights against the property should be suspended and should thereafter operate only against the receipts from the Grand Trunk under the agreement. This agreement was confirmed by an Act assented to in 1866 and at the same time the Buffalo Company was allowed by statute to capitalize dividends on its shares which had not been earned or paid for a long period.

In 1862 the Montreal and Champlain Railway Company with a line from Montreal to Rouses Point and the Montreal and New York Railway Company line south of Lake St. Louis, acquired by amalgamation, was insolvent but had been reorganized under Ch. 57 of the Acts of 1862.

In 1864 by an agreement confirmed by an act, Ch. 85 of the Acts of that year, the G.T.R. took over the working of these lines for 21 years with an option to purchase the shares for \$500,000 and with authority to make the working agreement perpetual. The Montreal and Champlain were to receive 1-15 of the net revenues of the two companies with a guarantee of \$100,000 per year for the first three years. This measure was designed by Mr. Watkins among other things to give his company a terminus in Montreal instead of the terminus some miles from the business part of the city supplied by the Brassey firm under the original contract. The net revenue of the Company leased had been \$105,000 in 1860, the last date at which the accounts appear to have been made up.

In 1865 the G.T.R. succeeded in obtaining from the Provincial Government an increase in the amount for which it had agreed to carry the mails, (about \$125,000 a year,) to \$285,000 a year thus procuring a source from which to pay interest and sinking fund on the postal bonds issued to the general creditors under the reorganization act of 1862.

By the same year Mr. Brydges had obtained an Act Ch. 35, Acts of 1865, under which the Ottawa and Prescott Railway was foreclosed and bought in by the Grand Trunk. He also absorbed the Preston and Berlin Railway, a small affair for £10,000 payable £2,000 per year, and transferred the good iron on the roadbed to the Grand Trunk proper replacing it with the old iron of the Grand Trunk. The equanimity of the Grand Trunk bond and shareholders witnessing the Ottawa and Prescott being foreclosed and the securities representing the money which had been invested but lost, wiped out, is amazing in view of their attitude in 1862 as to the immorality and

rank injustice of foreclosing any interest in the Grand Trunk, however worthless.

In 1865 Mr. Watkins carried through a traffic arrangement with the Erie and Niagara Railway Company whose line at that time extended from Fort Erie to Niagara and whose charter included the power to operate steamships on the Lakes.

He also opened negotiations for the joint use of the International Bridge to be constructed across the river between Buffalo and Fort Erie. Negotiations were also instituted to procure an extension of the Grand Trunk on a five foot six gauge to Chicago and Mr. Watkins was using such influence as he could exert to assist the promotion of the Intercolonial to furnish a connection between his Eastern Lines in Quebec and the winter port of Halifax. The Grand Trunk expected not only to procure the additional traffic but hoped to operate the Government line.

The proposal in respect to the 5.6 line to Chicago arose out of the impossible position in which the Grand Trunk had been placed as a competitor for through traffic in consequence of the initial blunder of constructing its system on a 5.6 gauge instead of the standard gauge adopted in England and the United States. It necessitated the transshipment of all western produce handled and, instead of solving the difficulty by changing the Grand Trunk gauge, a course which was ultimately adopted, the directors proposed to widen the gauge from Port Huron to Detroit and secure if possible the construction of a wide gauge railway on to Chicago.

Mr. Watkins was impressed with the unwisdom of issuing new capital for interest and dividends which had not been earned, but thought he saw hope for the future if that interest and those dividends were paid in capital issues and the cash receipts devoted to relaying the track and increasing the rolling-stock.

He was met, however, by the strenuous and increasing opposition of the bond and shareholders to adopting any course other than one involving the payment of the cash so far as it would go in interest and dividends, the balance being provided by capital issues.

The bond and shareholders submitted for one-half year to the business-like programme of the President but on the implied promise that thereafter all the cash receipts over renewals immediately necessary should be remitted to England and distributed among the bond and stock holders, the balance to be paid in capital issues. The 1862 Act gave them the whip-hand and they used it.

In 1866 after the conclusion of the civil war prices for labor and material on the American lines of the Company advanced enormously and American funds were at a heavy discount. It is interesting to note, in view of recent loud complaints as to rates, that the bond and shareholders put this proposition to Mr. Watkins; our Company has power and does make its own rates. The cost of operating these lines has largely increased through higher wages, increased cost of material and special taxation. Our proposal is that we increase our rates to cover the increased cost. Mr. Watkins replied that the traffic was subject to competition and to increase the rates meant the loss of the traffic. There was no answer except agreement between the competitors, which could not be obtained.

When in 1866, the traffic agreement previously referred to between the Grand Trunk and the Buffalo and Huron came up for confirmation, the President was pressed with an inquiry as to whether it meant competition with the Great Western. He had to answer that it did but he explained the necessity for the agreement by stating, first, that one of the most unfortunate things of the past was that the Grand Trunk Railway did not end at Toronto and the Great Western run on to the United States boundary; second that he had endeavored in every way to secure an alliance with the Great Western and had failed; third, "that failing an alliance between the Great Western and the Grand Trunk, plainly the best course we could pursue was to take possession of the Buffalo and Lake Huron."

After a somewhat heated discussion it was admitted that the President was right and the agreement was confirmed.

By 1867 the policy of sending such net earnings as there were to England for payment on interest and dividends and starving the renewals to make a showing, added to the ever-increasing capital amount on which some showing had to be made, brought the result which the President dreaded but could not avoid. The bond and shareholders complained bitterly that there was such a trifling amount of cash to distribute and the President had to tell them that he saw no hope of earning more cash unless they had another £500,000 for equipment. In five years they had only been able to add 21 engines, 20 passenger cars and 299 freight cars to the rolling-stock out of the £500,000 of equipment bonds authorized by the Act of 1862. During that five years there had been paid in cash on the preferences \$1,681,000 and in order to enable these payments to be made renewals and other items had been charged to capital which Capt. Tyler, (afterwards President,) and other shareholders pointed out were properly chargeable to revenue and if so charged would have left no cash for disbursement. The President said,—“the

system of piling up capital in payment of dividends was not sound,” and if the cash receipts must be disbursed in dividends instead of being applied to renewals and necessary additions to the rolling-stock some method must be found of raising the capital for new equipment.

Capt. Tyler and other prominent shareholders attacked the competency of the Board and the management. The President having proposed a scheme to increase the equipment bonds from £500,000 to £1,700,000, buy out the postal and military bondholders for £700,000 of the issue and place the balance of £500,000 for new equipment, asked the bond and shareholders to assent or propose something better. They had no suggestion and the President asked Capt. Tyler and others of the bond and shareholders to confer with the Board. Finally it was agreed that the Company should take authority to issue £500,000 of No. 2 Equipment Bonds and the act granting the authority is Ch. 19 of the Dominion Acts of 1867.

It was clear, however, that Mr. Watkins’ day was approaching its end. The load was too heavy even for his broad shoulders, with shareholders who were determined to secure the execution of the provisions of the Act of 1862 under which they took all the cash available and heaped up the capital from year to year in paper payment of unearned interest and dividends. In 1867 the capitalized interest and dividends amounted to £366,340 for the year.

Captain Tyler was sent to Canada to investigate and report. He reported at great length but in substance it came down to this; that the permanent way was in poor condition owing to the road never having been properly ballasted and having been laid with poor rails, poorly jointed and laid; that the equipment in rolling-stock was entirely inadequate; that the Detroit and Port Huron branch must be made broad gauge; that certain of the structures were ridiculously extravagant and that £900,000 must be provided if the machine was to be put into condition to take care of the traffic.

He anticipated a substantial advantage from the completion of the Intercolonial which would in effect add 400 miles to the system and would convert the Quebec to Riviere du Loup section from a dead loss to a revenue-producing section. He also favoured the promotion of a broad gauge line from Detroit to Chicago. Certain of the bond and shareholders then inaugurated a campaign for the removal of the Board and the management in Canada. It was based principally upon the failure of the Board to pay larger amounts in cash dividends. It appears to have been a most foolish and futile proceeding, having for its net result the retirement of Sir Edward Watkin from the Presidency and of two other directors from the Board to make place for three nominees of the Committee. So far as I can

discover from the proceedings and reports, these three directors never became conspicuous in adding anything to the position or prospects of the undertaking whilst they removed at least one man of commanding ability who as President had displayed great initiative and resource and whose efforts were successful in keeping a hopelessly bankrupt concern reorganized on an impossible basis, on foot during five trying years. For a service which impaired his great energy and broke his health he received practical dismissal at the hands of those whose real interests he seems to have so well served.

The statement of Sir Edward Watkin to the bond and shareholders epitomizing his administration is extracted from the report of the special meeting held in October 1868, pages 9 to 12:

“Gentlemen, you will see that in 1861 you had eleven and a half millions of ‘capital’ while in 1868 you have seventeen and three-quarters millions set forth in the accounts. Well, it would have been very serious indeed if we had increased the capital by six millions, or one million a year; but we have not. When I took the management of the line we were deeply in debt, and, instead of paying the debt in current coin, we gave postal and military bonds, secured on revenue which you did not entirely possess at that time. We did not take anything out of general revenue; they were secured upon the postal revenue, and the other portion of the debt was taken in fourth preference stock, which is at a serious discount. The account, therefore, stands thus: that ‘capital’ has nominally increased between 1861 and 1867, about six and a quarter millions, and this is made up as follows: Postal bonds, £1,200,000; fourth preference stock given to creditors, £1,160,000; capitalized interest £2,376,000; and equipment bonds £500,000. Practically it comes to this, without wearying you with further figures,—that the total increase in the capital account has been £641,000, and of that £460,000 has been expended in improving the road, in new engines and cars, sidings, and stations and payment for land. The balance has merely gone in payment of those floating debts which under the arrangement of 1862 had to be paid in cash, and in payment of certain purchases of land and demands which we could not pay in equipment bonds or in fourth preference stock. Therefore, practically speaking, the amount of usable capital placed at the disposal of the management little exceeded £450,000 although the actual amount of cash put into the

concern, since 1861, has been £641,000. I shall hereafter show you that in face of this capital outlay of £450,000 we have earned £1,800,000 net profit, and rendered the line capable of earning £322,000 per annum.

“The next matter I wish to call attention to is the large amount expended on renewals in this period, viz.: 1861-1868. You will observe that it is no less than £701,380.

“I know there are those who have said that all we have stated to you with regard to loss upon American currency, and with regard to increased prices of wages and materials, in consequence of the American war, was mere nonsense; that there had been no actual loss, because although we received payment with diminished currency, we paid it away at par, and we got higher rates, and that there was no loss upon labour and materials, because they had not increased in price. You gentlemen who are men of business and who read the newspapers know what have been our difficulties and know something very different to that. We believe Mr. Hickson is not very far wrong when he says, ‘After deducting from the total loss by American currency all that we have gained by increased rates upon traffic, the total loss you have sustained by the American war is not at all short of £740,000 to this date.’ We may be wrong, but we don’t think we are, and we do not hesitate to endorse Mr. Hickson’s opinion, which has been carefully given to us in this memorandum, of which any of you can have a copy, that the total loss owing to these unexpectedly unforeseen circumstances is not less than £740,000.

“Well now, gentlemen, I wish you, in justice to the present board, for a moment to see where we are and where we were. I shall have to take you back to 1859-60. I think it was in 1859 that your railway was managed in Canada by Mr. Reith, a Scotchman, a hard-headed and an honest man; and he reported to you that it was very doubtful whether the thing could ever pay at all; and he gave you certain calculations, and if they had not been exceeded it would have turned out as he said. In 1861 the Government of Canada appointed a commission, and I fear I must trouble you for a moment to see what this commission said of the then state of your property, in order that you may have the thing as it was, and the thing as it is, fairly put before you, and that you should not, with your eyes open, do an injustice to any man. I believe that I

am addressing men in a fair and just spirit—men who would not do an injustice, even if they did not get the results they anticipated, and that if they find that a man has made considerable progress and done his best, they will not condemn him because everything has not turned out as they hoped. What do the commissioners, the Government commissioners—impartial men—say? Speaking of the revenue account, they say—

“‘We have made the alterations we have indicated in this account, and giving the benefit of all doubtful points to the accounts as they stand, the true traffic receipts for the two and a half years ending 30th June, were \$6,073,000 and the true expenses for the period were \$6,090,000.’

“So that the railway during that period did not pay its actual working expenses. Here is another statement of the commissioners, which shows the then condition of the property:—

“‘The condition of the track is a serious consideration. The unnecessarily heavy curves and grades, on a part of the central division, are an evil which, at present at least, we cannot hope to see remedied. But the state of the rails themselves, on that and the eastern division, requires prompt attention. In the present position of the Company it is immaterial under what head it is charged; but we feel bound to express our opinion that the safety of the public and the interests of the road itself require that provision should be made for relaying the greatest part of the central and eastern divisions as rapidly as circumstances will admit of it.’

“Now gentlemen, you will see then that you had a railway which did not pay its expenses, and that two divisions required immediate renewal. They said something further; they said that you ought to have an adequate supply of plant to deal with the traffic that was offered to you. They said further that you had no proper terminal accommodation, that you were two miles away from the centre of the city of Montreal, that you were quite in the background in Toronto, that in other places you did not approach the population, and therefore could not get the passenger traffic, and that as regards plant you were deficient; that you had no ‘elevators’ which are absolutely necessary for the conduct of the railway traffic in a corn-growing country. And they said further than that—that your enterprise was thoroughly unpopular, and that you had no credit. I certainly found these two latter observations

fully borne out when I went to Canada in August 1861. I found an incapable management. Even the wages and salaries of the lowest of your men were weeks in arrear. You had no credit for anything you wanted to buy, the trains kept no sort of time, and the whole thing was in a muddle and confusion.

“Now there came recommendations to put you out of those difficulties. The recommendations of the Government commissioners were that you should ‘reduce your capital.’ I do not know to what point they wanted you to reduce it, but I suppose they wanted you to assume that your net profit was very small, and then to reduce your capital to fit the extent of the then small profits. That would have been a confiscation of a large portion of your property. There was another view, the popular and Canadian view, and when I see the statements in these anonymous letters coming from the other side, I do not forget that I have got a book at home, as large as a family Bible, filled with attacks upon me by the Canadian press, because I would not, in your interest, allow the line to be put up to auction and sold. And I tell you now, when I shall within a few weeks, perhaps, cease to have any connection with you other than that of a friend always ready to give you my advice and gratuitous aid—that if it had not been for me at that time, your railway would have been put up to auction, and, little property as you have now—though that property is now yielding a net annual return of £322,616—I question whether you would have had any property then; because you may depend upon it that a Canadian auction and Canadian bidders would have given you very little for your line.”

Chapter VIII

THE POTTER ADMINISTRATION

1869-1876

Fortunately there had been sitting on the Board for several years the Chairman of the Great Western Railway Company of England, a man who had twenty years' experience in railways and within six months after Sir Edward Watkin retired Mr. Potter accepted the Presidency of the Company.

In 1869 he spent three months familiarizing himself with the situation in Canada. He returned in December 1869 to find another agitation directed against the Board and himself based on the same foolish grounds urged against his predecessor and now urged against the new board which had in the meantime been so constituted as to contain a majority of the direct nominees of the Committee which had raised all the uproar. Mr. Potter's first speech laid down a principle which neither the bond and shareholders nor his colleagues would permit him to carry into practice: "the only safe and prudent course as a matter of account keeping and as a matter of policy is that when a railway is maintained all renewals which do not add to the extra accommodation of the railway properly belong to revenue. I think the rule the *Lex Talionis* applies; a rail for a rail, a bridge for a bridge and if the new rail or new bridge is better or of greater weight and solidity than the old one but subserves the same purpose, I confess I think as a matter of policy and of justice to the line that charge ought to come out of revenue. If you think otherwise, and my colleagues think otherwise, we can adopt a different policy."

Mr. Potter estimated it would require £300,000 per year to 1872 to maintain the road and that £60,000 in addition must be expended on ballasting which should have been done by the contractors, but as it had not been done, must now be done and charged to capital. He found that the iron rails which had been and were being manufactured in England were so inadequate, their life being in many sections less than a year, that the only reasonable and sensible thing to do was to renew with steel rails. He found that the car stock of the line was sadly deficient and had negotiated for the supply of 800 cars from outside sources on a rental and sinking fund basis as to 500 and on a mileage basis as to 300. He plainly indicated his view that the net earnings should be used to build up the line but in deference to the views of the bond and shareholders and the provisions of the Act of 1862, he

saw no way out of paying the whole net earnings out in dividends and interest as received, supplementing these payments with further issues of capital to the amount fixed by that act for interest and dividends and charging to capital all additions to the plant as well as such renewals properly chargeable to revenue as the bond and shareholders and his colleagues would not permit him to charge to revenue.

The bond and shareholders had received new capital for the interest and dividends accruing in the previous half year and although they made a hard fight for the paltry net earnings of that period and threatened to go into Court to get it, Mr. Potter succeeded in keeping that much cash, some £27,000.

It was evident from Mr. Potter's speech that he considered the payments authorised by the 1862 Act as indefensible in principle and as calculated to so dilute the capital value of the issues as to render it unlikely they would ever become realizable assets at more than nominal figures. Mr. Potter was a member of the Board when Sir Edward Watkin pointed out to the bond and shareholders that "this concern, like every other railway or business, whatever, is worth so many years' purchase of what may be taken as its average annual net profits." You could not increase the worth of the undertaking to the proprietors or anyone else by adding to its capital large amounts each year and putting nothing into the undertaking to enable it to increase its net earnings. The response of the bond and shareholders was substantially—"give us the interest and dividends provided by the 1862 act in cash and then you won't have to increase the capital."

In the last half year of 1869 only £73,745 of the renewals were charged to revenue and £67,737 were paid out in first preference dividends. The directors say; "While concurring in the views which the President expressed at the meeting of the 17th December 1869, as to the desirability of charging the cost of all renewals as well as of maintenance to revenue; they have nevertheless thought it right to debit the capital account in this case with that portion of the renewals and improvements during the past year which represents increased value and solidity of the roadway in extra weight of iron,"—but they later give warning that,—“for the present and future years however, the directors believe they will best consult the permanent interests of all classes of proprietors by acting under all ordinary circumstances upon the principle laid down by the President at the last adjourned half-yearly meeting of charging to capital such expenditure only as enlarges the carrying capacity and traffic accommodation of the railway.” The Directors had in 1869 secured some cash by the flotation of £228,000 of second equipment mortgage bonds.

There had been for two or three years serious disputes between the Grand Trunk Executive and the Buffalo and Huron Executive in the working out of the traffic agreement between these companies previously referred to. There was a revision in 1868 which the Grand Trunk shareholders adopted but which the Buffalo shareholders refused to ratify. Finally a new agreement was arrived at dated February 2, 1870 under which the Buffalo Company received £42,500 in second equipment bonds of the Grand Trunk for the amount due to the Buffalo Company to July 1, 1869, and thereafter in perpetuity.

For the years ending 30th June:—

	A	B
	Before 1st	After 2nd
	Equipment	Equipment
Year	Mortgage	Mortgage
	Bonds	Bonds
1870	£42,500	£ 2,500
1871	42,500	7,500
1872	42,500	12,500
1873	42,500	17,500
1874	42,500	22,500
1875	42,500	23,500
1876	42,500	24,500
1877	42,500	25,500
1878	42,500	26,500
After	42,500	27,500

The above amounts were payable half-yearly within two months from the 1st of January and 1st of July in each year.

The Ordinary shares of the Buffalo Company were to “be exchanged, one-half, or say £615,000 for a like amount of fourth preference stock; and the remainder, say £615,000 for a like amount of ordinary stock of the Grand Trunk Company.”

This agreement was confirmed by Ch. 49, Dominion Acts of 1870 and is scheduled to that act.

The Buffalo Company was bankrupt in 1864 when the first traffic agreement was made with the Grand Trunk and the agreement was only

possible by including in it a suspension of the foreclosure rights of creditors and confirming that suspension by legislation.

Then followed an act, Ch. 93, 1866, capitalizing the arrears of dividends unearned for many years and in 1870 £615,000 of common shares of Buffalo stock are exchanged for £615,000 Fourth Preference stock of the Grand Trunk par for par to be increased by capitalized dividends from year to year under the 1862 act and the remainder of the Buffalo common stock, another £615,000 is exchanged for a like amount of Grand Trunk ordinary stock. Neither Mr. Potter nor the bond and shareholders could have entertained that agreement except on the footing that the Buffalo certificates which were admittedly merely counters were being exchanged for stocks of the same quality.

In 1870 the directors had concluded an agreement with the International Bridge Company under which that company was to construct the bridge and make a lease of it to the Grand Trunk for a rental of £20,000 per year, payable as a part of the working expenses of the Grand Trunk and in priority to cash payments on its fixed securities. £16,000 per year of the £20,000 would provide the interest on the bonds to be issued by the Bridge Company and £4,000 was to be set aside each year as a sinking fund to redeem the bonds in 28 years. The lease was to be for 999 years but the annual payments were to cease when the bonds had been redeemed in full. The agreement provided that the Bridge Company was to issue \$325,000 of preferred stock to such persons as the Grand Trunk should nominate and contained an option for three years to the Grand Trunk to purchase all the shares and securities which had then been issued by the Bridge Company. The agreement also provided that the Grand Trunk in case of purchase might add to its capital as part of the cost of the bridge all sums paid as interest by the Bridge Company during construction.

The agreement is scheduled to the Confirmatory Act, Ch. 63, Dominion Acts 1872, which act also contains authority to the Grand Trunk to make further advances to the Bridge Company of £60,000 to complete the bridge and enlarges the option to purchase the securities indefinitely making the same compulsory on the holders, the price to be fixed by an arbitrator appointed by the Chief Justice of the Queen's Bench, Quebec, in case of disagreement. This agreement looked like good business but the announcement of its completion appears in the directors' report side by side with the statement that the capitalized unearned dividends for 1870 amount to £410,000.

In 1871 Mr. Potter succeeded in getting the City of Montreal to come to the assistance of the Company, the City agreeing to build tracks from Point St. Charles, the Grand Trunk Terminus, $3\frac{1}{2}$ miles to the wharves at a cost of \$150,000, the Grand Trunk to maintain the tracks and pay an annual sum of \$3,000 for their use or 2% on the capital cost.

A matter of great importance came to the front in this year. The gauge of the Intercolonial had to be settled, not only that, but the gauge of the Transcontinental to the Pacific Coast, (which railway the Government of Canada had agreed with British Columbia should be built as a condition of the Province coming into the Union). Mr. Potter a practical railway man and Capt. Tyler, afterwards President and a railway engineer of eminence, told the bond and shareholders that it would be madness on the part of the Canadian Government to have different gauges or to build either of the lines on the 5 ft. 6 in. gauge of the Grand Trunk. The only sane and reasonable course was to have the line from Halifax and the line to the Pacific on a 4 ft. $8\frac{1}{2}$ in. gauge and to have the gauge of the Grand Trunk altered. The President estimated that the change in the gauge of the Grand Trunk would cost about \$1,000,000 and he proposed that the Government of Canada should supply the funds.

In 1872 the date had arrived when the capitalization of unearned dividends and interest ceased under the provisions of the reorganization act of 1862 and when the *status quo ante pacem* as between the numerous classes of bond and shareholders would revive. The Act of 1862 had pared down slightly the percentage payable in interest and dividends, had suspended such mortgage remedies as existed for ten years and had authorized the yearly capitalization of unearned interest and dividends, the annual amount of which had grown to about \$2,300,000 by 1872. An inspection of the line by the President and Mr. Allport, the General Manager of the Midland Railway of England, and by Capt. Tyler, compelled Mr. Allport to make the following statement after a three months' inspection,—"I am bound to say that it has not been my experience, I think, ever to have gone over a worse line,—a line in a worse condition than a great portion of the Grand Trunk;" and he agreed with a bond and shareholder who had gone over the line at about the same time and who said,—“The first and second bondholders have nothing whatever to give up, the line is not now maintained out of revenue in a way in which it ought to be maintained. In point of fact the revenue owes to the line a great deal of money which ought to have been expended on it in times past,”—but which had been paid in cash dividends to the first and second preferences.

The inspection confirmed their previous view that the money spent in iron rails had been largely wasted. They found that the breakages ran to 8,000 rails in one winter season, entailing immense expense in operation and great danger to the lives of the travelling public and the employees. On the other hand they found that the breakages on the mileage of steel rails laid down was practically nothing. It was apparent that renewals must be made in steel rails and the iron rails scrapped. They also found that it was useless to relay in steel rails unless the line was properly ballasted and that a great proportion of the line had never been properly ballasted and they were driven to the conclusion that they must recognize that all the extra money expended on making the line on a 5 ft. 6 in. gauge instead of a 4 ft. 8½ in. gauge had been worse than wasted and that the gauge must be changed without further delay.

Apparently Mr. Potter and his Executive came to the conclusion that the undertaking must at length go into the hands of a Receiver and the securities and shares representing no values be eliminated, or someone must be found who would take a gigantic gamble on gambling terms. He finally found his Syndicate who said they would take a flyer on £10,000,000 of common stock at a price of £2,000,000, roughly \$50,000,000 of capital stock for \$10,000,000 on the terms of the following modifications of the Arrangement Act of 1862, which were finally carried into effect through Chapter 18, Dominion Acts of 1873:

- | | |
|----------------|---|
| First | That the suspense period applicable to the first and second preferences should be extended for three years. |
| Second | That the rate of interest should be increased from 5% to 6%. |
| Third | That the interest and dividends should be capitalized during such three years. |
| Fourth | That the No. 2 Equipment bonds might be increased from £500,000 to £1,100,000. |
| Fifth | That the Company might issue £10,000,000 of ordinary stock at 81% discount. |
| Sixth | That the first preference bonds and stock should be converted into perpetual First Preference Stock. |
| Seventh | That the second preference bonds and stock should be dealt with in like manner. |
| Eighth | That the fourth preference stock should become third preference stock. |
| Ninth | That the third preference stock outstanding should be extinguished and the holders receive one-half their holdings in second preference and one-half in third preference. |

- Tenth** First and second preference stock to receive five per cent. with a contingent increase.
- Eleventh** Third preference stock to receive four per cent. with a contingent increase.
- Twelfth** Common stock to receive three per cent. and if any surplus above that, one per cent. to each of the preference stocks, then two per cent. additional to the common stock and the preferences to be non-cumulative.
- Thirteenth** £200,000 of the proceeds of the £10,000,000 of common stock to be paid out as a dividend on the first and second preference stocks for the year 1873.
- Fourteenth** In order if possible to squeeze out a further cash dividend on the preference stocks to 1875, the Company is authorized to debit capital account with the whole cost of relaying the line with steel rails with the cost of ballasting the line and with the cost of converting the gauge to 4 ft. 8½ in.
- Fifteenth** The Intercolonial Railway to run its trains over the Grand Trunk from Riviere du Loup to Quebec on such terms as may be agreed on from time to time, the terms in case of disagreement, to be settled by arbitration.

The purchaser of the common stock got an eighty per cent. discount and secured himself against foreclosure by the first and second preferences. If there was a good half year occasionally he would on the basis of 3% receive 15% on his actual investment and the bad years would do him no harm as the preferences were made non-cumulative. There were elements which made the proposition attractive as a pure gamble.

“High finance” was evidently not entirely unknown to English directors of 1873.

The report for June 1873 contains the following paragraph, pages 7 and 8:

“The capital account has been increased during the half year by £6,031,962.

“Out of the authorized issue of £10,000,000 of new ordinary stock £7,500,000 has been offered to the Shareholders and the public, and the whole amount subscribed for. The discount and commission allowed thereon amounts to £6,075,000, and there is also the further charge of £200,000 being the amount specially appropriated under the Arrangement Act of this year, towards the

payment of dividends on the 1st and 2nd preference stocks, making a total sum of £6,275,000.

“The expenditure on new works, new rolling-stock, and narrowing the gauge, etc., and which is shown in detail in the accounts, amounts to £147,248, making the charge against Capital for the half year £6,422,248, from which, however, has to be deducted a credit of £390,286, principally arising from the issue of Securities of the Atlantic and St. Lawrence Railway which reduces the total charge against Capital for the half year to £6,031,962.”

Under the legislation of 1873 Mr. Potter was able for a short time to pay cash dividends on some of the preference stocks. The first payments were taken directly from the capital obtained on £7,500,000 of new common at 81% discount and the balance was paid out of capital through the device of charging renewals to capital and using the gross revenue for dividends. By 1876, however, even this resource was exhausted and dividends ceased. The undertaking could not provide dividends on capital lost twenty years before or on the enormous increases added by capitalizing unearned dividends during the whole of that period.

It was of no use for Mr. Potter to give the bond and shareholders the most detailed account of every operation of the company showing that the administration by the board and the Executive officers had been faithful, judicious, energetic and painstaking to a degree. He was made the subject of intensely hostile criticism and in 1876 resigned from the Board. During his seven years of office two short branches, the Lewiston branch and the Galt branch, aggregating ten miles was the total mileage added to the system but during that period he had secured the building of the International Bridge from Buffalo to Fort Erie, he had altered the gauge over the system to the national gauge of 4 ft. 8½ ins. and he had replaced iron rails which were practically useless by steel rails and had ballasted a large portion of the line. He had also avoided foreclosure by procuring the preference bonds to be converted into preference stocks and although the lost capital had been increased to enormous figures by the capitalization of unearned interest and dividends, he finally succeeded, at the expense of his popularity with the shareholders, in bringing that vicious practice to a halt. He also procured the Debenture Act of 1874, (Dominion acts, Ch. 35), to be passed creating £8,000,000 of 5% Perpetual Debenture Stock about £6,500,000 of which was designed to be substituted for the various mortgages and liens outstanding against the Company and the balance for the general purposes of the undertaking.

Chapter IX

THE TYLER ADMINISTRATION

1876-1895

Mr. Potter was succeeded by Capt. Tyler, a railway engineer by profession. Capt. Tyler had had twenty-five years' experience in the conduct of railway undertakings, had been for many years a member of the Grand Trunk Board, was familiar with the property and management of the company in Canada and held a high position in the railway world. He retained the position of President for twenty-six years during which period his Company was offered the construction of the Canadian Pacific Railway but declined to negotiate except on the basis of the line north of Lake Superior being eliminated from the project, leaving the east and west connection to be made through Chicago, a basis to which neither Sir John Macdonald nor Sir Charles Tupper would consent.

In Sir Charles Tupper's ("Recollections of Sixty Years," 1914,) at page 139, he says, referring to the Government's negotiations for the construction of the C.P.R. on the basis of his report and recommendations as Minister of Railways:

"British financiers did not display any frenzied haste to engage in railway building across the continent. Sir John, soon after landing in England, authorized me to sound Sir Henry Tyler, president of the Grand Trunk Railway Company, in the hope that his board might be induced to consider favourably our proposition. I did so. 'If you omit the clause providing for a line around the north shore of Lake Superior to Eastern Canada, I shall be pleased to lay the matter before my board of Directors. Otherwise they would throw it into the wastepaper basket,' was Sir Henry's ultimatum.

"We must have a through line I assured him at parting."

At page 140, referring to the consummation of the agreement with the C.P.R. Syndicate, he says:

"We entered into an agreement with a number of capitalists who later became known as the 'C.P.R. Syndicate' to build the

transcontinental railway on the precise basis of my report and recommendations to the Government.”

In 1876 Sir Henry Tyler and the Board were short of their fixed charges on the basis on which the accounts had previously been kept. To make the balance right, they charged the cars which had been rebuilt as narrow gauge cars since 1874 to capital, an item of £71,260; they added to capital the money spent in relaying the Portland section in steel, £74,354; they credited to revenue about \$200,000 which had previously been paid into the Portland Sinking Fund, and they charged to renewals £55,000 less than in the preceding half year. A system of making entries against capital in lean years to square the accounts and of paying out whatever surplus earnings there might be in better years, in dividends, seems to have been pretty consistently followed by the Board during the whole of Sir Henry Tyler's regime. In the same year Sir Henry Tyler opened negotiations with the Canadian Government for the sale of the non-productive portion of the line from Chaudiere Junction to Riviere du Loup to the Intercolonial. That section had not been relaid with steel rails and, to the request of the Government that it should be relaid to properly accommodate the traffic from the Intercolonial passing over it under the traffic arrangement provided in the 1873 Arrangement Act, Sir Henry replied that the Grand Trunk would do it at the expense of the Government, or would lease or sell this section of the line to the Government.

In 1877 Mr. W. H. Vanderbilt purchased the control of the Michigan Central which had up to that time been the route by which Grand Trunk freight going west reached Chicago and the line from which the Grand Trunk received a share of the eastbound freight from Chicago and west. Mr. Vanderbilt, it was evident, would use the New York Central for eastbound freight in future, and the Grand Trunk had to see its lines west of Toronto reduced to carrying local freight or make its own connections. In 1878 Sir Henry Tyler took the first step by entering into a traffic agreement dated November 1st 1878 with the Michigan Air Line Company extending from Ridgway on the Detroit Branch to Romeo in the State of Michigan, fourteen miles in length.

The desirability of extending this line and making connections with other lines giving connection with St. Paul, as representing the North West, Chicago as the Emporium of the West, and Toledo as the highway from the South West was pointed out by the President at the April meeting of 1879 when he said “Independent Western connections are essential to us. The sale

of the Riviere du Loup section of our system to the Canadian Government will go far, if it is carried out, to furnish the necessary ways and means.”

In 1878 Mr. Heygate, a director of long standing, on the Midland Railway, and Lord Claud J. Hamilton, Deputy Chairman of the Great Eastern Railway, joined the Board and shortly afterward the President, Lord Young the Vice-President, and Mr. Heygate proceeded to Canada for the purpose of raising the necessary money by inducing the Canadian Government to purchase the Riviere du Loup section of the Grand Trunk, and, if successful, of carrying out Sir Henry’s scheme for extension to Chicago and west with the money so obtained. The mission was successful and in May 1879 the Government put through Chapter 11 of the Acts of 1879 authorizing the acquisition of that section of the Grand Trunk line between Riviere du Loup and Hadlow for a price not exceeding \$1,500,000 and appropriating \$375,000 to put it in repair and replace the old iron rails with steel with a further sum of \$250,000 to cover the anticipated loss on operation during the year ending June 30th, 1880.

In substance the Government was to pay \$1,500,000 for a piece of railway on which they had to spend \$375,000 to make it usable and the anticipated results of its operation was a deficit of \$250,000 on the operation for the first year. It also appears that the Grand Trunk was to have the iron rails taken up without deduction from the purchase price and if they were not taken up promptly 6% on their value while in use.

The use made by Sir Henry Tyler and his associates of the \$1,500,000 received from the Canadian Government and of the \$200,000 to be received by the Grand Trunk for the iron rails which did not pass to the Government on the purchase is thus reported by the President to Shareholders at the November 1879 meeting:

“I will now come to another point on which I have to address you, and that is, to report to you as to what we have done in getting our line to Chicago. (hear, hear). Well, gentlemen, that has been a very troublesome business. We have had to deal with a road which has been constructed under very difficult financial conditions and under a series of complications and in several sections. It consisted of a variety of companies, which got into the hands of receivers, and were in all sorts of difficulties, and we have now put it into a most satisfactory position. (Hear, hear). The first thing we did was to acquire by purchase under a decree of foreclosure, out of the hands of the court the Flint and Port Huron

section on the eastern extremity of that line. That we did on June 21st. That line is sixty-nine miles long, and that line pays at present out of the local traffic more than its expenses. The next thing we did was to purchase in a similar way, for a similar sum of money, \$300,000, the Lansing and Valparaiso section as far as Milton on the State line. That Lansing and Valparaiso line is divided into two sections. We purchased 108 miles in the State of Michigan on August 25. Having got hold of the two sections—one sixty-nine and the other 108 miles—we advertised for tenders to construct the line some 49 miles long from Flint to Lansing. That important portion was in the hands of Mr. Vanderbilt. He had expressly purchased it to stop our through route to Chicago, and he did most successfully do that, for we have been carrying hardly any traffic there since he purchased that section. Well, it might have been difficult to deal with Mr. Vanderbilt on the matter, but there is a nice coalfield to the north of that line called the Owosso coalfield, so we advertised for tenders to construct a new line through this coalfield parallel to Mr. Vanderbilt's line, or at all events, between the same two points; and we received tenders and we were going to let the contracts for constructing that line; but as soon as we had got to that length Mr. Vanderbilt's solicitor approached our counsel at Michigan and offered us the line for \$600,000,—at least the bonds and shares which he held in it. We offered him \$450,000 and eventually we closed for \$540,000 for the line, which had thus been obstructing us. Within two or three weeks it was in our possession and we have been running it ever since. We thus acquired the whole line from Port Huron over the Flint and Lansing down to the State line. Now, from Milton to Valparaiso there is a line of fifty-eight miles in the State of Indiana on the old Peninsular Railway. When Sir Charles Young and Mr. Heygate were with me in Canada, we bought the majority of the bonds of that railway at 12½% per cent. We have not yet got the sale of that line through the courts, but it is to be sold, and we intend to purchase it next Saturday. That brings us down to Valparaiso. Between Valparaiso and Thronton for twenty-nine or thirty miles, we let on the 2nd September a contract for constructing that line for £75,000. I remember at the special meeting in June some gentlemen expressed their doubts as to the cheap way in which railways could be constructed in America; but that is a contract for £75,000 for thirty miles, or £2,500 per mile, for a first rate steel rail line, all complete with proper sleepers and

ballast. It takes you twelve months to construct thirty miles of railway in this country, and sometimes two years. That line of thirty miles long is to be finished by the 15th of November, having been let on the 2nd September, and perfectly finished by the 1st of December. That brings us to a bit of railway twenty miles long, laid to twenty-sixth street, Chicago, which we bought when I was in America, two years ago, so that, practically we have got now the whole control of the line from Port Huron into Chicago. We are making arrangements with certain companies to admit us into their stations at Chicago. Now, the difficulty is not to find the company that will admit us, but to choose between the various companies which are offering us accommodation in that city. We are very well received in Chicago. They are very glad to have us, and as soon as we have all our arrangements completed we shall have no difficulty in getting plenty of traffic in Chicago. Now, gentlemen, you would like to know what is the cost at which we have purchased this line, 330 miles long to Chicago. You will remember that at the special meeting you authorized us to sell the Riviere du Loup line, and to receive \$1,500,000 or £310,000 for it from the Government, and you authorized us to make an agreement with the Government for expending that money as the Government might direct under the Act. Well, we have up to the present time, in acquiring that line to Chicago, just about exhausted that £310,000 and no more. We shall now begin to want a little more money. But we are not going to ask you, as I told you from the first, to place anything in front of your present preferences, or your present bonds, or your present stocks. That line is good in itself. It will pay for itself; and we have bonds of that line which we can sell, and we can raise any money we want without coming to you at all in the matter. (Hear, hear.) I don't know a better security than that line appears likely to give. Now, we have a choice. We can either issue bonds which we have to issue on that line or its various sections in America, or we can come to you and offer you, if you like, to subscribe for some of those bonds. We have not settled what course we shall take, but I think it not impossible—the security is almost too good to allow the Americans to have it all—I think it possible we may send you round a prospectus and offer it to you, not advising you to take it, but letting you act upon your judgment, and giving you the opportunity, if you wish it, to take some of the securities in that line. You will do as you like in the matter; there is no sort of

compulsion; but I believe it will be a good security. Now, the amount which we shall want for the next six months will not be more than about £200,000. That will include all that is necessary for steel rails for the line, for rolling-stock, and for anything we may want for entrance into Chicago, and so on. Ultimately, we shall expend a larger sum—I believe, altogether, in addition to the £300,000 we have spent ourselves, or rather more, because we have got another £40,000 for the rails on the Riviere du Loup section to come to us, owing to the price of iron having risen—we shall certainly not in the course of the next three years, after the most full and perfect arrangements we can make, want more than £500,000 in addition to what we have already spent upon it; and it will be a very cheap line for that money; the whole length, from Chicago to Port Huron, being about 330 miles.”

In 1883, after the transaction had been safely cleaned up, Sir Henry Tyler described it to the shareholders as follows:

“To show that we have not been trying to extend ourselves unduly, the first thing we did to revive this concern was to lop off a rotten branch. If we had retained the Riviere du Loup section we should have had to spend £200,000 to make it safe for traffic. Instead of doing that, we sold it for a sum of money which we forthwith invested in Chicago and Grand Trunk first mortgage bonds, and it was that money which enabled us to get this fine line to Chicago. That investment has since increased in value and at present prices it is worth some £60,000 more than the price at which we obtained it.” (Cheers.)

In 1880 and 1881 business on the American continent was booming and the Board with small renewals managed a dividend on both the first and second preference stocks. In addition prospects had been greatly improved by the sale of the non-remunerative Riviere du Loup section to the Government on terms which would net the company, with the old rails and equipment reserved, about \$1,750,000 and by the purchase with that money of 333 miles of line from Detroit to Chicago. The time was propitious to exploit the gambling possibilities of the £2,500,000 of common stock still on hand and the directors fed it out at a discount of 74%.

In 1882 the Grand Trunk directors entered into an amalgamation agreement with the Great Western Railway Company, the effect of which is succinctly set out in Dominion Acts of 1884, Ch. 52.

At the date of the amalgamation, the Great Western Railway had outstanding the following loan and share capital:

Bonds, 6%.....	\$991,500.
Debenture stock, 5%.....	£2,773,900.
Preference stock, 5%.....	£505,753 17s. 4d.
Ordinary stock.....	£6,116,801 16s. 10d.

By the terms of the agreement, the Great Western preference stock was converted into 4% guaranteed stock and ordinary stock of the Grand Trunk Railway, on the basis of the Grand Trunk Railway issuing £125 of guaranteed stock and £20 of ordinary stock for each £100 of preference stock of the Great Western.

The Great Western ordinary stock was cancelled and there was issued in its place:—£75 of Grand Trunk guaranteed stock and £100 of Grand Trunk ordinary stock for each £100 of Great Western ordinary stock.

By the same act the extra 1% contingent dividend on the three Grand Trunk preference stocks provided in the 1873 Act was cancelled and the Grand Trunk in consideration of this cancellation issued to its first preference stockholders new ordinary stock amounting to £193,089; to its second preference stockholders new ordinary stock aggregating £116,390 and to its third preference stockholders £215,042 of new ordinary stock.

The transaction increased the share capital of the Company \$25,000,000 over the combined share capital of the two companies amalgamated.

The circumstances anterior to this bargain and the causes which led to its conclusion threw light on the onerous terms accepted by the Grand Trunk.

From 1859 the Great Western served the Canadian territory west of Toronto and connected by means of its Detroit Buffalo line with the great American Railways running west from Detroit and east from Buffalo. It was a progressive and well managed company. When the Grand Trunk commenced the invasion of the territory west of Toronto in the fifties, the Great Western proposed that the companies should comply with the original policy of the Canadian Government and Legislature, that the Grand Trunk should go as far as Toronto from the east and the Great Western from Toronto westward, the Great Western leasing the competitive lines west of Toronto so far as constructed. That meant that the Great Western would have to pay a heavy sum for unnecessary lines west of Toronto but wasteful competition and further unjustified construction would be eliminated. The reply to that proposal was the construction of the Grand Trunk to Sarnia and

its extension to Detroit. Even after that, and as late as 1876, the Great Western offered to lease the lines west of Toronto at £225,000 a year with a contingent increase to £395,000 a year. The reply was the acquisition and construction of further lines in the territory of the Great Western. The pressure of this competition had so detracted from the previously prosperous condition of the Great Western that in 1876 it procured and carried into effect the powers granted by Ch. 46, Acts of 1876 (“An Act respecting the capital of the Great Western Railway Company, and for the capitalization of certain charges and liabilities.”) which provided as follows:

Section 3. “It shall be lawful for the Directors to charge the capital account of the Company with the sums by which the net revenue of the Company, up to and inclusive of the thirty-first day of January, one thousand eight hundred and seventy-six, was insufficient to meet the interest upon the terminable bonds and perpetual debenture stock of the Company, and with the further sums (if any) by which the net revenue for the year ending on the thirty-first day of January, one thousand eight hundred and seventy-seven may be insufficient to meet the interest on the said bonds and debenture stock for the same period, and with such sums at the credit of the general balance sheet of the Company as shall appear to the Directors to be represented by assets without value, or by an over-valuation of assets; Provided that the total sum so charged to capital, by virtue of this section, shall not exceed the sum of three hundred thousand pounds sterling and provided that nothing herein shall be taken to discharge any person or corporation from liability to the Company in respect of any of the sums so charged to the Capital account.

Section 4. “It shall be lawful for the Directors to capitalize the whole or any portion of the dividends now in arrear to the preference stockholders of the company, and of such further preference dividends (if any) as the net revenue of the company may be insufficient to provide for up to and inclusive of the thirty-first day of January, one thousand eight hundred and seventy-seven, by the delivery of certificates for one hundred pounds sterling, or fractional parts of one hundred pounds, as the case may be, of preference stock, to the preference stockholders entitled to such dividends,—which additional preference stock shall bear and be entitled to the same rate of dividend, stand upon the same footing, have the same priority, and entitle the holder

thereof to the same rights as, but no other than the preference stock in respect of which the dividends so capitalized shall have accrued; and in such capitalization the Directors shall have power to create and give at the rate of not less than one hundred pounds, nor more than one hundred and forty pounds, of such additional preference stock, for one hundred pounds of such arrears of preference dividends; and such capitalization shall be in full discharge and satisfaction of the dividends, or portion of dividends as the case may be, which the Directors shall have elected to capitalize.

Section 11. "It shall be lawful for the company from time to time to create and issue in lieu of the whole or any portion of their borrowing powers so many ordinary shares, in addition to their share capital otherwise authorized as will realize to the company a sum of money equal to the amount of loan capital in lieu of which such ordinary shares shall be issued; and the borrowing powers of the company shall be reduced by the amount realized from the ordinary shares so issued; and such ordinary shares **may be issued upon such terms as to premium or otherwise as the Company may deem advisable**, and either in lieu of unexercised borrowing powers, or for the purpose of paying off or redeeming bonds or debenture stock already issued."

As explained previously, the Grand Trunk, after getting to Sarnia and Detroit was cut off from their western traffic by Mr. Vanderbilt of the New York Central acquiring control of the Michigan Central, with which the Grand Trunk exchanged traffic. This had driven the Grand Trunk, in order to maintain the lines west of Toronto, and the Sarnia and Detroit Branch, to acquiring its own line to Chicago, accomplished in 1881 through resources secured by the sale to the Government of the Riviere du Loup section.

At this stage two new elements entered into the situation. (a) The New York Central, having secured the construction of the Canada Southern from Buffalo to Detroit and control of the Michigan Central from Detroit to Chicago, commenced the diversion of the traffic from the Michigan Central previously carried by the Great Western over its Detroit Buffalo line, to the Canada Southern. The amount of tonnage from the Michigan Central to the Great Western for the half year ending June 1878 was 429,000 tons. That was diminished in 1879 to 351,000 tons; in the June half year of 1880 to 309,000 tons; in 1882 to 174,000 tons and in 1883 to 35,000 tons.

(b) The Canadian Pacific Railway was reaching out to make connections in Ontario and Quebec for the purpose of building up its system of transportation. In 1881 by Dominion Acts, Ch. 44, the Ontario and Quebec Railway Company was incorporated with power to construct a railway from Toronto to Ottawa and East, and, by Section 19, that Company was authorized to amalgamate with the Credit Valley, the Great Western, the Canada Central and the Quebec-Montreal-Ottawa and Occidental Railway, which amalgamation, if carried out, would make a system competing with the Grand Trunk from Quebec to Lake Huron.

The bargain with the Great Western outlined above was intended to block C.P.R. extension in Ontario and, about the same time, Sir Henry Tyler bought the North Shore line from Quebec to Montreal on terms which he considered high in order to prevent the C.P.R. getting to Quebec.

The capital issues above mentioned were paid for a road which Sir Henry Tyler, in 1883, after the bargain was completed, told the shareholders of his Company had saved the Great Western "from inevitable disaster which would have overtaken it if it had not joined the Grand Trunk."

That was not the whole story however.

If the bargain had not been made, the negotiations then pending between the C.P.R. and the Great Western would have been concluded and without further duplication the C.P.R. and the Grand Trunk systems would have each had connections between Detroit and the Atlantic. The Great Western was economically worth much more to the C.P.R. than to the Grand Trunk as in the case of the C.P.R. it furnished a necessary connection which would have to be provided while in the case of the Grand Trunk it in the main furnished only duplicate lines serving territory already served by the Grand Trunk.

The C.P.R. however could not and would not meet the terms bid by the Grand Trunk and the inevitable results followed. The Grand Trunk was loaded up with a duplicate system at an excessive price, the C.P.R. connected the Credit Valley with its line from Toronto to Montreal, extended the Credit Valley to Guelph and Gooderich, constructed lines from Woodstock to Hamilton and the Niagara River, from Galt to Berlin and Waterloo and from London to the Detroit River, thus completing the connections which would have been substantially furnished by the acquisition of the Great Western.

The attempt to prevent the C.P.R. reaching Quebec through the purchase by the Grand Trunk of the north shore line between Quebec and Montreal, did not lead to the same regrettable waste of money. Sir John Macdonald

intervened and by 1884-5 the Grand Trunk, in straits to meet its fixed charges, even after reducing renewals to almost zero, accepted his proposal to take the north shore off their hands at cost and turn it over to the C.P.R. That action prevented what would have been another sorry spectacle, viz.: duplicate lines of the Grand Trunk north and south of the river between Quebec and Montreal, and a new C.P.R. parallel line between the same points.

When the attempt to block the Canadian Pacific had failed and the plum which the shareholders had expected to fall into their mouths through the bankruptcy of that line and its resumption by the Government was no longer in prospect, the good faith of the Canadian Government and people was attacked by the Grand Trunk shareholders in similar terms to those used in 1862.

When the Canadian Pacific, which had taken up the burden declined by the Grand Trunk, of constructing a transcontinental line to the Pacific, proceeded to acquire and construct such Eastern lines as would make the operation of the main line feasible, they were first met by the blocking tactics of the Grand Trunk already described and neither the Canadian people nor the Canadian Pacific Railway challenged the right of the Grand Trunk to pursue those tactics although the Government might well have done so considering the amount of money contributed by the country to the construction of these railways. When those tactics failed of their object, however, there came a storm of protest from the Grand Trunk shareholders challenging the right of the Canadian Pacific to compete for traffic outside its main line in the east, charging the government and people of Canada with bad faith and dishonesty because they granted the usual subsidies and invoking a phrase of the Brassey contractors and their London bankers in the prospectus of the Grand Trunk as a pledge by Canada that no one should ever be allowed to compete with the Grand Trunk, while, wonderful to relate, the Grand Trunk should continue to have the unlimited rights of competition in any field it desired to enter and which right it had exercised in the case of the Great Western for thirty years. The phrase referred to occurred in an appendix to the prospectus describing the future of the proposed Grand Trunk undertaking in extravagant terms. The phrase was:

“Protected from the possibility of injurious competition for nearly its entire length, by natural causes as well as legislative enactment, it engrosses the traffic of a region extending 809 miles, etc. etc.”

The protest and the continued assaults on the Canadian Pacific in London called forth from Sir William Van Horne and Sir George Stephen, the following rejoinder at the 1888 C.P.R. meeting.

Sir William Van Horne: "In submitting the annual report I beg your permission to step for a moment aside from our custom at these meetings to speak of a matter which has been a source of much annoyance to your Directors, and possibly of loss to some of the shareholders of the Company, and in doing so I wish in the first place to express the hope that unfriendly remarks or impertinent comments upon the affairs of our neighbors will never characterize the meetings of the shareholders of this Company. For my own part I would prefer not to refer to their affairs at all; but lest continued silence should be misconstrued I feel that I should, on this occasion, say a few words about the attitude of the Grand Trunk Company, as indicated by its acts in Canada and by the utterances of its President in England; and as to the latter especially I feel that I am more than justified in what I have to say by the increasing freedom of his remarks concerning this Company with which his shareholders are entertained at their half-yearly meetings, and which clearly indicate that he lacks that first requisite of good neighborhood the faculty of minding his own business.

"We have, as you know, scrupulously refrained from interference with any of the projects of the Grand Trunk Company, or with its legislation or financial operations; and in our every day relations we have as scrupulously avoided rate-cutting and unfair competition in any form. But almost every project and measure of your Company, from the time of its organization up to this day has met with the active hostility of the Grand Trunk Company at every turn—in the Dominion and Provincial Parliaments, in the money markets and in the public press. It is hardly necessary to go beyond the reports of the half-yearly meetings of the Grand Trunk Company for proof of this. At these meetings the most mendacious and absurd statements concerning the Canadian Pacific Railway seem to be received without question, and insinuations against the credit of your Company are greeted with cheers. At the last meeting of the Grand Trunk shareholders, only a few days ago, their President boasted of the successful interference of their officers in Canada with some of our recent

legislation,—unwarranted interference with legislation relating to our internal affairs and in no way concerning the Grand Trunk; and on the same occasion he indulged again in his often repeated hints about impending disaster to your Company. Our offence is that in the necessary development of our railway system—in securing that independence which you know to be absolutely necessary to the success of the enterprise, we have come into competition with the Grand Trunk in certain districts, and that we have been obliged to go and get what the Grand Trunk would not bring to us. But when your representatives signed the contract with the Dominion Government for the construction and future working of the Canadian Pacific Railway, they bound you, without knowing it, perhaps, to an unwritten obligation, but one from which there was no escape, to do practically all that has been done since, and to do some things which have yet to be done. The interests of the Grand Trunk were already firmly established in the direction of Chicago, and they could not be reversed and made to fit in with yours. What is not to their interest the Grand Trunk people will not do, if they know it. They saw, perhaps as soon as any, what the building of the Canadian Pacific Railway implied, and they fought against it from the very beginning; and with a Bourbonlike disregard for the logic of events, they are fighting it yet.

“They say a great deal about the aggressiveness of the Canadian Pacific, about its extensions and acquisitions in Ontario, regardless of the fact that since the Canadian Pacific came into existence, the Grand Trunk has absorbed in that province more than two miles of railway for every one made or acquired by the Canadian Pacific, aside from its main line. They would have it believed that the Great Western, the Midland, the North Shore, the Grand Junction and other railways were acquired in frantic haste and without higgling about prices, because they would be profitable to their shareholders, and not for the purpose of depriving the Canadian Pacific of connections. They would have it believed that the Northern and North Western Railways were acquired for the same reason, and with the friendly desire, at the same time, to secure a connection with the Canadian Pacific, and not for the purpose of preventing the Canadian Pacific from reaching Ontario from the north-west to advantage.

“They also say a great deal about the assistance the Canadian Pacific has received in the way of subsidies, forgetting that the Grand Trunk and the lines amalgamated with or held by it, have received many times the amount in subsidies in Ontario and Quebec that the Canadian Pacific has received for its lines in these provinces; and they forget to say that the Ontario and Quebec Railway, between Montreal and Toronto, about which so much complaint has been made, was built without any subsidies whatever.

“Every line made or acquired by the Canadian Pacific in Ontario was made or acquired with especial reference to its necessity to the general system of the Canadian Pacific Company—in no case because of mere profit in itself, but in no case, either, without the certainty that it would be profitable. Whether or not the extensive acquisitions of the Grand Trunk Company in Ontario bring profit or loss to that company does not concern us any more than does the fate of the Canadian Pacific shareholders concern the President of the Grand Trunk, according to his latest half-yearly speech.

“I should feel proud of the entire responsibility for the present geography of the Canadian Pacific Railway system if it all rested upon me, for I believe that no mistakes of any consequence have been made, and that the results have more than proved the wisdom of all that has been done; and I am confident that, with a knowledge of the reasons which have actuated your Directors and with the results before you, there is little that you would wish undone, or that you could afford to have undone.

“Had you stopped at the completion of your main line across the continent your enterprise would have come to ruin long ago, or at best it would have existed only as a sickly appendage of the Grand Trunk. Like a body without arms it would have been dependent upon charity—upon the charity of a neighbor whose interest would be to starve it. But today you have neither the Grand Trunk nor any other company to fear, and the monthly returns of net profit may be confidently depended upon to furnish a conclusive answer to all of the misrepresentations which have been so industriously showered upon us for the past eight years.

“I do not intend to refer again to such matters at these meetings, and I only do so now for the purpose of putting our

shareholders on their guard against unfavorable reports about our affairs coming from the Grand Trunk sources.”

Sir George Stephen: “I wish to express my concurrence in every word our President has said about the senseless hostility of the Grand Trunk Company, as manifested by its President and some of its chief officers towards our enterprise from its inception to the present time. I was in London in October last when Sir Henry Tyler, fresh from Canada and posing before his shareholders as a well informed railway expert, spoke of the position and prospects of the Canadian Pacific Company in most unwarrantable and unneighborly terms, and for no other purpose, so far as I could see, than to discredit this Company, in the hope of preventing our getting the necessary capital to build the line from London to Detroit, the construction of which had been forced upon us by the failure of our earnest efforts to lease one of Sir Henry’s spare lines. The partizans of the Grand Trunk, following Sir Henry’s lead, made an organized attack of the most unscrupulous character upon the credit of the Canadian Pacific, which, however, failed of its object—the Company, having, as you know, secured the capital required on much more favorable terms than ever before in its history. The flood of false and damaging statements which were put before the public in one form or another, day after day, frightened, no doubt, a good many holders of our shares and bonds into selling out at prices far below the value of their securities. This, I am sure, you regret as much as I do.

“I am happy to believe that the results of the current year will so completely establish the ability of your Company to pay dividends on its ordinary shares out of the net profits of the working, that Sir Henry Tyler will have no need in future to concern himself about the welfare of its shareholders. We have seen nothing in Grand Trunk methods that would justify us in asking Sir Henry’s advice as to how we should manage our property, or how we should shape our legislation or finances. When the results prove that his methods are right and ours are wrong, we may ask his advice; but until then, I, for one, will not thank him for it.

“I have always been most anxious to see the two companies acting together in harmony and good-will, for in this way only can

they properly serve the interests of their shareholders. I know that this has been the feeling of every one of your Directors, and I believe that no opportunity has been neglected to give evidence of it. But we are not likely to be frankly and fairly met by the Grand Trunk officials on this side of the Atlantic so long as their President continues to exhibit such a feeling of animosity as is evidenced by his half-yearly speeches to his shareholders, nor until he is willing to accept the situation and recognize in the Canadian Pacific an independent but well-disposed neighbor—a neighbor who has come to stay and is abundantly able to hold his own.

“On one point I am happy to be able to agree with Sir Henry, and that is as to Government subsidies to competing lines in districts already provided with railway facilities. The only grounds on which railway subsidies can be justified, according to my views, are the entire absence of railway facilities and the impossibility of providing them by private and unaided enterprise; and I will promise Sir Henry my hearty co-operation in any effort to induce the Dominion and Provincial Governments to put a stop to the subsidizing of competing lines, most of which if built, will only bring disaster to those who may be induced to invest in them.

“I earnestly concur in the hope of the President that it will not again be necessary at the annual meetings of the Shareholders of this Company to say anything about our neighbors or to go outside of the body of our formal report.”

Sir Henry Tyler, in a spirited reply at the October, 1889, meeting of the Grand Trunk, among other things said:

“It is not merely the case of the wolf and the lamb, but rather the case of Dr. Johnson and the eel. You will remember it was recorded by Dr. Johnson that he saw a fishmonger skinning an eel, and the fishmonger swore at it in a most abusive and horrible way because it wriggled. (Laughter.) Well, I think that is rather our position. We are being skinned—or rather, they are trying to skin us—of our traffic, and we have been wriggling a little, and they swear at us for it. The more they try to skin us the more probably we shall wriggle, and we shall have a good deal more power than that eel to protect ourselves from undergoing that disagreeable

process, and I do not think they will get much skin off us after all.”

Sir Henry’s previous speeches and the speeches of shareholders show that the Grand Trunk management and shareholders expected the C.P.R. to fail and their whole project of blocking its eastern extensions was directed to assisting the accomplishment of that, to them, desirable result. At the 1885 meeting Sir Henry said, referring to the C.P.R.:

“Their most serious troubles and difficulties will really begin when they have their lines finished from ocean to ocean. You may form some idea of what it will be to work a railway for 3,000 miles, with very little population upon it, with a very severe climate to contend against and with all sorts of disadvantages, much greater than those we labour under. Now, gentlemen, the question is not how much profit they will make in the first few years, but how much loss they will experience in working their railway? and how much more money they want now to complete it? We all know they have been beseeching the Government of late for further assistance to complete the line, but have not yet succeeded. It appears to me the best thing for them and for us, and for the Government—and I think it will come sooner or later—would be that the Canadian Pacific Company should be taken over by the Canadian Government, **and when that happy time arrives there will be an end to undue competition** and the Grand Trunk proprietors will all be glad to help the Government in any way they can in making as little loss as possible in working the Canadian Pacific Railway.”

It is interesting to note that in the end good relations were established between the companies as will appear from the following remarks of Sir William Van Horne to his shareholders, at the annual meeting of 1892.

“There is another matter which I may as well mention, although it is not worthy of serious comment. I refer to the reports which have been recently so common in the newspapers to the effect that the Canadian Pacific Company had in view the control of the Grand Trunk through some kind of a working arrangement or lease. These reports have only been a source of amusement to your Directors, who could not fail to be reminded by them of a very different kind of talk in the recent past; but since they were

referred to by the President of the Grand Trunk Company, at the recent half-yearly meeting of his Shareholders, in terms which might be construed as indicating some belief on his part in the truth of them, although he probably did not intend to be so understood, I will say that such a scheme has never entered the minds of your Directors, and that even if the country would tolerate such a thing, which I very much doubt, your Directors would not recommend anything of the kind to the shareholders.

“They believe that your interests will be best served by continuing to cultivate most friendly relations with the Grand Trunk and to deal with that Company as a friendly competitor. I am glad to say that our relations with the Grand Trunk people have been greatly improved during the past two or three years, and that there is now a feeling of sincere cordiality between the officers of the two companies, on this side of the Atlantic at least.”

In the early eighties the Grand Trunk adopted the policy of acquiring all the side lines in Ontario and Quebec available, primarily to block the C.P.R. and secondarily to supply feeders to the main line.

By 1892 the Grand Trunk had acquired the control of sixteen companies whose lines were connected up with the system.

Fourteen of them were amalgamated with the Grand Trunk in 1892 under an agreement confirmed by chapter 47 Dominion Acts of 1893. Under the agreement their obligations were assumed by the Grand Trunk and their share capital was made exchangeable for Grand Trunk shares par for par. The borrowed capital of these fourteen side lines aggregated \$17,089,425.99, and the share capital \$9,729,285.44.

The fourteen companies executing the amalgamation agreement with the Grand Trunk were:

	Miles
The Midland Railway of Canada.....	479.25
The Peterborough & Chemong Lake Ry. Co.....	9.18
The Lake Simcoe Junction Ry. Co.....	26.50
The Grand Trunk Georgian Bay & Lake Erie Ry. Co.....	189.75
The London Huron & Bruce Ry. Co.....	68.88
The Galt & Guelph Ry. Co.....	15.00
The Brantford Norfolk & Port Burwell Ry. Co.....	34.78
The Wellington Grey & Bruce Ry. Co.....	168.00
The Waterloo Junction Ry. Co.....	12.00
The North Simcoe Ry. Co.....	33.00
The Cobourg, Blairton & Marmora Ry. & Mining Co.....	14.50
The Jacques Cartier Union Ry. Co.....	6.50
The Montreal & Champlain Jct. Ry. Co.....	81.25
The Beauharnois Junction Ry. Co.....	19.00

The remaining two companies acquired were the Northern Railway Company of Canada and the Hamilton and North Western Railway Company.

The deed of union was dated the 24th day of January 1888 and was confirmed by the Grand Trunk shareholders on February 23rd of that year. The idea was that the acquisition of these lines would give the Grand Trunk the only available line from Niagara to Nipissing Junction, thus connecting them with the C.P.R. line to Sault Ste. Marie, with its connections to Minneapolis and the American north-west and with the C.P.R. Main line to Winnipeg and the coast and securing for the Grand Trunk the large and increasing traffic collected by the Canadian Pacific in the Canadian and American west for distribution south west of Lake Huron.

The C.P.R. afterwards, on the launching by the Grand Trunk of the Grand Trunk Pacific, built its own connections south from Sudbury but that was, apparently, not contemplated by the Grand Trunk at the time and the object sought by its shareholders no doubt explains their unanimous adoption of a purchase the onerous terms of which could only be justified by the expectations referred to.

The lines acquired totalled some 495 miles. The Grand Trunk assumed the fixed charges on the \$9,500,000 plus securities outstanding and the floating liabilities of \$1,894,328.81. On the \$1,500,000 plus of preferred

stocks outstanding, (£74,500 of which had been previously purchased by the Grand Trunk,) which stocks had neither earned nor paid a dividend for years, the Grand Trunk agreed to pay 3 per cent. when and as the First Preference stock of the Grand Trunk received 3% and 3% more when the Grand Trunk second preference stock received 3%. Their ordinary stocks amounting to \$1,800,000 plus were to be exchanged for a like amount of Grand Trunk ordinary stock. In moving the resolution Sir Henry Tyler, referring to the ordinary stocks said "Their ordinary stocks are to be put on the same footing as our own ordinary stock. I do not think anybody can make the slightest objection to that." (Much laughter.) In replying to a shareholder he said, "Looking at it all round, and connected intimately with the affairs of the Company as I have been, I think the prospects of their ordinary stock would have been quite as good as those of our ordinary stock if they had not joined us."

The acquisitions in Canada from 1882 to 1894 with some short lines constructed during that period, (including 21 miles from Kingscourt to Glencoe,) and deducting lines abandoned, added 2,030 miles of railway of sorts and in various stages of operating efficiency to the system, on a basis, which, excluding junior issues, increased the fixed charges having priority over the guaranteed and preference stocks from £425,000 to £1,120,875.

After the brief burst of prosperity from 1881 to 1883, during which period the directors paid dividends on the preference stocks to the last dollar available, the undertaking went from bad to worse till in 1894 the fixed charges exceeded the revenue by £224,000, and the Michigan lines of the Company were suffering for lack of renewals.

The unlucky venture of the Great Western in acquiring the Detroit and Grand Haven line was passed on to the Grand Trunk by the amalgamation with that company and during the three years from 1892 to 1894, the Chicago Grand Trunk and the Detroit Grand Haven alone showed a deficiency in meeting net revenue charges aggregating £296,000.

The St. Clair Tunnel was completed during this period with Dominion aid to the extent of \$375,000, but the large benefits expected from its construction and the operation of the Michigan lines were not realized and the whole Michigan venture instead of yielding a profit showed a staggering loss.

In the East control of the Vermont Central was acquired through the purchase of securities in the old company which went bankrupt but was later reorganized with the Grand Trunk in control of the stock. The Portland

connection, secured at the great cost heretofore indicated, had proved a sad disappointment and eastern American connections were sought through the acquisition and reorganization of the Vermont Central.

Sir Henry Tyler and his board had worked hard and, although his policy of expansion had been carried out on an improvident basis and in pursuance of a policy against the logic of events, it must be borne in mind, in justice to himself and his co-directors, that the policy had the hearty support of the shareholders from its inception, was in fact pursued in execution of the wishes of the main body and carried out on terms which they greeted with cheers.

When the results expected did not materialize the onus had to be taken by Sir Henry Tyler and he retired.

Chapter X

THE HAYS ADMINISTRATION

1895-1912

The next period is referred to as the “Hays Administration” although Sir Charles Rivers Wilson followed Sir Henry Tyler as President. His first act was to secure Mr. Hays as General Manager and Mr. Hays later succeeded Sir Rivers as President.

From the time of Mr. Hays’ appointment as General Manager, he was the dominating force in the undertaking and the policies pursued were in the main his policies both in conception and execution. He was still a young man in the forties when he came to the Grand Trunk and had behind him a record of remarkable achievement in putting the Wabash system on its feet. The new administration went into office in May 1895. On June 30th, 1895, the books showed, after questionable adjustment in favor of revenue, a deficit of £191,000 in meeting fixed charges. During the preceding 18 months the expenditure for repairs and renewals was reduced by £179,000 below the normal expenditure made in the preceding 18 months, so that the real deficit was about £370,000. A Committee of the Directors consisting of the President, Vice-President, Mr. G. W. Allen and Mr. A. W. Smithers, made a general local investigation into the affairs of the Company. Their report states as follows:

“The general impression of the deputation is distinctly favorable as regards the material condition of the road east of St. Clair River, as well as of the road stock and workshops on that portion of the Company’s system. This opinion does not, however, apply to the same extent to the permanent way of the lines controlled by the Company in the United States west of the St. Clair River, and special renewals are now in progress. It was found also that the equipment of these controlled lines is in many respects defective and insufficient and their requirements appeared to be so urgent in this respect and so much traffic was evidently being lost in consequence of the inadequate supply of 30 ton cars now in general use for through traffic, that the deputation felt it their duty to give orders for the construction of 1,000 new freight cars of that capacity fitted with all modern improvements, to be delivered as promptly as possible.”

The Committee considered the possibility of abandoning or disposing of such portions of the property as had been acquired from time to time under conditions resulting in loss to the company, but were unable to see their way to recommend any immediate method for removing these burdens except that they did recommend and carry out a direction to discontinue the train service on the Toronto Belt Lines, which had been purchased in 1892 for \$455,317 and had had an operating deficit for the two years ended December 31st, 1894, of £145,723.

It will be seen that the affairs of the Company were far from satisfactory when the new manager took the helm.

In 1895 Mr. Hays succeeded in making a lease of the section between Beauharnois and Valleyfield to the St. Lawrence and Adirondack Company, at \$10,000 a year.

In 1896 he negotiated the construction of a one million bushel elevator at Portland on the basis of the City putting up the money and the Company paying 4% interest, and a yearly sinking fund based on the prospective returns from the elevator.

In the same year he succeeded in procuring from the City of London a contribution towards the construction of new and improved car shops there, amounting to \$110,000 which contribution, with the insurance received on the old shops which had been burned, enabled him to get improved shops without any outlay by the company.

In the same year he arranged for the double-tracking of the Bridge over the Niagara in substitution for the single-track suspension bridge previously existing, which gave enlarged facilities for the increased traffic which he anticipated.

In 1897 he concluded an agreement with his old company, the Wabash, for the joint use of the Grand Trunk tracks between Windsor and Buffalo and from Welland Junction to Suspension Bridge, aggregating between five and six hundred miles of railway, including the use of the ferry boats and dockage facilities between Detroit and Windsor. For this use the Grand Trunk was to receive a rental of \$275,000 per year, with a contingent increase to \$350,000 per year and a proportionate contribution to maintenance and operation of these lines, based on the number of engines and cars moving over the joint section.

He then turned his attention to the double-tracking of the Victoria Bridge which had become inadequate for the purposes of the Company. This reconstruction involved a considerable outlay but was made possible by an

advantageous agreement with our old friend, the Dominion Government, for running powers of the Intercolonial for 999 years over the section of the Grand Trunk from St. Rosalie to Montreal, 36 miles, for which the Government paid \$140,000 per year and a proportion of the maintenance and operation expenses.

This agreement, however, by itself was not sufficient to carry out the necessary changes to the Victoria Bridge and it was supplemented by a Dominion subsidy of \$300,000 and a Quebec subsidy of \$250,000 and also by provisions for vehicular and foot traffic over the bridge on the basis of the public paying tolls to the Grand Trunk Railway. The Grand Trunk Act of 1897, Dominion Cap 42, bears all the ear marks of having been conceived and promoted by the shareholders and the London management. It employs the old device of authorizing all deficits up to and including those of 1897, to be charged to capital account so as to clear the slate for appropriating any future earnings to dividends. Probably Mr. Hays had no hand in that matter whatever.

In 1898 Mr. Hays made arrangements with the C.P.R. for the use of the Grand Trunk line between Hamilton and Toronto on a rental basis which further improved the situation of the company.

In 1899 and 1900 he placed the Chicago and Grand Trunk Railway Company, which was controlled by the Grand Trunk, in the hands of a Receiver and secured its reorganization as the Grand Trunk Western Railway.

The Grand Trunk Western authorized the following securities:

4% First Mortgage Bonds.....	\$15,000,000.00
4% Income Bonds.....	1,500,000.00
Common Stock.....	6,000,000.00

\$6,000,000 of the 4% Firsts were issued to the old holders of \$6,000,000 of 6% Chicago and Grand Trunk Firsts.

\$4,500,000 of the 4% Firsts were assigned to the holders of \$6,000,000 of 5% Chicago and Grand Trunk Seconds, with \$1,500,000 of Income Bonds.

The \$4,500,000 of Grand Trunk Western 4% Firsts remaining was to be utilized from time to time for capital purposes of the new company.

The Grand Trunk guaranteed the principal and interest of the Grand Trunk Western 4% Bonds and that was made the consideration for issuing to

the Grand Trunk the \$6,000,000 of common stock.

He also procured the revision of the 1890 agreement with the Cincinnati and Saginaw, which had turned out badly for the Grand Trunk, by changing the basis which was a proportion of the gross receipts, to a fixed rental of \$43,225 per year which he estimated would save about \$12,000 a year.

During the same period he completed the Central Vermont reorganization. The capital issues of the new company were \$12,000,000 of First Mortgage bonds and \$3,000,000 of common stock. Of these securities the Grand Trunk received \$2,185,100 of common stock and \$1,583,300 of the bonds.

By 1902, with the large traffic to all the railways consequent on the prosperity and development of the Dominion and with Mr. Hays' competent and aggressive management, the operating deficits with which his administration started were converted into a surplus for that year of £673,000.

To the outsider it looked as if Mr. Hays, notwithstanding the tremendous load on this undertaking, might be able to put the company eventually in a position where the guaranteed and preferred stocks could be considered as of real value and assured of some fairly regular returns.

The situation, however, as Mr. Hays saw it from the inside held no such rosy prospects.

First,—his increased revenue gave him no real opportunity of strengthening the position of the corporation since all his surplus revenues were apportioned in dividends every six months in London, leaving no reserves whatever to answer the reaction which must necessarily follow an expansion so pronounced.

Secondly,—in looking to the source of his revenues he saw that a very large proportion of his earnings was obtained from carrying traffic which came from the Canadian West across Lake Superior down to Grand Trunk ports feeding the whole Grand Trunk system throughout Ontario. If that traffic were lost, not only would it practically eliminate his surplus earnings in times even of great prosperity, but would leave his undertaking in a helpless condition in times of adversity. That traffic was supplied in part by the Canadian Northern which had built up in the preceding decade a considerable and rapidly enlarging system of railways in the prairie provinces and was in the early stages of its active campaign for the promotion and organization of eastern connections of its own.

The first difficulty could not be dealt with directly. A suggestion to curtail the right of the English shareholders to distribute in dividends each six months every dollar of surplus earnings had not sufficient chance of success to justify the effort of making it. It might be possible, however, to use the present good showing of the Company to obtain some additional money on terms which would not cripple the company in times of stress if the stockholders could be persuaded to authorize an increase in the guaranteed stock issue.

Sir Rivers Wilson and the Board did secure that authority and the shareholders authorized the increase of the guaranteed stock to £10,000,000 and in 1903 £754,000 of the increased stock was issued at a discount of £18,000.

The real problem, however, was the second.

The significance of the situation as between the Grand Trunk and the Canadian Northern was also apparent to Sir William Mackenzie, the President of the Canadian Northern. It was plain to any railroad administrator, considering the railway situation in Canada, and the future prospects of the Grand Trunk and the Canadian Northern, that the only reasonable and sensible thing to do, in fact the only thing which would eventually prevent the ruin of either one or the other of these companies, and perhaps of both, was for the Grand Trunk in the east, with its large mileage and no western Canadian outlet or connections, to join up with the Canadian Northern which had a considerable and extending system of railways well located and economically constructed in the western provinces and thus secure to the Grand Trunk lines for the future the whole volume of traffic collected in the west and ensure for the Canadian Northern the whole westbound traffic collected by the Grand Trunk system in the east. The suggestion of amalgamation was put forward, but was cast aside by the Grand Trunk.

Then Mr. Hays endeavored to purchase the Canadian Northern lines. They totalled 1,276 miles extending from Port Arthur westward into Saskatchewan with projected lines to Edmonton and Prince Albert. The Canadian Northern reports showed net earnings for the fiscal year ending June 30th, 1903, of \$860,285.86 and its lines on the prairie, both those built and those projected, had no lean sections. The Canadian Northern eventually offered to sell out on a basis slightly under \$30,000 per mile, involving an outlay by the Grand Trunk of about £5,000,000. The directors considered the price too high and declined to purchase.

The problem might still have been solved by a traffic agreement advantageous to both systems, leaving the Canadian Northern the western field and the Grand Trunk as its associate the eastern field, but the Grand Trunk management could not bear the thought of allowing the traffic opportunities in western Canada to go to another line even on terms giving great advantages to the Grand Trunk, and decided on the same policy which had been pursued with the Great Western. The Grand Trunk would invade the Western field, eventually crush the comparatively young Canadian Northern and make of itself a great Transcontinental system. It was a dangerous policy which ended in a colossal failure and was pursued in denial of a fair and sound policy the fruits of which would have been two railway undertakings in Canada able to pay their way and fulfil their obligations both to the public and their security holders.

Having decided to recommend the course indicated, Mr. Hays laid out a scheme of expansion of tremendous dimensions. It contemplated the construction of a main line from the Pacific connecting with the eastern lines of the Grand Trunk at North Bay and supplemented by extensive branch lines, the acquisition of the Canada Atlantic Railway extending from the Vermont Central at the boundaries of Vermont to Depot Harbour on the Georgian Bay, with steamers connecting this line with the Port Arthur terminus of the western lines and an extension of the Vermont Central system to the great manufacturing centres in the east, so as to secure the traffic from those centres to the distributing cities and the country in the west over the Grand Trunk and its Pacific extensions.

Mr. Hays, as President of the Central Vermont Railway, obtained powers from the State Legislature to build a branch from Palmer on the Central Vermont through various large manufacturing cities in New England which would enable him if these powers were carried into execution to increase his gathering ground and to obtain direct first class traffic by an all Canadian route to the north west.

The Grand Trunk, also in pursuance of his policy, leased the Canada Atlantic Railway, 400 miles from Depot Harbour to the Vermont State line, the Grand Trunk guaranteeing the principal and interest on \$16,000,000 of 4% bonds of that company.

The real test of whether the shareholders would carry out his policy came, however, with the promulgation of the Grand Trunk Pacific venture which, after being negotiated for eighteen months, was laid before the shareholders at a meeting held on the 8th day of March, 1904.

A summary of the agreement with the Government of Canada, and the attitude of Mr. Hays and the directors in reference to the project cannot be more clearly or succinctly set out than by the quotation of the speeches in respect to this matter made at that meeting by Sir Charles Rivers Wilson, Mr. Hays, Lord Welby and Mr. Alfred W. Smithers.

Sir Charles Rivers Wilson: "I now approach a question which forms the subject of the special report issued to you a few days ago dealing with the proposed construction of a transcontinental line of railway—a question which has occupied the continuous and most anxious attention of your directors for the last eighteen months—a question which is of greater interest and of more far-reaching importance to the Grand Trunk Company than any which has ever been presented to the shareholders. (Applause.) Let me recall to you the reason which prompted the Board to enter upon this important scheme. The history of the Grand Trunk Company shows how it has grown with the growth and prospered with the prosperity of Canada. It shows how the Company has itself been largely instrumental in promoting the prosperity of the country, and how it has been one of the leading factors in knitting together the various provinces which now constitute the great Dominion of Canada. As it has been in the past, so it should be in the future, and as Canada continues to develop so it becomes an absolute necessity for the Grand Trunk Company to lend itself to the circumstances which surround it, and not neglect the opportunity of obtaining a share in the growing prosperity of the country. (Applause.) The chief feature of the progress of Canada during a recent period has been the rapid development of the north-west territory. Emigrants are crowding into the country—the number for 1903 is calculated at 110,000. A notable feature of the emigration is that it consists in a large measure of farmers crossing the border from the United States, who bring with them, not only capital, but agricultural knowledge and experience. Millions of acres are being thus occupied and brought under cultivation. Already the grain crop has risen from 56 million bushels in 1898 to 124 million bushels in 1902. This vast agricultural production has been obtained upon a comparatively small acreage of about 6 millions, and by means of a very scanty population. It is certain that the increase of population and production will continue in a progressing ratio, and imagination fails to conceive what the result may be when this great area has been filled up and has been

brought under cultivation. (Applause.) It is calculated that the present uninhabited area of the Province of Manitoba and of the territories of Assiniboia, Alberta, Saskatchewan and Athabasca amounts to nearly 300 millions of acres, the greater portion of which is excellent farming land, and that the unoccupied portion of British Columbia amounts to some 200 millions of acres, much of which is also suitable for farming and grazing. **There is no time to be lost if we are to avail ourselves of the great opportunities presented. Prosperity is flowing rapidly from the east to the west, outside and beyond the territory covered by the Grand Trunk. Thus, surrounded on all sides by elements of progress, it is absolutely impossible for our Company to stand still. We must either continue to advance, or we must recede and yield the offered advantages to more enterprising and farseeing competitors.** Having arrived, then, at the conclusion that the best interests of the Company necessitated some early measure in the direction I have indicated, we caused a bill to be introduced into the Canadian Parliament for securing a charter of incorporation for the creation of a company with an independent organization, but in close connection with, and under the control of, the Grand Trunk Company, for the purpose of building a line of railway from a point of junction at or on the Grand Trunk line, passing through the most fertile districts of the north-west, and terminating at a port on the Pacific coast. Under the natural impression that a scheme of this nature would commend itself to the approval, and would obtain the support and encouragement of the Government and Parliament of Canada, so liberally accorded to other railway enterprises, I ventured to suggest to the shareholders, when I addressed them in the month of April last year, that it might reasonably be expected that such a scheme might be carried through without engaging in any way the credit of the shareholders of the Grand Trunk Company. (Hear, hear.) Such was my conviction at that time, founded upon reasonable data, and in view of the precedents to which I have alluded,—I must confess that when I made that suggestion I appear to have been somewhat over sanguine, not sufficiently considering perhaps, the weight of political and interested opposition which the scheme was destined to encounter. It has been accordingly found impossible to carry the measure through the Canadian Parliament without imposing some limited obligations on the Grand Trunk Company, not by any means, however,—as I think I

shall satisfy you—to be weighed against the advantages which we anticipate will result to the Company. We certainly could not hope to obtain such generous terms as were granted to the Canadian Pacific Railway Company, but without claiming to receive assistance from the Government, which, in the case of that Company reached, I believe, something—in cash, or representing cash—like \$120,000,000, we did reasonably expect to obtain liberal treatment at the hands of the Parliament of Canada. (Hear, hear.) Our original idea was to build from a point on the Grand Trunk Railway to the Pacific Coast. The intention was that the point of junction should be at or in the neighborhood of North Bay. It was made, however, by the Government a condition of the grant of the charter of the Grand Trunk Pacific Company that the line should be extended eastward from North Bay to Quebec into the city of Moncton in New Brunswick, the point of junction on the Intercolonial Railway communicating with St. John, New Brunswick, to the south west, and Halifax, Nova Scotia, to the southeast. As a result of the negotiations with the Government, another Bill was introduced by the Government itself for ensuring the construction of the contemplated line from New Brunswick to the Pacific in joint partnership between the Government and the Grand Trunk Pacific Company. An agreement under which this line would be constructed and worked was embodied in the Government Bill and it is the first of the two agreements which are submitted to you today so far as they affect the interests of the Grand Trunk Company. The bills and the agreement were discussed by Parliament, during the whole of an unprecedentedly prolonged session. They met with strong opposition from the usual political opponents of the Government, supplemented by the hostility of competitors who imagined that they saw in the proposed arrangement with the Grand Trunk Pacific Company, a measure which would be detrimental to their own interests; and I may say, in passing, that I consider that this latter proposition which I have alluded to may be taken as in some degree a measure of the advantages which are well recognized in Canada as being likely to accrue to us from this scheme. (Applause.) I think it is only due to Sir Wilfrid Laurier to express my appreciation of his patriotic and statesmanlike conduct of this great measure through Parliament. Treating the question as he did, exclusively as one of national importance, it might have been not unreasonably expected that the question would have been lifted out of the sphere

of party politics, but that was not the case, and it was only after encountering every sort of obstruction and exercising the greatest forbearance, patience and ability, that he was able eventually to carry the measure. His chief object was to secure additional facilities for enabling the growing population of the northwest to bring the products of the western prairies to the eastern seaboard by means of a trunk railroad passing exclusively through Canadian territory. He pointed out the advantages of the contemplated line, which would not only open up fresh districts of fertility in the west, but would afford further facilities for eventually giving an outlet for those products at Canadian ports on the Atlantic, as well as eventually to the countries beyond the Pacific, the route in question being, indeed, the shortest route between the manufacturing centres of Canada and China and Japan. While, then, the objects of the premier were of this large and essentially national character, your directors on their part **saw in the accomplishment of such an undertaking great benefits to be obtained for their own Company by securing a permanent connection with the north-west, which would otherwise pass under other control, and by enabling the Company to participate in the prospective advantage offered by that vast and fertile territory.** The result, therefore, of the agreement was a combination of these two interests for the construction of the proposed road which would thus be carried out, as I have said, by means of a partnership between the Government and the Grand Trunk Pacific Company, supported as that company would be, by the influence and connections of the Grand Trunk Company. The Act which embodied the first agreement as well as the Act incorporating the Grand Trunk Pacific Company, received the Royal Assent on October 24, 1903. The directors had been in consultation with the Government throughout the lengthened discussion of these measures, and we are bound to acknowledge the fairness with which we were met by Sir Wilfrid Laurier and his colleagues in their endeavor to meet the views of the Board so far as they could do so conformably with their own views, of which they were very tenacious, and having regard to the great pressure brought to bear upon them by the opposition. And here, I must say, that if these negotiations reach, as I hope they will reach, a successful issue, it has been in a great measure owing to the efforts and great ability shown by our general manager, Mr. Hays. (Applause.) It is impossible to speak too highly of the assistance

which Mr. Hays has rendered in this matter. His merits are well known to you already. You have only to contemplate the past history of the Company during the last nine years to see what sort of a man Mr. Hays is. He seems to have put all his activity and energy into this particular negotiation, and I ask you to concur with me in expressing your gratitude to him for the good work he has done for us. (Applause.) Mr. Hays, in his anxiety to see the thing through, has come over here at some inconvenience, and he sits beside me now, and I have no doubt you will be glad to hear from him, after I have addressed you, what he thinks generally of the condition of the Company, and of the prospects of the Company as connected with this scheme.

“In the meantime a great and unfavourable change had occurred in the financial position throughout the markets of the world, and the directors, in the interests of the shareholders, came to the conclusion that modifications in the agreement were imperative in order to safeguard the credit of the Company, one important modification being that relating to the conditions which were imposed on the Grand Trunk Pacific Company for making the deposit, to which I will refer more particularly later on. Negotiations were accordingly resumed and the result is embodied in the second, or supplemental agreement, which is now in your hands, and which, read together with the first agreement, we now submit for your approval. Should it receive that approval—as I do not doubt will be the case—it will be brought before the Parliament of Canada—which has been specially summoned to meet on 10th March, the day after tomorrow—for consideration and, I hope, confirmation. I will now proceed to explain to you the leading features of the agreements, especially as relating to the participation of the Grand Trunk Company in the scheme. I think, in the first place, it will be of interest to you that I should describe the course of the proposed railroad. The whole distance covered by the road from its extreme eastern point at Moncton to Port Simpson on the Pacific is about 3,400 miles, and, for the clearer comprehension of the scheme, I will ask you to consider it as divided into two portions, the eastern and western divisions—the western portion being subdivided into two sections. It is intended that the Eastern division, i.e., from Winnipeg, through Quebec to Moncton, shall be owned by the Government, and that it shall be constructed by them under joint supervision of the Grand Trunk

Pacific Company and the Government, and leased wholly when completed—or in sections pending such completion—to the Grand Trunk Pacific Company. The distance of 3,400 miles, which I mentioned just now, is divided as follows:—The distance from Moncton to Quebec is about 400 miles; from Quebec to the point of junction in connection with North Bay about 500 miles; and then to Winnipeg another 1,000 miles. Therefore, you will observe that the length of the Government portion of the road is about 1,900 miles. Proceeding to the west—the Prairie section—that is to say, the section from Winnipeg to the proximity of the Rocky Mountains, is about 1,000 miles, and the section through the mountains about 500 miles. Thus the distance of the Grand Trunk Pacific road proper will be about 1,500 miles, as compared with the 1,900 miles of the Government road. The line will pass from 100 to 150 miles north of North Bay, whence a branch line will connect it with the Grand Trunk system, and another branch line will be constructed from some point between Winnipeg and North Bay to a point on Lake Superior. The Grand Trunk Pacific Company will, undoubtedly, receive the usual subsidies per mile from the Dominion and Ontario Governments in aid of the construction of these two branches. From Winnipeg to the Pacific Coast (the Western division) the road will be constructed by, and be, as I have said, the exclusive property of the Grand Trunk Pacific Company. It is divided into two sections—one from Winnipeg to a point where the Rocky Mountains commence, which will be known as the Prairie section, and the other passing over or through the Rocky Mountains to the Pacific Coast, which will be known as the Mountain section. It is provided that the Western division from Winnipeg to the Pacific Coast shall be completed within eight years. No special time is provided for the completion of the Eastern division, but the work of construction on both divisions will, of course, be prosecuted with good judgment, hastening or retarding its progress as financial conditions, price of material, labour conditions, and so forth, may make it desirable.

“I will now state what are the terms under which the Eastern division of the road is to be leased to the Grand Trunk Pacific Company. In the first place, the lease is to be for a period of fifty years. At the end of that time, it is open to the Government to take over the operation of the road themselves, in which case running

and haulage powers are reserved to the Grand Trunk Pacific Company for another term of fifty years, or, in the event of the Government not electing to take over the road, the right of priority over any other company is reserved to the Grand Trunk Pacific Company for a renewal of the lease. The rent payable by the Grand Trunk Pacific Company is to be 3 per cent. upon the cost of construction, but for the first seven years after completion no rent is payable, and, for the next succeeding three years, only so much as may be earned in excess of working expenses up to 3 per cent., any deficit during such three years being capitalized and added to the cost of construction; consequently, there will be no liability on the Grand Trunk Pacific Company for rent for ten years from completion. For the last forty years of the lease the full rent of 3 per cent. on the cost of construction is payable by the Grand Trunk Pacific Company. I may here remark that the act in virtue of which the Government construct the road as far west as Winnipeg relieves the Grand Trunk Pacific Company from the necessity, originally contemplated, of building that portion of the line from North Bay to Winnipeg, which, although passing through a district which I believe is infinitely more promising than that through which the Canadian Pacific line passes some 100 or 150 miles south, yet is of a character requiring longer time for development than the western and more favoured portion of the line which will be the property of the Grand Trunk Pacific Company. Coming now to the Western division—i.e. the Grand Trunk Pacific line proper—the Government undertake to guarantee interest at 3 per cent. on first mortgage bonds to be issued for three-fourths of the entire cost of construction of the road, but in respect to the prairie section such guarantee is not to exceed \$13,000 per mile. The detailed surveys have not been perfected on this portion of the road, but the country and its facilities for railroad construction are well known, and we are advised there can be little doubt that an excellent line can be built at a figure not to exceed more than \$20,000 per mile. The balance of the cost of construction, that is to say, one-fourth, will be provided by an issue of bonds by the Grand Trunk Pacific Company on a second mortgage to be guaranteed by the Grand Trunk Company. Passing, as it will do, through the most fertile and most promising belt of country in the whole of the northwest territory, there cannot be the slightest doubt that this portion of the road, built, as I have said, under such favorable and economical conditions, will immediately produce

excellent results, and will, by itself, more than justify the adoption of the scheme in its entirety. (Applause.) The Mountain section, as its name implies, naturally presents features of greater difficulty and cost, but here again, although the survey parties have not completed their work, the country has been quite sufficiently explored to enable us to say that its general features are well known, and our advisers are satisfied that the cost of laying the road will be considerably less than that of other roads traversing these mountains, and notably the Canadian Pacific, which passes through the same range of mountains under conditions of far greater difficulty than are presented by the more northern route.

“The Government surveys which were made prior to the construction of the Canadian Pacific Railway under the auspices of the Government, and conducted by their distinguished engineer, Sir Sandford Fleming, afford conclusive evidence to this effect, and if the Canadian Pacific Company chose a more southern and more expensive road, it was, I believe for the reason that that location was considered at that time to be more advantageously situated, especially on account of its close proximity to the American frontier, than that of the routes by the Peace and Pine River Passes. I need only add that the maximum elevation by way of the Peace River or Pine River routes—one of which we shall probably select as the route of our line—is only 2,400 ft., that by the Canadian Pacific Railway 5,299 ft., the Great Northern Railway 5,202 ft., and the Northern Pacific Railway 5,567 ft. The maximum gradients both east and west by the way of the proposed Grand Trunk Pacific route are estimated at 91 ft. in the mile, as contrasted with 116 east and 237 west on the Canadian Pacific and 116 respectively on the Great Northern, Northern Pacific and Union Pacific. You will, therefore, at once see by contrast the favourable conditions under which the proposed new road will be built.

“The financial conditions under which the Mountain section will be constructed are that the Canadian Government guarantee 3 per cent. on the bonds to be issued to the extent of 75 per cent. of the cost of construction, the remaining 25 per cent. being obtained by bonds to be issued by the Grand Trunk Pacific Company and guaranteed by the Grand Trunk Company. For the first seven years, however, after completion of the Mountain section, the Government will pay the interest on the bonds guaranteed by

them, without recourse to the Grand Trunk Pacific Company, and during the next succeeding three years only so much as may be earned over working expenses towards making up 3 per cent. will be paid by the Grand Trunk Pacific Company, so that, in effect, for the term of ten years from the completion of the line, or, assuming that the Western division should not be completed until the expiration of the full period of eight years allowed by the agreement, for a term of eighteen years from now, no claim will arise against the Grand Trunk Pacific Company in respect of three-fourths of the cost of the construction. (Applause.) It is natural to most new enterprises that the earlier periods of operation are not likely to be immediately or largely productive, and this remark applies with particular force to one of this special character and magnitude. However rapidly the development of the country may proceed, a certain amount of time must elapse before the Grand Trunk Pacific Company can expect to reap any substantial measure of benefit in respect of a considerable portion of the country to be traversed by the new road, and this view has been recognized by the Government. As you will have gathered from my preceding remarks, neither in respect of the lease of the Eastern division or any of its sections, nor in respect of the working of the Mountain section of the Western Division, will any charge for rent in the one case, or, in the other case, for interest on three-quarters of the cost of construction be imposed upon the Grand Trunk Pacific Company for a period of ten years after completion. As regards the Prairie section the Government, not unfairly, held that it would be self-sustaining from the date of its completion, and in this view we are willing to concur. (Applause.)

“I alluded just now to the obligation imposed on the Grand Trunk Pacific Company of making a deposit as evidence of its bona fides. This deposit, which was to be made within thirty days of the passing of the Government Act, was to consist of \$5,000,000 in cash or Government securities. I am bound to record my opinion that this was an extremely unnecessary and unreasonable demand, and I may, in passing, contrast it with the similar obligation imposed upon the Canadian Pacific Company at the inception of their undertaking, which was confined to a deposit of \$1,000,000 in cash or approved securities, **without having behind it the support of a powerful corporation like that of the company which is promoting the Grand Trunk Pacific**

Company. The obligation was, however, reluctantly accepted in view of concessions required by us on other essential points. It must have been obvious that the Grand Trunk Pacific Company, which had not even been organized, was not in a position, within the limited period exacted, to make the deposit, and the Grand Trunk Company, of course, was unable to afford assistance without first obtaining the sanction of its shareholders, for which a certain time was required. In order, however, to show no lack of good faith on the part of the promoters, and in order to satisfy the conditions of the contract, an interim and conditional deposit was made by the Grand Trunk Company of £1,000,000 Four per cent. Guaranteed Stock, subject to the subsequent approval of the shareholders, and confirmation by Parliament. The approval, however, of the arrangement in that precise form by the shareholders of the Grand Trunk Company will not now be required, and the conditional deposit of Guaranteed Stock already made will be cancelled. In substitution thereof it is now provided by the supplemental agreement that the deposit shall be made in cash or approved securities, and the Grand Trunk Company will, subject to your approval, make the necessary arrangements for complying with the requirements of the agreements. The deposit itself will be released as soon as the rolling-stock for the equipment of the road has been provided, and there only remains £1,000,000 required for the completion of the Western division. I must not forget to mention that in return for the support which we ask you to accord to the Grand Trunk Pacific Company, the Grand Trunk Company will retain a controlling interest in that company, and will become the possessors of the whole of the common stock, amounting to \$25,000,000 or £5,000,000. What may be the prospective value of that security, or when it may acquire a substantial value, I cannot precisely predict, but you must bear in mind the certain and rapid development of the northwest on the one hand, and the actual and very profitable results on the other hand, which have attended the working of other railroads operated under conditions and in districts not dissimilar from those contemplated for the Grand Trunk Pacific Company.

“I think I have now enumerated the essential features and conditions of the agreements, and you will reasonably ask what we calculate will be the liability which may be incurred by the Grand Trunk Company. The obligation proposed to be assumed by

the Grand Trunk Company is, as I have explained, limited to a guarantee of bonds representing one-fourth of the cost of constructing the Western division, with the reservation that in respect to the Prairie section—inasmuch as the government guarantee is limited to \$13,000 per mile—the company's guarantee may somewhat exceed the one-fourth proportion. Assuming, therefore, the cost of construction on the Prairie section, over a distance of 1,000 miles, to be at the rate of \$20,000 per mile, the amount to be guaranteed by the Company will be of bonds at the rate of \$7,000 per mile, and in the whole \$7,000,000 or £1,400,000. Interest on this amount at 4 per cent. during the period of construction may be taken at £168,000 making a total principal to be guaranteed of £1,568,000 representing an annual interest of £62,720. Assuming again the cost of building of 500 miles on the Mountain section to be \$50,000 a mile or \$25,000,000, that is to say £5,000,000 in all, the one-fourth amount of bonds to be guaranteed by the Company will be £1,250,000, or adding interest during construction, say £150,000, a total of £1,400,000 carrying interest at the rate of £56,000 a year.

“If you have followed the figures which I have just mentioned, you will find that the result shows an estimated amount of principal bonds to be guaranteed in respect of both sections of £2,968,000 and of annual interest of £118,720, but even this interest liability, comparatively small as it is, need not accrue until the expiration of eight years—the period allowed for construction—the interest on cost during construction being provided for out of capital. This, then, constitutes the responsibility of the Grand Trunk Company, and I hope this statement will allay the apprehensions which have been already expressed by a few critics, who may not have sufficiently studied or accurately understood the provisions of the agreements. (Hear, hear.)

“As fairly as I can, and without exaggerating I have stated to you, on the one hand, the risk which the Grand Trunk would assume, and, on the other hand, I have pointed out the certain accretion of a great and valuable traffic to our Company in the future, **and the almost equally certain loss of existing traffic, should the connections, which might be permanently ours, pass into the hands of rivals and competitors, who would promptly occupy the place which is now offered to us.** We claim for the scheme that it is a fair and business-like

arrangement, most carefully thought out, and surrounded by every safeguard that prudence can suggest for the protection and enhancement of the interests of our shareholders. We consider it alike as a measure of necessity, and as affording an opportunity which, if neglected, will never again occur of assuring and improving the fortunes of our company, and, as such, your Board unanimously and confidently commend it to your approval.” (Applause.)

Lord Welby: “Ladies and gentlemen, I am sure that every citizen of the Empire has rejoiced in times past at the rapid development of Canada and it is evident to anybody who studies the question of Canada that her development is in rapid progress, and that the line of the greatest development will be along the Prairie section, to which allusion has been made already. The Government of Canada has decided that the time has come for the further development of that enormous belt of wheat-growing country. They have decided that a line should be made, and, practically, they have made us the offer of carrying out that development. The discussion which has taken place at your Board upon the subject has been long and most anxious. I can only assure you, ladies and gentlemen, that the Board are deeply alive to the responsibility which they incur when they are placing this scheme before you. The fact of the matter is, that we have arrived now at the parting of the ways. You have to decide whether in the future you think it best to restrict yourselves to the comparatively limited sphere of action in which your railroad is now operating, or whether in view of the development which is taking place towards the West, you will think it right to obtain your share in that development, and, as I hope and think, we may fairly trust your share in the great profits which will accrue to Canada. Well, the offer is placed before you, and you have to decide today whether or not you will accept it. The Government of Canada has come to a provisional arrangement, subject to your approval, with the Board. If you say “No” there is very little doubt that there are many others ready to avail themselves of the opportunity, and we have every reason to believe that the Government of Canada has entirely decided that it will carry out this new line. If you refuse to do it, then other parties, without any doubt, are ready to come forward and take up the work which is offered, and the opportunity will pass away from you. (Hear, hear.) It is under

these circumstances that the Board, as I say, with the fullest sense of their responsibility to you, have come to the conclusion that the wisest course, the most prudent course, and the right course for them to pursue, is to submit this scheme to you for your ratification. With regard to the risk that is incurred—and, of course, when a great work of this kind is in progress there must be some risk—the Board think that that risk is really reduced to a minimum. From every source of information which they can obtain there can be but little doubt, first of all, that that part of the line which runs over the Prairie section, can be easily and cheaply made, and from the information that we receive on all sides—because that Prairie section has hardly been scratched, I may say, as yet—from the influx of the Americans into that country, from the fact that the Americans themselves, with their immense increase of population, are already to a certain extent, limiting their great supplies—or will be limiting them within a few years—of corn which they have to place at the disposal of the old countries of Europe, we may confidently and absolutely expect that the supply of grain of this country, and of the old countries of Europe, will within a very few years be, in a large measure, derived from Canada. That being the case, so far as this Prairie section is concerned, in laying this scheme before you, we are speaking of the certainty that, from the time the line is completed, it will produce a very considerable revenue, and that from the rapid settlement of the country, which will follow the establishment of the line, it will, within a few years, be a very profitable line. So far as that is concerned, your directors have not the slightest hesitation in submitting to your acceptance that part of the scheme. Of course the question of the Mountain section is a more difficult one, but, as I think you will hear from Mr. Hays, and as you have heard from the President, there are many circumstances which make even this part of the undertaking, the subject at all events, of a reasonable estimate even at the present moment. You will have heard, first of all, that the passes over which the line will go are really not more than half the height of those over which the more southern railways have gone, and we know at all events, that they are at the present moment paying lines; and, further than that, we have got one indispensable condition connected with it, as the result of the long and intricate negotiations—the Canadian Government have become absolute partners with us in the expenditure on that Mountain section; that

means that we have made their interests one with ours, and we are therefore assured of their hearty co-operation and assent to any reasonable proposition on our part. On these grounds we think we are entitled to place that part also of our scheme before you for ratification. And now I have to repeat to you the great sense which we have of our own responsibility to you. If you go back nine years, I think your Board of directors, with their very able manager, Mr. Hays, may fairly point out the results of that period as justifying, up to the present, the confidence which you have so generously reposed in us. (Applause.) The situation of the Grand Trunk at the present moment, it must be evident to everyone, is a very different one to what it was in 1895. (Applause.) Now, your directors and your general manager are not likely to jeopardize lightly that result, nor the confidence you have reposed in them. We think that you will, at all events, give us credit for this, that, having seen what has been the action of the Board, and what have been the results during the past nine years, you will be convinced that we have entered seriously and most carefully into the proposition which has been laid before us, that we have conducted these negotiations with a rather hard taskmaster—the Canadian Government—entirely with a view to your interests, and it is only because we are satisfied that the Grand Trunk Railway would be losing a very great opportunity of profitable development in the future, and would be limiting itself to a degree which we think the shareholders would in a very few years repent, that we have come to the conclusion that we are justified in laying before you the scheme which we confidently recommend to your acceptance; and I have, therefore, great pleasure in seconding the resolution proposed by the President.” (Applause.)

Mr. Hays: “Ladies and gentlemen, it is not unnatural that, before embarking on an enterprise of this character, you should have some hesitation, some doubt, and begin to query amongst yourselves, as to what interest and what advantage this undertaking will be to the Grand Trunk Railway. I can conceive the holders of the first preference, of the second preference, and of the third preference securities saying to themselves, ‘Why we are pretty well contented with our position as it is; we are getting dividends year after year in an increasing ratio, why should we, therefore, proceed to risk these dividends? why should we take any chance that may work in the end to a diminution of these

dividends? Let us stay just where we are. We are doing well now; why take any chances at all?' Ladies and gentlemen, if I thought I could assure you that those dividends on the first, second and third preferences, to the extent they have been paid would continue, then I would not be here today advocating this new enterprise. I cannot but feel that any objection that arises in this body to this project arises largely from a failure to fully recognize the situation. (Hear, hear.) The Grand Trunk Company today is drawing from this country that we are now seeking to enter, and seeking to tie up to the system, a very large portion of its traffic which we stand to lose if we do not embrace this enterprise. We cannot hold it. We are today handling from 15 to 20 million—last year it reached 24,000,000—bushels of grain, which came across the lake from Lake Superior down to our ports, feeding the whole Grand Trunk system throughout Ontario, and thus contributing a very large portion of our earnings. We cannot hold that to our system if we do not take some means of fastening it to us. (Hear, hear.) That business today, gentlemen, is given to us by our competitors. It is not collected by the Grand Trunk Railway itself. The Grand Trunk Railway is in this rather ridiculous position, from a business standpoint, of gathering up traffic from the largest and most prosperous portion of Canada, taking it to North Bay, our connection with the Canadian Pacific, and from there giving it to the Canadian Pacific to haul across the country into this prosperous and rapidly developing district we are speaking of. And what do we get back? Nothing at all. Simply because the Canadian Pacific, with its own line to the east, naturally, as we would do if we were in their place, takes it away and gives nothing back. Now, we have another rival in that same territory, which is competing with us to a certain extent now, that brings the grain down to the lake, and conveys it by water across from Port Arthur and Fort William to these Ontario ports of ours. That line we do not control, and there is no likelihood or possibility of our controlling it in the near future; and that railway is making its connection with the United States lines from the south via St. Paul and Minneapolis up to Winnipeg, and drawing this grain and traffic, which is not only today feeding the Grand Trunk Railway very largely, but is the only direction in which we can look for an increasing traffic. That traffic will be lost to us if we do not tie it up, so that today the question is not what your position is going to be if you embark on this enterprise, but what it is going to be if

you do not embark on this enterprise. (Hear, hear.) That is the question that this meeting must decide today; that is the question to which you must give serious consideration. Your directors and your management have spent eighteen months at it. Some shareholder said 'Give us time to consider it.' Your directors and management have been going into this question detail by detail for eighteen months. Surely that is enough to warrant them coming to some business-like conclusion as to the enterprise, and they stand here today, and not only advocate it, but say to you, 'If you lose it you cannot maintain your present position,' and that is what I say and what I am willing to stake my reputation—whatever it may be—upon as a railway manager. (Applause.) Now, gentlemen, the Grand Trunk Pacific is going to be in quite a different position from that of an ordinary new enterprise stretching across the territory I have explained to you. Here is the Grand Trunk, the parent company, standing with a large traffic ready to deliver it westbound. This traffic is now given to a competitor. It does not have to wait five, ten, or fifteen years to build up a traffic; it starts with a traffic right from the beginning and that is of a most remunerative character—a high-class traffic,—consisting of agricultural machinery, dry goods, boots and shoes and all that class of merchandise that a new and rapidly developing country requires. The Grand Trunk as it is today hauls it 200 miles and hands it over to a competitor and gets nothing back. Is that a business-like position to be in? Is that a position for the directors and management of the Grand Trunk to maintain and to acquiesce in? I do not think you will say so. This enterprise which we are advocating today, ladies and gentlemen, combines points and advantages that no other transcontinental line in the United States or Canada can have. I will briefly enumerate a few of them. In the first place, I have already indicated that they start with a traffic under their control ready to go over this new line. The line stretches 1,000 miles through the wheat belt of the country further than any other transcontinental line. It goes through that country on level grades, practically on what, in railway parlance, is called a $\frac{1}{2}$ per cent. grade, 26 ft. to the mile. It crosses the mountains at a lower elevation than other transcontinental lines of the country, 2,500 ft. at a maximum by the Pine Pass and 2,200 ft. only by the Peace River—we have not decided which will be adopted,—as against an elevation of 8,000 ft. by some of the lower routes. You can determine in more careful detail the cost of a road when you

know the elevation that you must attain. When you know the gradients that you must adopt it is simply a matter of calculation what the cost of the road is going to be. You take the price of rails, the price of ties, and the price of labour; it is not a mathematical problem at all what the cost will be. It may be varied by deflections one way or another, but you can tell within a very close amount what it is going to be. Then, in addition, to the advantages of grade, location, and so on, the line will be the shortest one between the East—China and Japan and all of that country to which we must look for our future development—the road is 1,500 miles shorter from Montreal to Yokohama than from New York via San Francisco. It is 500 miles shorter than the Canadian Pacific route via Vancouver. We will have taken a passenger half-way across the territory before he could be far on his way by other routes. In all these great questions arising today in connection with Russia, Japan, and all that territory the importance of the shortest route must be apparent to you. There are many of you here today who will live to see the Grand Trunk Pacific hauling as much of its grain towards the Pacific for consumption in China, Japan, and that territory as will be hauled in this eastern direction. The route will give the Grand Trunk Railway control of the rapidly-growing business of the Yukon territory. That traffic all goes now either by Vancouver, Seattle or the southern coast towns, and there it takes steamer some 2,000 miles. We shall have shortened that distance by rail in the neighborhood of 1,000 miles. One shareholder, a minute ago, in speaking of the obligation the Grand Trunk Company was to assume in this connection, seemed to have the impression that his interests, whatever they may be, in whatever class of securities, were jeopardized from the outset, and I fear that there is a general impression arising entirely from this misunderstanding. The Grand Trunk Railway is not going to be called upon under its guarantees for one cent for eight years after this enterprise is started—after the construction of the line is commenced—the interest on cost of the line during construction being added to capital, and provided out of capital, and the securities which the Grand Trunk Company will guarantee will not be issued for eight years, and then, after that eight years have rolled by, you have seven years yet on the Mountain section, a part on which there seems to be some doubt. There can be not the slightest doubt as to what the returns will be from the Prairie section, but on the Mountain section you have seven years without

any claim at all, three years after that only a claim on what is earned, making, therefore, before the Mountain section becomes anything of a burden on the railway, eighteen years. All I have to do is to ask you to look back at meetings and discussions which took place of a similar character in connection with the Canadian Pacific, where it was freely prophesied by gentlemen, who were doubters, as we have doubters here today, that it would not earn the axle-grease. (Laughter.) The gentlemen who were fortunate enough to buy the securities from those who held that impression have profited. We are going into the territory which was originally selected as the route of the Canadian Pacific. The surveys were made by the Canadian Government, who spent \$3,000,000 in determining and selecting what was the most easy and direct route for a transcontinental line. This route was selected, but a change of government took place just about the time the report was made, and the idea was abandoned. A lower route was taken through a less desirable country than that which we are now taking, so that we are simply confirming the judgment of fifteen or twenty years ago as to the desirableness of the route, and the character of the country we are going through. To my mind it is difficult to conceive that there can be any objection to this scheme, which promises so much to the Grand Trunk Railway, and which links its fortunes with those of the Government of Canada in a way that the two must work together, not only for the benefit of the country at large, but for the benefit of the country and the Grand Trunk Railway. Gentlemen, I shall be very glad to answer any other questions, but I think I have covered the whole ground. The question is not what is going to happen to you if you adopt this enterprise, but what is going to happen if you do not adopt it.” (Loud applause.)

Mr. Alfred W. Smithers: “I do not wish to detain the meeting after this long discussion for more than another moment, but I do want to call the attention of the meeting to the position in which we stand in regard to the Government. There is no disposition on the part of the Grand Trunk Board or its management to hurry this discussion, but I may say that we have not been placed in this position by ourselves, but by the Government of Canada. The Government are going to bring this question before Parliament the day after tomorrow, and we had to make the very greatest efforts to bring the thing into shape. It had to be put before you today, and

I can only say, on the part of the Board, and on the part of Mr. Hays, that the position of this Company with the Government of Canada and in the estimation of the people of Canada is of the closest description, and, after the way in which we have looked at this thing from every point of view, our position with the Government of Canada and the people of Canada would be very seriously imperilled for many years to come if we did not carry out this agreement. (Hear, hear.) A great corporation like this must be guided by its management and by its directors. It is not good for this Company to have all its reasons and policies proclaimed on the housetops. (Applause.) I presume that every speech that has been made here today has been made solely in the interests of the Grand Trunk Company, and solely with a view to helping us; but there have been such things known as views being put forward, even within a company, that were not wholly guided by the interests of that company. I can tell you—and Mr. Hays will support me in saying it—that there are many schemes in Canada, which are only waiting to come out, but we consider the scheme we propose to you today, after long examination, affords the best means and the safest means for defeating those competing schemes—(hear, hear)—and we believe, not that we are leading you into new dangers today by asking you to pass this scheme, but that we are putting the Grand Trunk Company into a position in which it has never been before, that we are strengthening it from the large increase of points from which we shall draw traffic, and to which we shall give traffic; and, with regard to those holders of the junior securities, who have complained today, I consider the junior securities of this Company are only valuable because of the reversion for the future, and it is to the junior security holders I would commend this scheme more than to any others, as immensely increasing the value of their reversion. I have been rather led off the subject by my anxiety to put this question before you, but I will now go back to the question of the exact position of the Board today. I do not know whether Mr. Allen feels that he could—his father not being here today, and having fully ventilated his father's reason for leaving us—whether he could see his way to withdraw the amendment he has put before us. (Cries of 'No'.) Mr. Allen was a colleague of ours for eight or nine years, and the most pleasant relations existed between us, and am only sorry that Mr. Allen is not here today. I am only sorry that Mr. Allen has not taken the trouble of asking us for an interview. I myself would

have gladly gone and seen him, and gone through the amended agreement we have obtained since he left office; and I wish to say, with all respect to Mr. Allen, that the statement which he has put forward today really relates to the agreement, or what he thought was the agreement, when he left the Board, but it does not relate to the agreement which we present to you today. That which we present to you today is a modified, and a much more favourable, agreement—(applause) and it seems a hard thing that our late colleague, acting no doubt within his perfect right in leaving us, should now set himself against the most anxious consideration that eleven of his colleagues have given to this matter, to which I venture to say his colleagues have given a great deal more attention than he ever was able to do, and he has also set his opinion against the opinion of Mr. Hays. Now you know, gentlemen, it is no use telling us that we have done well for the last nine years, it is no use telling us that Mr. Hays is a very clever manager—I believe him to be one of the cleverest railway managers in the United States—but is it reasonable that Mr. Allen, who, as I say, is a great friend of mine—is it reasonable or likely that, living in England, brought up, no doubt in a strictly legal and somewhat conservative atmosphere, that his opinion should be more correct than the unanimous opinion of eleven of his colleagues, and, above all, more correct than the opinion of such an expert as we have got in Mr. Hays. Now, with regard to the question of voting today. It is not our fault that we are in this position, we have got to send Sir Wilfrid Laurier the result of this meeting. As the President has told you—and as I was in Winnipeg last year with him, I am able to confirm what he says—as the President has told you, we are wanted in the North West; the Government have entered into a partnership to take us to the north-west under conditions which amply safeguard the Grand Trunk Company. But your company, if you reject this today, will not be in the position it was in before. You will lose power and prestige with the people of Canada and with the Government of Canada, and you will be looked upon as having no lot or part in the development of that country. They will say ‘There is that old foggy of a Board in England that cannot settle upon anything; we must rely upon the Canadian Pacific or some other line.’ I wish to impress that upon you that the condition today is a very serious one. We have given the very best attention we can to this thing. The Government has made us what we consider to be a fair offer,

and we believe we can do business with them profitably to you. We believe that by this means, and by no other means, you will get into the north-west, and we also believe that unless railways do get into the north-west that territory can never be properly developed, and that railways getting there will have a great future in Canada. Therefore I ask you seriously to pause before you refuse to ratify the agreements for which the Board and Mr. Hays have worked with the Government and negotiated with the Government for the last eighteen months, and which they now lay before you with a full sense of their responsibility.”

Mr. Allen, a member of the Board opposed the scheme stating that if adopted it would gradually ruin the Grand Trunk. He retired from the Board, and delegated his son to oppose the resolution adopting the scheme, at the shareholders’ meeting, but the opposition was in a hopeless minority and the resolution was carried with loud applause.

There was an entire absence of objection to or adverse comment on the action of the Canadian Government in aiding the Grand Trunk to invade the territory occupied by the Canadian Pacific Railway and the Canadian Northern Railway with competing lines, and unqualified approval of a course which would have been denounced by the Grand Trunk shareholders as the acme of dishonesty and bad faith had the Grand Trunk been in the position of either of those companies and if like aid had been granted to its rival.

Mr. Hays knew that it must mean a fight of gigantic proportions but so far as the C.P.R. was concerned, it was possible, even with the extension of the C.P.R. branch lines to the principal points in the northern part of the prairie, to annex with branch lines of the Grand Trunk Pacific a large traffic. The obstacle in the way of accomplishing that object was the Canadian Northern which, with its main lines to Edmonton and Prince Albert and a vigorous extension of branches, would control a large percentage of the northern gathering ground. On the other hand, however, it could only get the haul on this traffic between the mountains and the lakes and if it had to give traffic east bound from Port Arthur and westbound from Edmonton or Calgary to the Grand Trunk or the C.P.R. and receive nothing in return, the C.N.R. project would become of minor importance and might eventually be open for absorption on terms dictated by one or other of its rivals. Apparently neither Mr. Hays nor his Board nor even their next friend, Senator Cox, contemplated the energetic resistance to their programme

which the Canadian Northern was to offer. Using Sir Henry Tyler's illustration, Sir William Mackenzie turned out to be a wriggley eel to skin.

The C.P.R. accepted the challenge so far as it was concerned by immediate action as will be seen by its report for the fiscal year ending June 30th, 1904. Paragraph 15 reads as follows:

"In view of the contemplated construction of the Grand Trunk Pacific Railway, it will be impracticable to continue the use of the Grand Trunk Company's line between Toronto and North Bay for the routing of traffic between points in Ontario and points reached by your lines in North Western Canada, and, therefore, it is important that you should, with the least possible delay, secure your own independent connection between the main line and the City of Toronto. The shortest and best route and one upon which the local traffic will be profitable, is from a point in the vicinity of Sudbury to a point near Kleinburg on your Ontario Division, a distance of about 230 miles. Your Directors are proceeding with the construction of the line, and you will be asked to authorize the issue and sale of the necessary securities to meet the expenditure."

The C.P.R. supplemented this action in the west by an enlargement of its prairie lines at a rate of progression intended to effectively secure the traffic which could be made profitably tributary to its system in advance of the time when it could be abstracted by the new rival. The threatened competition did not essentially change the programme of the C.P.R. but it perhaps speeded up its execution.

The efforts of the Canadian Northern to hold its position can be gathered from the increase of its operating mileage from year to year in the different provinces.

Year	B.C. miles	Alta. miles N.W.	Sask. miles Terr.	Man. miles	Ont. miles	Que. miles	N.S. miles
1903			22	856	353		
1904			22	930	353		
1905			298	1180	353		
1906		169	600	1312	353		
1907		214	600	1427	353		
1908		214	856	1427	353		
1909		214	1006	1522	353		
1910		214	1182	1530	353		
1911		221	1312	1752	356		
1912		394	1718	1758	356		
1913		467	1851	1833	356		
1914		691	2052	1836	342		
1915		962	2111	1983	1480	626	380
1916	516	1181	2178	1989	2219	626	369
1917	531	1244	2194	1984	2253	636	370

In the eight years between 1904 and 1912 Mr. Hays was busy carrying out his own programme and was accepting the competition in construction which his venture invited, in good part. His American lines and his Canada Atlantic were making losses but the traffic on the old Canadian lines was still fed by the movement of the increasing production in the Canadian West. His London shareholders still divided in dividends every dollar of surplus he could accumulate but he hoped to succeed if he could tie the prairie traffic to his system before the lean days came. He got out the increased guaranteed stock authorized at a discount and in 1909 pushed through an act increasing the issue to £12,500,000, giving him £2,500,000 additional guaranteed stock, over £2,000,000 of which had been issued by June 1912. He also increased and issued debenture stock to the extent of £10,000,000 and applied the proceeds to his programme of double-tracking his main lines, to acquiring bonds of the Grand Trunk Western which he increased to \$30,000,000 and to the acquisition of the bonds of the Grand Trunk Pacific Terminal Elevator at Fort William.

The western venture was pushed forward with great energy.

In 1904 Mr. Hays procured the ratification by Parliament (Dominion Acts Ch. 80) of the agreement approved by the shareholders, and had section 11, as to the issue of stock, so amended as to enable the G.T.P. to issue to the G.T.R., its whole common stock for the guarantees to be given by the G.T.R. under the contract. This power was carried into execution in 1906 by the issue of \$24,900,000 of common stock to the G.T.R.

In 1905 he procured the ratification by Parliament of three mortgages. (Dom. Acts. Ch. 98). On the Grand Trunk Pacific, one securing £14,000,000 First Mortgage bonds on the Western Division guaranteed by Canada; one securing £4,150,000 Second Mortgage bonds on the same division unconditionally guaranteed as to principal and interest by the G.T.R. (£2,100,000 on Prairie section, £2,050,000 on Mountain section), the mortgage which was executed by the G.T.R. providing that the guarantee of that company "shall constitute a liability of the said Company in priority to all the share capital of the said company whether guaranteed stock, preference stock or ordinary stock;" one securing £1,550,000 First Mortgage bonds on the Lake Superior branch (220 miles) unconditionally guaranteed as to principal and interest by the G.T.R.

The three mortgages contained express provisions for the foreclosure and sale by auction of the mortgaged railways in case of default in payment of either interest or principal and the statute expressly empowered the company to make the mortgages which are schedules to the Act.

The bargain and its legal consequences in case of failure were both clearly understood and the probability of failure had been forceably put to the directors by Mr. Allen before he withdrew from the Board, and to the shareholders by his son when the transaction was under consideration in 1904. The Government took the risk of having to buy in the railway on foreclosure of the first mortgage bonds and of having to discharge the first mortgage debt which it had guaranteed, and the Grand Trunk shareholders, including the guaranteed shareholders, stood to have their equity in the Grand Trunk sold to answer the principal and interest of the second mortgage and other bonds to the extent the proceeds from the sale of the mortgaged premises were short of the amount guaranteed by the Grand Trunk.

In the same year the Ontario Government granted a subsidy of \$400,000 and 1,200,000 acres of land to the Lake Superior line subject, as to the land, to certain conditions as to procuring settlers which were later cancelled in consideration of 525,000 acres of the land grant being released. Fort William granted a bonus of \$300,000 for the establishment of terminals at that point

with exemption from municipal taxation for fifteen years and rights of closing up and using certain streets, and the Dominion sold the company 1600 acres of land at Fort William for the terminals for \$244,574.

At the Pacific terminus of the proposed line Mr. Hays procured from the B.C. Government 10,000 acres of land on Kai-en Island for terminals at \$1.00 an acre and initiated negotiations for terminal facilities at Winnipeg and Edmonton. He concluded a \$10,000,000 contract with the Canada Car Company for 12,000 freight cars and 250 passenger cars, deliveries to commence in 1906 and to be made in equal proportions over five years. Incidentally this contract would give the Grand Trunk considerable new rolling-stock to use at a rental pending its requirement by the new lines.

The appointment of the government commissioners charged with the construction of the Western Division was completed and Mr. Hays set up his own organization which had joint control with the government officers over the construction of that Division.

In 1906 he incorporated the Grand Trunk Pacific Branch Lines Company with a nominal capital of \$50,000,000 afterwards issued to the Grand Trunk Pacific in consideration of the supply of rolling-stock for use on the branch lines. This Company by 1911 had parliamentary authority to construct 7,509 miles of branch lines and was used as the vehicle for securing provincial aid by way of guarantee on bonds issued to supply the construction cost of the branches. The charter, Ch. 99, Dominion Acts, 1906, also gave wide powers in reference to steamers, docks, telegraphs, hotels and other matters, powers which were not utilized as these activities were provided for by other subsidiary companies of the G.T.P.

In the same year, Dominion Acts 1906, Ch. 100, the G.T.P. was authorized to issue \$25,000,000 of debenture stock in dollars or pounds sterling. The stock was made a charge on the Railway and equipment subsequent to the liens authorized by the original contracts and was guaranteed by the Grand Trunk. This stock was all issued between 1906 and 1911 with the exception of £438,000.

Edmonton during this year agreed to give a bonus of \$100,000 for terminals and taxation concessions to 1928.

In the same year, Dominion Acts 1906, Ch. 101, the G.T.P. Telegraph Company was incorporated and letters patent securing the incorporation of the G.T.P. Town and Development Company taken out. These subsidiaries were to handle the prospective telegraph business and the real estate, hotels and general business not directly connected with transportation and in the

meantime, they were to be financed out of borrowings made by the main subsidiary, the Grand Trunk Pacific, on guarantees of the parent Company.

In 1907 box cars costing \$3,400,000 plus were taken delivery of, paid for out of the proceeds of debenture stock sold and turned over to the Grand Trunk for use on a rental basis of 4% on the cost.

In the same year an agreement was made with the C.N.R. for the joint use of its terminals at Winnipeg on a rental basis.

By 1908 the G.T.P. mileage under contract had increased to 1989 miles and the Eastern Division mileage to 3,000 odd miles and freight was moving on construction trains from Portage to Rea, 126 miles, but the estimates as to cost of construction were not coming out on the right side and by 1909 the Dominion Government was applied to to fill the breach and authorized a ten year loan of \$10,000,000 for the completion of the Prairie section on the guarantee of the Grand Trunk.

During the same time the engravers were busy with branch line bonds guaranteed by the provinces and by June 1912 the Grand Trunk Pacific and G.T.P. Branch Lines had outstanding roughly:

\$ 34,992,000.00	First Mortgage Bonds guaranteed by Canada;
20,169,000.00	Second Mortgage bonds guaranteed by G.T.R.;
11,139,606.00	Branch line bonds guaranteed by G.T.R.;
7,533,000.00	Lake Superior bonds guaranteed by G.T.R.;
10,000,000.00	Government loan guaranteed by G.T.R.;
24,965,722.80	Debenture Stock guaranteed by G.T.R.

\$108,799,328.80

and there had been incurred for capital expenditures and carried forward to general balances \$9,265,604.70 on main line construction and \$2,592,569.20 on branch line construction.

No one knows what Mr. Hays had in his mind but it does not seem improbable that if he had not met death on the Titanic in the spring of 1912, he would have recognized the approaching disaster to his company if the step which should have been taken in 1903 were not taken without further delay by a fusion of his system with the C.N.R.

On Mr. Hays' death in 1912, it must have been clear to the Chairman and the new President who had been Vice-President of the Grand Trunk Pacific

that both the Grand Trunk Pacific and the Grand Trunk were headed for bankruptcy unless a new basis of carrying forward the Western venture could be found. The Grand Trunk was already liable to answer for the interest and in case of default, the principal, of over \$70,000,000 and in the near future necessary additional loans would carry the obligation to over \$100,000,000. Moreover the \$10,000,000 fourth mortgage to the Government authorized by Dominion Acts 1909 Ch. 19, matured in 1919 and unless the shareholders could set aside the moneys to meet the loan between 1912 and 1919, as well as provide the interest on the guaranteed loans which could not much longer be paid out of construction account, it was obvious that both the Grand Trunk and the Grand Trunk Pacific must collapse.

In 1911 the Grand Trunk had made an agreement with the Temiskaming and Northern Ontario Railway (confirmed by Dominion Acts 1912, Ch. 157) for the joint use of the Temiskaming Line from North Bay to Cochrane which tied up the Grand Trunk system to the Eastern Division of the Grand Trunk Pacific. The Canadian Northern had constructed 3,500 miles of railway between Port Arthur and Edmonton and its position was also surrounded with enormous difficulties if it went forward with its transcontinental project or if the Grand Trunk went forward and it remained as a local line in the West. There was in the circumstances the undoubted opportunity for a management with the courage to face the facts and reconstruct plans which had proved impossible of execution with the resources available to have reconstructed the whole programme in conjunction with the C.N.R. and the Government on a basis which would have provided the united undertaking with a transcontinental system buttressed with distributing lines both in the east and in the west and entailing only such duplication as existed up to that time.

At the October meeting of 1911 however, when the situation was not materially different to that obtaining in 1912, what the Chairman had to say to the Shareholders was this:

“I have gone rather fully into the latest available statistics showing the great prosperity of Canada, and the growth of the North-west provinces, since we commenced the building, with your approval, of the Grand Trunk Pacific Railway. I ask you not merely to take my word and the statistics I have given, but I beg of you to read Lord Grey’s eloquent speech at the dinner given in his honour on Tuesday last, in which he describes the growth and development of Canada during the seven years of his holding the

office of Governor General. (Applause.) **In the face of this development of the North-west provinces what would have been said of us today had we not seized the opportunity to take action to enable us to participate in the prosperity of the North West. To obtain that participation is a great and arduous undertaking, surrounded with many difficulties, and the greatest difficulty has been, and is at the present time, the immense rise in the cost of labour, brought about by the great prosperity of Canada during the last seven years, and it is that rise in the cost of labour that prevents us paying to the holders of the third preference stock a substantial if, indeed, not the full, dividend on that stock.** I ask, with all respect, and with all sympathy with the third preference stockholders, do they suppose for a moment it would not give the Board the greatest gratification to pay them their full dividend? The reason why a larger dividend is not paid arises from circumstances beyond the control of the Board, **but we believe the growth of Canada will enable us to overcome these difficulties**, and we believe nothing will enable us to attain success more surely than to keep the Grand Trunk physically in the best condition to meet the requirements of our customers, and to be ready to cope with the increased traffic which must come when we are physically connected with the Grand Trunk Pacific, and also with regard to finance, to keep the credit of the Company at the highest possible level. That is the policy of the Board, and I recommend it with all confidence to your acceptance. (Loud applause.) I say that the true value of the ordinary stock today—and you must remember that you have all agreed to our carrying out this big undertaking—(hear, hear)—the value of this ordinary stock today is in the reversion of what this big undertaking is going to give you. I may be wrong. We may have bad crops, or we may have a set-back year; and we may have good crops; but I believe that the ordinary stock today is one of the most valuable reversions of any stock on the stock Exchange list. But you have got to make that new undertaking, and to connect it up with the old line, and in order to do that you have to keep your credit in first class order.”

The report of his speeches to the shareholders in 1912 or 1913 is not available but there is nothing in the directors' reports of the Grand Trunk or the Grand Trunk Pacific to indicate that any different view from that put forward in 1911 was submitted to the shareholders. The G.T.P. reports show

that during those years the main line to Prince Rupert was completed and the Branch Lines extended. To obtain the money for these purposes another ten year loan of \$15,000,000 at 4% maturing in 1923, secured by \$15,000,000 debenture stock out of a new issue of \$25,000,000 of such stock (authorized by Ch. 123 Acts of 1913) guaranteed by the Grand Trunk, was made by the Dominion Government (Dominion Acts 1913, Ch. 23) and in the same year (Acts 1913 Ch. 24) authority was taken by the Government to purchase the balance of the 3% bonds unsold (£1,800,000). By June 1913 the secured loans of the G.T.P. amounted to \$121,000,000 and \$7,000,000 plus of advances on construction was carried forward.

Chapter XI

THE SMITHERS-CHAMBERLIN ADMINISTRATION

1912-1920

On Mr. Hays' death in 1912, Mr. E. J. Chamberlin was made President and Sir Alfred Smithers continued as Chairman of the Board.

In 1913 the G.T.P. put out £2,000,000 (\$10,000,000) seven year notes guaranteed by the Grand Trunk maturing in 1921, secured by £3,000,000 of Debenture Stock as collateral and obtained from the Government a promise to guarantee \$16,000,000 of new bonds on the mountain section secured by a charge subsequent to all other charges and affording no semblance of security. This promise was implemented by Dominion Acts 1914, Ch. 34.

In September 1914 the President in his capacity of President of the G.T.P. reported to its shareholders, the Grand Trunk Railway, that both the Western and Eastern divisions were completed to a stage enabling trains to run up to 35 miles an hour and the accounts attached showed that the G.T.P. had outstanding secured loans of \$164,000,000 plus, about \$98,000,000 of which carried the guarantee of the Grand Trunk and, although there was no revenue reasonably in prospect to meet the enormous interest charges on these loans, and no prospect of meeting the principal of the short term loans if they could not be financed, the President reported, "there is every reason for believing that the great objects for which it has been carried through will be fully realized." In that year the Chairman began to withdraw his responsibility for the inauguration of the Grand Trunk Pacific scheme. He said "I am not the author of the Grand Trunk Pacific Railway. I was only a humble director at the time it was suggested and it has been my endeavor to do my best to improve the conditions we obtained from the Government, and I can say with perfect honesty that I had a very large hand in obtaining an improvement of conditions and since Mr. Hays' death, when I had to go over to Canada to appoint a new manager, I have been carrying out the policy which I inherited."

In 1914 the Canada Atlantic was amalgamated with the Grand Trunk by deed of union confirmed by Dominion Acts 1914, Ch. 89, under which the \$16,000,000 of Canada Atlantic bonds became obligations of the Grand Trunk and \$9,200,000 of common stock was added to the Grand Trunk

ordinary. The amalgamation was said by the Chairman to be made to facilitate getting out further bonds for improvement of the Canada Atlantic, but incidentally \$9,200,000 of Grand Trunk stock was issued for the shares of the Canada Atlantic, a company which showed an income deficit of over \$4,000,000 from 1905 to the date of the amalgamation.

In 1915, Dominion Acts, Ch. 44, the Grand Trunk was given power to make advances to any subsidiary and to acquire, hold, guarantee and dispose of any securities of subsidiaries. Under this power the directors kept the G.T.P. Development Company staggering along by taking its note for £1,644,373 for advances out of the proceeds of Grand Trunk debenture stock. This was referred to by the Chairman in his address as follows:

“I now come to the capital account. £1,286,100 was expended for the acquisition of securities of the Grand Trunk Pacific Development and Terminal Elevator Companies and the Lachine, Jacques Cartier and Maisonneuve Railway, on all of which we are credited with interest.”

In 1915 Mr. Chamberlin's report as President of the G.T.P. refers to the circumstances under which the Government commenced the operation of the National Transcontinental and of the Lake Superior Branch which the Government took authority to lease by Dominion Acts 1915, Ch. 18.

Mr. Chamberlin says:

“The construction of the Eastern Division, (or Transcontinental Railway so-called,) having reached a point where the Government considered it desirable to establish a service, and as the Directors did not feel warranted in assuming this responsibility in view of the incomplete condition of the railway, effective May 1st, 1915, the Government put on a passenger and freight service over this line from Winnipeg east which superseded operation by this company of that portion of the line between Winnipeg and the connection with the Lake Superior Branch at Graham. Under these circumstances the Government considered it essential during the period of their operation of the line that they should also have charge of the operation of the Lake Superior Branch to the connection with lake transportation at Fort William, and took powers at the last session of Parliament to lease the Lake Superior Branch from this Company. The lease was accordingly executed under date of the 29th June, 1915, for a period of nine hundred

and ninety-nine years, at an annual rental of \$600,000 payable half-yearly, and computed from the 1st May, 1915. It is subject to ratification by Parliament within a period of five years, and the Government have the option of purchasing the Railway within a period of twenty-one years. The lease is also subject to termination at such time as the Company may take over and operate the Eastern Division, as provided in the agreements with the Government.

“Effective July 13th, 1915, regular train service was established three times a week, between Toronto and Winnipeg, over the Grand Trunk Railway to North Bay, the Temiskaming and Northern Ontario Railway to Cochrane, and the Eastern Division or National Transcontinental Railway to Winnipeg, thus forming the first regular connection between the Grand Trunk Railway in the east and the Grand Trunk Pacific Railway in the west. While this train was put on at a time when travel was probably at the lowest point that it has been in a number of years, the results have been encouraging, and as general conditions return to a normal basis it is expected that the demands of travel between the east and west will require a daily service.”

In 1912 it was apparent that the whole Grand Trunk venture must collapse in ruin if the policy which Mr. Smithers said he inherited was adhered to. He did adhere to that policy and staved off the collapse to his shareholders till 1916 by exhausting every available means of borrowing money from the public and from the government.

During those years he created no reserve for the bad debts owing by subsidiaries and totalling from twenty to thirty million dollars and at the same time he paid out each year every dollar of net revenue shown by the accounts to Grand Trunk shareholders.

In 1916 Mr. Chamberlin as President of the G.T.P. in his report to the Grand Trunk says:

“During the year the remainder of the Four Per Cent. First Mortgage Sterling Bonds, due 1962, in the hands of the Trustee, amounting to £1,081,200, or \$5,254,632, were sold to the Grand Trunk Railway Company of Canada for \$3,780,000, being equivalent to a rate of about 72, which funds were applied in payment for construction and equipment.

“As the construction of the railway neared completion and the period was at hand when the Construction Account would be closed as of January 1st, 1916, following which the Company’s liabilities would begin to accumulate against net revenue, the Directors were confronted with the obligations involved for heavy interest payments and other charges, with the insufficient traffic of a newly-constructed railway through a sparsely settled country to provide the funds. Under these circumstances, the Dominion Government and the Grand Trunk Railway Company of Canada, as guarantors of securities issued to provide for the construction of the railway, would be required to make up any deficiencies. During the present war conditions, however, which have practically closed the London money market for the issue of new securities other than for war purposes, the Grand Trunk Railway Company found it impossible to meet the extra liabilities arising from the Grand Trunk Pacific, and as a solution of these difficulties a proposal was submitted to the Dominion Government whereby it should take over the Grand Trunk Pacific Railway, with its Branch Lines and Development Company, and all assets, as set forth in a letter dated London, December 10th, 1915, from Alfred W. Smithers, Esq., Chairman of the London Committee, to the Right Honourable R. L. Borden, Premier, which is made part of this report as follows:

GRAND TRUNK RAILWAY COMPANY OF
CANADA,

London, E.C., 10th Dec, 1915.

“Sir:—

“I have brought before the Board the result of my conversations with you and some of your colleagues during my recent visit to Canada, as to the financial position of the Grand Trunk and Grand Trunk Pacific Companies from the 1st January next.

“I told my colleagues that at the interview I had with you on November 25th, I disclosed to you very frankly the situation with which the Grand Trunk and Grand Trunk Pacific Companies would be confronted in the immediate future. I also told them that after full consideration and with the deepest regret I had proposed

to you, as the only safe solution of our difficulties, that the government should take over the Grand Trunk Pacific Railway as from the 1st January next, with all its branch lines, together with its Development Company, and other subsidiary companies, with all the assets, the Grand Trunk Railway Company to surrender to the Government the whole of the common stock of the Grand Trunk Pacific Railway Company on condition of the Government relieving the Grand Trunk Railway Company of all liabilities in respect to the Grand Trunk Pacific Railway Company, its branch lines, its Development Company, and other subsidiary companies, and repaying to the Grand Trunk Railway Company any money advanced by the Grand Trunk Railway Company to the Grand Trunk Pacific Railway Company, or its branch lines, and Development Company, and other subsidiary companies. In the course of conversation, as an alternative, you suggested that the Government might advance by way of loan sufficient money to supply any deficiency in the amount required to meet the fixed charges of the Grand Trunk Pacific Railway for a period of, say, five years anticipating that at the expiration of that period the net earnings would be sufficient for that purpose. I replied that under present circumstances I did not think the Grand Trunk Railway Company would be justified in entering into any arrangement which would involve the accumulation of further liabilities against that Company's revenue. I consider that any such arrangement involving such increased liabilities would so handicap the Company's necessary power of financing as to render it unable to fulfil the ever-increasing demands of the public and public bodies—demands which could not possibly be met unless the credit of the Grand Trunk Railway Company was so maintained as to render possible the raising of fresh capital as required.

“My colleagues agree with the views I expressed to you, and with the offer I made to you as described above, and which I now repeat with their concurrence.

“The liabilities of the Grand Trunk Pacific Company will begin to accumulate as from the 1st January next against net revenue, and any deficiencies will have to be met by the Government and the Grand Trunk Railway Company. Under present circumstances it is quite impossible for the Grand Trunk Railway Company to meet the extra liabilities arising from the Grand Trunk Pacific Railway.

“The amount of interest guaranteed by the Grand Trunk Company is about \$2,750,000 annually, to which must be added the interest on the amount spent on branch lines over and above the amount for which bonds have been, or will be, guaranteed by the Provincial Governments. It is expected that the Provincial Governments will issue additional bonds to cover some of this amount, leaving probably about \$8,000,000 due to the Grand Trunk Railway Company. The amount of interest guaranteed by the Government, including that on the Government loan of \$25,000,000, amounts to about \$4,000,000 per annum. In any case, the Government would have to find interest charges to the amount of \$4,000,000 which amount, however, includes \$1,700,000 which the Government has to pay on the Mountain Section Bonds.

“We have done our utmost to meet the heavy financing which has been necessary and the difficulty of which has been immensely increased by the disastrous war conditions. We are now ‘at the end of our tether’ with regard to the Grand Trunk Pacific financing.

“The first Grand Trunk Pacific payments for interest after the 1st January next will become due on the 1st March, and amount to just under \$1,000,000 and there is no prospect of our being able to meet that payment.

“It is an inexpressibly bitter disappointment to the Board and myself to have to think of giving up the Grand Trunk Pacific Railway, but the Board feel it is their first duty to make every sacrifice to save the numerous present investors in England, who, in perfect good faith, have contributed the many millions which

have built the Grand Trunk Pacific Railway, at the very moderate rate of interest of a little over 4 per cent.

“If the Government accept the proposition of the Board I feel confident that whatever liability the Government may assume will be amply repaid in a few years by the increased traffic arising from the development of the North West, and the bringing of new land under cultivation. What that development may mean is foreshadowed in the amount of the record crop just gathered in the North West, the production of wheat alone being 320,000,000 bushels, as against 140,000,000 bushels in 1914; with other crops showing considerable increase in yields. The Board feel that they may be severely criticised in a few years for parting with the property, and nothing but the necessity of saving the money which the present investors have put into the property would have induced them to do so. The deficit of the next few years, at a time of unprecedented strain owing to the terrible war in Europe is the danger to be avoided, but an amount of deficit which is impossible for a company to finance is quite possible for a nation.

“The railway situation in Canada is a serious one, and any default on the part of the Grand Trunk Pacific Railway Company might lead to grave consequences as to the general financial position in Canada. The Board believe this danger will pass away if the Government accept their proposal, thus saving the general situation, and enabling the Grand Trunk Railway Company, as I have already explained to fulfil its duty to the public.

“I beg you to remember that the Grand Trunk Pacific Railway has been built through a most difficult country, at a cost which is moderate considering the high character of the work, and the satisfactory low grade maintained in crossing the mountains, and it must be also remembered that all the work has been done under the supervision of the Government Engineer, and all expenditure has been audited by the Government Auditors.

“Mr. Chamberlin will supply you with full particulars and explanations of the accounts existing between the Grand Trunk Railway Company and the Grand Trunk Pacific Railway Company, its branch lines, and subsidiary companies, and will be happy to furnish you with any further information you may require.

“I again express the deep regret of the Board at being compelled to make the offer contained in this letter, but the circumstances over which we have no control are too strong for us to withstand.

“I have the honour to be,
Your obedient servant,
Alfred W. Smithers,
Chairman.

“The Rt. Hon. Sir R. L. Borden, P.C., G.C.M.G.,
Ottawa.”

“Application for assistance having also been made to the Government by the Canadian Northern Railway Company, there followed a general parliamentary discussion during the last session of the condition of the lines of railway transportation and development in the Dominion, with the result that a Commission of Inquiry into Railways and Transportation was appointed by Order-in-Council, dated 13th July, 1916, for the purpose of studying the situation in a comprehensive way, and making its report to the Government with the least possible delay. The Commission is composed of Alfred H. Smith, of New York, President of the New York Central Railway, Sir Henry L. Drayton, of Ottawa, Chairman of the Board of Railway Commissioners of Canada, and Sir George Paish of London.

“In the meantime there was voted in the Parliamentary Appropriations at the close of the last session a loan to the Grand Trunk Pacific Railway Company of \$8,000,000, repayable on demand, with interest payable half-yearly at the rate of six per cent. per annum, to be used in payment of interest on securities, deficit in operation and for the purchase of rolling-stock. This loan is secured by a mortgage executed by the Company to the Dominion Government, dated 28th June 1916. The Company has

received on account of the loan \$1,189,416.96, which has been applied in payment of interest due July 1st, on outstanding bonds and debenture stock.”

“When the Commission sat the Chairman invited the Grand Trunk, through its President, to state the grounds on which his company considered the acceptance of the proposal contained in Mr. Smithers’ letter to be justified.”

Mr. Chamberlin answered on January 30th, 1917, as follows:

“In replying to the first question asked in your letter ‘as to the effect on the Grand Trunk proper of the loss of the \$25,000,000 investment,’ it is perhaps necessary to repeat to some extent what has already been said from time to time on the subject.

“The advance to the Branch Lines Company—every dollar of it—represents money paid by the Grand Trunk in order to complete the lines, the bond issues having been found insufficient for the purpose, together with interest accruing. These branch lines were intended to be, and have been, important feeders to the parent company, the present financial position of which would have been much worse than it is had they not been constructed.

“The Grand Trunk Railway Company having furnished the money necessary to complete these lines would naturally look upon the confiscation of its investment as a crime. The money was put into it in good faith, in the belief that the Grand Trunk Pacific was largely a national undertaking. That the railway has turned out so far not to be a success is no fault of theirs, but can be attributed directly to the action of the Government in subsidizing competing lines and in many ways enormously adding to the cost of construction. There is not a shadow of doubt that had the course subsequently followed by the Government been known when application for the Grand Trunk Pacific charter was made, that road would never have been built.

“These are the facts as understood by the Grand Trunk directors and shareholders.

“The repudiation of this legitimate indebtedness in any arrangement made with the Government would not only injure the Grand Trunk Company’s credit, but might induce a spirit of hostile criticism on the part of investors in Grand Trunk securities in

London and New York that might easily react upon the credit of the country.

“The foregoing remarks apply also to the advances to the Saskatchewan Railway.

“The Grand Trunk Pacific Development Company was organized with a view to obtaining for the Grand Trunk Pacific Railway, terminals and townsites, in order to induce settlers to take up land on the line of railway. The whole of the common stock was owned by the Grand Trunk Pacific Railway Company. The enterprise was an endeavor to do at our expense exactly what in the case of the Canadian Pacific and Canadian Northern Companies had been provided by the Government by giving land subsidies. The money advanced by the Grand Trunk Railway Company would have been repaid had it not been for the collapse of land values in the west, owing to the culmination of the boom in real estate. The assets of the company are owned by the Grand Trunk Pacific Railway Company, and the operations of the Development Company accrue entirely to its benefit.

“To the second question asked, as to the effect on the Grand Trunk proper should the operation of the Grand Trunk Pacific be left as it is and the former not be relieved from its guarantees, there can be only one answer; it would mean a receivership for the Grand Trunk Company, carrying with it the destruction of its credit for some time to come and the impairment of the credit of the whole Dominion.

“I can hardly add anything to lend additional force to the remarks already made in order to indicate the justice of our claim. If we have been guilty of too much optimism in the inception of the scheme, does not the same criticism apply to the Government which subsidized a railway system to compete with us, its success being dependent entirely upon a large influx of settlers in the west? While this expectation has not yet been fulfilled, it is not unreasonable to hope that it has only been deferred, and that eventually the Grand Trunk Pacific Railway System will prove an excellent national asset.”

Loose talk about “confiscation,” “crime,” and “repudiation” did not give information relevant to the enquiry so Mr. Chamberlin was asked to attend as a witness and give the information. This is what was said on examination.

Sir Henry Drayton: There is one other matter: You think the Government as a matter of fairness to the Grand Trunk, ought to relieve the Grand Trunk Railway Company of its total Grand Trunk Pacific investment?

Mr. Chamberlin: I do.

“Sir Henry Drayton: And repay to the Grand Trunk the money it has in the Grand Trunk Pacific, and relieve the company of all its responsibility. That is a large order. We want to give you every opportunity to state every ground on which you think that should be done.

Mr. Chamberlin: Well, Sir Henry, if you will look at this map, you will see where the Grand Trunk Pacific stretches away off up through the north country, while the Grand Trunk is away down in this part of the country. It is not a natural connection of the Grand Trunk, is it? It is not only not a connection of the Grand Trunk but it is not of any benefit to the Grand Trunk.

In the first place, we are under contract to send all business over this north line, away from the Grand Trunk. The Grand Trunk cannot derive any benefit from it under the contract with the Government.

Commissioner Acworth: That is a new point to me.

Mr. Chamberlin: In addition to that, the company is bound to put steamers on the Atlantic and steamers on the Pacific, to accommodate all that business, and yet it does not bring one dollar of business to the Grand Trunk.

Commissioner Acworth: How does that obligation arise?

Mr. Chamberlin: It arises out of the contract with the Government.

Commissioner Acworth: The original contract with the Government?

Mr. Chamberlin: The original contract.

Mr. Biggar: Of July 29, 1903.

Commissioner Acworth: Is the agreement a schedule to the Act?

Mr. Biggar: Yes sir, a schedule to the Act of 1903. Chapter 80, I think it is.

Commissioner Acworth: Therefore, if the Grand Trunk, as it does at present, operate or control the operation of the Grand Trunk Pacific, were to send traffic through Portland instead of through Halifax, it would be a fraud on the agreement?

Mr. Chamberlin: Yes, we are bound to go on with all that tremendous outlay and to carry that load, and yet not get one dollar of benefit from it. The Grand Trunk simply cannot carry it.

Commissioner Acworth: Let me ask this question: When you went away from the agreement to work the Transcontinental, was that question of the obligation of the Grand Trunk Pacific to carry over the Transcontinental ever raised?

Mr. Chamberlin: No. The agreement is with the Grand Trunk Pacific, not with the Transcontinental.

Commissioner Acworth: But it was practically Grand Trunk, rather than Grand Trunk Pacific?

Mr. Chamberlin: It is in the name of the Grand Trunk Pacific, not of the Grand Trunk.

Commissioner Acworth: The Grand Trunk Pacific said they could not work the Transcontinental, with its present cost?

Mr. Chamberlin: Yes.

Commissioner Acworth: And the Grand Trunk Pacific did not raise, and the Grand Trunk was not in a position to raise (that is what it comes to) the question of whether the obligation remaining on the Grand Trunk Pacific to run over the Transcontinental was a reasonable one?

Mr. Chamberlin: Well, it was not raised, anyway.

Commissioner Acworth: I am an outsider, in regard to these matters, and have to pick them up as we go along.

Mr. Chamberlin: The only body that could raise that question would be the Government, I should say.

Mr. Biggar: The only company which could raise any objection would be the Grand Trunk Pacific.

Commissioner Acworth: An obligation to operate via Halifax rather than via Portland is an obligation of the Grand Trunk, not of the Grand Trunk Pacific?

Mr. Biggar: Yes. It is provided for in the agreement dated the 29th of July, 1903, which is a schedule to chapter 71 of the Statutes of Canada, 1903.

Commissioner Acworth: The act constituting the system?

Mr. Biggar: An act confirming an agreement entered into between His Majesty the King, and Sir Charles Rivers Wilson and others acting on behalf of the Grand Trunk Pacific Railway Company.

Clauses Nos. 41 to 45, inclusive, provide:

41. At all times, during the terms of the said lease, the company shall continuously and efficiently operate both divisions of the said railway, giving due and sufficient service for the accommodation of all traffic to the satisfaction of the Government.

42. It is hereby declared and agreed between the parties to this agreement that the aid herein provided for is granted by the Government of Canada for the express purpose of encouraging the development of Canadian trade and the transportation of goods through Canadian channels. The Company accepts the aid on these conditions, and agrees that all freight originating on the line of the railway, or its branches, not specifically routed otherwise by the shipper, shall, when destined for points in Canada, be carried entirely on Canadian territory, or between Canadian Inland Ports, and that the through rate on export traffic from the point of origin to the point of destination shall at no time be greater via Canadian Ports than via United States Ports, and that all such traffic, not specifically routed otherwise by the shipper, shall be carried to Canadian Ocean Ports.

43. The Company further agrees that it shall not, in any matter within its power, directly or indirectly, advise or encourage the transportation of such freight by routes other than those above provided, but shall, in all respects, in good faith, use its utmost endeavors to fulfil the conditions upon which aid is granted, namely—the development of trade through Canadian channels and Canadian Ocean Ports.

44. In respect of the tolls for any traffic carried partly over any line of railway operated by the Company and partly over any of the lines of the Intercolonial Railway, a fair and equitable ratable division of all such tolls shall be made by mutual agreement, or, in case of dispute, such division shall be fixed by arbitrators appointed in the manner provided by paragraph forty-seven of this agreement, or by a Board of Commissioners which may hereafter be duly appointed as mentioned in paragraph nineteen of this agreement, and with the right of appeal as therein mentioned.

45. The Company shall arrange for and provide, either by purchase, charter or otherwise, shipping connections upon both the Atlantic and Pacific Oceans sufficient in tonnage and in number of sailings to take care of and transport all its traffic, both inward and outward, at such Ocean ports within Canada, upon the said line of railway, or upon the line of the Intercolonial Railway, as may be agreed upon from time to time, and the Company shall not divert, or, so far as it can lawfully prevent, permit to be diverted to ports outside of Canada any traffic which it can lawfully influence or control, upon the ground that there is not a sufficient amount of shipping to transport such traffic from or to such Canadian ocean ports.

Mr. Chamberlin: We are bound to make the same rates from Halifax and St. John as are made to Boston and Portland, and we are bound to provide steamships on the Atlantic and on the Pacific to take care of any business offering.

Commissioner Acworth: You never have provided ships on the Atlantic, in fact?

Mr. Biggar: No.

Commissioner Acworth: And the Government has never called on you to carry out your contract?

Mr. Chamberlin: You talk about the money the Government would have to raise to pay off the Grand Trunk. They would not have to raise \$250,000. This has been financed on a three and four per cent. basis except on loans from the Government, and I have

offered to take the advances in Government bonds of ten or fifteen years.

Sir Henry Drayton: But the obligation is there; the burden is there, and the carrying costs are there.

Mr. Chamberlin: Yes, but it is really a matter of financing, today.

Sir Henry Drayton: Your first point, Mr. Chamberlin, is that the Grand Trunk is not interested in all this development at all, and that the railway as contracted for and laid out is something which takes traffic away from the parent Grand Trunk System instead of giving traffic to it.

One answer that might be quite easily made to that is that the representatives of the Grand Trunk must have known all that when this contract was entered into?

Mr. Chamberlin: I don't know. They must have. Of course, I do not want to criticize my predecessors.

Sir Henry Drayton: What is the next ground?

Mr. Chamberlin: What do you mean?

Sir Henry Drayton: You have just advanced a reason why you think the Government should take the whole burden of the Grand Trunk Pacific away from the Grand Trunk Railway Company?

Mr. Chamberlin: Yes.

Sir Henry Drayton: That reason being that the position and the manner in which the line has been built, it is really for a separate system and not for the Grand Trunk System at all?

Mr. Chamberlin: Yes.

Sir Henry Drayton: That is your first ground. Now what is the next ground?

Mr. Chamberlin: Isn't that enough?

Sir Henry Drayton: I don't know. You are the one to say. You are giving us all your grounds, and we want to give you every opportunity to advance every argument you can.

Mr. Chamberlin: We can no more carry out that contract with the Government than anything in the world. How are we going to raise money to build those steamships? How are we going to build

steamships? How are we going to carry the burden if we are forced to carry all that stuff all the way down there at Boston and Portland rates?

Sir Henry Drayton: Your second ground is that of impossibility?

Mr. Chamberlin: It is an impossibility.

Sir Henry Drayton: If it is an impossibility now, it was always impossible?

Mr. Chamberlin: It was always impossible.

Mr. Biggar: It was not thought to be impossible, by the men who made the contract.

Sir Henry Drayton: I think it was.

Mr. Biggar: Of course, Mr. Hays is now dead. He was very optimistic about it, we all know that.

Sir Henry Drayton: Mr. Chamberlin, you have already through Mr. Biggar, submitted a letter to this Investigating Commission, pointing out first that your scheme was a scheme for building from North Bay; secondly, that your scheme from North Bay was changed at the request of the Government; thirdly, that in the Railway Committee an amendment was forced which compelled the line to be carried from Quebec down to Moncton.

There is nothing more to be said in that connection is there?

Mr. Chamberlin: Nothing more to be said that I know of.

Sir Henry Drayton: When the Government have already taken over the burden of the line from Quebec east, haven't they relieved you of every single trouble in that connection?

Mr. Biggar: The one fatal omission is the connection between the Grand Trunk Pacific and Ontario.

Sir Henry Drayton: You mean, between the Grand Trunk Pacific and North Bay?

Mr. Chamberlin: Practically that. The Grand Trunk System in Ontario today is not connected up.

Sir Henry Drayton: This map of yours shows an alternate line dotted?

Mr. Chamberlin: That was the original scheme.

Sir Henry Drayton: That ties up to Sudbury?

Mr. Chamberlin: That ties up to Sudbury, with a continuous line down to Midland I guess it is, or Allandale.

Sir Henry Drayton: Mr. Biggar, do you want anything further said in so far as construction east of Winnipeg is concerned; you have some letters, Mr. Chamberlin, do you want to put any of them in the record?

Mr. Chamberlin: I will leave that matter to Mr. Biggar.

Mr. Biggar: I think we had better put them in.

Sir Henry Drayton: You gentlemen will have to determine yourselves what letters you want to put in.

Mr. Chamberlin: I do not see any objection to putting them in, myself.

There is one particular piece of information to be brought out; that is, that the Grand Trunk officials of that day would never have gone into it if they had thought a competing line would be built alongside their line all the way through. They thought they would have a chance to go ahead for fifteen years, year after year. If they had thought that instead they would have had competition immediately all the way through, I am sure they never would have entered into the agreement.

Sir Henry Drayton: Give us all your reasons why the Government should help, or why the Government should assist the Grand Trunk Pacific.

Mr. Chamberlin: I say that the situation would not have been nearly as bad as it is now if the Government had not subsidized another line paralleling ours all the way through, to which they gave larger guarantees than they did to the Grand Trunk Pacific, and in addition gave them \$12,000 a mile cash.

Sir Henry Drayton: Do you happen to know whether in the negotiations between the Government and the Railway, the question of aids to other lines was discussed at all? You see your Company has not got a provision or a stipulation from the Government that they would not do that which you now complain of. Do you know whether that question was discussed at all?

Mr. Chamberlin: I cannot say as to that. Mr. Biggar can tell you, no doubt. I was not present and had nothing to do with the institution until it was well on to completion.

Sir Henry Drayton: Was that question discussed at all, Mr. Biggar?

Mr. Biggar: Not as far as I know, Sir Henry. At the session at which the Canadian Northern was assisted between Winnipeg and Edmonton, it was presumed that that was to be as far as that line would go.

Sir Henry Drayton: But it was contemplated that they would build to the coast?

Mr. Biggar: I don't think it was.

Sir Henry Drayton: If I am not very much mistaken, negotiations were entered into between your executive and the executive of the Canadian Northern, looking to the fusion of the systems, so that there would not be this duplication.

Mr. Chamberlin: They tried to buy the Manitoba lines, but they could not get together. Mr. Hays told me at one time, and Mr. Wainwright told me also. I asked them why they did not buy out the Canadian Northern. They said they had had meeting after meeting with them, and that the best terms they could get were that they should assume all obligations, all bonds and everything else, and give \$25,000,000 for the common stock for that little bunch of lines up around Winnipeg.

Commissioner Acworth: Can you give us the date of that?

Mr. Biggar: That was in 1903.

Sir Henry Drayton: It was in 1903 that those negotiations were going on?

“Mr. Biggar: It was either in 1903 or 1904.

Sir Henry Drayton: It was not very long after that before the Canadian Northern went on branching out?

Mr. Biggar: Where from?

Sir Henry Drayton: From everywhere. They have been operating since 1908. I quite appreciate, Mr. Chamberlin, the point you make, that is, that your undertaking has been very much injured by

another line. But wasn't it a case of the country being open for the two companies? There was no reason why the Government should not do it, if they wanted to?

Mr. Chamberlin: I think there was, because our people looked upon it in this light, that they and the Government were partners, and that one partner would not do anything to injure the other.

Sir Henry Drayton: But you know that the Canadian Northern today puts forward the same thing as against you, that they would have been in good shape today as a transcontinental line if the Government had not subsidized your company.

Mr. Biggar: But the Canadian Northern had not made any arrangement to go west of Edmonton prior to this agreement.

Mr. Chamberlin: Take their lines through British Columbia, and you will find that they took a line down the Thompson River and on to Vancouver which was approved by the Government. Mr. Hays wrote me to Winnipeg asking whether we should oppose it. I said no, if there isn't any other way of going to Vancouver than that, do not let us go.

Sir Henry Drayton: What is your objection to that route?

Mr. Chamberlin: The Thompson River, and those slides there. They had in 1903 a guarantee covering the line to the Prince Albert branch, running straight up north, apparently to Edmonton. They built their line into Edmonton, then did not do anything until 1908; 1903 was the year our charter was being obtained.

Mr. Biggar: Not only that, but our agreement with the Government on which the whole scheme is based, from Winnipeg to Prince Rupert, was made in 1903.

Sir Henry Drayton: Can you really say more than this, Mr. Chamberlin, that although there was no agreement that the Government should not help any other line; you assumed that as a matter of good business the Government would not help any other line competing with you?

Mr. Biggar: West of Edmonton.

Mr. Chamberlin: West of Edmonton or east of Port Arthur. In carrying out their arrangement with us in good faith, they could not consistently do that.

Sir Henry Drayton: Why do you say in good faith?

Mr. Chamberlin: We were partners, and were opening up a new country which both sides knew was dependent upon the country filling up. There was nothing in it from one end to the other. You could ride for two days along our line without seeing a house. Then they put another line alongside of ours and divided the thing up.

Sir Henry Drayton: But you are the interloper in prairie lines; surely your complaint if any is confined to the west on the one hand?

Mr. Chamberlin: So far as the Canadian Northern and the Canadian Pacific Railway are concerned?

Sir Henry Drayton: I am now speaking of the Canadian Northern, not of the Canadian Pacific Railway. They always had the road. They got no bonuses for that. Take it from Edmonton west, and all the way down through; from Edmonton west you make the complaint as to the Canadian Northern, and as to Port Arthur east, but nowhere else is there anything on which you can make that point?

Mr. Chamberlin: Of course they are paralleling our branch lines. That shows who was ahead, conclusively. The first year in which they did anything was 1908. Then they got an extra in 1910, 1911, 1912, 1914 and 1916.

Sir Henry Drayton: You have written me a letter giving some grounds as to why the road should be taken over. We notice that there is a fairly good operating balance on the main line, but a very heavy operating loss on the branches?

Mr. Chamberlin: Yes, but they get more than half of their business on branch lines.

Sir Henry Drayton: The loss on the branch lines is more than compensated for by the long haul on the main line?

Mr. Chamberlin: Yes.

Sir Henry Drayton: You speak of confiscation, in your letter, Mr. Chamberlin. No person is thinking of confiscating the investment that I know of. If you can afford to carry it, you will be allowed to

carry it. That was not really meant, was it? Suppose you are left to yourselves, the thing crashes, no one confiscates it. Isn't that right?

Mr. Chamberlin: To a certain extent, yes.

Sir Henry Drayton: To every extent, isn't it?

Mr. Chamberlin: To every extent.

Sir Henry Drayton: You also mention in your letter that the money was put into the undertaking in good faith, and that it was a national undertaking. We have to look upon that more or less in the way these large terms are usually taken. It is only national to the extent that the agreement makes it?

Mr. Chamberlin: Of course we are very anxious to avoid a break or a crash. The Grand Trunk has to raise a great deal of money, as you know in your department, for grade separations, improvements to hotels, etc.

Sir Henry Drayton: I quite agree with that. You should be able to raise a great deal of money for the purchase of rolling-stock and so on.

Mr. Chamberlin: We have to. Of course the debenture stock is a first lien, and these guarantees are right behind the debenture stock.

Sir Henry Drayton: Your point I take it is that it is impossible for the Grand Trunk to continue its service and raise money, under these circumstances?

Mr. Chamberlin: Absolutely.

Sir Henry Drayton: What do you desire to say in order to justify what you say in your letter about competing lines being subsidized?

Mr. Chamberlin: In the first place, all our estimates were made on the basis of \$1.50 for labour, \$1.75 to make it safe. Labour is the principal part of the construction of a railway. The result was that with the other road working right alongside of us, especially west of Edmonton, we had to pay \$3.50 a day right along, and even then the men would not work. If we tried to crowd them and make them work, they would simply climb over the fence, so to speak, and go and work for the Canadian Northern.

Sir Henry Drayton: But your position would be no worse in that respect than that of the Canadian Northern?

Mr. Chamberlin: Not in that respect. Still it tremendously increased the cost of the road. In addition to that, all material was increased in price. The Canadian Pacific Railway was constructing feverishly all the time to keep up with the other two. That increased the cost of material away beyond any expectations. There were also duties put on everything after that contract was made, such as \$7 a ton on rails. So you see everything counted.

Sir Henry Drayton: Is there anything you wish to say in justification of that part of your letter in which you speak of the course subsequently followed by the Government, and of the road never being built?

Mr. Chamberlin: That is simply a statement of my judgment, that the officers of the Grand Trunk who made that arrangement with the Government never would have made it if they had known that their line was going to be paralleled. All our correspondence shows that.

Sir Henry Drayton: Have you any correspondence you wish to produce which shows that?

Mr. Chamberlin: Mr. Biggar has a lot here; he is getting it.

Sir Henry Drayton: You had better put in whatever you want to put in.

Mr. Chamberlin: We will give you the whole bunch.

Sir Henry Drayton: Mr. Biggar is going to sort out whatever correspondence he desires to file in connection with this matter which will be put in as a separate exhibit.

I take it that you are not serious when you mention in your letter the repudiation of a legitimate indebtedness, the injury of the Grand Trunk Company's credit, hostile criticism, and so on. I quite appreciate your point, that if anything is done to injure the credit of the Grand Trunk, these consequences might follow. But there is no suggestion that I know of of the Government repudiating any of its legitimate indebtedness.

Mr. Chamberlin: The idea is that if the Grand Trunk and the Grand Trunk Pacific go into insolvency (which they will have to

do if the Grand Trunk attempts to carry out that arrangement) the Grand Trunk Pacific having been heralded and looked upon as a Government-backed road, it would naturally have an effect upon the other securities as well.

Sir Henry Drayton: What I wanted to find out was, what was meant by the statement in the letter in regard to the repudiation of a legitimate indebtedness. There is no suggestion that the Government should repudiate any of its legitimate indebtedness. It is not a matter of repudiation.

Mr. Chamberlin: If the Grand Trunk says it cannot go on with this undertaking, the Government of course will have to take it over—it could not help itself, on account of the guarantees. They would then wipe out \$30,000,000, \$30,000 a mile, and could wipe out say, \$25,000,000 owing to the Grand Trunk. You see that while they guaranteed the Grand Trunk \$13,000 a mile they guaranteed the Canadian Northern \$35,000 a mile.

Sir Henry Drayton: The Government would do substantial justice if they took it over at \$35,000 a mile, to put yours on a parity?

Mr. Chamberlin: Does that not reflect on the credit of the Government as well, a Government-backed road?

Sir Henry Drayton: But they only backed it to the extent of the guarantees; your complaint is that they did not back it quite enough?

Mr. Chamberlin: If the Grand Trunk Pacific goes to the wall, a Government road, everybody throughout the Northwest would say that the Government built it entirely too high.

Sir Henry Drayton: Doesn't it really come down to this, that the statements in your letter mean that in your view, in order to protect the finances of the Grand Trunk, and as a corollary to protect the finances of the country, the Government ought to relieve the Grand Trunk in regard to its investment; isn't that the whole thing?

Mr. Chamberlin: That is the whole thing.

Sir Henry Drayton: There is nothing else to it?

Mr. Chamberlin: Nothing else.

Commissioner Acworth: I can follow the point this far; that the Grand Trunk Pacific, being regarded as a Government obligation,

the Government should see that anybody who had put money into the Grand Trunk Pacific should be protected to the last penny. But wouldn't it be absolute justice on the part of the Government to say that the Grand Trunk went into this undertaking, and that the Government must ask the Grand Trunk to pay all it can towards the obligation the Government has to carry; in other words, that the Government must ask the Grand Trunk to accept the sinking of the \$26,000,000 they have already advanced, and that the Government must ask the company to contribute, in order to minimize the loss, all the net revenue the company has, that while it is not enough, yet the Government must have that.

Mr. Chamberlin: The fact is that the Grand Trunk is not able to contribute anything towards paying its own security holders and making the improvements the people of Canada demand and the business of Canada requires.

Sir Henry Drayton: But last year the Grand Trunk gave its shareholders half a million sterling?

Mr. Chamberlin: Yes.

“Commissioner Acworth: Do you mean to say that that was a necessary expenditure—I am not a shareholder?

“Mr. Chamberlin: If you strike off the interest on your securities
.....

Commissioner Acworth: It was not a security; they gave half a million to their guaranteed shareholders?

Mr. Ardley: Four per cent. on the guaranteed stock was paid.

Commissioner Acworth: Which came to half a million sterling. Wouldn't it be absolute justice for the Government to say

Mr. Chamberlin: To wipe out these poor shareholders?

Commissioner Acworth: To say to the Grand Trunk that they must pay these liabilities to whatever extent they can, because as far as the public was concerned the Government would have to face the rest, but that the Grand Trunk must do all it can?

Mr. Chamberlin: The Grand Trunk can just about meet it, but cannot pay the shareholders anything.

Commissioner Acworth: It divided a profit last year of \$2,500,000.

Mr. Chamberlin: You do not call it munificent, to pay interest on your guaranteed securities, do you?

Commissioner Acworth: But guaranteed stock is a share, not a bond. Are we agreed upon it, that the company divided a certain amount last year as a profit, a profit divisible as a dividend?

Mr. Chamberlin: How about the first, second and third preference stock?

Commissioner Acworth: Those holders would not get anything. For a series of years there has always been some amount paid as dividend?

Mr. Chamberlin: We would not have paid out so much last year, if we had paid out on the Grand Trunk as much as we ought to have paid for betterments.

Sir Henry Drayton: If you had paid all you should have paid out for betterments, you would not have been likely to have paid anything?

Mr. Chamberlin: No. We have not put in any rails for two years past, of any account.

Sir Henry Drayton: How much do you think you should put in, to keep things right, in order to look after proper operations?

Mr. Chamberlin: We should have at least three and perhaps four per cent. put aside every year on rolling-stock. That would amount to from \$2,000,000 to \$2,500,000.

Sir Henry Drayton: You have never done that?

Mr. Chamberlin: We have never done that. I have had it before the Board, and have practically insisted upon it being done whenever we get any new rolling-stock. I bought about 10,000 cars the first year I was here. They were all charged to Capital Account. We should have had a reserve fund for taking care of them. We now have to go and do the same thing over again.

Sir Henry Drayton: Supposing you were to reconstruct your accounts now. I want to see what effect these items would have on

the Grand Trunk. What would the providing of three or four per cent. annually amount to?

Mr. Chamberlin: My idea is that it would take five per cent. Take engines and cars, they are either worn out or out of date in twenty years.

Sir Henry Drayton: I agree with you absolutely. If you were to tell your accountants to go and make provision of that kind in respect of your equipment on that basis, it would preclude the shareholders from receiving anything for years and years?

Mr. Chamberlin: You mean, if we made it up for back years?

Sir Henry Drayton: Yes.

Mr. Chamberlin: Yes it would. It would mean \$2,750,000 a year.

Sir Henry Drayton: You would have to go back probably twenty years to make it right.

Mr. Chamberlin: Yes.

Sir Henry Drayton: To put your accounts in proper shape, in regard to a proper equipment, would require a reserve of \$25,000,000.

Mr. Chamberlin: Take the matter of grade separation at Toronto, for instance

Sir Henry Drayton: Suppose you suggest \$27,000,000—wouldn't \$25,000,000 be enough to properly provide for reserves for equipment?

Mr. Chamberlin: Yes, I think it would. We have now a lot of new equipment charged to Capital. If we had \$25,000,000 now, it would put us in fine shape.

Sir Henry Drayton: To look after replacements and amortizations?

Mr. Chamberlin: Yes, to do that.

Sir Henry Drayton: To do that you should have that credit?

Mr. Chamberlin: We should have that credit. That is one reason I am fighting so hard for that \$25,000,000. I want it to spend here on the Grand Trunk.

Commissioner Acworth: Apart from equipment, there is the question of road up-keep. You said you had not put in any new rails during the past two years?

Mr. Chamberlin: We put in quite a few in 1915, but in Canada we only put in 2,500 tons last year, because our friend Mr. Flavelle grabbed all the steel at the Soo and would not let them roll any rails. We had them bought, and have them bought now. I have been trying to get them to let us have them now.

Commissioner Acworth: I don't know about 1916, but even in 1915 you did not put in very many new rails?

Mr. Chamberlin: No we did not.

Commissioner Acworth: And did not make a reserve for the money you would have spent if you had got the rails?

Mr. Chamberlin: I do not mean to say that the rails are dangerous. But we must put in a certain percentage every year. If we go over a couple of years, the first thing we know we will have a lot of rotten rails.

Commissioner Acworth: Are you behind in your calculations on ties?

Mr. Chamberlin: We have done pretty well on the tie question. We should have had a few more last year, but could not get them.

Commissioner Acworth: When you did not get them, you did not charge the money to Road Reserve in any shape or form that you might have charged?

Mr. Chamberlin: No.

Sir Henry Drayton: What do you put the life of a rail at, Mr. Chamberlin?

Mr. Chamberlin: That is very hard to tell. It depends altogether upon the traffic. On one line a rail will last fifty years, while on another it will not last five years.

Sir Henry Drayton: Between Montreal and Toronto, say?

Mr. Chamberlin: On that line the rails are 100 pound rails. I should say about ten years would be the life of those rails, although I have not had any statistics taken of them.

Sir Henry Drayton: Only ten years for a 100 pound rail?

Mr. Chamberlin: Yes, I should think about that.

Mr. Ardley: They would be useful on branch lines, after that.

Mr. Chamberlin: We saw off the ends of them, and use them for branch lines.

Commissioner Acworth: I saw some figures this morning for eleven months, that is, eleven months as against the corresponding period of the previous years. The road maintenance costs have increased \$334,000 in cash, but the percentage dropped from 9.97 (which is practically 10) to 9.06 which is practically 9?

Mr. Chamberlin: Mr. Ardley can explain that better than I can. A great deal of that is rails.

Commissioner Acworth: You have not been able to get them, and therefore have not charged them?

Mr. Chamberlin: That is it.

Commissioner Acworth: Similarly in regard to equipment. The equipment for the eleven months to November 1915 amounted to 16.69 of the expenses, while in 1916 it dropped to 11.62, or, in actual cash expended there has been \$328,000 of an increase. Does that mean the same thing again, that you could not get the equipment?

Mr. Ardley: That is the operation for the eleven months of the Grand Trunk. Of course I have not got the sheet before me, but I do not think we did as much repairing as we did in previous years.

Mr. Chamberlin: We have employed every man we could employ, and have worked full hours, something we never did before in winter time.

Mr. Ardley: If you examine the statements you will see exactly where the increase was.

Mr. Chamberlin: Take motive power, \$53,000 up; Car Department, \$24,000 up; Car Department, \$31,000 up; Car Department, \$25,000 up. You will see that the motive power went up to \$50,000.

Mr. Ardley: A lot of the increase in motive power represents the wages of enginemen and firemen, which do not go into

Maintenance and Equipment. Of course we really do not come to a conclusion until the end of the year.

Commissioner Acworth: You accept the question as to Maintenance of Road?

Mr. Ardley: I can quite understand because we have not had the rails to put in.

Commissioner Acworth: What about the Maintenance of Way?

Mr. Ardley: I think the Maintenance of Way will practically by the end of the year be about the same as last year.

Mr. Chamberlin: If we had got those 17,500 tons, it would have meant \$600,000 for rails alone, let alone the new angle-bars, nuts, bolts, spikes, and labour taking them out. It would probably run to \$700,000 on that one item, if we had had them. But we could not get them.

Commissioner Acworth: And as you do not keep a reserve you have not charged it up in cash?

Mr. Chamberlin: No.

Sir Henry Drayton: I see, discounts on securities sold, getting into Capital Account?

Mr. Ardley: We have always charged that account with that item.

Commissioner Acworth: Is that right?

Mr. Ardley: It is not right, under any Interstate Commerce Commission Law. They make us carry our discounts.

Commissioner Acworth: Is it right as a matter of business?

Mr. Ardley: I don't know whether it is right as a matter of business. The only thing is, that our Debenture Stock is special. It does not appear in the statements.

Commissioner Acworth: Well, these things come home to roost in a very few years.

Mr. Ardley: The people in London say they won't do it that way, so we are going to do it, when they want it done that way.

Sir Henry Drayton: Is there anything more you want to say, Mr. Chamberlin, on general principles, without going into details?

Mr. Chamberlin: I don't think so.

Sir Henry Drayton: There are no further reasons you wish to advance?"

Mr. Kelly agreed with Mr. Chamberlin's evidence and produced the following statement:

"Grand Trunk Railway System. Summary of Deferred
Expenditures.

"Rebuilding and reinforcing freight car equipment.....	\$8,943,971.14
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Equipping freight and
passenger cars with
safety appliances —.....

Original estimate.....	\$850,722.50
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Already expended.....	392,220.89
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Balance to be expended.....	458,501.61
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Equipping engines with
safety appliances —.....

Original estimate.....	\$17,828.00
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Already expended.....	553.68
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Balance to be expended.....	17,274.32
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Deferred renewals in
Maintenance of Way
Department —

In Canada.....	\$6,182,672.00
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In United States	5,578,926.00
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Total.....	\$21,181,345.07
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Montreal, March 5, 1917."

In substance Mr. Chamberlin's main contention amounted to this—

If the Grand Trunk was compelled to take the ordinary legal consequences of its bargain, the Grand Trunk Pacific would be sold to satisfy in whole or in part the first mortgage against it; the holders of the junior securities guaranteed by the Grand Trunk would obtain a judgment against the Grand Trunk for approximately \$100,000,000, the equity in the Grand Trunk would thereupon be sold for whatever it would bring towards satisfying the judgment and the guaranteed and other stocks of the Grand Trunk would be wiped out.

The Commission did not dissent from Mr. Chamberlin's statement of the inevitable disaster which would result to the Grand Trunk if it was left to face the consequences of its failure, but it was prepared to and did advise the Government, not as a matter of obligation, but as a matter of generosity to grant some measure of relief to the Grand Trunk shareholders.

The majority proposed that the Government take over the operation of the Grand Trunk undertaking assuming all the fixed charges and floating liabilities, and giving an annuity in perpetuity to the shareholders amounting to some moderate proportion of what they had been, in part wrongfully, receiving for some years, viz.: \$3,600,000 per year.

On the other hand, the third member of the Commission, the President of the New York Central, while prepared to recommend generosity, could not see his way to go any such length. He said:

"My colleagues have recommended that the stockholders of the Grand Trunk Railway Company be paid an annuity which is to be a 'moderate but substantial portion of \$3,600,000, the average dividend payment for the last ten years.' This recommendation is in spite of the facts noted in the report that there are arrears in maintenance which require the expenditure of twenty-one millions of dollars, and that the company has charged to capital items which should properly have been charged against income, these facts indicating that there have been some dividends paid which had not been earned. Considering this situation and also the obligations of the company in the West, I am not impressed with the justice of paying an annuity to the stockholders in exchange for a surrender of this property. I also would be liberal to them, but I would allow them to keep their property, and give them a chance to work out their own salvation. To that end, I would recommend that a settlement be effected between the Government and the

Grand Trunk Railway Company. The Railway cannot carry out its part of the contracts, and it should be relieved of further embarrassment. On the other hand, the stockholders of the Grand Trunk Railway should be required to curtail or forego their dividends for the present, and the entire earnings be applied to the rehabilitation of the road through a term of years. The Government thus gives up a present claim which the debtor cannot pay anyway; in turn, it will enjoy improved and extended service which may be worth far more to the welfare of the people. I should also give the Government some claim upon the future earnings of the Grand Trunk, so that it may share in any future prosperity which this action makes possible.

“Reorganization of the Grand Trunk is desirable only in so far as it shall be required to put itself in shape to discharge efficiently its functions as a carrier. Whether it shall retain all of the subsidiaries which it has accumulated through the past fifty years depends in large measure on what they can contribute to the main property. Careful study of each of the subsidiaries will lead to definite conclusions from the standpoint of the Grand Trunk and its future welfare.”

And then he recommended that the Grand Trunk be relieved of its contract to operate the National Transcontinental, retain its Eastern lines and take over, on lease, the Eastern lines of the Canadian Northern at their fixed charges; the Grand Trunk also to retain and liquidate the liabilities of its Western subsidiaries, other than the Grand Trunk Pacific, and its Branch lines; the Canadian Northern to be required to lease these lines at their fixed charges; the Government to operate directly or under lease the lines between Winnipeg and North Bay; the Grand Trunk to be required for a period of years measured by its progress to put all net earnings above fixed charges into the property.

The remainder of Mr. Chamberlin's evidence did not appear to the Commission to furnish any support to the Grand Trunk contentions, and indeed, that evidence seems to furnish a conclusive answer to any such contentions.

The statement that the Government was a partner with the Grand Trunk Railway in its western venture and had acted in fraud of the terms of the partnership by granting assistance to the Canadian Northern, involved considerations not favorable to the Grand Trunk.

The Government was not a partner with the Grand Trunk in any shape or form. It agreed to guarantee the obligations of the Grand Trunk western subsidiaries in a specified way and to a specified amount and it not only carried out that bargain but in addition granted enormous aid which it was not under contractual obligation to furnish and furnished that aid under circumstances which would have prevented it being obtained from any other guarantor or any other source.

Neither Mr. Smithers nor Mr. Chamberlin, if they had taken a little thought as to the past history of the Grand Trunk, would have put forward this suggestion. As far back as the fifties, on their theory, the Government had been in partnership with the Great Western Railway in supplying the lines and developing the traffic between Lake Huron and Toronto, and while the Great Western was efficiently engaged in the construction and operation of these lines, the Grand Trunk, with Government aid as great or greater than that furnished to the Great Western, invaded that territory, paralleled the lines of the Great Western, and carried their campaign to the most extreme limits, notwithstanding the repeated propositions of the Great Western to saddle itself with the duplicate lines of the Grand Trunk so far as constructed in its territory, and arrange for an interchange of traffic.

They were also disregarding the fact that at the time their western venture was negotiated, both the C.P.R. and the C.N.R. had lines from Port Arthur west and that the Grand Trunk obtained its immense public aid for lines paralleling and duplicating large portions of these lines. The Canadian Northern not only had its lines from Port Arthur to Winnipeg and in Manitoba and Saskatchewan, but had also acquired its rights and completed its arrangements for its projected lines from there to Edmonton, to Battleford and to Prince Albert. These lines were all duplicated by the Grand Trunk with immense aid from the Government, and, if the Grand Trunk's contention was correct, in violation of the partnership theretofore existing between the Government and the Canadian Pacific, and between the Government and the Canadian Northern.

In addition to all this, Mr. Chamberlin had to admit, with the assistance of Mr. Biggar, that no complaint could be put forward as to Canadian Northern lines between Port Arthur and Edmonton, or as to the prairie lines constructed by the Canadian Pacific. That reduced the contention to the area between Edmonton and Vancouver on the west, and Port Arthur and North Bay in the east.

As to the line from Edmonton to Vancouver, it did parallel the G.T.P. from Edmonton to Jasper House, as the location of that section was fixed by

the necessity of getting through the Yellowhead Pass, a section largely through muskeg and mountains, and furnishing little local traffic to either line. It is ridiculous to suggest that the paralleling of that section had any material effect whatever on the G.T.P. scheme, or on its prospects, and if either Mr. Hays or Mr. Chamberlin had held any different conception as to its importance, the C.N. would no doubt have been delighted to have accepted a proposition for running rights over the G.T.P. from Edmonton through the Pass and up to the Junction of the line which it proposed to construct through to Vancouver.

At the other end, the country between Port Arthur and North Bay is a section on which the local traffic was and is a matter of insignificance.

The real point was that previously mentioned, that it would be of advantage to the Grand Trunk and its subsidiary if it could compel the Canadian Northern to hand all the eastbound traffic collected by its system in the prairies to the Grand Trunk or the Canadian Pacific at Port Arthur, and all its westbound traffic collected in the same territory to the Grand Trunk at Edmonton, or to the Canadian Pacific at Calgary, taking nothing in return.

If any objection to the Canadian Northern securing with government aid eastern and western outlets for the traffic collected by it on the prairies had been seriously urged by the Grand Trunk, that objection would no doubt have been met by the Government saying to the Grand Trunk: "If you do not want this road to be assisted to obtain eastern and western outlets for its traffic, we must require you to enter into such fair lease arrangements as will give the Canadian Northern running rights over your lines east, and running rights over your lines west."

As a matter of fact, Mr. Chamberlin admits that Mr. Hays, on his advice, made no objection whatever to the Canadian Northern line from Edmonton west as he thought it was a mistaken line and was built through a country so difficult that it would detrimentally affect the Canadian Northern, and, so far as appears in the records available to the writer, there was never any contention put forward at any time by the Grand Trunk that the Canadian Government was under any obligation to the Grand Trunk not to assist the Canadian Northern in building its lines from Port Arthur east.

The next thing put forward by Mr. Chamberlin was that the whole western venture as conceived and as embodied in the contract was a venture detrimental to the interests of the Grand Trunk and impossible of performance from its beginning, and known by the management of the Grand Trunk when made to be detrimental and impossible of performance.

The only other material consideration which he contributed and in which he was supported by Mr. Kelly was, that the Grand Trunk, during 10 years or more, paid out to its shareholders \$36,000,000 in dividends, and in order to do that had deferred proper maintenance insisted on by its operating officers from time to time, aggregating \$21,000,000 to \$25,000,000, had carried the discounts on securities sold to capital account instead of to revenue account, and had made no reserves and no provision for bad debts which had been accumulating with its western subsidiaries, and which aggregated at the time of the investigation some \$25,000,000.

The report of the Commission was laid on the table of the House of Commons on May 2nd, 1917, and the Government reported that it would bring down in the parliamentary appropriations a demand loan to the Grand Trunk Pacific of \$7,500,000 to meet interest requirements to June 1918, and operating losses on the G.T.P. system which included subsidiaries.

The appropriation was made by Dominion Acts 1917, Ch. 41, Schedule B, page 9, and this appropriation was duplicated in 1918, Dominion Acts Ch. 52, Schedule A, p. 9.

The Government decided to accept the recommendation of the majority of the Commission and the question then arose as to what was a moderate but substantial portion of \$3,600,000 per year and as to the method by which the recommendation should be worked out. The communications between the Grand Trunk Executive and the Government resulted eventually in an agreement authorized and confirmed by statute (Dominion Acts 1919, Ch. 17; 1920 Ch. 13).

During the communications the Government offered on the basis of an agreement without further proceedings to make the annual contribution to the Grand Trunk shareholders \$2,500,000 per year for the first three years, \$3,000,000 per year for the succeeding five years, and \$3,600,000 per year thereafter.

This offer was made on the basis of the report of the Commission and not as representing what in the opinion of the Commission or the Government the shareholders would receive if left to work out their own salvation.

Instead of being accepted, it was rejected and the Government treated to a repetition in aggravated form of the silly charges, misrepresentations and perversions set out in the President's letter to the Commission already quoted, an attack on the honor and good faith of the members of the Royal

Commission; and a pretension was put forward that the junior shares actually represented a prospective return in excess of the sums offered.

Chapter XII

THE ARBITRATION

The Government then offered to leave the whole question to arbitration on the basis of values. That was not acceptable and the matter was finally adjusted by an agreement based on the equity of the Grand Trunk shareholders being valued at approximately \$62,000,000 as a minimum, and leaving to arbitration the amount, if any, by which that figure should be increased.

By the agreement, the interest on all the moneys invested in the loan capital of the Grand Trunk from 1862 became an obligation of the Government and the interest on all moneys put into the Grand Trunk Pacific by the public from its inception, on the guarantee of the Grand Trunk, remained an obligation of the parent company.

Dividends on the senior shares in the Grand Trunk known as 4% guaranteed stock amounting to \$2,500,000 a year also became a government charge.

Then it was provided that if an arbitration board constituted by the agreement should find that the remaining stocks were of any value, new 4% guaranteed stock should be issued to the extent of the value found and the dividends become an obligation of the Government.

These junior stocks consisted of the several classes of preferred stock which had been issued in part for moneys lost prior to the insolvency and reorganization of the Company in 1862 and as to the balance, for capitalized unearned dividends from 1862 to 1876, and common stock which had been issued under such circumstances as to make any reference to its value at shareholders' meetings, an occasion for good natured laughter.

During the passage of the bill through Parliament, some of the senators insisted on an amendment to the Government proposal, limiting the amount of the award, to \$64,166,666.66 which the Government accepted in order to get through a measure which was strenuously opposed as placing burdens on the Canadian people which they should not assume.

The arbitration board was composed of the President of the Exchequer Court of Canada, Chairman; Mr. W. H. Taft now Chief Justice of the Supreme Court of the United States, appointed by the Company, and Sir

Thomas White, formerly Finance Minister of Canada, appointed by the Government.

The test or measure applied by the arbitrators in ascertaining whether these stocks had any value to the holders at the time the undertaking passed to the Government was reviewed by the Judicial Committee of the Privy Council and found to be a proper test.

The judgment says:

“The first and principal question to be determined is whether the arbitrators in excluding evidence as to the physical assets of the Company, were wrong in law; and, in considering this point, it is important to bear in mind both the question which the arbitrators had to determine and the principles on which they proceeded. The figure to be fixed by the arbitrators was (in the words of this agreement) the ‘value’ if any, to the holders thereof, of the preference and ‘common stock’; that is to say, of stock which ranked after debenture and guaranteed stock, aggregating £44,426,000, and after the other obligations of the Company. The valuation was necessarily to be made on the footing that the railway was taken over and would be carried on as a going concern; for a break up and sale of the assets was negatived by the statute law of Canada, and would have been contrary to the rights of the holders of prior securities. This being so the arbitrators had to consider at an early stage of their proceedings upon what basis the valuation was to proceed. They arrived at the unanimous conclusion that the value of the stock was to be ascertained on the basis of the net earning capacity, both actual and potential, which should then be capitalized. This conclusion was expressed by the Chairman (Sir Walter Cassels) on the second day of the proceedings as follows:

‘The agreement contemplates the continued operation of the railway system. The liabilities of the debenture stocks of the railway and other liabilities of the railway have been assumed. To have a valuation as if the system were disintegrated and broken up is to my mind not permissible. The true method of arriving at the value of the stock is in my judgment to ascertain the earnings of the railway in the past, properly applicable to dividends, and the potentialities of the future.’

“Mr. Taft, the second arbitrator, clearly expressed the same view.

‘The whole stock of the railway (he said) is valuable or otherwise as the ownership and control of the physical property of the railway as a going concern in the discharge of its public duties will enable it to earn a sufficient amount to pay dividends on the stock. We are, therefore, to capitalize its net earning capacity, present and potential, and fix the value of the stock on that basis.’

“Sir Thomas White, the third arbitrator, stated the conclusion in the following terms:

‘To determine the question at issue, it is necessary first to consider the subject matter of the arbitration reference. This is, in the language of the statute, the value, if any, to the holders thereof, of the preference and common stock of the Grand Trunk Railway Company as of the date fixed.

‘If the system of the Company is to be operated as a going concern, the value of the stock to its shareholders will depend upon the net earnings, present and prospective, of the system. All evidence bearing upon this question is admissible. It is not suggested that the value of the shares should be determined by considering the disintegration of the system, the sale of the assets piecemeal, payment of the debts and distribution of any surplus to shareholders. No such suggestion has been put forward. It is common ground that the property of the system, so long as needed for railway purposes, cannot be disintegrated and sold; the system must be regarded as a going concern.

‘The Grand Trunk Railway system is in reality an undertaking having a perpetual franchise. Having such a franchise, and being compelled to operate, the value of its shares must depend upon estimated actual and potential earnings of the system.’

“The basis of valuation so adopted by the arbitrators (which was certainly not unfavourable to the Company) was accepted by all persons concerned, and was not, and could not be, impeached on the present appeal. It must, therefore, be taken as the governing principle upon which the arbitration was to proceed; and the question is: Whether, having regard to this principle, evidence as to the value of the physical assets was or was not material and admissible?

“This expression, ‘the value of the physical assets,’ was used in the course of the arguments, (both before the arbitrators and before their Lordships,) in two different senses, which it is necessary clearly to distinguish. At one time the claim appeared to be that evidence should be admitted of the selling value of the physical assets of the Company, that is to say, of the price at which the tangible assets, (land, buildings, rails, rolling-stock, terminals, etc.) could be sold; at other times it was contended that the evidence to be admitted was evidence as to what is variously described as the ‘reproduction’ or ‘reconstruction’ or ‘replacement’ value of those assets, by which is meant the cost at which they could have been reproduced at the moment of transfer, subject, (apparently,) to allowance for depreciation. These two alternative contentions must be dealt with separately.

“The contention that evidence of selling value should have been received is, in their Lordships’ opinion, contrary to the basis of valuation adopted by the arbitrators, and, indeed, to the whole meaning and effect of the agreement for transfer. The transfer was a transfer of a going concern, which the holders of preference and common stock had no power to sell, either piecemeal or as a whole. Such a sale was forbidden by the statutes under which the Company was operating: and if an attempt had been made by these stockholders to bring it about the holders of debenture and guaranteed stock would have been entitled to intervene and forbid it. The question whether a purchaser could be found seems not to have been considered, and it is to be noted that there was no evidence, nor was it even contended, that it would have been more advantageous to the stockholders to disintegrate the system or to sell the assets piecemeal, even if that were lawful. No scheme was ever put forward with a view to any such proposition, nor apparently had the directors even considered such a proposal.

“A sale was, therefore, out of the question, and the plain duty of the arbitrators was to value the preference and common stock as stock in a continuing and profit-bearing concern; this being so, it is difficult to see how evidence of selling value could be material. If, indeed, it had been alleged that certain tangible parts of the assets could be sold at a price without producing an equivalent or greater reduction in the value of the undertaking, as a whole, different considerations would have arisen; but counsel for the company, although repeatedly invited by the arbitrators to state whether they put forward such a contention, declined to do so. It should be added that the ruling did not exclude evidence of the selling value of such assets as were not necessarily to be considered as being used by the railway as a going concern, e.g., land grants and coal properties; and there is no doubt, also, that evidence of the cost and physical condition of the rolling-stock and other physical assets, and of their suitability for the purposes of the undertaking was admissible. In fact, such evidence was freely admitted. But evidence of selling value stood on a different footing, and was (their Lordships think) rightly excluded. It should be added that this contention, although at times put forward, was never strongly pressed, and was indeed at times disclaimed by counsel who appeared for the Company before the arbitrators, possibly because a valuation on the basis of selling value would have been disastrous for the stockholders and also that the arbitrators were unanimous in rejecting this contention.

“It was upon the alternative form of this contention—viz.: that evidence of replacement value should be admitted—that the arbitrators differed in opinion, Mr. Taft holding that such evidence was admissible, and the majority of the Board taking a different view. This contention has now to be dealt with. The relation between cost of reconstruction and profit-earning capacity is not at first sight apparent. The earnings of a railway system will depend mainly upon its location, the traffic available, the soundness and suitability of the line, rolling-stock and other assets, and the economy and efficiency of the management. Speaking generally they are in no way dependent on the question what it would now cost to construct and equip the line. Mr. Taft was of opinion that the evidence was admissible for two reasons. First, to enable the arbitrators to use the value as a circumstance in judging the future and potential earning capacity. He does not say how this is to be

worked out. Assuming, for example, that the arbitrators had found that the line was absolutely insolvent, unable to continue to discharge its obligations or, in fact, to keep open or avoid a receiver, how could the replacement value of the assets add to or detract from the value of the stock? Assuming, on the other hand, a railway system constructed at a cost which was small in comparison with the returns earned by it as a going concern. Could it be material to show what was the replacement cost as a matter affecting the value of the stock? Is there, indeed, any way in which such evidence could or should modify or assist the estimate of value, once you have determined upon the principle adopted by the arbitrators?

“But, in the second place, it was also sought to establish a relation between the replacement cost and future earnings by reference to the statute law of the United States.

“By the Inter-State Commerce Act, 1920, of the United States (which was passed after the date of the agreement now under consideration), the principle is laid down that the American Inter-State Commerce Commission in fixing the maximum rates to be charged on the United States Railway systems shall have regard to the aggregate value of railway property as a whole, or as a whole in such rate groups as the Commission may form, and shall prescribe such rates as may secure a fair return upon such aggregate value. It is argued that the effect of this statute is to make physical value (or replacement cost) a factor in the determination of rates—directly as to such part of the Grand Trunk System some 1,700 out of 4,800 miles—as is situate in the United States, and indirectly as to the remainder which is in Canada. The argument is formulated in the powerful dissenting judgment delivered by Mr. Taft.

‘The rule of fair return on necessary value invested is the rule of the Government of the United States, and a considerable part of the lines of the Grand Trunk Railway is within the jurisdiction of that Government. The matter of fixing rates was originally left to the discretion of the Inter-State Commission of the United States with the direction only that the rates fixed should be reasonable. But the result was that the rates fixed by the Commission were not high enough to enable the

railways to prosper, and that the system came near to a complete breakdown. Congress, therefore, passed a law which adopted specifically the principle that the public service rendered by railways would be compensated for by rates which shall secure a fair return upon the railway property used in the service of transportation under earnest, efficient and economical management. The Commission is to form railways into groups serving the same zone of territory and then ascertain the aggregate value of all the railways in the group and fix the rates to secure a fair return on the aggregate. This is to fix the rates according to the average physical value of the existing railways engaged in the service, which is only an alternative method of determining the amount of capital needed to reproduce a railway which could render the service efficiently and economically, assuming that the average value of all railways engaged in the service would be the cost of such a new railway. If it differs from that cost, it must be greater and so is more liberal to the railways. My reference to the new Transportation Act of Congress, it is suggested, is without weight, because such groups of railways have not yet been formed by the Commission and may never be. I have no doubt the Commission will proceed to execute the law as directed. Meantime, under the inspiration of the Act, and more certainly to secure a return on the immediate investment, the Commission has increased the traffic and passenger rates most substantially, and, as I understand it, the Canadian Commission has followed suit. It is not the particular method in reaching the actual present investment in railway property as the basis for fixing rates which is important; it is the fact that the principle has been recognized by the statute; and will be followed in the future. This is what makes it proper for us in trying to determine future probable rates to allow evidence of such a factor.'

"To this reasoning the answer put forward on behalf of the Government of Canada is twofold. First, it is said that even as regards that part of the Grand Trunk system which is situate in the

United States, evidence of replacement cost would be no index to the rates which will ultimately be fixed by the Commission. Such evidence would be valueless for that purpose, unless supported by similar evidence as to the value of all the other railways in the United States, or, at least, of all other railways in the same group; and such evidence as to other railways was not tendered, and was probably unobtainable. And, even if this evidence could be obtained, the estimate so reached would not justify the arbitrators in making any assumption as to the valuation which will be adopted by the American Commissioners (who have other factors to take into account), or as to the rates which they will fix. Further, even if the enquiry could have been pushed so far, and some conjecture could have been formed as to the decision which would be reached by the American Commission, this figure would be no real guide to the prospective profits of the lines in the United States which belong to the Grand Trunk system. It is one thing to fix maximum rates; it is another to secure remunerative traffic at those rates, and to draw from maximum rates, themselves conjectural any inference as to prospective profits would be unsafe and illusory.

“Secondly, as regards the lines in Canada which form part of the Grand Trunk System and are of far greater importance, the argument (it was said) has even less value. The principle of the Inter-State Commerce Act has not been adopted in Canada, and there is no reason to assume that it will be there adopted. The conjecture—for it is nothing more—that the Board of Railway Commissioners for Canada will, in fixing rates in the future, have regard to the replacement cost of railway property is not supported by any evidence. Even if it were to happen, the above reasoning to the effect of the principle on the United States would have equal force with regard to Canada. This aspect of the question is thus dealt with in the interlocutory judgment of Sir Thomas White:—

‘In Canada traffic rates are under the control of the Board of Railway Commissioners. There is nothing before us to show, nor am I aware, that the Board in fixing rates is obligated to consider the reproduction value of railway property. Nor do I understand that the Board has ever laid down the principle that such value has any bearing upon the question of Canadian railway

rates. Even if, in determining such rates, the Board should decide to have regard to reproduction value of railway property, evidence as to the value of the physical assets of an individual railway undertaking would not be useful for the purpose unless supplemented by evidence of the value of the physical assets of its competitors. It would, in my view, be idle for this Board of Arbitrators to attempt to draw conclusions as to probable future traffic rates in Canada from a consideration of a reproduction valuation of the physical assets of this one railway system.

‘Further, I can think of nothing more improbable than that the Board of Railway Commissioners of Canada will, in fixing future rates, regard as a factor to be taken into account the reproduction values of the railway properties, either in whole or by groups, of the Canadian Pacific, the Grand Trunk and the Canadian National systems.’

“The above reasoning which weighed with the arbitrators in rejecting the evidence tendered, was reinforced in the course of the enquiry by evidence of the results actually obtained during the period for which the American statute had been in operation. It was proved that the Inter-State Commerce Commission to which was entrusted the duty of putting the Inter-State Commerce Act into operation, had, after much controversy, divided the American railway systems into three groups, had estimated (not on reproduction cost but on book values) the value of the lines in each group, and on that footing had approved certain increased maximum rates. The result of these increases on the operation of the American lines forming part of the Canadian Grand Trunk system during the period from January till April, 1921, was put in evidence, and showed a heavy deficit. The arbitrators had these figures before them when they formed (by a majority) their interlocutory decision to reject the evidence in question.

“Upon the whole matter, their Lordships have come to the conclusion that any attempt to estimate future profits by reference to selling value or replacement cost was doomed to failure and, accordingly, that the arbitrators, to whom the agreement gave wide discretion, as to the admission of evidence, were justified in

refusing to embark upon an enquiry, which must have occupied many months, and the result of which, when obtained, would have had no legitimate bearing on the question they had to determine.”

Applying the test, so approved by the Privy Council to the circumstances of the Company, the majority of the Board, after an enquiry covering seventy-one days, found that these stocks had no value.

The Chairman said:

“Any potential value that can be attributed to these stocks must be ascertained as if the Government had not come to the relief of the Railway. After the Government entered into the agreement and the Committee of Management was appointed the policy of the management altered; opposition of competing lines would cease, etc.

“If therefore, the value of these four classes of stock, including their potential value, is to be ascertained on the basis of the Grand Trunk System continuing to operate as theretofore, could any sane business man with a knowledge of the facts, come to any conclusion different from that come to by Mr. Chamberlin that a crash was inevitable, and insolvency and receivership the sequel, and would there be any reasonable chance of these four classes of stockholders ever receiving a cent on their investments? I think not.”

Sir Thomas White said:

“Reviewing all the evidence in the case I have reached the following conclusions:

“(1) The actual earning power of the Grand Trunk Railway Company of Canada before, during and since the war, and, so far as can be estimated, for the future does not justify the assumption that any profits would, from the date of the acquisition by the Government of the preference and common shares, viz.:—May, 1920, ever have been available for distribution to the holders thereof, after providing for the contingent liability of the company, in respect of Grand Trunk Pacific securities guaranteed by the Company and dividends upon the ‘guaranteed stock.’

“(2) Having regard to its own continuing heavy deficits, the necessity for making provision for deferred and extraordinary maintenance and capital construction, and its heavy liabilities in respect of securities of the Grand Trunk Pacific Railway Company bearing its guarantee, the Grand Trunk Railway Company of Canada, but for the financial support of the Government since May, 1920, must have been forced into a receivership.”

“Upon these conclusions I find that the preference and common stock of the Grand Trunk Railway Company of Canada has no value.”

The Hon. Mr. Taft dissented. He was of opinion that the company was solvent, that it could have financed its debts, maintained its status without government aid, and by temporarily foregoing dividends on the guaranteed and junior stocks it could have paid dividends to the junior stocks in not more than five years. On that view of the position of the undertaking he found the value of the stocks in question to be \$48,000,000.

Mr. Taft disagreed not only with the other arbitrators but with the statements of the Board of Directors set out in the letter of its Chairman to Sir Robert Borden, with the evidence of its President given under oath before the Royal Commission and with the findings of the Commission as to the financial condition of the Company.

He was in some way misled into the belief that the stocks to be valued had been “fully paid up in cash” whereas they were in part the capitalization of claims and alleged equities in an ancient bankruptcy and reorganization and as to the remainder, consisted of issues representing neither money nor earnings, or of common shares issued at 76% to 80% discount, or issued for other stocks admittedly mere counters.

Chapter XIII

THE CAUSES OF THE GRAND TRUNK FAILURE

Britons whether their home is in the British Isles or in British America have been saddened and disturbed by the failure of a railway enterprise originally designed to serve the oldest and most prosperous sections of Canada.

Another great railway undertaking, the Canadian Pacific Company entered the field many years later, traversed a territory much less favorable for traffic in the settled districts and in addition operated its lines through thousands of miles of uninhabited territory much of it incapable of yielding commodities or people to be carried. And yet that enterprise, carrying on business under the same rate-structure as the Grand Trunk, is one of the soundest and most prosperous undertakings in the whole railway world today.

Uninformed and disappointed proprietors of the Grand Trunk Company have attributed the success of the Canadian Pacific and the failure of the Grand Trunk to an alleged disparity in the amount of public aid granted. But the records, corporate and public, show the difficulties of the Canadian Pacific project to have been such that the Grand Trunk refused to entertain the project on the terms afterwards accepted by the Canadian Pacific Syndicate. They also show that the Grand Trunk management and proprietors, when the line was completed, considered the enterprise one which could never be made to meet its operating costs. It is also painfully apparent to Canadian taxpayers that public assistance granted to such enterprises as an aid to construction has no appreciable effect in preventing disaster if their operations are unsuccessful.

From the same source the failure has been attributed to public aid granted the Canadian Northern Company. But it is admitted the Canadian Northern was entitled to all the aid to construction on the Western prairies it received and no one has pretended that its competition east or west of the prairies materially affected the result of Grand Trunk operations. Aid to the construction of Canadian Northern lines east and west of the prairies was not a cause leading to the collapse of the Grand Trunk.

The Royal Commission in 1917 found that the public aid to Canadian Railways, direct and indirect, amounted to sums which apportioned on a mileage basis meant \$16,500 per mile to the C.P.R. System; \$27,000 per

mile to the Grand Trunk including its Pacific System and \$33,000 per mile to the Canadian Northern System. On account of differences in time, in forms of aid, and in difficulties to be met such findings have little if any significance however.

Again the proprietors seek in the rate-structure maintained by the Board of Railway Commissioners of Canada the cause of their troubles. They have forgotten the vicissitudes of their Company in respect to rates prior to the creation of that Board and they have failed to visualize what would have happened to their enterprise, (which could not and did not create any reserves,) if it had been subject to unrestrained rate cutting by its stronger competitors. It is common knowledge that the Railway Companies in North America would not do away with the rate controlling authorities even if such a power was vested in them.

It has been suggested in many quarters on this side of the Atlantic and by some journals in England that the cause is to be found in incompetent executive management. It is true there were inevitable disadvantages arising from the Board of Directors being three thousand miles away from the theatre of its company's activities. On the other hand those disadvantages were largely counterbalanced, prior to a recent date in the company's history, by the great experience and ability of the members of the Board and by their untiring devotion to the interests of the Company.

The operating officers in Canada have always held the respect and esteem of the Canadian public and no body of men in any business in Canada ever commanded a greater good-will.

The causes sought lie deeper.

In 1862 the Company was not only reorganized on an unsound basis, placing on the continuing undertaking burdens which it could not fairly be expected to bear, but its proprietors secured and kept in force to its last day legislation which gave the management no opportunity to make any reserves whatever.

Can it be doubted that a policy unceasingly sapping the very life blood of the corporation was a chief cause of its ultimate failure?

Is it not also clear that the unwarranted and unwise invasion of the territory fully served by the Great Western, an act lamented by Sir Edward Watkin, and the failure to accept the offers of the Great Western to lease the Grand Trunk lines west of Toronto had far reaching consequences to the detriment of the undertaking?

Was not the subsequent acquisition of the Great Western with sixteen other companies, hastily carried through for extravagant considerations in a frantic effort to kill the Canadian Pacific enterprise, a potent cause of the subsequent weakness of the Grand Trunk Corporation?

When the proprietors added to those departures from sound policy the colossal blunder of invading the Canadian West in an effort to destroy the Canadian Northern, is there any longer reason for surprise that an undertaking which should have been a strength to Canada and a source of pride and profit to its proprietors became a bankrupt and broken thing?

No management could have saved the Canadian Pacific from a like fate if similar policies had been applied to that Company.

It may be said that the Canadian Parliament showed poor judgment in permitting and encouraging the Grand Trunk Pacific scheme. That is true and it is also true that the Canadian people have made good every guarantee they gave and every obligation they assumed in execution of the mistaken judgment of their representatives and they have not whimpered.

The Grand Trunk Pacific scheme itself however, was the scheme of the Grand Trunk proprietors, as appears from the proceedings of the company quoted at length in an earlier chapter. It was the scheme of a Railway Company better equipped by knowledge and experience than any government could possibly be to judge of the business propriety of what it undertook. It was adopted by the Grand Trunk proprietors with cheers and in the face of Mr. Allan's protest pointing out that its execution would result in the ruin of the Company.

Chapter XIV

CANADA'S RAILWAY BURDEN

In round figures the funded debt against the eight thousand miles Grand Trunk, Central Vermont and Grand Trunk Pacific lines is.....	\$700,000,000.00
The funded debt against the ten thousand miles Canadian Northern lines is	650,000,000.00
and the Government railways outside these acquisitions (4,700 miles) represent items in the consolidated debt of Canada aggregating.....	415,000,000.00
The debt to be faced by the combined system is approximately.....	\$1,765,000,000.00

Several hundreds of millions of the total debt have been added since the Canadian Northern and Grand Trunk undertakings were acquired by Canada. Those hundreds of millions are represented by the new rolling-stock and equipment and by the improvements in the terminals and running lines which the management has advised as necessary to enable the government lines to hold the traffic of the old companies and to give facilities to the government lines for abstracting from the Canadian Pacific Company competitive traffic heretofore absorbed by that Company. The programme of the management is still in its initial stages and if and when the full programme is executed our present railway debt will assume much larger proportions.

No adverse criticism can be fairly directed against Sir Henry Thornton and his assistants for recommending or carrying out such a programme. They are engaged to make the net earnings of the National System cover and if possible exceed its fixed charges. To accomplish that result they must obtain at least the great bulk of competitive traffic. There is only one way to do that on a rate-structure the same for competing systems, viz.: furnish more magnificent structures and elegant furnishings as advertising media, more luxurious types of passenger cars, more expensive and spectacular

locomotives and if possible better facilities and a better service for the same price. We have begun with the Scribe Hotel in Paris which the Canadian Pacific thought too expensive to acquire, the million dollar site for ticket offices in Toronto designed to outshine the office of the competing company and the giant locomotives resplendent with brass and copper exhibited to an admiring public in the Montreal yards. These are the first trifling instalment of the armament by means of which Sir Henry hopes to win out. If Canada's credit proves stronger than that of the Canadian Pacific Sir Henry may succeed, as the competitor he serves has the power to tax eight million people to the limit of endurance and can compel and does compel its opponent to yield up in taxes more than any other citizen or corporation in the country.

If the present railway policy is pursued to its logical result, no matter which competitor wins, many thoughtful and patriotic Canadians think clouds and darkness will settle on our future and we will reap as a nation the bitter fruits of what we have unwisely sown.

In 1921 we had in Canada a great railway man and a great citizen who saw the heart of what should be done. He was the Chairman of the Canadian Pacific company, owning nearly all the railway mileage in Canada other than the national lines, about 14,000 miles, with equipment and terminals sufficient for expansion of the great world business which it carried on and with an organization at least as efficient as any on the American continent.

He hoped Canada could recede by agreement from the bargain made with the Grand Trunk but the essentials of his proposals were equally applicable whether his hopes as to the Grand Trunk were or were not realized.

He suggested that Canada add to its holdings the remaining fourteen thousand miles and place the operation of its railways in the hands of the organization administering his company enlarged so far as necessary from the Canadian National staff.

The plan suggested was designed to save the Dominion the millions since expended on rolling-stock, equipment, and facilities; to give to its people the services of an operating organization without a superior, and to place in the hands of that organization all Canadian lines to be welded into one system capable of giving the most efficient and economical service.

The people, distracted and divided into groups since the war, have as yet given no real mandate to anyone to govern them. There has been only the simulacrum of a government whose existence depends on placating one or

other of the remaining groups forming the majority, and it is not surprising that the Government has formulated no policy and parliament has not even discussed our railway problem.

But every day now there is a grimmer note in the discussions carried on in every place where men congregate. It means the plain people are getting ready to place in authority men with one comprehensive mandate, "Canada First."

They are past the stage when public men will be afraid of parrot cries sufficient to sway voters who are only superficially interested. The people have suffered and thought and they are ready to face the situation and consider any real railway policy on its merits.

Canadian public men charged by their positions with formulating a policy calculated to place their country on the right path are challenged by the achievements of the past and the dire necessities of the present to let no consideration unworthy of Canada or its sons mar their work.

It may be they will find the way by applying to the present situation, the great underlying principles of public action found salutary in the past.

The faint-hearted believed we could not afford free education in the provinces of British America. It was provided and the increased intelligence of our population more than offset the cost.

The logic of events induced us at length to make our macadam highways free to our commerce and road transport, and who would now reverse that policy.

By 1903 we had dedicated our magnificent canals to commerce without toll or charge.

Should we not now consider a railway policy directed to making our steel highways free to commerce, thereby possessing ourselves of a potent impetus to the greatest development of trade and immigration in our history.

The people at large supply to commerce and travel our water highways and our road highways. They do not supply the facilities and equipment for their use. A like policy in reference to our steel highways would involve the dedication of the running lines to the use of the public but not the supply of the facilities by means of which they are operated.

Our public men already hear the insistent demand from the far east and the far west for lower freight rates. They know our present fiscal policy builds up manufactories and commerce in the centre but does not give the

east and west what they consider compensating advantages. They know that the fixed charges for the cost of highways, whether steel or macadam, must be paid by the people either directly or through added charges for every commodity and person carried; and they also know that some means must be found of creating a national sentiment in our scattered population.

If such a policy as indicated were decided on it would obviously be unwise, if not beyond our capacity, to also finance the equipment, terminals and rolling-stock, the American railways connected with our systems and the telegraph, express and other subsidiary enterprises forming an integral part of a transportation business spanning nearly forty thousand miles.

On the other hand if ordinary business methods were employed and we were content to let business people conduct business, leaving our legislators free to devote their energies to the task of devising and making laws for the peace, order and good government of Canada, it would not be difficult to evolve a plan sufficiently elastic to enable us to carry out such a policy by the stages our strength would permit.

Unquestionably the most economical and efficient method would be:

1. To buy from the C.P.R. its fourteen thousand miles of running lines in Canada but not its equipment, rolling-stock or terminals.
2. To sell to the C.P.R. all the C.N.R. property except its twenty thousand miles of running lines in Canada.
3. To carry the resulting balance into our consolidated account.
4. To lease our 34,000 miles of running lines in Canada to the C.P.R. on the basis of the C.P.R. paying to the government, say, 80% or 90% of its net earnings from Canadian lines in excess of 7% on the capital invested and employed from time to time in Canadian transportation as ascertained by the railway commission.

By such a policy we would get our railway business done at cost including 7% interest on the investment, and plus a small participation in the returns over cost as an inducement to keeping the operations efficient and the costs low. We would enable the operating machine to be gradually fashioned into the most perfect instrument for the purposes to be attained and we would have in its charge business brains and organization capable of administering a vast enterprise.

It may be thought that, looking to the future, we should sacrifice obvious present economies and divide the operation between two systems. To carry

through the same policy on that basis involves only a change of detail. In that event our plan would be:

(a) To sell the Canadian National properties in Canada and the United States, except its twenty thousand miles of running lines in Canada, to a new company properly organized and financed at a fair price.

(b) To lease our twenty thousand miles of running lines in Canada to the new company on the basis of the company paying say 80% to 90% of its net earnings from Canadian lines in excess of 7% on the capital invested and employed from time to time for Canadian transportation as ascertained by the Railway Commission.

(c) To buy from the Canadian Pacific its fourteen thousand miles of running lines in Canada and make to it a lease of those lines on similar terms.

(d) To carry the resulting balance to our consolidated account.

(e) Extended mileage of each company as recommended by the Railway Commission and approved by parliament to be built by Canada and added to the lines under lease.

Whichever plan is adopted the rates should be adjusted by the Railway Commission to approximate free running lines for Canadian commerce.

Either plan would create a certainty and clearness in our national situation and our national policy as to railways non-existent at present but absolutely essential to our national safety.

We would own our steel highways and would know the precise amount they represent in our national debt and in the annual interest charge on that debt.

Additions would not be made until the Board of Railway Commissioners, after hearing, had reported to Parliament the facts and its recommendations thus furnishing a basis for intelligent debate.

We would not be concerned as a nation with the ownership or operation of railway undertakings in a foreign jurisdiction.

We would be in a position to adjust our rate-structure so as to yield such part of the interest on our railway debt as the traffic could bear and as we might from time to time deem wise.

Our operating company or companies would be given fair play and every inducement to furnish the best service possible at the lowest cost.

If we had two operating companies the conditions as between them would be just to the competitors and to the public.

Canada would be organized as to its Rail Transportation to meet the lower rates which the grouping of the American systems portend.

There are, no doubt, other ways and perhaps better ways of commencing effective work on our basic difficulty and the history of Canada warrants belief that the Canadian people, its industrial leaders and public men, will find the right path.

Unless Canada's sons have become weaklings they will in some way fashion their hard position into the means of national achievement worthy of their fathers and of the great country they have under their feet.

THE END

Transcriber's Notes

Misspelled words and printer errors have been corrected. Where multiple spellings occur, majority use has been employed.

Hyphenation has been made consistent, following majority use. Otherwise, punctuation has been maintained except where obvious printer errors occur.

The diversity of spellings for northwest, North West, etc have been retained.

The author's name was added to the cover, and that cover is placed in the public domain.

[The end of *Canada and The Grand Trunk*, by H. A. Lovett]