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Author(s): S. J. McLean

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NOTES AND MEMORANDA

THE CANADIAN GOVERNMENT AND THE RAILWAY PROBLEM

AN eminent publicist has drawn attention to the fact that the population of Canada is to be found in a number of semi-isolated blocks along the northern boundary of the United States; and from this lack of continuity of settlement he has concluded that the obstacles in the way of the development of a Canadian national spirit are insuperable. Without entering upon the discussion of the legitimacy of this conclusion it has to be recognised that Canada is a country of vast areas and sparse population. The Provinces of Ontario, Quebec, New Brunswick and Nova Scotia with 14 per cent. of the land area of the Dominion have 90 per cent. of the population. In the vast extent of territory stretching from the Great Lakes to the Pacific, embracing over 80 per cent. of the land area of the Dominion, there is a population of less than 600,000. It will appear, then, that the element of distance does place an obstacle in the way of an integrated population. As a means not only to the development of its richly varied resources, but also as a factor in national integration transportation is of pre-eminent importance in Canada.

From the beginning of the railway era stress has been laid upon the importance of railways as a bond of union. One of the first projects which engaged attention was concerned with a railway to connect St. Andrews in New Brunswick with Quebec. It was urged that this railway would be of value as a link of communication with the inland provinces. It is to be noted that the international phase of the Canadian railway problem was brought to the front in connection with this line. The fact that the route of the projected railway lay in territory whose ownership was in dispute led to the embittered relations between England and the United States which yielded only to the Ashburton treaty. The long discussion over the Halifax and Quebec railway, which was the successor of this project, kept in the foreground the importance of Intercolonial connection. The assistance given to the Grand Trunk by the government of the Canadas was attributable to its importance as a link in a chain of Intercolonial connection. When the steps were being taken which led to Confederation the Maritime Provinces clearly indicated that the construction of the

Intercolonial railway, at the expense of the Dominion, was to be the price paid for their entrance into the Dominion. When the Dominion was formed the lands west from the Great Lakes to the Pacific were the home of trappers. But the confederated provinces looked to these western lands being included in the Dominion. And so when Manitoba and British Columbia became provinces the construction of the Canadian Pacific was the price paid for westward expansion. With every phase of the development of Canada it has been made clear that railways are looked upon as a factor in national integration as well as in industrial development.

When the railway has been considered as of such importance as a factor making for national unity, it is but natural that the governmental bodies should be looked to for assistance. There has been a long struggle in Canada over the question of private versus government ownership. And the end is not yet. But in the period preceding Confederation the consensus of opinion was in favour of private ownership. The disastrous outcome of the contemporary experiments in State ownership in the United States undoubtedly influenced this attitude of mind. When railway construction began it was not considered that assistance would be necessary. But the attitude soon changed; and in the early fifties we find the Canadas assisting the Grand Trunk and other leading lines by means of loans. In the endeavour to assist in the desired development legislation was passed to permit the establishment of a Municipal Loan Fund, whereby the municipalities, by pooling their resources, might be enabled to borrow in the world-market at better rates and so be in a position to aid in railway construction. In the Maritime Provinces there was a fluctuating policy of government ownership and private ownership. But in either case the provinces assumed large obligations on account of the assistance granted towards railway development. In the Canadas the speculative development engendered by railway construction reacted disastrously upon the credit of railway enterprises. The crisis of 1857 still further aggravated conditions. The municipalities, which had lavishly assisted railways in the expectation that their investments would give a revenue sufficiently large to preclude the necessity of a resort to taxation, soon found their hopes fallacious. In the long run the central government had to assume the bulk of the indebtedness incurred by the municipalities, in addition to being responsible for the indebtedness it had itself created on account of its contributions to railways.

When the Provinces entered Confederation there were 2,278 miles of railways. To-day there are 17,824. The mileage did not begin to expand until 1869. In the thirty-one years which have elapsed since that date the mileage has been increased by 15,300 miles. Deducting the mileage of the government railways it will be found that the net increase of privately owned railway mileage is 13,768. Of this mileage the territory west of the Great Lakes, with its mere handful of

population, has 35 per cent. This great increase in railway mileage, an increase out of proportion to the present available resources of Canada, has been assisted by a subsidy policy.

The first movement for an energetic subsidy policy, in the period since Confederation, is to be found in the provinces of Ontario and Quebec. In these provinces there sprang up in the period 1869-70 a desire for railways to assist in the development of the back districts. In Ontario the desire for railway construction soon took on a speculative phase, and every municipality was willing through grants of money to assist in railway construction. One line, the Credit Valley, some 180 miles in length, received over a million dollars from the municipalities through which it passed. Another railway, which is now part of the Canadian Pacific Railway system, owes its somewhat serpentine course to the fact that municipal subsidies were potent in diverting it from a direct route. The assistance of the Provincial government was soon invoked. The subsidy policy of Ontario has been concerned in the main with money grants of from \$2,000 to \$4,000 per mile of railway, paid either in annual instalments extending over a term of years or in instalments proportioned to the track mileage completed. Within the last few years a land subsidy policy, under which grants of from 5,000 to 7,400 acres per mile have been made, has been adopted. In Quebec at first there was a policy of giving a money grant equivalent to 3 per cent. of the cost of the railway assisted. There have in more recent years been modifications of this policy. Money grants of from \$1,000 to \$10,000 per mile have been made. There has also been a land grantsubsidy policy, under which grants of as high as 10,000 acres per mile have been made. The policy adopted by the other Provinces may briefly be summarised. British Columbia has combined in its policy land subsidies, guarantees of interest on bonds, and grants outright in cash. In Manitoba there have been money grants, guarantees of interest on bonds, and loans on the security of the Dominion land grants. In New Brunswick there was at first a land grant subsidy policy. In more recent years there has been a cash subsidy policy, under which grants of from \$2,500 to \$5,000 per mile have been made. In Nova Scotia money grants of from \$5,000 to \$6,000 per mile have been made. Since the early eighties, however, the policy followed has been one of granting \$3,200 in money and 2,000 acres of land per mile of railway assisted. In Prince Edward Island, owing to the fact that the railways there are part of the Dominion government system, no subsidy policy has been developed.

As early as 1839 Lord Durham, whose prescience in regard to Canadian conditions has received an ample recognition in the subsequent history of Canada, had drawn attention to the fact that the construction of public works would be of especial importance in Canada. At the same time he was of opinion that, on account of the magnitude of the enterprises to be constructed, there would be a constant danger of such works being prostituted to political purposes. As soon as Confed-

ration was accomplished the Dominion had to consider what policy it would adopt towards internal improvements. The Intercolonial was undertaken as a government work. After many vicissitudes of policy the Canadian Pacific was completed. To the company which constructed this road a money grant of \$25,000,000, a land subsidy of 25,000,000 acres, the transfer of 700 odd miles which had been constructed under government management, and certain other privileges and exemptions were given. But this assistance was granted because the work was of national concern. In terms of the Constitution of Canada it is, in general, provided that each Province is to concern itself with works of transportation lying wholly within its own borders. This policy was accepted until 1882.

In the fervour of the new subsidy policy some of the Provinces had undertaken projects which seriously trenched upon their resources. Under the British North America Act the revenues of each Province are derived in part from the Dominion treasury and in part from taxes raised in the Province itself. In entering into Confederation each Province surrendered to the Federal government various powers in regard to taxation which it hitherto had exercised. The financial strain consequent upon the energetic development of the subsidy policy was most important in Nova Scotia and in Quebec. The former of these took the position that the defined revenues set aside for the Province were so limited that it was manifestly not intended that any portion of them should be used in the encouragement of railway enterprise. It was therefore urged that it was the duty of the Dominion government to assist railway enterprises, although these enterprises lay wholly within the limits of a Province. In Quebec there had been from an early date a desire to tap the western trade and make it subsidiary to Quebec. A line which had been projected towards Ottawa, with this end in view, had at first been undertaken as a private enterprise assisted by the government. In the conditions of stringency succeeding 1873 it was found necessary to take it over and construct and operate it as a government work. The Province did not, however, willingly commit itself to a policy of government ownership; and so there was an endeavour to have the railway taken over by the Dominion government.

It was under such conditions then that the Dominion entered, in 1882, upon a new phase of the subsidy policy. In that year the policy of assisting intraprovincial railways by grants of \$3,200 per mile was adopted. The intention in fixing upon this sum was that it should provide the rails and fastenings, the railway being responsible for the road bed and equipment. The policy thus introduced has been continued to the present with slight changes.

In estimating the value of the assistance given to the privately owned railways, we have to consider not only the Dominion and the Provincial, but also the Municipal assistance. The total expenditure from all these sources at the end of the last fiscal year was

\$154,000,000. Cognizance must also be taken of the land grants. It must be remembered that while these grants may have a large ultimate value their immediate value is much less. The total land grant from all sources is approximately 70,000,000 acres. At a conservative estimate this is worth \$128,000,000. The cash actually received from these lands up to the present is about \$41,000,000. The total assistance actually received to date is about \$200,000,000. Under the stimulus of the subsidy policy there has been a rapid expansion of the railway system. Since 1882 8,741 miles of privately owned railways have been added. In the working out of the policy there has been a co-operation of the different bodies granting subsidies. Individual railways have received aid both from the Dominion and from the Provinces. Approximately one-half of the mileage added since 1882 has been aided by these bodies in co-operation. The railways which have thus been aided by the two sets of governmental bodies, in co-operation, are in the main strictly local—the average length of a railway in this class is seventy-five miles.

The subsidy policy of the Dominion has undoubtedly strengthened the Federal government at the expense of the Provincial governments. The Provinces are looking more and more to the Federal government for aid in railway construction. At first the assistance of the Dominion to intra-provincial enterprises raised some opposition; now it is courted. Companies chartered to construct purely intra-provincial railways find it convenient to obtain in the first place Dominion charters, since these ease the way to the obtaining of subsidies. All this means that the co-ordination of powers in regard to transportation matters, which it was intended should exist between the Dominion and the Provinces, is fast becoming obsolete.

The visible fact that the railway system of Canada has doubled since 1882, while important, is not the only standard by which the subsidy policy is to be judged. The question has to be faced, could the same results have been obtained in a more economical way? The total paid up capital of the privately owned railway mileage constructed since Confederation is approximately \$774,000,000. The calculations already given indicate that one-fourth of this is represented by subsidy contributions. The payment from subsidies has averaged \$13,000 per mile of the 13,000 miles of privately owned railways constructed during this period. Unless there are exceptional difficulties of construction railways can be built in Canada for from \$15,000 to \$25,000 per mile. But it must also be remembered that a railway may, according to the terms included in its charter, be bonded at from \$10,000 to \$20,000 per mile. The result of this is that in many cases the road instead of being built at a cost to the projectors is built at a profit. In the majority of the railways which have been constructed since the new subsidy policy came into operation the greater part of the cash which has actually gone into construction work has been obtained from the subsidies and from the bonds. Usually the terms

of a contract are that the contractor shall take the Dominion, Provincial and Municipal subsidies, and some percentage of the bonds. Sometimes a portion of the stock is thrown in as an extra inducement. This is worth what the contractor may be able to obtain for it on the market. The provision of the railway act which allows paid up stock to be issued for work performed renders it easy for a company to issue stock to a construction company without any tangible equivalent having been received. When it is possible for a railway to be constructed, as has been indicated, it amounts to the government giving its sanction to a stock jobbing scheme whereby a railway is presented to a number of speculative projectors. Part of the feeling in favour of government ownership, which has in recent years manifested itself, is undoubtedly attributable to an appreciation of this condition. In many cases there has not been careful consideration by the governmental bodies either of the *bona fide* nature of the enterprise or of its necessity. In many cases about the only reason apparent for the granting of a subsidy has been that the projectors of the railway have asked for it. The government has taken the position that the granting of a subsidy is not to be construed as the expression of an official opinion with reference to the probable success of the enterprise. Holding this opinion it was quite natural that the late Hon. Sir John A. Macdonald should say that it was a matter of no consequence to the government how the companies aided obtained the rest of the money required for construction purposes. It is to be recognized that while the government has had this distinction clearly in mind, the investors in many cases have not. And the result is that to the English investor the fact that there is a subsidy has appeared as a vindication of the necessity of the work and of its probable success. It is to be remembered that one reason why the Grand Trunk had at first such good credit was because the investors were under the impression, erroneous it is true, that the government of the Canadas had attached a guarantee to the enterprise. The result of this attitude of the investor has been that investments of English capital have been made in enterprises which have been signally unsuccessful. And this fact has seriously hampered the investment of English capital in other investments which were perfectly sound.

It has already been indicated that the subsidised roads have been financed to a considerable extent on the bonds. These bonds have for the most part been floated in England. An article might be taken up in citing detail in proof of the contention, that there has not been a sufficiently careful investigation into the *bona fide* nature of the enterprises assisted. One example, and that by no means the most flagrant, will serve. The fact that no actual payment in cash has been necessitated does not make the example any the less pertinent. In 1882 the Dominion government agreed to grant to a company which undertook to construct a ship railway across the Isthmus of Chignecto, from the Atlantic to the head of the Bay of Fundy, a subsidy of

\$150,000 for twenty-five years. The detailed provision was that the work was to be completed within seven years, and that the payment of the subsidy was to begin after the completion of the work. It was not until 1885 that work began. From time to time extensions were made to the company; at length in 1898 the government decided to make no further extensions of time. In the meantime there had been sunk in this enterprise \$3,500,000 of English capital. It is quite clear that the projectors of the work entertained no illusions with reference to the responsibility of the government. They knew that the government subsidy was contingent on the completion of the work. But the ordinary investor did not see the matter so clearly. At a meeting of the shareholders in 1897, one shareholder asked "how was it possible that English people could be expected to invest their money in a country, when in an enterprise promoted by the Canadian government and people, and introduced here as a government loan would be, they were subjected to such treatment as they had to complain of in connection with this matter?" Although this is a loose and inexact statement of the matter in dispute, it at the same time indicates the impression a subsidy makes on the mind of the average investor. With reference to the offer of this subsidy, in the first place, it is clear there had been no adequate calculations with reference to the amount of traffic likely to pass over the ship railway when completed. About the only vessels which would have been available to use it would have been coasting vessels which could not have borne the necessary tolls. The traffic was altogether too light to warrant such an enterprise. At best its utility was questionable. The offer of the subsidy was made during an election campaign. It is within the scope of the facts to say that the subsidy was granted, because it was never expected that it would be earned.

The rapid development of the Canadian railway system has attracted attention to the question of regulation. The various transitions of opinion with reference to the limitations of competition in railway business are being worked over again in Canada. And the Canadian people are not yet prepared to give up their belief in the efficacy of competing lines.

The question of competing lines has been brought strongly to the front in the North West. The fact that the staple industry of that section is agriculture, coupled with the fact that the country is remote from the marts of commerce, has made transportation of pre-eminent importance. Political fortunes have been bound up with the transportation problem. When the Canadian Pacific was chartered there was included in the charter a provision whereby the construction of lines, in the North West, to connect with the American railway system was prohibited for a period of twenty years. The intention was to force through traffic to the seaboard over the Canadian Pacific. The unwillingness of the Federal government to grant Manitoba the power to make connections with the American system was met in a

spirit that showed that the people of that section were dangerously near open revolt. Once the monopoly clause was abrogated the people of Manitoba were free to obtain the desired competition. Over \$600,000 was expended in enabling the Northern Pacific to obtain a foothold in the Province. In the North West Territories there is a strong feeling in favour of competing lines. In British Columbia the same attitude has manifested itself. There has been a very active advocacy of a government line. The opinion has been that such a line would act as a regulator of Canadian Pacific rates from the coast to interior points. It will be seen that this plan resembles that modification of the Belgian policy which Charles Francis Adams urged in Massachusetts in the early seventies. While the policy of government ownership has not obtained electoral favour in British Columbia, there is at present under consideration a project for a subsidised competing railway on which the government is to have a thorough-going control of rates. In this way it is hoped that, through competition, the Canadian Pacific will be forced to lower its rates.

The policy of the railway law of Canada is to maintain independent competing systems. The Canadian Pacific and the Grand Trunk are prohibited from amalgamating. While these systems are thus under the necessity of maintaining their identity they control in their respective systems three-fifths of the privately owned railway mileage of Canada. There has been a gradual absorption of the smaller independent lines.

The interrelation of the Canadian transportation system with that of the United States has made the Canadian railways competitors for American through freight. The Canadian roads have from the beginning looked for a share in this traffic. But the Canadian road when endeavouring to obtain American traffic has to meet not only the competition of the American land-carrier but also that of the water competition by way of the Great Lakes. The result of this is that the freight has to be obtained at low rates. The Canadian shippers complain if American goods are carried through Canadian territory at a lower rate than that charged on Canadian goods carried for a shorter distance. At the same time they allege that the assistance which has been given to the Canadian railways has in reality, under these conditions, worked to the disadvantage of the Canadian traffic. The railways rejoin that they have to make the rate to get the traffic; and that any profit, no matter how small, on this traffic lessens the burden that has to fall on Canadian traffic. To illustrate the point concerning which complaint is made two examples twenty-eight years apart may be quoted. In 1873 complaint was made that the Grand Trunk and the Great Western were flooding the eastern markets of Canada, to the exclusion of Canadian produce, with American produce carried from the Western States at a better rate than was granted to traffic originating in Canada. In May 1901 complaint was made that while

the rate from Walkerville, on the Canadian side of the Detroit river, to Montreal was 70c., the rate from Detroit to Montreal was 58½c.

The complaint with reference to the through rates on American as compared with Canadian goods broadens itself into a complaint with reference to the relation of through to local rates. While there are complaints in different sections of the country it may be said that rate grievances are more strenuously complained of in the North West than in any other section. One grievance has been that shipments from Asiatic points to United States' points are carried through at much lower rates than are granted to Canadian shipments traversing a much shorter distance. The contention of the North West has been that if the Canadian Pacific can afford to carry foreign produce at these low rates it can also afford to carry agricultural produce, originating in the North West, at much lower rates than it is now charging. It has been contended that the subsidies granted to the company were intended to enable it to grant especially low rates on the produce of the North West; the returns from the subsidy being intended to make up for any lack of profit attributable to the low rates charged.

When the company has quoted rates charged by American trans-continental lines, under like circumstances, to show that its rates are no higher than and in many cases lower than those charged by its fellows, the people have harked back to the subsidy question, saying that they are not concerned with comparative rates but with the absolute rates charged by the company, and that the subsidy was given to recoup the company for any loss that might accrue. One example will serve to indicate this point of view. Agricultural produce is sent into the mining districts of British Columbia both from Alberta and from the Palouse district of Washington. The Alberta points are six hundred miles distant, while the Palouse points are one hundred and fifty miles distant from the British Columbia market. The Alberta shipments have, of course, had the advantage of the duty. The rate from the Palouse district was 25c., while the rate from Alberta points was 50c. In a readjustment of rates the advantage of Alberta was lessened, and the claim was advanced that the railway should so arrange its rates as to offset the geographical disadvantages under which Alberta was placed. It has been urged, in the press of the West, in connection with this example, that the carriage of this produce at a rate which would simply cover the cost of movement would be justifiable, since the subsidies were given to cover such a case.

Another phase of the rate problem is concerned with distributive rates. For years it was complained by Winnipeg that the rate on through shipments from Montreal to points west of Winnipeg was so much lower than the Montreal-Winnipeg rate plus the rate to these western points that it discriminated against the Winnipeg wholesale merchant. This matter has been arranged. But the conflict has

simply been pushed further west; and now the western towns and cities claim that Winnipeg has an advantage over them. The railway sees in the small volume of business transacted by some of the towns claiming distributive rates a reason why such rates should not be granted; the towns see in the existing rates the reason why the larger volume of business does not exist.

While the examples cited have been taken from the newer sections of the country it is not to be concluded that these difficulties exist in the West alone. There has been constant complaint on the part of Toronto that the rates given to Montreal are so favourable that Toronto is put at a disadvantage. In 1864 the merchants of Toronto petitioned the Legislature alleging that the existing Grand Trunk rates discriminated in favour of Montreal. In 1897 the Board of Trade of Toronto said, "it costs an Ontario man more to place his goods in a Quebec town than it does a Quebec man to place his goods in an Ontario town at the same distance."

In the early eighties the Canadian Pacific, which was endeavouring to obtain a westward connection through Ontario with the American railway system, came in conflict with the Grand Trunk, which considered this extension as an encroachment on its territory. The Grand Trunk hurriedly obtained control of a number of independent lines which might otherwise have been rendered tributary to the Canadian Pacific. The different amalgamations which took place led to a belief that rates would be increased now that the regulative effects of competition were lessened. Believing that there was not a sufficiently active regulation of rates in the public interest, the Hon. Dalton McCarthy introduced a Railway Commission bill which was a transcript of the English legislation of 1873. Petition after petition poured in from the country districts of Ontario in favour of this measure. The matter was kept before Parliament for five years. Finally a Royal Commission to look into the whole matter was appointed. This reported in 1888 in favour of conferring jurisdiction in regard to rates on the Railway Committee of the Privy Council. This body, which was a committee of the Cabinet, had, by the legislation hitherto in force, exercised jurisdiction in regard to the adjudication of disputes arising under the railway act.

Within the last five years the question of regulation has been occupying an increasingly large portion of the attention of the Canadian public. There is a feeling that the subsidy policy has gone about far enough. And it has been suggested that subsidies should, in future, be given only to railways running through unsettled territory. There is also an appreciation of the fact that there has not been sufficient care, in granting charters, to avoid paralleling. It is being felt also that whenever subsidies are granted there should be some provision not only for the recouping of the subsidy but also for an effective regulation of rates.

When subsidies were first granted the development of the country consequent upon railway construction was regarded as sufficient recom-

pense for the expenditure. Since 1897, however, the Dominion government has provided that it may require from subsidised railways annual services equal to 3 per centage of the subsidy. In 1891 Quebec adopted a policy of imposing an annual tax on subsidised railways equivalent to $\frac{1}{2}$ of 1 per cent. of the subsidy received in each case. This plan has not worked well and it has been abandoned. In British Columbia there is under consideration a project for extending a subsidy to a company, one condition of the subsidy being that the government shall participate in the dividends.

In recent years, owing to the feeling that it is unwise to hold large blocks of land out of the market, the land subsidy policy has, in general, been of decreasing importance. In Ontario, however, there has been an increased use of a land subsidy policy. But in adopting such a policy this Province has attached conditions. For example, in granting a charter to the North Shore and Manitoulin Railway, it was required that a smelter should be erected on the line of railway, and that for a period of ten years one thousand settlers should be settled annually on the lands granted.

The policy has also been adopted of making the granting of subsidies the occasion of a declaration of the regulative powers of the government in regard to rates. In 1897 the Dominion granted a subsidy of \$3,630,000 to the Canadian Pacific to aid in the construction of the Crow's Nest Pass branch of that railway into the mining section of British Columbia. The charter of the Canadian Pacific provides, that rates may be regulated so as to produce a dividend of not less than 10 per cent. But this limitation applies to the Cabinet as well as to Parliament. This places the regulation of the Canadian Pacific rates to a great extent beyond the pale. In granting this subsidy, however, the government required a *quid pro quo*, namely, that there should be specified reductions on certain commodities of general consumption in the North West, as well as a reduction on the export rates of grain and flour. Since 1899 the Dominion subsidy acts have contained provisions, stating that the government has absolute control over the rates charged by the railways subsidised under these acts. The charter of the Ontario railway, referred to in the preceding paragraph, provides that the rates are to be such as are agreed upon by the government.

The increased interest in the question of regulation has been attracting attention to government ownership. The farmers of the North West have been deeply interested in obtaining a low rate on grain to Lake Superior. And this has led to a feeling in Manitoba that since the rates have not been quickly reduced by competing private railways government lines should be constructed. The last provincial election in Manitoba had, as one of the issues, the question of government ownership. Since the election a modified policy has been adopted. Under this the government obtains, in return for a guarantee of interest on the bonded indebtedness of certain lines entering into the new Canadian

transcontinental line, the Canadian Northern, the right to regulate the rates to Lake Superior. In Ontario there is the beginning of a feeling in favour of government ownership. The earlier charters of Canada, in common with those of the United States, contained provisions looking to State purchase. In the charter of the Manitoulin and North Shore, already referred to, this practice is reverted to, for a provision is contained stating that the government has the right to purchase the road within fifteen years from the grant of the charter. The government of Ontario has in hand at present a project for the construction of a railway by the government. This is intended to open up to settlement the lands in the neighbourhood of Lake Temiscamingue, the headwaters of the Ottawa river. The recent extension of the principle of community of ownership in railway business in the United States has excited, in some circles, a fear lest the existing privately owned Canadian railways might fall into the hands of American railway men and be used by them in the furtherance of a policy inimical to the interests of Canada. It has therefore been urged that the Canadian government should, with a view to safeguarding Canadian interests, obtain a controlling interest in the Canadian lines. It cannot be said, however, that the movement to apply the principle of government ownership to the entire railway system of Canada has excited a very general interest. The existing Canadian government railways cannot be appealed to as an argument in favour of the extension of the governmental railway system unless the people are willing to accept a large increase of the public debt. The Intercolonial was built as a price for union. In consequence of this it has constantly been claimed that the commercial feature of profit is of minor importance. For years at a time it has been unable to make its receipts balance expenditures. And consequently the interest on the capital invested has been a charge on general taxation. Within recent years there has been an improvement in the management, and there has been an endeavour to make the enterprise a commercial success. How far it is from this ideal may be gathered from the fact that in the last fiscal year its net revenue amounted to 0.13 of 1 per cent. on the capital invested.

There remains then the question of a policy of regulation superimposed on the existing system of privately owned railways. When the Royal Commission recommended in 1888 that the work of regulation should be given to the Railway Committee it, at the same time, showed some hesitancy in making this recommendation, since it was of the opinion that the political nature of the organisation of the Committee would interfere with the performance of its duties. While it is recognised to-day that the Committee has done something to better conditions there has been a growing feeling that the work of regulation should be transferred to a new organisation whose membership would not depend on the vicissitudes of politics. It is this feeling which led the House of Commons in 1901 to unanimously declare in

favour of a Railway Commission. The next stage of the transportation problem in Canada will be concerned with the devising of means for improved methods of regulation.

S. J. McLEAN

A POINT OF THEORY CONNECTED WITH THE CORN TAX

IN the course of a discussion of the Corn Tax, in the last issue of the *ECONOMIC JOURNAL*, Professor Edgeworth, after observing that the British demand for wheat is probably inelastic in character, remarked: (p. 288) "It must be remembered that the tax is not on wheat alone, but on corn generally. Now the demand for other kinds of corn has not presumably the same rigidity. Accordingly it is quite possible that the foreign producer of those cereals may be compelled, in consequence of the tax, to put up with the lower price. But there is a certain sympathy or correlation between the cost price of wheat and other grains, so far as the same tracts of land may be applied to the cultivation of one or other kind of grain. It follows that a portion of the tax on wheat may fall on the foreigner."

This argument raises an interesting point of theory, which, though of no practical importance, seems to deserve brief discussion. One preliminary word of explanation is, however, necessary. It will be seen that the conclusion arrived at in what follows, though agreeing with Professor Edgeworth's main contention in the passage quoted, (namely, that the price of wheat in England will tend to rise by slightly less than a shilling), does not accept his suggestion as to the way in which this result will be brought about. It might therefore be thought, by a hasty reader, that this article is engaged in controverting the Professor's views, and that either his argument or our own must be erroneous. If this were really so, the chance of our contention being right would be small indeed, but fortunately the case is otherwise. For, so far as can be seen, Professor Edgeworth is merely concerned to suggest a general caution and to point out a way in which the price of wheat *might* be prevented from rising by the full amount of the tax, while in these notes an attempt is made to look at the circumstances of the case in rather more detail, and to see how the check to the upward price movement *probably will* be brought about. Consequently, being concerned with different things, both conclusions may perfectly well be right.

First, it must be noted that, throughout what follows, it is implied that the changes in the conditions of international trade brought about by our new taxation will not be important enough appreciably to affect the *general level of prices* in England and abroad. If this assumption could not be made our method would need modification, but in the present case it appears to be justifiable.

Let us begin then by simplifying the problem, and, ignoring barley