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**HISTORICAL SKETCH OF
STATE RAILWAY OWNERSHIP**

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P R E F A C E

THE United States Congress appointed in 1916 a Joint Committee of both Houses of Congress, known, after the name of its Chairman, as the Newlands Committee, to investigate the railway position, with special instructions to report on the history of State ownership in foreign countries. I was asked by the Railway Executives' Advisory Committee, a body corresponding to our Railway Companies' Association, to write a short summary of a long history for submission to the Committee; and in April 1917 I gave oral evidence at four sittings of the Committee as to its contents. The question of railway nationalization has since then come to the fore in England, and I have frequently been asked for copies of my paper. It has seemed, therefore, worth while to publish it here. I have not attempted any substantial revision. I have only translated American currency and American railway technical terms into the English equivalents. This not merely for lack of leisure. The war has upset everything; current reports and returns are almost unobtainable; and even when obtainable they are practically valueless, as they refer to a wholly

abnormal situation. The same reason explains why the figures of the text relate to different dates. I have used the best and the latest that were to me accessible.

One further explanation is necessary. Nothing was said of Canada in the paper as originally written. Not because the history of Government ownership of railways in the democratic Dominion of Canada is lacking in interest, but for purely personal reasons. In the autumn of 1916, before I had finished writing the paper, I was invited to become a member of a Royal Commission to advise the Dominion Government as to its future railway policy. On Canadian affairs, therefore, my mouth was closed. I am now free, however, to deal with the story.

Canada had owned and operated a Government railway, the Intercolonial, some 1,500 miles in length, for more than forty years. The terms on which the Maritime Provinces agreed to the British North America Act of 1867 included an undertaking that the Government of the new Dominion would forthwith construct a railway, wholly on Canadian territory, connecting Montreal with the Atlantic ports of Nova Scotia and New Brunswick. The Intercolonial was accordingly constructed by the Government, and until the year 1919 was under the direct control of the Dominion Minister of Railways. It had a fair though somewhat lean traffic. In spite of the fact that year after year expenses for renewals, properly chargeable to revenue, were met by the issue of new capital, the gross receipts were insufficient to cover actual working

expenses. The reason may be judged by a single example. Four or five years back there came into office a Minister of Railways (since dead), who was determined to introduce commercial rather than political methods. In the spring of 1917 a Member of Parliament from the Maritime Provinces resigned his seat. He gave publicly as the reason for his resignation—he evidently considered it sufficient justification—the fact that the Minister had thought fit to appoint as Division Superintendent on the Intercolonial a man recommended by the General Manager instead of a candidate put forward by the Member himself.

The Royal Commission consisted of Mr. A. H. Smith, President of the New York Central Railroad, Sir Henry Drayton, then Chairman of the Railway Commission, now Finance Minister of the Dominion, and myself. The majority—Mr. Smith dissenting—came reluctantly to the conclusion that, in spite of past history, a great extension of Government ownership was unavoidable. Two important companies, the Canadian Northern, and the Grand Trunk with its affiliated Grand Trunk Pacific, encouraged by lavish subsidies both from the Dominion and the Provincial Governments, had overbuilt and were unable to carry the burden that they had assumed. There seemed no way to untie the knot. It was necessary to cut it, which meant that the Government, which alone had sufficient financial strength, should take over the properties. This has been done during the year 1919; and though certain minor steps in the case of the

Grand Trunk still remain to be taken, the Canadian Government is now practically the owner of some 20,000 miles of line.

Impressed with the failure of political management, the Commissioners recommended that the whole of the Government railways—not only the newly acquired property, but the Intercolonial and the Transcontinental Railways also—should be handed over to a body of five persons, of whom one should represent Labour, to be nominated under the original Act, but thereafter to be self-perpetuating. The Government, for reasons the strength of which it is impossible not to recognize, declined to go as far as this. They have, however, constituted a Board of Directors to manage the whole undertaking, now incorporated by statute under the title of the Canadian National Railway Company. This Board, like the Board of an ordinary commercial company, has been constituted by the nomination of prominent business men, to whom Sir Robert Borden has undertaken to add Labour representatives. It possesses substantially the same powers of management as the ordinary Board of an English company. With, however, two main differences. In the first place, the custom on the American Continent is that the Directors are elected for one year only, whereas with us they are elected for three years, one-third retiring in each year. Further, in an ordinary company there are many shareholders, and, except in cases of gross mismanagement, it is very difficult to obtain a majority large enough to turn out Directors. The Canadian National Railway Company

has only one shareholder, the Government, and the Government is always unanimous. It is, therefore, theoretically possible for the Government next year to turn out the business men and replace them with political nominees.

For all that, the Canadian precedent, a wholly new departure in the management of a great concern publicly owned, is of serious importance. It is in line with developments after which we are dimly groping here at the present moment. Mr. Justice Sankey's famous Report advocated the purchase of the coal mines, but specially recommended :

"The Treasury shall not be entitled to interfere with or to have any control over the appropriation of moneys derived from the industry. . . . It being of vital importance that the Mines Department should be managed with the freedom of a private business, the present Civil Service system of selection and promotion by length of service, of grades of servants, of minuting opinions and reports from one servant to another, and of salaries and pensions, shall not apply to the servants attached to the Mines Department."

The facts and figures set out in the pages which follow—and though this paper has been widely circulated in America during the last two years, I am not aware that any statement or figure in it has been challenged as inaccurate—prove, in my judgment, conclusively that a democratic Government cannot, with the ordinary political machinery, successfully run a commercial business. Should Canada continue its

present method of railway management, should our coal mines or railways be nationalized under some such scheme as that sketched by Mr. Justice Sankey, it will be for the future to show whether the failure of democratic Governments in the past has been due merely to faulty methods, or whether it is inherent in fundamental human nature.

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