

(October 30th, 1916.)

## Public versus Private Management of Railways

BY MR. SAMUEL O. DUNN.\*

AT a meeting of the Club held on the 30th October, Mr. Dunn said:

*Mr. President and Gentlemen of the Canadian Club of Toronto,*—To say that I appreciate very highly the honor conferred upon me by the invitation to come over here and address you, would be to express myself very inadequately. I fear, however, that I shall fall short of any expectations that you may have of me, if your expectations have been at all built upon the kind of public speaking that I have been accustomed to hear from gentlemen who have come over to our side from this side. I happen to have been a regular attendant for some years at the dinners of the Railway Engineers' Association, of Chicago. That organization, like a great many other organizations on this continent, is made up of gentlemen from our side and from your side. It has been an annual custom to invite some distinguished speaker of Canada to be one of the speakers at that dinner, and that job of getting our men has always been left to Mr. William McNab, of the Grand Trunk Railway. During the time that Mr. McNab has been on the job he has brought so many interesting and eloquent speakers to our side that I have almost begun to be persuaded that Canada is a nation of orators.

My subject, unfortunately, is one which does not lend itself to oratorical treatment: I am going to talk to you about Government versus Private management of railways. I have felt that it would be ungracious of me, a citizen of the United States, to come over here and discuss your local situation. I have discussed the question of Government ownership in Canada elsewhere, but to-day I am going to discuss the question on somewhat more general lines. I hope, however, that any references which I may make to results on your own

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State railways will not be taken amiss. I do not pretend to be able to tell you people over here what you should do about your own business, but I have made some study of government railways in your country, and so I shall use some of the results of that study because I think they will be more interesting than examples drawn from the experience of other countries.

One of the most marked tendencies throughout the world during the last half or three-quarters of a century has been the tendency of governments to intervene more and more in industrial affairs. During a long period, which ended at about the time of the French Revolution, governments everywhere, and especially on the continent of Europe, were active participants in industry, and regulated closely almost every class of business which they did not undertake to manage. There then began a great and widespread reaction both in economic and political philosophy and in economic and political affairs. The leading thinkers on economic and political subjects began to teach that that government was best which governed least, and a very large amount of legislation was enacted to take governments out of business and to emancipate industrial enterprises from public control. The period during which the doctrine of *laissez faire* prevailed lasted, roughly, until the beginning of the latter half of the nineteenth century. Then the pendulum commenced to swing the other way, and it has continued to do so until now throughout the leading countries of the world governments are managing many important enterprises and are strictly regulating many which they do not manage. About the latter half of last century a man who advocated introducing an amount of government management was a "Radical." To-day a man who favors it is called a "Conservative"; on our side he is a "Reactionary." Perhaps in fifty years a man who advocates reducing the amount of government management will be called again a "Radical."

In no field has this increasing tendency of government to intervene in industrial affairs been more strikingly illustrated than in the railway field. So extensive has the policy of government ownership and management of railways become that it is often represented as having grown to be the dominant policy of the world. This, however, is by no means correct. The mileage of railways owned and managed by private companies is still more than twice as great as that owned and operated by governments. In 1913, the latest year for which we have complete statistics, there were in the world 690,133 miles of railway. Of this, 464,421 miles, or 67%, belonged

to private companies, and only 225,712 miles, or 33%, belonged to governments.

It is a fact, however, that North America is the great stronghold of private ownership, and that outside of this continent there is now a greater mileage in the hands of governments than in those of private companies. There are over 305,000 miles of railways in North America, and of this more than 290,000 miles, or over 95%, is privately owned and operated. In all the world outside of North America there are 385,000 miles, and of this 211,147 miles, or 55%, is owned by governments, while 174,000 miles, or 45%, is owned by private companies. It will be seen, therefore, that the mileage in North America which is privately owned and operated exceeds the total mileage owned by governments in all the world, while even outside of North America almost one-half the mileage is owned and operated by private companies.

Nor does it give a correct idea to say that government ownership has been adopted by most leading countries. Germany has adopted it, but Great Britain adheres to private ownership. Most of the railways of Austria-Hungary are state-operated, but most of those of France are still in private hands. Most of the railways of Italy and Russia are state-owned, but in the principal country of South America, Argentina, with a mileage greater than that of Italy, and in Canada, with a large and rapidly increasing mileage, private ownership is still greatly preponderant. Japan is committed to government ownership, but in the United States, which alone has a mileage exceeding that of the combined state-owned railways of the world, private management is the sole policy.

To say, therefore, as some do, that countries such as the United States and Canada should nationalize all their railways because the enlightened public sentiment of the world has decided in favor of this policy is to reason from an assumption which is not based upon facts. Furthermore, even if it were true that all the rest of the world had adopted government ownership, this would be no very forcible argument for adopting it in North America. In reasoning regarding any policy which is proposed for adoption we should give the greatest weight to the particular conditions under which it would have to be carried out. Now, the conditions, political, military and economic, which prevail in the United States and Canada, are widely different from those which prevail in Europe, for example. Military considerations have been very influential in shaping the railway policy of some of the European countries, and especially Germany. The conditions

which made it desirable, or which have been regarded as making it desirable, for some of the governments of Europe to directly own their railways, so that they can be prepared to use them for military purposes at a moment's notice, do not exist on this continent, and we all hope and believe that they never will. Many of the countries of Europe which have extensively adopted government ownership are monarchies, while, regardless of constitutional forms, Canada as well as the United States is a democracy. It is hardly necessary to add that the economic conditions on this continent are widely different from those in Europe. If we on this continent are going to decide wisely on the question of private versus government ownership, we must get clearly and keep constantly in mind our own peculiar conditions, and then try to determine which policy will produce the better results under those particular conditions.

The policy of government ownership is sometimes advocated on the somewhat theoretical ground that the provision of highways is a function of the state, and that railways are highways. Of course, on this theory it follows that railways should be owned and managed by the government. But this argument disregards the fact that railways not only provide a highway but also carry goods and passengers. Now, this fact is of some importance, for never before the railways were invented was it considered a function of the state to become a carrier for hire, and even since it was invented governments very seldom have assumed the function of carriage except when they have become the owners and managers of railways. They provide highways for water carriers; but they do not ordinarily own the ships operated on them. They provide highways for vehicle traffic; but they do not ordinarily own the teams and wagons, the motor trucks and taxicabs which use them. While it must be conceded that governments always have provided highways, it cannot logically be concluded from this fact that the ownership and management of railways is naturally a government function. How can it be held to be naturally a government function, when about 60% of the expenses usually incurred are attributable to the service of carriage, which, on historical grounds, may be held to be within the normal scope of private enterprise?

The question of government versus private ownership has various phases, but there are two whose importance is paramount. One of these is the economic phase. Which policy will better promote the material welfare of the public—in other words, which will better promote the efficient production

and the equitable distribution of wealth? The other phase which is of the first importance is the political phase. Will private ownership or government ownership have the better effects on the government of the country, and specially on that of a country having democratic institutions such as yours in Canada and ours in the United States?

Let us turn, first, to the question of which policy will more efficiently promote the production of wealth. The transportation of freight by rail, and the transportation of passengers by rail when they are traveling on business, is merely one of the processes of production. If the management of the railways is inefficient and wasteful and, in consequence, the expense incurred in furnishing the service of transportation is excessive, this reduces the efficiency and increases the cost of all the industrial processes carried on in the entire country. This remains true whether the total cost incurred in rendering the service is covered by the rates charged for it, or only part of it is covered by the rates charged and the other part of it is covered by taxes levied upon the public to pay deficits incurred by the railways. If it actually costs \$10 to move 1,000 tons of freight one mile the burden directly or indirectly imposed upon the industry of the country for the transportation of that 1,000 tons one mile is just the same whether \$5 of the cost is paid by the taxpayer and \$5 by the shipper, or the entire \$10 is paid by the shipper.

As, in the long run, the entire expense incurred in providing the service of transportation must be borne by the industry of the country, the public welfare demands that, other things being equal, that railway policy shall be adopted which will keep this expense at the lowest practicable minimum. Now, assuming that there are certain unit costs, such as the wages of labor and the prices of materials, which must be met, and a certain standard of service which must be maintained, it is evident that that railway policy will be most conducive to economical management which is adapted to securing the ablest and most energetic administration of the affairs of the railways.

Business costs are always of two classes—return to invested capital and expenses of operation. It is as absolutely impossible to avoid incurring the one as the other. If private companies are to be permanently successful in furnishing railway service they must be able to raise capital, and they will not be able to raise capital unless they are able to, and do, pay interest and dividends on it. Likewise, if a government is to provide railway service it must raise capital, and if it is to

raise capital it must pay interest on it. The books may be so kept as not to show how much interest actually is paid on the investment, but because the books are not made to show the facts will not alter the facts. You might also so keep the books as not to show all the operating expenses, but this would not make the operating expenses any less.

The advocates of government ownership contend that it enables capital for the construction and development of railways to be raised more cheaply, and that it causes their administration to be more efficient than private ownership and management. Governments ordinarily can borrow money cheaper than private companies. But the total return which must be paid on the capital invested in railways does not depend merely on the rate of interest paid. The total return required on the investment in a mile of railway is determined not only by the rate of interest, but also by the amount of capital spent to produce that mile of railway. If a company would have to pay 5% for capital and a government only 4%, but the company would build a railway for only two-thirds as much as the government would spend, the total interest which the company would have to pay on the investment would be less than the total interest the government would have to pay.

Now, whether the cost of building a new railway or of improving an old one will be high or low will be determined chiefly by the skill with which its affairs are administered. The same thing is true as to operating expenses. The situation is precisely similar to that met in other lines of business. One man builds a factory extravagantly and operates it expensively, and it is a commercial failure. Another, with perhaps less credit and financial resources, builds a factory economically and operates it efficiently, and it is a commercial success. In the railway field, as in that of manufacturing, costs of production depend upon the skill of the management; and the requisites of skillful administration are the same under government—and I assume that when private ownership obtains, public regulation will also—as under private management.

Probably the most fundamental and important difference between government regulation and government ownership of railways is that under the former public officials exercise merely the authority of supervision and correction, while under the latter they exercise the authority and perform the duty of actual administration. The two functions are widely dissimilar. The main function of all regulating bodies is to make broad general rules for the guidance and control of the acts

of others. The administrative, or managing, function, on the other hand, is initiating, dynamic, executive. The management of a railway system conceives projects and carries them out. It determines where it will be advantageous and desirable to build extensions and make improvements and how these things shall be done. It determines according to what ideals and standards the property shall be maintained and operated. It selects and directs the officers of all ranks. It selects, directs, trains and disciplines the employees and determines within limits fixed by law and public opinion their wages and working conditions. On its judgment, courage, energy and ability in doing these things mainly depends the success of the railways, whatever their ownership.

Whether the governments of Canada and the United States, under the political conditions which prevail in these countries, may be confidently relied on to develop and support railway administrative organizations which will manage the railways as well and economically as private companies, is open to grave question. One of the greatest difficulties met in securing the skillful administration of government concerns is that of obtaining and retaining efficient managers for them. Governments, and especially democratic governments, will seldom pay as high salaries as private concerns to get men for positions demanding first class ability. However, the honor inherent in public office is more attractive to many able and public-spirited men than a large income, and therefore, in spite of small salaries, governments may often get strong men if their appointments and tenure of office are made to depend on their merits and if they are left free to do their work without political influence. But in most democratic countries, such as Canada and the United States, the appointments to important offices in the public service are usually determined chiefly by political considerations. There is hardly an officer of a railway or of an industrial corporation on this continent who does not owe his position to his experience and proved ability in his special line of work. There are few high public officials, except in the army, the navy and the courts, who do owe their positions to such qualifications.

The managers of any business, public or private, even though of great ability, cannot administer it with energy and skill unless left free from interference except on business grounds. But are the officers of government railways in democratic countries likely to be as immune from such interference as those of private railways? You have had some experience with government management of railways in Canada, and I

do not understand that the higher officers of your state railways always have been appointed solely because of their qualifications or that they have always been left free from political interference. But if the managers of government railways are not to be chosen and retained solely because of their peculiar qualifications for their duties, and are not to be left free from political interference, upon what ground can it be assumed that they will be able to develop and operate the properties so as to keep down the cost of transportation to what it would be under private management?

Political considerations tend to cause lines to be built and improvements to be made where they are not most needed to promote the economic welfare of the country. They cause men to be taken into, retained and advanced in the service largely regardless of their merits. They cause a greater number of men to be employed than are actually needed. They sometimes cause contracts to be let and purchases to be made which would not be countenanced if business principles alone prevailed. They sometimes cause passenger and freight service to be rendered, not on business principles, but to placate the voters in certain forward communities. These statements are not based merely on surmise. They can be substantiated by evidence afforded by government management of railways in many countries. Nor are those directly charged with the management of the railways to be held entirely responsible. In many cases they have fought courageously and determinedly against such abuses, only to find that their resistance availed but little.

The conclusion necessarily suggested is that, under democratic conditions at least, state railways are less likely to be efficiently and economically developed and operated than private railways. This conclusion is supported by evidence afforded by the operating and financial results of government and private railways throughout the world. There are seventeen countries in the world in which the capitalization, or cost of construction per mile of the railways exceeds the average of the railways of the United States. In only six of these does private ownership preponderate, while in eleven government ownership preponderates. The cost of construction of the Intercolonial Railway of Canada, the oldest, and until recently the largest, government-owned railway on this continent, is officially reported at \$75,000 per mile. This is about the same as the cost of the leading railways of Australia, the state railways of New South Wales. The National Transcontinental, which also has been built by the government of Canada,

has cost substantially more than this. These figures greatly exceed the average capitalizations per mile of the private railways of Canada and of the United States. The average net capitalization of the railways of the United States, including all the great systems, with their numerous multiple track lines and dense traffic in the populous eastern part of the country, is only \$67,000 a mile. There are, of course, exceptions, but the general rule throughout the world is that governments invest more capital in railways to handle a given amount of traffic than private companies do.

When we turn to a comparison of the expense of operation that state and private railways incur in proportion to the total traffic which they handle, we find facts of a similar character. The private railways of France handle more traffic in proportion to their operating expenses than do the state railways of that country. The railways of Prussia are the best state managed railways in the world, and yet the private railways of France handle more traffic in proportion to their operating expenses than do the state railways of Prussia. The private railways of Canada handle more traffic in proportion to their operating expenses than does the Intercolonial. In fact, the private railways of Canada and of the United States handle more traffic in proportion to their operating expenses than any other railways in the world, in spite of the fact that railway wages on this continent are the highest in the world. I would not undertake to maintain that private railways always are more economically managed than state railways. I do not believe that is a fact. But I am sure, after having studied the subject for a long time, that, as a rule, private management is more economical than state management. It may be suggested that the higher expenses of state railways are due to the fact that they give better and more adequate service than private railways. But the strongest stimuli which promote the development and improvement of the service under private ownership are wanting under government ownership. The opportunity for private gain is abolished. Competition is eliminated. There is no superior regulating authority to compel the government to remedy the defects of its service. As substitutes for these influences there is a public sentiment which demands the construction of new mileage and the making of improvements, and a management desirous to please that part of the government or the public which can apply the most pressure. It does not seem probable that ordinarily the influences tending to promote the improvement of railway service under government ownership will

prove to be more potent than those tending to promote it under private ownership, and, furthermore, the facts do not show that state railways ordinarily do give better service than private railways.

It may be said, and truly said, that even though it be demonstrated that it costs more to develop and operate railways under government than under private ownership, this does not make out a case, even on economic grounds, in favor of private ownership. Equity in the distribution of wealth is as important to the welfare of the public as efficiency in its production, and it may be contended that under government ownership the wages paid to labor will be higher, the passenger and freight rates charged to the public will be lower, the public instead of private companies will receive the profits earned by the railways, and, in consequence, the public, on the whole, will be better off. Let us, then, turn to a brief consideration of the relative effects which private and government ownership may be expected to have on the distribution of wealth. It may safely be assumed at the outset that under either system there will always be a struggle going on between the various classes of the community and sections of the country to determine how the burdens and benefits resulting from the development and operation of the railways shall be divided. Under either system travelers and shippers always will want low rates, labor will want short hours of work and high wages, and the owners of the railways, whether they be private capitalists or the public, will want to keep the profits large or the deficit small, as the case may be. The welfare of the public demands that this struggle shall be kept within reasonable bounds, and that at the same time it shall not be allowed to result in some of those engaged in it securing unfair privileges and advantages at the expense of the others who are engaged in it. The only authority which conceivably can thus at once control and arbitrate the struggle is obviously the government of the country.

But the government of a country is not a mere mechanical device which automatically registers what is right and wrong, what is fair and unfair, and in the same manner issues its decrees and compels obedience to them. The government of a country is composed of ordinary men who enact and administer laws; and in a democratic country those who make and administer the laws owe their offices, and depend for the opportunity to continue in them, on the votes of their fellow citizens. Therefore, we may be sure that under either system, the men who, in a democratic country, compose the government will

always deal with matters affecting railways with some regard to their own political interests as well as with some regard to the economic welfare of the public; and the system which will be most likely to cause equity to be done between all parts of the people is that system which will tend most strongly to make it to the interest of those in office to hold the balances even as between all classes.

Under the system of private ownership and public regulation—and public regulation has become the rule wherever private ownership exists—public officials, including especially those particularly delegated to regulate the railways, occupy positions of more or less detachment with respect to railway affairs, and the pressure brought to bear upon them by the various classes and sections of the country tends to cause them to deal out approximate justice. Railways cannot be successfully developed and operated under private ownership unless those who invest in them are allowed to derive a reasonable return from their investment, and the arguments that may be marshalled and the pressure which may be brought to bear in support of making the practice conform to sound principle usually result in private railways being allowed to earn enough to raise adequate capital. There are likely to be temporary deviations from the correct practice in this respect, as we have found in the United States, but recent decisions of the Interstate Commerce Commission have shown that even in our country, where hostility to the railways has been extreme, it is by no means impossible to convince intelligent regulating bodies and the public that advances in rates are sometimes as justifiable as reductions are at other times.

At the same time, under the system of private ownership and public regulation rates and earnings are not likely to be allowed to become excessive, for, as experience has shown, and nowhere more conclusively than in Canada and the United States, those who directly pay the rates are quite capable of organizing effectively for the purpose of fighting for reasonable reductions in rates and to prevent unreasonable advances in them, and are not at all loath to do so. Similarly, the employees of private railways subject to public regulation have shown that by organizing, arguing, threatening to strike, and even going to the government for legislation, they are able to get and keep their wages on quite as high a basis as the employees of other classes of concerns and even as the employees of governments themselves. Finally, where railways are privately owned public officials are pretty sure in the long run to be alert and active in compelling the companies to con-

tribute in the form of taxes and otherwise their fair share, if not more than their fair share, toward the support of the government. At least that is our experience in the United States.

The situation is most radically changed when railways become the property of the government. As I have said, the struggle between the various classes and communities of the country over railway matters continues under this system, but the government and the men who compose it then cease to be in a position where they can arbitrate between the various parties involved, and become directly as parties to it themselves. In a democratic country, such as yours and ours, the authority of the law-making body over the railways under government ownership becomes omnipotent and it can make any distribution of the burdens and benefits of railway operation that it sees fit. It may delegate the regulation and management of the railways to commissions or other officers and give to them a large amount of independence, but this is seldom done except for short periods, for no matter how much independent authority may theoretically be given to others under government ownership, it is always well known that the authority the lawmakers have given they can take away, and, therefore, there are always bound to be constant appeals from the railway managers or the railway commission to the law-making body itself. In consequence, the lawmakers, and through them the management of the railways, are bound to be constantly subjected to political pressure from all of the interested classes and communities. They will be subjected to pressure by bodies of the employees for higher wages and easier conditions of work. They will be subjected to pressure by organized bodies of shippers for low freight rates and by organized bodies of commercial travelers, working men and commuters for low passenger rates.

There is, however, one class in the community which is not susceptible of organization, except, perhaps, very sporadically and temporarily, for the purpose of influencing government in its behalf. This class is that composed of the taxpayers. It is a much larger class than any of the others, but an organized body of voters, having a single interest which it has been organized to promote, is as much more efficient than a larger unorganized body of voters, in exerting political pressure in a democratic country as a trained body of regular soldiers is superior as a fighting body to a mob of untrained, undisciplined recruits. The consequence is that the one class which under government ownership of railways is likely not to have

its interests protected by the government is the taxpayers. Most of us pay some taxes directly. All of us pay taxes indirectly. They enter into our house rent, into the cost of our clothing, into the prices of everything we eat or drink. There is no way by which their payment can be evaded, and, in consequence, the cost of living of all classes increases with the increase of taxes. Because of this increase of taxes the results of government ownership to certain persons may be different actually from what they are nominally. The passenger or shipper who may get lower rates or the employees who may get easier conditions of work, may largely, or wholly, pay for these advantages in the form of higher taxes and a higher cost of living; and for a large majority of the public the increase in their taxes and cost of living caused by government ownership will be a net loss. Unfortunately, the taxes raised to pay the deficits incurred by state railways are usually so mixed up with the taxes raised for other purposes that those who pay them have no idea what part of them is to be used to pay the ordinary expenses of the government and what part is to be used to pay the deficit of the railways.

The conclusion that the increased economic burden which will usually have to be borne by industry and by the public as a result of government ownership will be imposed mainly on the taxpayers is supported not only by theoretical reasoning, but by the actual experience of most countries where government ownership of railways obtains. It cannot be shown that the average wages paid by state railways are ordinarily higher, under comparable conditions, than those paid by private railways, although undoubtedly under government ownership more men usually are employed to do a given amount of work. It cannot be shown that under comparable conditions the rates of state railways usually are lower than those of private railways. It is true that in Canada the rates of the Intercolonial, both passenger and freight, are relatively low, but the usual rule is that the passenger rates of state railways are somewhat lower than those of private railways, while the freight rates are somewhat higher. Considering the passenger and freight rates together, the total amount which has to be paid for the transportation of a given amount of traffic usually is relatively more on state railways than on private railways.

One thing, however, which may be conclusively demonstrated is that while private railways invariably are required to pay taxes to the public, the usual rule as to state railways is that taxes have to be collected from the public to make up

deficits which they incur. One of the most extreme examples of this kind is afforded by your own Intercolonial Railway. My study of its figures, and a somewhat hasty and cursory observation of the physical property itself, have led me to believe that the Intercolonial is now being managed with an economy and skill which are a vast improvement over those shown in its management until within the last two years. Regardless of that, however, during the years from 1867 to 1914 the Intercolonial failed by \$9,600,000 to earn even its fair operating expenses. In 1914 the property was carried on the books at a cost of \$103,431,000. I had a calculation made to ascertain the total amount the road had cost the people of Canada. This was based on the assumption that, on the average, it ought to earn its operating expenses and 4% on the actual investment in it. This certainly is a conservative basis. This estimate showed that up to 1914, including the actual investment in the road and the total losses it had incurred, the road had cost the people of Canada over \$348,000,000. Assuming that it is actually worth to-day the cost at which it is carried on the books, its total cost to the taxpayers of Canada has been \$245,000,000 more than its present value. These losses have been partly due to the lowness of its rates, and partly to its uneconomical management; but to whatever causes they have been due, the losses have had to be borne by the taxpayers of this country.

While the case of the Intercolonial is an extreme one, it is by no means exceptional among government railways. There are some state railways which earn the interest on the total investment in them, and even more. This is true, for example, of those of Prussia and of Japan. But in Belgium, Italy, France, Norway, Sweden, Austria, Hungary, Switzerland, Russia, Australia, New Zealand, Argentina, and most other countries the state railways have on the average failed to earn their operating expenses and interest, thereby incurring deficits which have had to be borne by the taxpayers. I am aware that it can be shown that in some years the railways of some of these countries have earned their interest. I am speaking now of what they have done on the average over substantial periods, and the rule is, that over any considerable period almost every state railway in the world imposes burdens on the taxpayers, while almost every system of private railways pays taxes into the public treasury.

One question which may be raised in this connection is as to whether it is a violation of sound principle for state railways to so make their rates as to cause deficits, and thereby

impose burdens on the taxpayers. It is a well known fact that the rates of your Intercolonial Railway are relatively low, and it is sometimes contended that all its losses have been due to the lowness of its rates. My study of its statistics and observation of its physical condition convince me that its losses, at least until within the last year or two, have been due more to uneconomical management than to low rates. This conclusion derives strong support from the fact that within the last two years the present management has been able to increase the earnings about \$1,600,000 a year, while actually reducing the expenses by about \$600,000 a year. But suppose its losses have all been due to the lowness of its rates, is that sufficient defense of them? Either those who pay non-compensatory rates and those who pay the taxes levied to meet the deficits they cause are the same people, or they are different people. If they are the same people, what they gain by the rates is taken from them in increased taxes. If they are different people, those who pay the rates get their transportation for less than cost and those who pay the taxes pay for something they do not get. It is hard to see how anybody can be benefited by saving money through low rates and having it all taken away in increased taxes. It is also hard to find justice in giving some people low rates at the cost to others of higher taxes.

Both common sense and equity require rates to be so fixed that those who receive transportation service shall pay for it in full. The application of this principle to the situation in Canada makes it easy to decide in regard to the soundness of the rate-making policy followed on the government railways, if to it are due their losses. These railways serve only the people of the eastern provinces, and but part of them. The people of the entire Dominion must pay the taxes levied by the government. Therefore, if the trouble with the government railways is that their rates are too low, the few who use their service are unfairly benefiting at the expense of all the people of the country.

There is absolutely no more justification, on grounds either of economics, or of equity, for so making railway rates as not to cover interest on the investment, and then calling on the taxpayers to make up the deficit, than there would be for charging no rates at all, and calling on the taxpayers to pay both the total operating expenses and the interest. The interest on the investment is just as clearly a part of the cost of providing the service as are the operating expenses.

The conclusion suggested by the foregoing facts and con-

siderations, it seems to me, is that not only are private railways more likely than state railways to be so managed as to keep the economic cost of transportation down to the minimum, but that they are more likely under the system of public regulation, which now obtains almost universally where private ownership obtains, to be so managed and regulated as to promote equity in the distribution of wealth than state railways.

Let us now turn to some of the political considerations bearing on the subject. Many years ago a commission of the Italian government investigated the subject of government ownership and reported that, in its opinion, under that policy "politics would corrupt the railways and the railways would corrupt politics." I have given my reasons for believing that especially under democratic conditions political considerations and political pressure are bound to exert so great an influence on the management of state railways as to cause them to produce less satisfactory economic results than would be produced by private railways. But whatever makes political considerations and political pressure exert more influence on the management of railways under government than under private ownership will at the same time make the railways under government ownership a more demoralizing influence in politics than they would be under private ownership. If it tends to demoralize the management of the railways to have men taken into and advanced in their service for political reasons, this taking of them into and advancing them in the service for political reasons will also have a demoralizing effect on politics. If the giving of railway contracts for political reasons will tend to demoralize the management of the railways, it will at the same time tend to demoralize politics. If the granting of concessions to the employees for political reasons will tend to demoralize the management of the railways it will at the same time tend to demoralize politics. And so all along the line.

Now, a country with an autocratic government, such as that of Prussia, may be able to keep politics out of its state railways and its state railways out of politics. In such a country, therefore, the dictum that under government ownership "Politics will corrupt the railroads and the railroads will corrupt politics" may not be true. In Prussia the suffrage is so regulated that the political influence of the different classes of the people is determined by their wealth and not by their numbers, and therefore the railway employees are almost entirely without political influence. It is in consequence of this

that the government is able to, and does, prohibit them from belonging to labor unions of any kind and subjects them to a strict military discipline. But what can be done in a country having such a government, and having a people willing to submit to such a government, as Prussia, is no criterion of what can be done in a country having such a people and such political institutions as you have in Canada and we have in the United States.

I am not sufficiently familiar with your affairs to know just to what extent politics pervades your government affairs and enterprises. I have, however, devoted much study to the results of your state railways, especially the Intercolonial, and I have talked a good deal about the management of these roads with citizens of your country, and I have gained a very strong impression that these railways at times have played some part in politics and that politics has played some part in their management. My familiarity with affairs in the United States is greater, and certainly there is no department or enterprise of the government of my own country in which politics does not play an important part. Therefore, to assume in the United States that under government ownership the railroads would not corrupt politics and that politics would not corrupt the railroads would be to disregard practically all past experience of the country.

One may sincerely and ardently believe that democracy is the best form of government to secure to the citizen the inalienable rights to life, liberty and the pursuit of happiness; one may have confidence that democracy can succeed in so regulating the relations between large business concerns and the public, as well as between individual and individual, as to protect the rights and further the interests of all; and yet be convinced that so far as democratic government has as yet developed in most parts of the world it is not a good form of government for managing commercial enterprises. A government to be successful in the management of large commercial enterprises must, to a very great extent, be organized and administered as successful private business concerns are organized and administered. The fundamental requisites of successful business management cannot be altered by the simple expedient of transferring concerns from private to public ownership. Whether a business is owned and managed by a corporation, or owned and managed by the public, the owners, in order that it may be run successfully, must choose and retain the managers solely because of their special fitness for their duties. Having done this, the owners must give

the managers wide discretion and authority, especially for dealing with the employees. The owners must interfere very little with what the managers do, and ordinarily must try to hold them responsible only for general results. A democratic government may successfully regulate private concerns that are thus organized, officered and managed; but few democracies have ever shown an effective disposition to have business concerns owned by themselves organized, officered and managed in this way; and until they do show such a disposition it is folly to expect them to manage railways and other great industrial enterprises efficiently and beneficently.