

GOVERNMENT TELEPHONES

*THE EXPERIENCE OF
MANITOBA, CANADA*

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CONTENTS

	PAGE
INTRODUCTION	I
PREFACE	V

CHAPTER

I THE ACQUISITION OF THE BELL SYSTEM . . .	13
--	----

Early telephone development under private enterprise. Political agitation for public ownership of telephones. Substantial reduction in telephone rates promised under public ownership. Construction by the Government of a competitive telephone system begun in 1907. Government purchase of the extensive system of the Bell Company, December 30, 1907. Promises of the Government as to reduction of rates, commercial management, and profitable operation.

II THE GOVERNMENT SYSTEM UNDER THE FIRST COMMISSION	36
---	----

Telephone management vested in a Commission under the control of the Government. Telephone policies determined by political considerations; Governmental interference in the telephone management. A sectional increase in rates; telephone management dominated by political influence. Substantial profits from the first year's operations alleged by the Government. Real deficit in 1908 concealed by unsound accounting methods. A moderate rate reduction effected by the Government for political purposes. Labor difficulties. Deficit in 1909 concealed by the accounting methods prescribed by the Government. Construction policy of the Government ineconomical and marked by political abuses. Financial result in 1910 again an apparent profit but a real loss. Fictitious profits disappear in 1911; an aggregate loss of over \$300,000. Government policies result in extravagance, inefficiency and

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CONTENTS

CHAPTER	PAGE
discrimination in violation of promises. Long distance rates increased; proposal to revise exchange rates violently attacked by the public. Appointment of a Royal Commission, under the control of the Government, to investigate the Telephone Commission. Telephone mismanagement ascribed by the Royal Commission to the Telephone Commission instead of to the Government. Resignation of the Telephone Commission.	
III THE GOVERNMENT SYSTEM REORGANISED . . .	115
Appointment of a single Telephone Commissioner followed by ostensible, but largely ineffectual, administrative reforms. Exchange rates increased; private telephone competition prevented. Telephone accounts still defective; a real loss of over \$200,000 in 1912. Inadequate provision against depreciation; real financial result in 1913 again a deficit. Quality of service unsatisfactory. More administrative reforms, with extension of Government control; accounts show another deficit in 1914 and improper use of telephone funds. The telephone management a campaign issue; extension of telephone service less than that in the United States; the passing of the Government. System used for political purposes by the new Government; an aggregate loss of \$1,000,000. Increasing deficits despite reports of profits; no prospect of relief from political abuses.	
IV CONCLUSIONS	160
INDEX	165

PREFACE

Although there are many difficulties inherent in Governmental management of industrial enterprises, and although in practically every country these difficulties have emerged in a more or less acute form, any new example of such management, especially one upon a considerable scale, is worthy of careful examination in order to determine to what degree, if at all, the inherent difficulties have been overcome either by the sagacity of the Government or by the coincidence of unusually favorable conditions. The test of practical experience is after all a good one; and the study of a living organism offers certain advantages over the study of an organism whose life history is closed. The disadvantage is that the living organism cannot without risk be cut open to see what is going on inside and that therefore the view of it must be an external one aided by diagnosis of its interior condition derived from the external appearances.

Under the influence of such reflections, during the summer of the memorable year 1914, I made an inquiry into the telephone system of Manitoba in order to ascertain the facts of the case. The Provin-

cial Government had undertaken the ownership and operation of the telephones in the Province in 1908; the system was the largest under Government ownership in America; the Provincial Government had been by no means modest, either in promises or in announcements of performances; political capital had been raised upon the credit of the telephones by Cabinet Ministers and by candidates at elections; the alleged success of the enterprise had been widely advertised in the organs of the Government and in those of the advocates of "public ownership." On the other hand, politicians of the party opposed to the Government and the Opposition press, while in general approving of the policy of public ownership in the abstract, attacked the management of the Government, sometimes abusing the Government for extravagance and at other times for parsimony.

For the reason that a living organism was involved it was not easy to study the Government telephone system in Manitoba in actual operation. An exhaustive investigation into the contemporary technical and financial position of the system would necessarily have the character of a post-mortem. Such an investigation could moreover be competently conducted only by an impartial tribunal appointed by extra-Provincial authority and endowed with full powers to call for witnesses and documents, to take evidence upon oath, and to employ experts to examine the accounts and to appraise the plant.

My inquiry was necessarily of a much less formidable character. It was unavoidable to confine it almost altogether to the history of the system in so far as this history might be gathered from published documents, from contemporary newspapers, and from conversation with those who had had relations with the system or opportunities to know the course of events. The inquiry was greatly facilitated by the fact that a considerable mass of privately collected authoritative data relating to the subject fortunately came into my possession. The following pages are the result of a critical analysis of all the material at my disposal. Much of it was found to be inaccurate or biased and was therefore rejected. The narrative is scrupulously documented. It purports to set forth statements of fact readily susceptible of confirmation by any one who will take the trouble to consult the authorities which have been given. The conclusions which are drawn from the statements of fact seem to be irresistible, and they are stated with due reserve. The book must therefore be judged not as an attack upon the Manitoba Government nor upon its administration of the telephone system, but as a critical narrative of historical facts written from a point of view as impartial as possible.

It should be noticed that since my inquiry was concluded, the Government which was responsible for the purchase of the telephone system and for its ad-

ministration during the first seven and a half years of Government ownership has ceased to exist. Some of its members were indicted for infringement of the criminal law; but the disagreement of the jury avoided a positive verdict. The present Government has been in existence only a short time; nevertheless, certain of its acts have been significant and ominous, and brief mention of these acts has been included in the narrative upon the basis of such printed authentic information as has recently come to my notice.

My inquiry included the telephone systems in the Provinces of Alberta and Saskatchewan where, as in Manitoba, Government ownership of telephones was adopted about a decade ago; but the systems in these Provinces are really too small to warrant extended consideration and I have taken no steps toward publishing my notes on them. However, it may be said that, on the whole, the history — and results — of public ownership both in Alberta and in Saskatchewan have been analogous to those in Manitoba, although of course on a smaller scale.

JAMES MAVOR.

Toronto,
1st September, 1916.

INTRODUCTION

The invention of the telephone has probably produced more important social reactions than either the railways or the telegraph, although the telephone was introduced only forty years since, while the railway is nearly a century and the telegraph about three-quarters of a century old. The rapidity of the development of the telephone and the wide extension of its use have resulted from the application of the inventive genius of a large number of persons and from the encouragement of this genius by private enterprise, especially in America.

In Europe the telephones are now very generally owned by the Governments of the respective countries in correspondence with the view of the character and functions of the State which has developed in Central Europe during the past seventy-five years. This view involves the more or less complete subordination of the individual to the State and places enormous industrial and financial power in the hands of the governing groups. This power has been used to the full during recent years to establish and to continue the political pre-eminence of these governing groups. The interests of the public are lost sight of

in the pursuit of the assumed interests of the State — a body by no means identical with the mass of the public, but to be regarded rather as a body of persons whose interests are frequently opposed to those of the community of persons who constitute the nation.

There is no reason to believe that the policy which has been adopted by the Central European Empires and copied in a less extensive degree by the nations of western, southern and northern Europe, will be permanent. There have been many oscillations in historical times between what may be generally called medieval legislative and administrative restriction and modern freedom of the exercise of industrial functions. Whatever may be the tendency at a particular moment, there is no justification for nourishing illusions upon the alleged advantages of restriction over freedom, even although liberty has its drawbacks when pushed to the extreme of *laisser faire*.

The most obvious disadvantage of State collectivism is the degeneration of the administration into a bureaucracy of which red-tape becomes the symbol. Under the pressure of red-tape, invention is undoubtedly sterilized. As a matter of fact, the development of the telephone owes nothing to the State in any country. It has even been impeded by legislation and by the fear of the possibility of public confiscation. Under the technical conditions of tele-

phony, it is probable that to no industry is State management less readily applicable than to the telephone industry. The intricacy of its technique and the highly fluid character of its methods mark it off decisively from certain industries whose technique has become settled and whose methods have come to be subject to routine. Whether or not industries of the latter character may be successfully administered by the State is open to discussion on general and on special grounds; but experience has shown that the methods of State administration are in general too cumbersome for their application to rapidly developing industries, with the doubtful exception of those which are of a definitely military or naval character. Even in the latter case experience has also shown the immense advantage of the distribution of technical skill in private establishments as a reserve which may in case of need be diverted to the service of the State. Where, from a mistaken view of the public interest, the State establishes a monopoly in its own favor, the inevitable result is the suppression of individual initiative and the absence of reserves of technical skill and efficient labor.

The argument which at the moment is frequently employed, that for military purposes in time of peace as well as in time of war it is important for the telephone to be in the hands of the Government, does not apply because if the telephone is in private hands the Government can in an emergency exercise the

right of eminent domain and can commandeer the telephone service, even if it were not voluntarily placed at the disposition of the Government, although that would undoubtedly be done. Under private operation of telephones the Government has thus the advantage of having at its disposal a telephone system developed by private initiative without cost to itself and much more extensive than any which would have been at all likely to have been developed under Government auspices.

In democratic countries the people are in general severely censorious about Governmental actions and frequently even abusive of the executive Government; but an attitude of this kind is rarely of an intimate or effectively critical character, especially where the actions in question are connected with the operation of a complex industry. The minutiae of such an industry are not understood by the public at large and if the State is the sole employer of the experts, the assistance of these experts is not generally available for an examination of the Governmental operations because they are professionally and economically at the mercy of the Government. Under the conditions of a competitive system where there is no Governmental or other monopoly, criticism may be continuous and effective. Under conditions of quasi-monopoly, the visitatorial power which is inherent in Governmental administration may properly be applied by Government inspectors

and the public interest in the widest and deepest sense may be conserved by the Government, provided that the visitatorial power is exercised in an impartial manner. Where, however, the Government enters into direct competition with private enterprises, its visitatorial powers cannot be exercised disinterestedly and must therefore be ineffective; and where the Government exercises a legal monopoly, the visitatorial power disappears altogether and there is necessarily a tendency, not only towards administrative stagnation but also towards laxity, incompetence, and even fraudulent intromission with public funds. Thus a public service which is rendered by persons voluntarily cooperating as in a joint stock enterprise, when subjected to the possibility of Governmental inspection and criticism by Governmental agents having power to call for the production of all relevant data, is more likely to be conducted efficiently than a public service rendered directly by Governmental employees who are not exposed to effective criticism by any constituted body.

So also financial considerations are decisively against overloading Governmental agencies with pecuniary responsibilities. The investor in Government securities regards as the prime element in their saleability, not the alleged assets of the Government the value of which he is not competent to judge, nor the alleged earning power of any of the enterprises in which the Government may engage, for the effi-

ciency of the management of these enterprises is also beyond his knowledge; but the investor regards exclusively the taxing power of the Government and the apparent ability of the people to sustain the burden of the taxes which are likely to be placed upon them. In this estimate of the solvency of a community, the aggregate amount of the public debt, State and municipal, in relation to the numbers of the people is a prime factor. Increase in public indebtedness in excess of the increase of the numbers of the people means, therefore, an increase in the rate of interest because the security is proportionately diminished. In a country where the chief employment is agriculture, the principal security upon which debt is created is clearly land; and when the aggregate debt amounts to a high sum per acre of land in cultivation, it is time for the investor in public securities to consider the situation because the taxes being the first charge upon the land, the amount of these taxes determines all other credits, and defaults in tax payments involve flight. If the population deserts the land, all other forms of security in the country shrivel into no importance. The attitude of the investor is, therefore, perfectly sound.

The experience of every Government shows quite conclusively that Governmental management of enterprises of an industrial character is ineconomical. The ineconomical management of such enterprises arises from the following main causes:

1° The absence of incentive to economical management; 2° the employment of persons on political rather than on professional or technical grounds, and therefore the employment of a number of persons larger than is necessary; 3° the reluctance with which the Government appoints persons of superior professional qualifications because of the relatively high salaries such employment involves, the employment of the cheap official being regarded as most easily defensible; 4° the sale of the service, whatever it may be, at a price determined also rather on political than on technical grounds; and 5° the restriction or the absence of competition.

The consequence of these conditions is that the cost to the nation of any service rendered by the Government is *always* greater than the cost of the same service rendered by competent persons other than those in the Government service. This consequence makes its appearance even although the functionaries of the Government practice the most scrupulous integrity. Where corruption enters, the consequences are sometimes even disastrous.

The demands of a growing population for the extension of Governmental services of a strictly legitimate character are increasing so steadily that the tax-bills as well as the debt of the modern State are subject to constant expansion. If in addition to this legitimate increase in the amounts taken from the pockets of the people and placed at the disposal of

the Government, the increase of taxes and of debt is amplified by Governmental adventures into economically conducted industrial enterprises, the financial fabric of the nation becomes more and more seriously imperilled. The resources which should be available for the promotion of increased production are absorbed by the Government, a period of industrial stagnation supervenes, while individual enterprise and even individuality itself are checked. Under such conditions the more energetic of the population migrate to some other region where a smaller proportion of their earnings is absorbed by the Government and where they can enjoy a field for their powers less hampered by Governmental restrictions. This cycle of development has occurred in certain European countries, where the reactions of excess of Governmental control have worked themselves out. The continent of America has indeed been largely peopled by emigrants from Europe fleeing not from ancient feudal disabilities which have long ceased to have any tangible force, but from the modern feudalism which subordinates the individual to the assumed interests of the nation.

Even although a State enterprise were conducted profitably in a pecuniary sense, there would be a net public disadvantage unless the administration of it was such as to avoid the injurious effects not primarily of a pecuniary character. Too great stress is often laid upon the pecuniary factor alike

by advocates and by opponents of public ownership. The public interest is affected not merely by balance sheets, but even more importantly by those influences not distinctly tangible but nevertheless real which contribute, along with the pecuniary factor, to determine the movements of population, the efficiency of industry, and the character of the people.

The Manitoba experience of Governmental management of the telephones is very instructive because it affords an illustration of the fatal weakness of political administration of industry. Although the scale upon which it has been attempted is small compared to the scale of a great country, it is nevertheless large in relation to the total activities of the Province. The purchase of the telephone system doubled the Provincial obligations and the expenditure on the telephones has formed a very material proportion of the total Provincial expenditure. Instead of proceeding cautiously and circumspectly in a new adventure as the Government might well have done, the Government plunged at once into a relatively vast extension of the telephone system without regard to the cost of it and considering only the temporary political advantage to the Government then in power. The public interest was wholly disregarded. The members of the Government who spoke most confidently about the telephone system knew, as they themselves admitted afterwards, nothing whatever about it. They promised things that

in the nature of the case they could not possibly perform; for example, they promised to "cut the rates in two." They undertook to manage the telephone business without the assistance of superior technical advice and superintendence, while they hampered their own officers in the performance of their duty and handicapped the enterprise by saddling it with charges and overcharges of purely political origin. The accounts were presented in a manner of which no competent chartered accountant could approve and to which no such person could put his name without qualification. The Government pretended to entrust the telephone business to the Telephone Commission and yet from the beginning assiduously used the telephone business for political ends, reducing the rates without competent technical advice and forcing upon the Commission a series of financial arrangements of a highly questionable character.

The representations made by the Manitoba Government which acquired the system, and even those made by the present administration, as to accruing profits are absolutely without foundation. Until the Government writes off the amount which its own auditor regards as the excess value of the plant, as shown by the books, over the real construction cost of the plant, it is idle to talk of profits. Strictly speaking, the Manitoba Government Telephones have up till the present time involved the Province in a loss of upwards of a million dollars. This sum

ought properly to be provided without delay out of the general resources of the Province from taxation and placed in a fund in the hands of trustees independent of the Government for the security of the holders of the Telephone debentures and stock; otherwise these securities must in effect be depreciated by about ten per cent., taking into account the losses of the past alone and taking no account of the losses of the future. The politician accustomed to vague rhetorical generalities is used to denouncing all serious criticism; but the investor is not always easily deluded and one day the Province of Manitoba will find in a restricted money market and an abnormal rate of interest the consequences of the failure of its executive Government to transact its business in a businesslike way.

Among the financial reactions of the war must undoubtedly be the increase of the public debt of Europe, the great increase of the fund holding classes, and the urgent necessity for State economy. This economy can only be effected if the State relinquishes all but its necessary and obvious functions and refrains from increasing its total obligations. Only by such means can normal social conditions be re-established. Unless on the American continent a similar restrictive policy as regards State action be adopted, America will find itself burdened by overwhelming public obligations with all the social reactions to which these obligations give rise.

I

THE ACQUISITION OF THE BELL SYSTEM

EARLY TELEPHONE DEVELOPMENT UNDER PRIVATE ENTERPRISE

PUBLIC telephone service in the Province of Manitoba was first given in 1880 by a private individual who opened a telephone exchange in Winnipeg and charged an annual flat rate of \$60 per instrument. In 1881, however, this exchange was purchased by the Bell Telephone Company of Canada, which, in 1882, established exchanges in Brandon and Portage la Prairie.¹ The Bell Telephone Company began its service at a time when there were only some 60,000 people in the entire Province, when the population of Winnipeg was only 8,000, and when Brandon and Portage la Prairie were only villages.² As early as 1884, there were 340 subscribers in Winnipeg,³ a large number in proportion to the population at that time. Credit, therefore, is justly due the Bell Company for assuming the burdens and the risks of a pioneer, for anticipating the needs of the

¹ *The Winnipeg Telegram*, January 16, 1908.

² Cf. *Fifth Census of Canada, 1911*, vol. i, pp. 522, 554-555.

³ *The Winnipeg Telegram*, January 16, 1908.

public, and for developing a substantial business to serve the public.

Moreover, the successful development of the business was not a matter of smooth sailing; the economic seas in those days were extremely turbulent and often treacherous. Although a period of boom and prosperity accompanied the completion of the extension of the Canadian Pacific Railway to the Pacific Coast in 1886-87, yet the telephone industry at that time was too young to participate in the general expansion. Somewhat later, the growth of the business was retarded by the local depression which, beginning in 1888-89, continued for several years, — a depression which had as one of its causes a decrease in immigration. Furthermore, when a vigorous immigration movement again set in — in 1895 — the nature of the immigration was such that little impetus was given to telephone development, for during the period 1895-1900 the immigrants were predominantly of the peasant class with slender knowledge of the English language, self-contained habits, and small purchasing power. Thus it is obvious that up to 1900 the telephone business could not grow otherwise than slowly. Nevertheless, it is found that in 1900 the Bell Telephone Company served more subscribers, in proportion to population, in each of the towns of Winnipeg, Brandon and Portage la Prairie ⁴ than are served to-day in the

⁴ Cf. *The Winnipeg Telegram*, January 16, 1908.

Government-developed systems in Rome, Paris or Vienna. It was not until after 1900 that a rapid expansion of the service in Manitoba became possible. Between 1900 and 1908 the service did expand rapidly and the Bell Company anticipated and prepared for still further expansion.⁵

POLITICAL AGITATION FOR PUBLIC OWNERSHIP OF TELEPHONES

In 1898 there arose, chiefly in the sparsely settled "rural municipalities,"⁶ a mild sentiment in favor of the installation and operation of telephone exchanges by municipal authorities. The first municipality to take up the matter actively was Neepawa, which had slightly more than 1,000 inhabitants. It was found, however, that the Municipal Act of the Province did not endow municipalities with power to establish commercial undertakings. Consequently, despite the fact that as a whole the municipalities were not anxious to embark in a venture involving the provision and risk of capital, to meet the individual case of Neepawa and to provide for a few similar cases, in 1899 the Provincial Legislature passed an Act permitting municipal ownership and operation of local exchanges.⁷

⁵ Cf. pp. 26-28, *infra*.

⁶ In Manitoba "rural municipalities" comprise rural territory exclusively. They are somewhat analogous to rural counties in Eastern Canada and in the United States.

⁷ *Statutes of Manitoba*, 62-63 Vic., 1899, cap. 25. Cf. also *The Winnipeg Telegram*, February 4, 1908.

Since the municipal exchanges established under this Act were not entitled to connect with the long distance lines of the Bell Telephone Company, the Manitoba Government then began to consider, though in a rather vague and abstract manner, the expediency of constructing and operating long distance lines. No tangible action was taken until 1905, when, on January 26th, the Select Standing Committee on Private Bills of the Provincial Legislature, in a report rejecting the application of two embryo telephone companies⁸ for charters of incorporation, recommended that during the legislative recess the Provincial Government should inquire into the whole subject of telephone service with a view to initiating public ownership and operation.⁹ The Government accepted the responsibility for this recommendation and promised a thorough investigation.¹⁰ To use the Premier's own word, this investigation took the form of a "quiet" inquiry on the part of himself and the Minister of Public Works.¹¹ It is worthy of note, however, that the Government at about the same time requested the Dominion Government to amend the charter of the Bell Telephone Company so as to empower the

⁸ The Independent Telephone Company of Canada and the Northwest Telephone Company.

⁹ *Journals of the Legislative Assembly of Manitoba, Session 1904-5*, p. 73.

¹⁰ *The Winnipeg Telegram*, January 27, 1905.

¹¹ *The Manitoba Free Press*, Winnipeg, November 24, 1905.

Provincial Government to expropriate the Company's property in Manitoba.¹² As the granting of any such request would obviously have seriously impaired the value of all charters whatsoever, the request was naturally refused.¹³

As a result of the "quiet" inquiry of the Premier and the Minister of Public Works, the Government resolved to commit itself to a specific policy of public ownership of telephones. The first definite announcement of this policy was made in a speech by the Premier on November 23, 1905. In this speech the Premier stated:

"The government is now prepared to recommend to the (Provincial) legislature the establishment of a telephone system in the province of Manitoba to be owned and controlled by the municipalities and the government jointly. . . .

"We have reached this conclusion from the fact that the telephone is, and must be, necessarily one of the natural monopolies, and yet is one of the most desirable and necessary facilities for the despatch of business and for the convenience and pleasure of the people. Therefore, the price of telephones should be made so low that laboring men and artisans can have the convenience and advantage of the telephone, as well as the merchant, the professional man and

¹² Cf. *Journals of the Legislative Assembly of Manitoba, Session 1906*, pp. 97-98.

¹³ Cf. *The Ottawa Free Press*, April 26, 1906; *The Citizen*, Ottawa, April 28, 1906; *The Herald*, Montreal, September 15, 1906.

the gentleman of wealth and leisure, and it is our intention to recommend to parliament (i. e., the Provincial Legislature) a proposition of this kind with a view of giving a telephone system to all classes at cost.”¹⁴

This announcement of the telephone policy adopted by the Government is highly significant in two respects. In the first place, the program contemplated by the Government provided that the local (exchange) service should be operated by the municipalities and that only the long distance lines should be controlled by the Provincial Government. Secondly, and more important still, is the fact that *the only reason advanced for the adoption of the new policy was that rates could be considerably reduced under public ownership*, since service would be given *at cost*. Absolutely no objection was taken to the character of the service furnished by the Bell Telephone Company. The public press, even while supporting the doctrine of public ownership, admitted that the Bell service was “efficient and satisfactory.”¹⁵ Throughout the politically-conducted agitation for public ownership of telephones, the discussion centered around the question of rates; all later references by the politicians to the quality of the service were purely incidental and secondary.

Although the Government had thus already com-

¹⁴ The *Manitoba Free Press*, Winnipeg, November 24, 1905.

¹⁵ The *Manitoba Free Press*, Winnipeg, November 25, 1905.

mitted itself to a policy of public ownership, nevertheless in its session of 1906 (January 29, 1906) the Provincial Legislature, on the motion of the Government, appointed a committee to inquire into the telephone question.¹⁶ The chairman of this committee was the Attorney-General of the Province. The committee took evidence in Manitoba and inspected the independent telephone systems in several United States cities and, on February 27, 1906, made its report, which consisted of a series of resolutions to the effect that

(a) The telephone should be owned and operated as a Government and municipal undertaking;

(b) The existing rates in Manitoba were exorbitant and could be considerably reduced;

(c) The Government should build the long distance lines and the municipalities should supply the local systems.¹⁷

On February 28, 1906, the Government brought before the Legislature a Bill based on these resolutions.¹⁸ In a lengthy speech introducing the Bill, the Attorney-General contended that the Bell Company's “theory” that unit costs increased with the number of telephones in use, was “fallacious,” and declared: “I am satisfied that the present rates in Canada could be cut in two and still leave a very satisfactory

¹⁶ *Journals of the Legislative Assembly of Manitoba, Session 1906*, p. 35.

¹⁷ *Ibid.*, pp. 88-90.

¹⁸ *Ibid.*, p. 94.

profit.”¹⁹ The Bill passed the Legislature, and became law on March 16;²⁰ but the Government were content with having secured what they regarded as statutory sanction for whatever course they might eventually decide to pursue, and they took no immediate action toward carrying out their policy.

The political situation in Manitoba in 1906 was such that, in view of the approaching elections, both the party in power and the Opposition were desirous of bringing forward some project which might be popular without being politically dangerous. Such questions as the question of compulsory education were considered too complicated and too thorny to be injected into the political arena. The question of public ownership of telephones, on the other hand, was assumed to be both a simple one and one which would be immediately popular, as telephone service could readily be offered to everybody at cost. Both parties, therefore, sought to advance their political fortunes by advocating public ownership: the proposition of the party in power was the combined Government and municipal system already described, whereas the Opposition — as a plank in its political platform — urged that both local and long distance service be operated by the Government.²¹

¹⁹ *Resolutions and Memorials of the Legislative Assembly of Manitoba respecting Public Telephones*. Winnipeg, 1906.

²⁰ *Statutes of Manitoba*, 5-6 Edw. VII, 1906, cap. 89.

²¹ Cf. the *Manitoba Free Press*, Winnipeg, February 20, 1907.

SUBSTANTIAL REDUCTION IN TELEPHONE RATES PROMISED UNDER PUBLIC OWNERSHIP

Although the members of the Government knew nothing about the telephone business (a fact which they admitted afterwards²²), nevertheless throughout the campaigns which preceded the municipal election of December, 1906, and the general election of 1907 they continued to make high-sounding and reckless promises regarding the rate reductions which could be effected under their proposed policy. The chief spokesmen of the Government were the Premier and the Attorney-General. On September 5, 1906, the latter publicly declared that “the Government will be able to accomplish a result that will cut the cost of the telephone in two.”²³ In an interview published on December 10, the same official said: “In the country the reduction will be one-half the existing rates.”²⁴ On the same day the Premier said: “It is simply a matter of those who use telephones paying for them, and also, only to pay half what the Bell people now charge.”²⁵ Three or four days later the Premier said: “We will more than cut the Bell figure in two”;²⁶ and, speaking in Neepawa on December 20th, he said that by one

²² Cf. p. 96, *infra*.

²³ Speech before the Canadian Independent Telephone Association, September 5, 1906.

²⁴ *The Winnipeg Telegram*, December 10, 1906.

²⁵ *The Winnipeg Telegram*, December 11, 1906.

²⁶ *The Winnipeg Telegram*, December 15, 1906.

year from that time "they would be able to speak over a Government-owned long distance line from Neepawa to Winnipeg at less than half what is charged by the Bell Telephone Company at the present time."²⁷ These glib promises are typical of many others which the Government asked the voters of the Province to believe.

Some months after the Government had openly committed itself to a policy of public ownership and after promises to cut the Bell rates in two had already been made, the Government perceived that it would be advisable to give the case the appearance of being founded on a substantial and scientific basis. Consequently, on August 21, 1906, it called to its aid a telephone expert who was known to agree with the Government's contention that rates could be greatly reduced. As a matter of fact, however, this expert was secured primarily to direct "a campaign of education along telephone lines,"²⁸ that is, he was to be the publicity manager for the Government's proposal. In that capacity the expert immediately plunged into the thick of the political campaign, making speeches throughout the Province in which he addressed himself especially to the farmer. For example, at Brandon, on October 29, 1906, he said: "In regard to the price at which a telephone

²⁷ *The Winnipeg Telegram*, December 21, 1906.

²⁸ Letter of Attorney-General requesting the services of the expert; quoted by the expert in a speech at Brandon, Oct. 29, 1906, reported in the *Manitoba Free Press*, Winnipeg, Oct. 30, 1906.

service can be provided by the Government, I might say that it is absolutely certain that the majority of your farmers can obtain rural service at \$12 a year, and that the residents of every municipality can obtain a telephone at the same rate."²⁹ Again, at Birtle, on October 31st, he said: "We are absolutely satisfied that with few exceptions every farmer in this Province can be supplied with telephone service at the rate of \$1.00 per month. I know the Bell Telephone Company will take exception to that."³⁰ As a climax to the campaign preceding the municipal elections the Government issued and widely circulated a pamphlet by this expert.³¹ This pamphlet was primarily designed to influence the voters in the rural districts and in it were reiterated the statements that a rural telephone service could be furnished for \$1.00 a month.³²

CONSTRUCTION BY THE GOVERNMENT OF A COMPETITIVE TELEPHONE SYSTEM BEGUN IN 1907

In order to ascertain the measure of popular support which would be accorded an immediate execu-

²⁹ *The Manitoba Free Press*, Winnipeg, October 30, 1906.

³⁰ *The Manitoba Free Press*, Winnipeg, November 3, 1906.

³¹ *The Manitoba Government and Public Ownership of Telephones*, Winnipeg, 1906.

³² Although the Government later endeavored to throw upon their expert the responsibility for their failure to fulfill their promises, it should be observed that the Government had entered upon their career of extravagant promise long before the advent of the expert, whose views, also, were known to the Government before his services were engaged.

tion of their scheme of joint Government and municipal ownership, the Government had arranged that the following question should be submitted to the voters in each municipality at the municipal elections in December, 1906: Shall this municipality own and operate its own telephones? The vote purported to be a test vote pure and simple: an answer in the negative would mean that the municipality would refuse to construct a local system in cooperation with the Government; an answer in the affirmative would signify merely that the Municipal Council, at its own discretion, could take steps to install a local system in pursuance of the Government's general scheme.³³ In spite of the fact that the promises of the Government on the eve of the election were unusually reckless, and although the aggregate popular vote favored the affirmative, a majority of the municipalities of the Province declined to cooperate with the Government.³⁴ The Government, however, obstinately refused to accept the result of the vote as a rejection of its policy; on the contrary, it was actually interpreted not only as an endorsement of the plan, but even as a direct mandate from the people to carry out the program of joint Government and municipal ownership. The Government therefore began to urge the installation of exchanges

³³ *Statutes of Manitoba*, 5-6 Edw. VII, 1906, cap. 90. Cf. the *Manitoba Free Press*, Winnipeg, September 29, 1906.

³⁴ *The Manitoba Free Press*, February 12, 1907.

by municipal authorities, and it prepared to begin the construction of some long distance lines, relying upon the power conferred by the Act of March 16, 1906.

The general elections were held in 1907 and the Government was returned to office. Thereupon the Government immediately announced that its proposed telephone policy was vindicated and that it was supported by public opinion.³⁵ At the same time it found itself in a position to take effective action, for the financial position of the Province had been considerably improved between 1900 and 1907.³⁶ It was soon learned, however, that the vote of the municipal elections was not meaningful and that the municipalities would not install local exchanges as they were expected to do. Even the municipality of Winnipeg, where for several years there had been an intermittent agitation for a local municipal system, refused to submit to the Government's proposition.³⁷ The Government, therefore, was confronted by a dilemma: either to abandon the proposed scheme altogether or to embark upon a Government-owned system of local exchanges as well as of long distance lines, which was exactly the policy

³⁵ Cf. Letter of the Premier to the President of the Bell Telephone Company, dated Winnipeg, March 11, 1907. *Sessional Papers. Legislative Assembly of Manitoba. Session 1908*, p. 356.

³⁶ Cf. *Public Accounts of the Province of Manitoba* for the respective years. These Accounts are printed as Sessional Paper No. 1 in the *Sessional Papers* of each year.

³⁷ *The Manitoba Free Press*, Winnipeg, April 4, 1907.

advocated by the Opposition. The Government chose the latter course as the lesser of the two evils and inaugurated the new program by issuing Provincial bonds to the amount of one million dollars, with the proceeds of which the construction was begun in September, 1907, of a telephone exchange in Winnipeg in opposition to the local system of the Bell Company.³⁸

GOVERNMENT PURCHASE OF THE EXTENSIVE SYSTEM OF THE BELL COMPANY, DECEMBER 30, 1907

It is necessary to pause an instant at this point to direct attention again to the important fact that during 1906 and 1907 the Bell Telephone Company vastly improved and increased its plant and extended its service. As the Opposition seems to have overlooked this significant fact in their later criticisms, the following statement has been taken from the columns of the leading Opposition newspaper of the Province:

“On February 21, 1906, Lewis B. McFarlane, general manager of the Bell Telephone Company of Canada, . . . stated that the capital investment of the company in Manitoba (on December 31, 1905) was \$1,360,787. . . .

“In the year 1906 the Bell spent approximately

³⁸ *The Manitoba Free Press*, Winnipeg, September 6, 1907.

\$1,000,000 in Manitoba in various works, putting in new switchboards, new conduit work and long distance wiring. During the last year a new exchange building has been erected in Fort Rouge at a cost of \$40,000, and a great deal of the underground and cable work has been done preparatory to opening this exchange. Then there has been a large addition to the Winnipeg switchboard. A modern central energy, multiple switchboard has been installed in Brandon, and the whole work in the city has been reconstructed. . . .

“In 1905 there were 6,224 subscribers and 892 miles of long distance and rural lines. To-day there are more than 14,000 subscribers in the province and more than 2,500 miles of pole lines.”³⁹

In other words, this Opposition statement shows that during one year (1906) the plant investment of the Bell Company had almost been doubled, while the number of subscribers was more than doubled during the two years 1906 and 1907. Moreover, in a speech before the Legislature on February 13, 1908,⁴⁰ the Premier stated that in 1907 over \$700,000 was expended on the Bell system, an amount which, although less than the expenditure in 1906, was still over one-half as great as the entire investment up till December 31, 1905. In view of this re-

³⁹ *The Manitoba Free Press*, Winnipeg, January 1, 1908.

⁴⁰ *The Winnipeg Telegram*, February 14, 1908.

