In February 1919, the Grand Trunk notified the Government that it would not continue to operate the Grand Trunk Pacific after Mar. 10, and the Government, in consequence, appointed the Minister of Railways as receiver for it. In 1920, its management was entrusted to the Board of Directors appointed for the Canadian Northern Railway Company which operated it under receivership until the latter was terminated on May 27, 1927, and control was vested in the Canadian National Railways.

The final agreement covering the acquisition of the property of the Grand Trunk by the Government was reached in October 1919, and a Board of Arbitration was appointed to estimate the value of the preferred and common stock of the Company. A Board of Management, under the Chairmanship of Sir Joseph Flavelle, operated the property until Jan. 30, 1923, when formal amalgamation with the Canadian National Railway Company took place with Sir Henry Thornton as Chairman and President.

This then was the Canadian National Railways—a group of insolvent railways having a burden of interest debt that can be described only as fantastic: so much so, that the management of the day was faced with an apparently hopeless prospect financially. The component lines as a group could not even meet their operating expenses. The average annual operating loss for the five years preceding consolidation was over $9,000,000 and other income charges brought the figure close to $12,000,000. In addition, the new system was expected to carry a staggering burden of interest charges on the debt inherited from the predecessor companies.

Large expenditures were needed to co-ordinate the various lines and bring them to the standard required for efficient operation, yet there was no way of securing the necessary funds other than by borrowing from the public or the Government and this borrowing again increased the annual interest charges. Although the Dominion Government owned all the railways comprising the CNR, the money provided by the Government took the form of a loan on which fixed interest was payable. The Government took on the role of banker—or creditor—as well as that of proprietor; the Canadian National, in turn, was required to carry a crippling load of fixed interest charges on its borrowings, though it had only a low earning capacity to meet them initially. The Government, aware of the financial problems of the Railway, introduced legislation in 1932 whereby deficits would be met through a vote by Parliament instead of money being loaned at interest to the Railway.

In 1937, steps were taken to readjust the capital structure of the Railway. The CNR Capital Revision Act of that year wrote off all loans that had been made to cover deficits and also unpaid interest on those loans. The Act also cancelled the Grand Trunk and Canadian Northern stock that had been declared worthless by the Board of Arbitration in its 1921 report. The only portion of this Act that had any direct bearing on the Railway's fundamental program of abolishing fixed interest on day-to-day operations, was the clause whereby certain moneys, in the form of loans made for the purpose of additions and betterments, were converted to equity capital, relieving the CNR from paying fixed charges on this amount; this was the principal advantage of the legislation. However, contrary to popular belief, none