THE CANADIAN RAILWAY PROBLEM
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George F. Pew
THE CANADIAN RAILWAY PROBLEM

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CHAPTER I
The Nature of the Problem

It has been the misfortune of this generation of Canadians to inherit two great barriers to economic well-being. The greater of the two is the worst depression the world has ever known and the other is the step-child of this depression—the Railway Problem. In truth Canada's Railway Problem is the step-child of the depression, fathered by unsound railroad building in the past. The Canadian railway structure has long been a thorn in the side of Canada and it but needed the evil companionship of the depression of 1929-34 to become an acute national problem. Indeed the railway situation is second only to that of unemployment in the seriousness of its effect upon the welfare of the Canadian people.

To understand the railway situation as it is today, some knowledge of the development of Canadian railways is necessary. The history of their growth is long and interesting. Without tracing the whole course of railway development, an account of which may be found in any of numerous excellently prepared histories of Canadian Railways, it will suffice here briefly to indicate the more important events which led up to the present crisis.

1- Thompson and Edgar-Canadian Railway Development

Innis- A History of the Canadian Pacific Railway
The first decade of the twentieth century was marked in Canada by a great boom in railway building. By 1915 there were three transcontinental lines with a total of 34,882 miles of track. Many of these lines were built upon a very flimsy financial structure. In addition to this there was not enough traffic in Canada to utilize this great mileage to any profitable extent and the situation soon became very grave. When these facts were driven home to the directors of the various railway companies through the medium of operating deficits and approaching bankruptcy, appeal after appeal was made to the Federal Government for financial assistance. However, the financial resources of the Government were not sufficient to stave off bankruptcy and it was obliged to take over the Canadian Northern, the Grand Trunk, and the Grand Trunk Pacific lines, together with their many subsidiary companies. The Government had no other alternative, since, to permit the railway companies to take the natural course of bankruptcy—receivership—would have had drastic effects upon the country as a whole.

As a result of this policy of nationalization of railways, by 1923 the C. N. R. was complete under one board of directors. There followed a period of reorganization to combine the various different units of the amalgamation into one integral railway net-work. Thus we find in the years preceding the crash of 1929 two great railway systems in
competitive operation throughout Canada.

The publicly owned system was overburdened with debt due to the unsound practices of the former private companies. The one private system, the C. P. R., had long enjoyed efficient management, careful financing, and, as a result, large operating profits. The C. N. R., in an attempt to improve its financial position embarked upon an extensive programme of expansion in direct competition with the C. P. R. There began an extravagant "splurge" in railway construction with the publicly owned forcing the privately owned system to make unwise expenditures on branch lines and terminal facilities to protect its position in competitive business.

With the business depression of 1929 the situation became very critical indeed. Both railways were struck by rapidly decreasing gross earnings. The operating deficit of the C. N. R. increased, and the C. P. R. was hard put to earn its regular dividends, and to meet its interest charges. The Federal Government was called upon to meet the railway deficit out of the consolidated revenue fund, and the situation became one of grave consequence. As a result the Government appointed a Royal Commission to investigate the situation with a view to some solution.

1- In fact the Directors found it prudent to suspend dividend payments entirely in 1934-5.
This Commission made a thorough study of the railways in Canada and in their various investigations much of interest and value came to light. The Commission was early informed that the two systems were established under wholly different conditions. "The Canadian Pacific Co. has been developed as a single unified system. The mileage added has been complementary to existing mileage." "The C. N. R. on the other hand represents for the most part, the consolidation of lines that were constructed by private companies—-in some respects competitive systems." "In short, while the mileage of the C. P. R. has been complementary, the C. N. R. system has been handicapped by heavy mileage of non-complementary lines." We must bear this fact in mind when we compare the relative operating expenses and profits of the two systems.

By briefly tracing some of the findings of the Commission the reader can soon learn the nature of Canada's railway problem. It was brought to the attention of the Commission that "the population per mile of railway in Great Britain is in round figures, 2,000; in France, 1,200; in Germany, 1,700; in the U. S., 500; and in Canada something under 250." 

1- Evidence given by Sir Henry Thornton before the Commission.
3- Section 30-51 of the Report of the Royal Commission.
4- Mr. Manion, Minister of Railways, before the Commission.

(The actual population per mile in Canada is 238—Canada Year Book—1933.)
It is apparent, therefore, that Canada has the smallest population per mile of railway of any country in the world, with the exception of Australia.

The mileage figures are: C. P. R., 17,017; C. N. R., 23,750; a total of 40,767. The total of all railways was in 1933, 42,338 miles. (This figure does not include second track, industrial track, or sidings.) We have, therefore, a railway mileage of 42,000 to serve a population of 10,000,000 people.

An analysis of the financial positions of the two railways shows them both to be suffering from lower revenues resulting from reduced traffic. The total freight hauled by Canadian railways during the calendar years 1929-33 is as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Tons</th>
</tr>
</thead>
<tbody>
<tr>
<td>1929</td>
<td>115,187,028</td>
</tr>
<tr>
<td>1930</td>
<td>96,194,017</td>
</tr>
<tr>
<td>1931</td>
<td>74,129,694</td>
</tr>
<tr>
<td>1932</td>
<td>60,807,482</td>
</tr>
<tr>
<td>1933</td>
<td>57,364,025</td>
</tr>
</tbody>
</table>

The above figures show a decline of 57 million tons in freight hauled. The decline in passengers carried in this period is also great.

1- Canada Year Book, 1934-35.
2- Canada Year Book, 1934-35.
### TABLE II

<table>
<thead>
<tr>
<th>Year</th>
<th>Passengers Carried</th>
</tr>
</thead>
<tbody>
<tr>
<td>1929</td>
<td>39,070,893</td>
</tr>
<tr>
<td>1930</td>
<td>34,698,767</td>
</tr>
<tr>
<td>1931</td>
<td>26,396,612</td>
</tr>
<tr>
<td>1932</td>
<td>21,099,582</td>
</tr>
<tr>
<td>1933</td>
<td>19,172,193</td>
</tr>
</tbody>
</table>

This indicates a decline of 19,898,700.

These figures show us but one part of the railway problem. Reduced earnings as a result of the depression is not the only trouble. The C. P. R. while suffering from the effects of this reduction in traffic is still sound financially. It has been forced to reduce its annual dividends from 10% until now all payments are stopped until some improvement is indicated. Nevertheless, the annual report shows the company to be very sound.

The real railway problem lies with the C. N. R. system. What are the results of its operations during the last few years? The following table shows the financial results of C. N. R. operations over the period of years 1923-1933.

1- The reputation of the company is indicated by the fact that its recent loan was over-subscribed ($600,000,000) (January, 1936.)

2- Canada Year Book- 1934-35.
TABLE III

<table>
<thead>
<tr>
<th>Year</th>
<th>Net Corporate Income before deducing Int.</th>
<th>Int. on Funded Debt (plus Gov't loans.)</th>
<th>Cumulative Deficits (plus Gov't loan Interest)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1923</td>
<td>13,000,000</td>
<td>65,000,000</td>
<td>54,000,000</td>
</tr>
<tr>
<td>1924</td>
<td>14,000,000</td>
<td>69,000,000</td>
<td>109,000,000</td>
</tr>
<tr>
<td>1925</td>
<td>30,000,000</td>
<td>71,000,000</td>
<td>150,000,000</td>
</tr>
<tr>
<td>1926</td>
<td>41,000,000</td>
<td>71,000,000</td>
<td>173,000,000</td>
</tr>
<tr>
<td>1927</td>
<td>36,000,000</td>
<td>73,000,000</td>
<td>211,000,000</td>
</tr>
<tr>
<td>1928</td>
<td>44,000,000</td>
<td>74,000,000</td>
<td>244,000,000</td>
</tr>
<tr>
<td>1929</td>
<td>32,000,000</td>
<td>78,000,000</td>
<td>291,000,000</td>
</tr>
<tr>
<td>1930</td>
<td>15,000,000</td>
<td>84,000,000</td>
<td>365,000,000</td>
</tr>
<tr>
<td>1931</td>
<td>5,000,000</td>
<td>88,000,000</td>
<td>464,000,000</td>
</tr>
<tr>
<td>1932</td>
<td>4,000,000</td>
<td>92,000,000</td>
<td>565,000,000</td>
</tr>
<tr>
<td>1933</td>
<td>3,000,000</td>
<td>92,000,000</td>
<td>663,000,000</td>
</tr>
</tbody>
</table>

The above table shows the C. N. R. to be suffering from decreasing income in the face of rapidly mounting debt charges. If the interest on government loans is ignored, the fact appears that only in two years during this period (1926 and 1928) did the company have a surplus over interest charges. As Sir Henry Thornton admitted before the Commission, "The C. N. R. if a private company, would have been in the hands of a receivership in 1923."

From this cursory examination of the situation we find the railway problem to be due to:

1. Greatly reduced traffic as a result of the business depression.
2- Over-railroading, i.e., the existence of more railroad facilities than the country requires.
3- The unsound financial position of the C. N. R. system, i.e., too great a burden of debt.
4- Unnecessary expense and waste through the competition of the two companies.

In view of this situation and the growing indebtedness of both the Dominion Government and Government railway, some relief must be found if the Canadian public is to escape steadily increasing taxation.

The Royal Commission in its Report proposed a new administration for the publicly owned railway, and a policy of co-operation between the two railway systems to secure relief.

Sir Edward Beatty, President of the C. P. R., has suggested a plan of unification for the purpose of operation. Other plans of varying value have been offered. At present the proposal of the Commission has been adopted and inaugurated as Canadian Railway policy. It will be our task in the following chapters to discuss the possibilities of relief offered by these plans.
CHAPTER II

New Factors in Transportation

It is essential that we understand how much of the present difficulty is attributable to new conditions. We are all too well aware of the "depression" and its effects upon the railways. Insofar as the "depression" is a "new condition" the present difficulty is largely attributable to it.

However, the emphasis in this chapter is upon the effect of new conditions in the field of transportation. How far is the present difficulty attributable to highway competition?

It has been the custom of railway-men, in general, to dismiss the whole question of highway competition as negligible. This attitude is giving way, however, to one of more concern. Highway competition in the transportation field is here to stay. It is not an insignificant factor in the railway problem and must be regarded as an important contributory cause to reduced railway revenues.

It is difficult to secure statistics of highway competition as highway traffic is under the jurisdiction of the Provinces. There are no statistics of freight or passengers carried on highways, but the Dominion Bureau of Statistics has compiled some interesting figures of motor car and bus operation which when properly compared are very significant.
The period which is most relevant to the present crisis is from 1923 to 1933.

# TABLE IV

<table>
<thead>
<tr>
<th>Year</th>
<th>Passengers carried.</th>
<th>Average Journey (Miles)</th>
<th>Tons freight carried.</th>
<th>Average freight haul (Miles)</th>
<th>Total Passenger Cars and Trucks</th>
</tr>
</thead>
<tbody>
<tr>
<td>1923</td>
<td>44,300,000</td>
<td>69</td>
<td>102,000,000</td>
<td>333</td>
<td>586,850</td>
</tr>
<tr>
<td>1924</td>
<td>42,921,000</td>
<td>67</td>
<td>91,000,000</td>
<td>337</td>
<td>652,121</td>
</tr>
<tr>
<td>1925</td>
<td>41,458,000</td>
<td>70</td>
<td>94,000,000</td>
<td>338</td>
<td>728,005</td>
</tr>
<tr>
<td>1926</td>
<td>42,686,000</td>
<td>70</td>
<td>105,000,000</td>
<td>325</td>
<td>836,794</td>
</tr>
<tr>
<td>1927</td>
<td>41,840,000</td>
<td>73</td>
<td>106,000,000</td>
<td>329</td>
<td>945,672</td>
</tr>
<tr>
<td>1928</td>
<td>40,592,000</td>
<td>77</td>
<td>118,000,000</td>
<td>351</td>
<td>1,070,664</td>
</tr>
<tr>
<td>1929</td>
<td>39,070,000</td>
<td>74</td>
<td>115,000,000</td>
<td>304</td>
<td>1,186,929</td>
</tr>
<tr>
<td>1930</td>
<td>34,698,000</td>
<td>70</td>
<td>96,000,000</td>
<td>308</td>
<td>1,232,486</td>
</tr>
<tr>
<td>1931</td>
<td>26,396,000</td>
<td>66</td>
<td>74,000,000</td>
<td>347</td>
<td>1,200,907</td>
</tr>
<tr>
<td>1932</td>
<td>21,099,000</td>
<td>68</td>
<td>60,000,000</td>
<td>380</td>
<td>1,114,503</td>
</tr>
<tr>
<td>1933</td>
<td>19,172,000</td>
<td>73</td>
<td>57,000,000</td>
<td>368</td>
<td>1,082,967</td>
</tr>
</tbody>
</table>

What do these statistics show? In the first Column is shown the total number of passengers carried annually for the years 1923-33. There is a marked decrease. The same is true of total freight carried. This decrease in freight and passengers is generally attributed to the business depression. It is, however, in some part due to other factors, particularly highway competition. The average passenger journey and the average freight haul both have increase in length. This would indicate that there has been a greater loss of short haul passenger and freight traffic than of long haul. What has been the cause of this phenomenon?

1. Canada Year Book 1934-35.
The statistics of motor vehicles registered in Canada for the period under study is also given in the above table. These statistics show a marked increase over the period 1923-33. There is a direct negative correlation of these figures. As the number of buses, motor cars and trucks has increased, the passenger and freight business of the railways has decreased, especially in "short haul" business.

With the people of Canada operating 1,082,957 motor vehicles in 1933, of which 916,953 are passenger cars; 153,948 commercial cars or trucks; 2,056 motor buses; and 10,000 motorcycles, the business of the railways must suffer. Because of the peculiar features of highway traffic the competition of these motor cars, trucks, and buses is restricted largely to short distance, or in railway language, "short haul" traffic.

It is not a question of whether this new development in the transportation field is good or bad. It is here, and here to stay. With the increase in highway mileage, together with increased efficiency of new motor vehicles, this competition is increasing and will continue to increase. Speaking of highway competition before the Royal Commission on Transportation, Sir Edward Beatty remarked, "It is very difficult for us to gauge our loss in a time when traffic is subnormal. We do not know how much of the loss is due to depression and how much to competition." Speaking of

1.- Canada Year Book- 1934-35.
2.- Proceedings of Commission, page 974
the loss of "short haul" business to truck competition, he said, "We may have to make up our minds that we shall lose that business. But the trucks have been extending their area very materially, and it is that business we must hold."

In its Report the Commission points out very clearly, by means of a table, the inroads of the passenger autos upon the railway passenger revenues.

<table>
<thead>
<tr>
<th>Agency</th>
<th>Passenger Miles</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Passenger autos</td>
<td>11,500,000,000</td>
<td>78.5</td>
</tr>
<tr>
<td>Steam Railways</td>
<td>2,300,000,000</td>
<td>19.8</td>
</tr>
<tr>
<td>Buses</td>
<td>250,000,000</td>
<td>1.7</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>14,650,000,000</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

"An estimate of the Bus line earnings does not exceed 5% of the passenger traffic revenue of Canadian Steam Railways for the year 1929. This amounts to $3,650,000, all of which is not direct loss to railways as it is new business to a considerable degree." It was agreed both by the railways and by the representatives of the automotive industry and of the motor coach operators in their appearances before the Commission, that the loss to the steam railways in passenger revenues is due to the private passenger automobile, and that this loss must be regarded as permanent."

The Commission after careful study estimated the loss of freight to the railways at the hands of truck competition to be as follows:

1928: 422,000 tons
1929: 979,000 tons
1930: 1,489,000 tons

Estimating revenue per ton handled at $8.00 this amounts in 1930 to approximately $12,000,000. "The Railways have estimated that if there had been no competition from passenger autos and motor buses in the year 1929, passenger earnings would have been $17,000,000 more than the actual receipts." This would be somewhat larger in 1930 as the number of motor vehicles increased about 3.6 percent. Adding the two sums together (twelve millions and seventeen millions) we get a total of $29,000,000. Let us say, roughly 30 millions. This figure of $30,000,000 is arrived at very roughly and is but an estimate. Nevertheless it is a fair indication of the loss the railways have suffered from highway competition.

The total revenue from freight and passenger traffic on the two railways was in 1930, $454,231,650, a decrease of approximately $24,000,000 from 1923. Since 1930 the total annual revenue has decreased to $270,278,276 in 1933; a drop of $208,053,771. We have seen that highway competition was at its maximum in 1930.

1. Report of Commission, page 100
2. Report of Commission, page 95
3. See above, page 10
Therefore, little if any of the loss in revenue from 1930 to 1933 can be attributed to highway competition.

**TABLE VI**

<table>
<thead>
<tr>
<th>Year</th>
<th>Operating Revenues (All Railways)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1923</td>
<td>476,333,047</td>
</tr>
<tr>
<td>1924</td>
<td>445,923,877</td>
</tr>
<tr>
<td>1925</td>
<td>466,297,236</td>
</tr>
<tr>
<td>1926</td>
<td>498,599,764</td>
</tr>
<tr>
<td>1927</td>
<td>499,064,207</td>
</tr>
<tr>
<td>1928</td>
<td>562,753,260</td>
</tr>
<tr>
<td>1929</td>
<td>634,106,045</td>
</tr>
<tr>
<td>1930</td>
<td>454,231,650</td>
</tr>
<tr>
<td>1931</td>
<td>366,549,392</td>
</tr>
<tr>
<td>1932</td>
<td>293,390,415</td>
</tr>
<tr>
<td>1933</td>
<td>267,809,531</td>
</tr>
</tbody>
</table>

In comparing the above figures we find a decrease in annual revenue of $210,523,416 from 1923 to 1933, of which something less than $30,000,000 can be attributed to highway competition. In reality the significance of this loss to railways through new conditions is not its magnitude but its permanence. It can be safely said that a considerable part of the revenue decrease of $210,523,416 will never be recovered by the railways.

1. - Canada Year Book, 1934-35.

2. - 1923 is used as it is a fairly good "normal year."
CHAPTER III
Possible Relief from Cooperation

The Royal Commission was appointed in 1931 "to inquire into the whole problem of transportation in Canada, particularly in relation to railways, shipping and communication facilities therein, having regard to present conditions and the probable future developments of the country, and report its conclusions and make such recommendations as it thinks proper."

After a long and thorough investigation the Commission submitted a Report to the Government. As a result of proposals in this Report, the Canadian National-Canadian Pacific Act of 1933 was passed and became law on May 23, 1933.

The provisions of the Act modified the administration of the Canadian National system, reorganized the budget practices, and, what is more important, authorized and directed the two railway systems to agree upon cooperative measures with a view to economics. The provisions regarding cooperation are as follows:

1. The Act specifies that any cooperative measure may include or be effected by means of:
   (a) new companies controlled by stock ownership, equitably apportioned between the two systems.
   (b) leases, entrusting agreements, or agreements for the pooling and division of earnings arising out of joint operation.

(c) joint trackage, running rights, joint ownership or joint operating agreements; and

d) joint or individual highway services, or combined highway and railway services.

The two railways are directed to give preference in employment in any new companies to the employees in any works they might take over. All acts of cooperation requiring approval of the Board of Railway Commissioners must be approved by that board before effected. The Act goes on to provide for arbitration tribunals to settle disputes. The powers of these tribunals are not important in this discussion but may be found in detail in the Act itself.

This plan was adopted from the proposals of the Commission. The Commission drew up this plan after careful consideration of the entire railway situation. It is only too obvious that if a better solution had appeared before the Commission it would have been adopted by it immediately.

Certainly the Commission expected that their plan of cooperation would prove the most satisfactory solution to the problem. The plan was adopted because the Commission expected large economies to result—large enough to materially improve the situation.

In the evidence which was given before the Commission much dealt directly with this question of cooperation. Sir Henry Thornton in a detailed statement discussed possibilities of
economies through cooperation and in conjunction with Mr. Fairweather estimated the savings for both companies possible by cooperation to be $30,000,000. Of this $30,000,000, 60% would be for the C. N. R. and 40% for the C. P. R. This saving would be fully effected within three to five years. Mr. S. J. Hungerford, Vice President of Operation and Construction of the C. N. R. Company heartily endorsed Sir Henry's estimate. Mr. Hungerford at a later date stated, "I think it is possible to realise practically the same economies with separate operation, and proper assistance to enforce cooperation, and things of that kind, that can actually be realised by amalgamation." As the C. N. R. officials had previously agreed upon $30,000,000 which could be saved through amalgamation, this is probably the sum Mr. Hungerford had in mind. Thus the Commission had before them a solution which offered large economies, (between thirty and sixty millions of dollars) and which was the result of the carefully compiled estimates of two of Canada's most prominent railway authorities. This plan not only offered large economies but it was very satisfactory in that it did not interfere with the existing ownership or managements of the two railway systems to any great extent. It was not opposed by public opinion, and on the whole, appeared the best solution offered.

1.-- Director of the Bureau of Economics--C. N. R. Company
3.-- Mr. Hungerford is now President of the C. N. R.
4.-- Feb. 20, 1932--Before the Commission.
The only disturbing feature (the fly in the ointment) of this plan was Sir Edward Beatty's sincerely propounded estimate and opinion upon the whole question of cooperation. Mr. Beatty's detailed account of economies possible through cooperation can be summarized as follows:

(a) Lines proposed to be abandoned:

<table>
<thead>
<tr>
<th>Lines</th>
<th>Miles</th>
<th>Saving</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eastern Lines</td>
<td>598</td>
<td>$902,036</td>
</tr>
<tr>
<td>Western Lines</td>
<td>1,140</td>
<td>2,765,380</td>
</tr>
<tr>
<td></td>
<td>1,638</td>
<td>3,337,996</td>
</tr>
</tbody>
</table>

(b) Proposed consolidation of stations (not included above.)

<table>
<thead>
<tr>
<th>Lines</th>
<th>Miles</th>
<th>Saving</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eastern Lines</td>
<td>45</td>
<td>$177,780</td>
</tr>
<tr>
<td>Western Lines</td>
<td>5</td>
<td>15,500</td>
</tr>
<tr>
<td></td>
<td>50</td>
<td>$193,280</td>
</tr>
</tbody>
</table>

(c) Consolidation of Train and Boat Service

<table>
<thead>
<tr>
<th>Lines</th>
<th>South of Armstrong, Okanagan District</th>
<th>Saving</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eastern Lines</td>
<td>2,690,061</td>
<td>$90,000</td>
</tr>
<tr>
<td>Western Lines</td>
<td>3,271,350</td>
<td>$5,961,401</td>
</tr>
</tbody>
</table>

Why the Commission chose to disregard Mr. Beatty's estimate is not known. There is such a marked difference between the two estimates (twenty-four to fifty-four millions!) that there should have been a close scrutiny of the two estimates. Mr. Beatty, as a railway authority deserved more careful consideration. His logic was never sounder than when he made the statement,

"Competition and cooperation are, in the large sense, irremovable."

However, the plan for cooperation was adopted and put into effect. It will be interesting to discover what the savings have been as a result of cooperation in the light of the two conflicting estimates given before the Commission.

What has been the result of railway operations since this plan was adopted and what effect has cooperation had? Since the Railway Act was passed in May 1933 some steps towards cooperation were carried out in the latter part of 1933. For the purposes of this study, therefore, we will compare the fiscal years 1932, 1933 and 1934. The following statistics are from the June 1935 Supplement of the Monthly Review of Business Statistics, Ottawa.

<table>
<thead>
<tr>
<th>Table VII</th>
</tr>
</thead>
<tbody>
<tr>
<td>Railway</td>
</tr>
<tr>
<td>C. N. R.</td>
</tr>
<tr>
<td>Operating Revenue</td>
</tr>
<tr>
<td>Operating Expenses</td>
</tr>
<tr>
<td>Operating Ratio</td>
</tr>
<tr>
<td>Tons Freight Carried</td>
</tr>
<tr>
<td>Passengers carried</td>
</tr>
<tr>
<td>C. P. R.</td>
</tr>
<tr>
<td>Operating Revenue</td>
</tr>
<tr>
<td>Operating Expenses</td>
</tr>
<tr>
<td>Operating Ratio</td>
</tr>
<tr>
<td>Tons Freight Carried</td>
</tr>
<tr>
<td>Passengers Carried</td>
</tr>
</tbody>
</table>

1. An address before the Political Science Association, Montreal, May 22, 1934.
Interpreting these figures it is found that both railways have improved their position considerably since 1932. The worst year of the depression in railway business is 1933 which explains the bad position of the C. N. R. in that year. From 1932 to 1934 the operating ratio of the C. N. R. was reduced 3.5%, that of the C. P. R. 3.4%. We are interested in discovering how much of this improvement is due to cooperation and how much to economies conducted separately by each company. Let us consider the statistics in the following manner.

**TABLE VIII**

<table>
<thead>
<tr>
<th></th>
<th>OPERATING REVENUE</th>
<th>OPERATING EXPENSES</th>
</tr>
</thead>
<tbody>
<tr>
<td>C. N. R.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1934</td>
<td>140,824,360</td>
<td>120,296,563</td>
</tr>
<tr>
<td>1932</td>
<td>139,948,317</td>
<td>134,300,983</td>
</tr>
<tr>
<td>Improve</td>
<td>876,043</td>
<td>4,004,420</td>
</tr>
<tr>
<td>C. P. R.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1934</td>
<td>125,642,229</td>
<td></td>
</tr>
<tr>
<td>1932</td>
<td>123,509,370</td>
<td>99,671,078</td>
</tr>
<tr>
<td>Improve</td>
<td>2,132,859</td>
<td>2,689,247</td>
</tr>
</tbody>
</table>

This clearly shows the situation. In the case of the C. N. R. revenue increased by but $876,043, whereas operating expenses decreased by $4,004,420. Roughly, then, the economies carried out by the C. N. R. have amounted to $4,004,420 plus what it cost to gain the additional revenue of $876,043, which would be approximately $805,920, making reduction in costs about $4,810,340—roughly five millions.

In the case of the C. P. R. operating revenue increased.
by $2,132,859, while operating expenses decreased $2,589,247. Reasoning in the same manner as in the case of the C. N. R., the C. P. R. has effected economies of operation amounting to approximately $4,235,768—roughly four and a quarter millions.

These two sums result in a total of nine and a quarter millions. The two railways, therefore, together have effected economies amounting to nine and a quarter million dollars.

How much of this is a result of cooperation between the railways? It is difficult to answer this question as both systems have been carrying out economies within their own organizations. In the Canadian Pacific Railway's annual Report for the year ended Dec. 31, 1934, Sir Edward Beatty makes the following statement in regard to cooperation. "The total annual joint economy secured by the two companies from the measures put into effect up to the end of 1934 is estimated to be $1,220,510." This is a small part of the economy effected.

There is no reason for doubting Mr. Beatty's statement. He must be familiar with the economies made by the C. P. R. and is in a good position to learn those of the C. N. R.

It would appear, then, that the economies possible through cooperation are not as great as Mr. Hungerford and Sir Henry Thornton estimated. Granting that many agreements have not yet been fully carried out and that more savings will result from further cooperation already in process of being adopted, we can expect but little of the $30,000,000 to materialize. This
first period under the new system of cooperation offers little of promise for the future. Although we view with favour any steps toward the elimination of waste through cooperative measures we must look to some other solution if the railway problem is to be solved. The solution that the country needs is one that will relieve the taxpayer of the huge annual cost of the Canadian National Railway and preserve the financial soundness of the C. P. R. This fact was strongly emphasized by the Commission: "We feel compelled, as a matter of public duty to strike a serious note of warning to the people of Canada. Unless the country is prepared to adopt the plan we have proposed or some other equally effective measures, to secure the efficient and economical working of both railway systems and thereby not only reduce the burden on the federal treasury but improve the financial position of the privately owned railway, then the only courses that would be left would be either to effect savings in national expenditure in other directions, or to add still further to the burdens under which the industries of the country are suffering by the imposition of yet further taxation. Failing the adoption of one or the other of these courses and there are obvious limits to their application, the very stability of the nation's finances and the financial credit of the Canadian Pacific Railway will be threatened, with serious consequences to the people of Canada and to those who have invested their savings in that railway."

After more than two years of operation cooperation has failed as a means of escape from the dangers pointed out by the Commission. These dangers are as great to-day as when the Commission was appointed in 1931.
CHAPTER IV
Unified Management

It is convenient here to examine the plan for Unified Management as proposed by the Canadian Pacific Railway Company. The Royal Commission discarded the plan after careful consideration in favour of one of cooperation under separate management. The wisdom of this decision has been questioned since cooperation after two years of trial has proved practically worthless as a solution to the problem. Having discarded one plan as worthless let us now reconsider that discarded by the Commission as impractical. The following pages will contain a summary and discussion of this.

The plan proposed is one wherein the C. P. R. and the Government agree upon entrusting the management of the C. N. R. to the C. P. R. for administration and operation. The following is a brief outline of this plan.

Outline of the changes to be effected by Unification.

A- Supervisory Organizations

The combination of the two systems would permit a more compact organization for operation and administrative purposes than now exists for the separately operated properties. This is shown in the following table:

1.- This summary is quoted largely from L. T. Fournier’s work, "Railway Nationalization in Canada." Certain long explanations of a technical character have been left out, but these omissions are not such as to cause any misinterpretation of the plan.

2.- From the detailed exhibits prepared by the C. P. R. Company.
SUPervisory organizations

<table>
<thead>
<tr>
<th>C. N. R. System</th>
<th>Present</th>
<th>C. P. R. Joint Companies (Northern Alberta System &amp; Toronto Terminal)</th>
<th>Total for Systems Separately operated</th>
<th>Proposed Total for Combined Systems under Unified operation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Head-Quarters</td>
<td>1</td>
<td>--</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Regional</td>
<td>4</td>
<td>--</td>
<td>6</td>
<td>4</td>
</tr>
<tr>
<td>District</td>
<td>11</td>
<td>1</td>
<td>23</td>
<td>11</td>
</tr>
<tr>
<td>Division</td>
<td>43</td>
<td>20</td>
<td>75</td>
<td>52</td>
</tr>
</tbody>
</table>

Unification of the two properties would abolish one system headquarters, two regional organizations, twelve district offices and twenty-three divisions. As a consequence it was estimated that the expenditures for supervision would be reduced materially.

B.- Proposed Abandonment of Duplicate Mileage

One of the advantages of unification stressed by Mr. Beatty, was that it would make possible the abandonment of more than 6,000 miles of line, whereas it would be most difficult to eliminate as much as 1,500 miles if the two systems continue to operate separately.

The following table gives the lines that would be abandoned on the C. N. R. and the C. P. R.

<table>
<thead>
<tr>
<th>PROPOSED TRACK ABANDONMENT</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Steam Railways</strong></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td><strong>Canadian National</strong></td>
</tr>
<tr>
<td><strong>Canadian Pacific</strong></td>
</tr>
<tr>
<td><strong>Northern Alberta Rwys.</strong></td>
</tr>
<tr>
<td><strong>Total</strong></td>
</tr>
<tr>
<td><strong>Electric Railways</strong></td>
</tr>
<tr>
<td><strong>Canadian Pacific</strong></td>
</tr>
<tr>
<td><strong>(Lake Erie &amp; North</strong></td>
</tr>
<tr>
<td><strong>Total-all lines</strong></td>
</tr>
</tbody>
</table>
The determination of the lines that might be abandoned was made by a committee of officers of the Canadian Pacific, and represented its best judgment of the amount of trackage that could be dispensed with if the properties were unified. It was expected that further study might necessitate changes in the detail of lines to be abandoned, but the committee was confident that an abandonment in excess of 5,000 miles of line would be possible.

Unified management makes the problem of securing track abandonment quite simple. Through trains would be routed over the most favorable routes and detailed study of the local traffic would enable the company to determine whether such justified the continued operation of the line.

C. Reduction in Passenger Train Mileage

Here the criterion followed is "economy without detriment to public service. By consolidating lightly loaded trains operating between the large centres of population and in transcontinental service, and by re-routing trains over shorter or more economical routes, it was estimated that there would be a saving of 7,500,000 train miles, or 16.8 per cent of the aggregate train mileage of 1930, and in excess of 57,000,000 car miles, or 14.9 per cent of the total.

D. Economies in Freight Transportation Service

Unification of the two systems is expected to bring economies in the freight service through (1) re-routing of freight traffic over shorter or more favorable routes. (2) Consolidation of fast freight
trains between large centres. (3) Reduction in the number of cars
required to carry less than car load. (4) Redistribution of
locomotives, thus ensuring larger average daily mileage of the more
efficient units, and (5) reduction in the expense of terminal
operations. It was estimated that there would be a saving of
5,300,000 freight miles, or 9.2 per cent of the combined freig
train mileage for the year 1930, and 67,000,000 freight car miles
or 3.3 per cent.

The savings possible in terminal operations have yet to be
determined but there is a large field for economies here. Such
would take the form of:

1. Concentration of similar work in certain yards.
2. Movement of traffic through terminals by most economical
   route.
3. Elimination of interchange requirements.
4. Reduction in switching expenses, etc.

In addition there are large possible savings through avoiding
the replacement and enlargement of many facilities necessary if
railways remain separate.

E. Economies in Locomotive and Car Repair Work:-

This embodies—

1. Use of most efficient shops.
2. Concentration of similar work in certain shops.
3. Use of most efficient equipment of both companies.

1. Mr. Beatty.
The following is a summary of the estimated savings in operating expenses by major expense accounts:

RAILWAY OPERATING EXPENSES--BASED ON YEAR 1930

<table>
<thead>
<tr>
<th></th>
<th>Total for Railways under separate operation</th>
<th>Total for Railways under unified operation</th>
<th>Net Saving</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maintenance of Railway &amp; Structures</td>
<td>$76,256,063</td>
<td>$61,367,441</td>
<td>$14,888,622</td>
</tr>
<tr>
<td>Maintenance of Equipment</td>
<td>80,642,278</td>
<td>66,281,864</td>
<td>14,360,414</td>
</tr>
<tr>
<td>Traffic</td>
<td>18,967,243</td>
<td>13,191,726</td>
<td>5,775,517</td>
</tr>
<tr>
<td>Transportation</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rail</td>
<td>183,312,026</td>
<td>159,317,650</td>
<td>23,994,376</td>
</tr>
<tr>
<td>Water</td>
<td>1,029,035</td>
<td>997,535</td>
<td>41,500</td>
</tr>
<tr>
<td>General</td>
<td>15,488,760</td>
<td>9,199,755</td>
<td>4,289,005</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>4,215,384</td>
<td>3,297,635</td>
<td>918,249</td>
</tr>
<tr>
<td>Total</td>
<td>$377,911,289</td>
<td>$313,643,606</td>
<td>$64,267,683</td>
</tr>
</tbody>
</table>

Telegraph and Express Operations

The estimated reductions in the operating expenses of the telegraph and express departments are $248,000 and $1,450,000 respectively. These bring the total operating savings up to $66,665,000, representing a reduction in operating expenses of 17.3 per cent. This is a conservative estimate. The operations of the two separate companies—Telegraph and Express, are in direct

1. The figures include Steamship Traffic expenses of the C. P. R., but exclude expenses for C. P. R. pensions, and for Commercial Telephone and Express which are dealt with separately.
competition, with offices side by side in many cities, and parallel services throughout the country.

Effect of Unification on Operating Revenues

It was estimated that there would be a gain in freight revenues amounting to $2,135,000 brought about by securing a longer haul over the combined system on international interstate and Great Lakes traffic. This was expected to be offset by a loss in gross revenues amounting to $739,000 made up as follows:

1. Interswitching and local switching.......................... $100,000
2. Reduction in rates "two line" to "one line basis,... $100,000
3. Reduction in rates due to shorter mileage of consolidated lines as compared with separately operated single lines ...................... $100,000
4. Loss in traffic from abandoned lines which will move by other transportation agencies.................. $439,000

On the basis of 1930 figures, gross operating revenues of the unified system would be $450,829,000 and total operating expenses $318,824,000. The operating ratio would be 70.72 per cent, which compares with the Canadian National operating ratio for 1930 of 91.2%, the Canadian Pacific operating ratio of 78.4% and their combined operating ratio of 85.8 per cent.

There are several other items where there would be considerable saving:

(a) Smaller stocks of equipment would be required.

(b) Money realized from the material released and from material salvaged from abandoned tracks would improve the net earnings of the system by the amount $1,700,000 annually, figuring
interest at five per cent.

(a) Reduction of investment in equipment--annual saving of 
$4,650,000--as a result of decrease in train and car mileage.
(b) Miscellaneous economies, $81,000.

The total annual net gain from unified management was 
estimated to be $75,375,000.

As has been seen, the solution to the railway problem lies in 
either increased revenues or reduced operating expenses. This 
plan of Unification offers a reduction of $75,000,000 in operating 
costs. What Mr. Beatty has offered is a real solution to the whole 
question. If by Unification economies amounting to $75,000,000 can 
be attained then this whole plan should be adopted. However, there 
are certain disadvantages which appear upon close consideration.

Has the plan for Unification been examined to see if these 
large economies can be realized? Unification of the C. N. R. and 
C. P. R. has been the object of much criticism on the part of 
C. N. R. officials, organized railway labour, and others. This 
criticism has all been in the general form of broad statements with 
little foundation from critical research into the question. L. T. 
Fournier has taken the plan as proffered by the C. P. R. and 
carefully considered the possibilities of economies resulting 
from it.

In making this study Mr. Fournier emphasized that "It is 
Highly important to determine whether or not the Canadian Pacific 
proceeded along reasonable lines in its computations?"

1. Fournier--Railway Nationalism in Canada, page 322
2. Fournier--Railway Nationalism in Canada, page 323
Now, obviously, to criticise such a plan intelligently one must be familiar with the railway situation in every case considered and must also be an experienced railway technician. Mr. Fournier, while not possessing these two requirements has given careful attention to the estimates as to whether they are logical and reasonable. The following is the result of Mr. Fournier's investigation.

**Maintenance of Way and Structure**

As stated earlier, about one-half of the estimated reduction in maintenance of way expense would result from the abandonment of 5,000 miles of line. The estimate appears to be reasonable, for it amounts to $1,400 per mile of abandoned line which compared with average maintenance expenditures in 1930 of $1,672 and $2,028 per mile of line for the C. P. R. and the C. N. R. respectively. Needless to say, part of this saving could not be realized if the Board of Railway Commissioners were to refuse authorization for the abandonment of some of the excess mileage, although even in that case a large part of the economy could be secured by degrading the standard of maintenance of one of the parallel lines to a level sufficient to take care of local traffic only.

A further reduction would be made possible by (1) a lower standard of maintenance of former lines that would become secondary main lines or branch lines after unification; (2) reduced wear and tear on account of the reduction in train and car mileage; (3) reduced maintenance of terminal tracks and facilities through consolidation of terminal operations and (4) economies in supervision. The estimated reduction on account of these factors was 1.

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1. Fournier—Railway Nationalism in Canada, page 324.
$7,884,000, which is equivalent of $219 per mile for the reduced mileage of the unified properties or approximately 10% of the average cost of maintenance per mile for the two railways over a period of years.

It is significant to note that most of the estimated economies under this category are of such a nature that they could only be achieved by means of unified railway operations. This should be borne in mind in appraising the relative merits of unified management and cooperation, for so long as the two railways are operated in competition with each other their combined expenses for maintenance will be several millions a year more than they would be after unified management.

Maintenance of Equipment

In calculating the reduction in the cost of maintaining equipment after Unification, it was undoubtedly sound to give effect to the reduced use of equipment resulting from the estimated reduction in locomotive and car mileages. On the basis of past unit repair costs, the saving of $6,677,000 attributed to reduced use of equipment appears to be conservative. The remainder of the estimated saving in maintenance costs, $7,683,000, was determined by calculating the economies that could be realized by eliminating duplicate facilities and forces on abandoned lines, concentrating repair work, consolidating shop facilities, and using the best equipment, machinery and shops of the unified properties.

Some criterion of the reasonableness of the estimated savings in the maintenance of equipment is to be found in the fact
that the costs, after unification on a unit basis, car miles, locomotive miles, etc., would be in line with past performances of the Canadian Pacific. It will be recalled that unit maintenance costs of the Canadian Pacific were uniformly lower than those of the Canadian National in the period 1923-31. The measured opinions of the mechanical officers of the Canadian Pacific is that they can do more than duplicate their cost performance on the combined properties. When consideration is given to the disparity in the past performance of the two railways and to the opportunities for saving as a result of the reduction in locomotive and car mileage, it can hardly be denied that there is a large field for economies in the maintenance of equipment.

Traffic Expenses

In view of the present duplication of activities in the two traffic departments, there is no doubt that there would be a large saving after Unification. The estimated economy was 30% of of the combined traffic expenses for 1930, including those of the Canadian Pacific Steamship Company. Excluding the steamship traffic expenses the saving was 38.2% of the combined railway traffic expense, which seems to be reasonably conservative.

Transportation Expense

The savings of $23,994,000 under this heading represent 37% of the total estimated reduction in operating expenses. The methods of computing these economies appear to be sound. Of course a certain part of the economies in this category, as in others, is dependent upon the abandonment of a large amount of line. However,
the most decisive factor in the actual achievement of such large economies is the intangible one of the effect of unification on the morale and efficiency of labour and management. There is bound to be continued difference of opinion as to the importance of this factor, particularly since it is not subject to proof. Representatives of organized railway labour and the present management of the C. N. R. have argued that the spur of fair competitive rivalry is essential to the best results. The officers of the Canadian Pacific are equally convinced that an urge for net profit is a better stimulus for managerial efficiency than a spirit of rivalry. They hold that the application of sound principles of organization and administration will maintain the present standards of efficient operation. All that one can say with respect to this controversy is that if the management of the unified properties is of a high calibre and if fair and reasonable relations are maintained with organized labour, there should be no falling off in efficiency. In any event, the waste from competitive duplication of service is so great under the prevailing traffic conditions in Canada that the argument as to the economy and efficiency of competitive service has largely lost its value.

**General Expenses**

General expenses were determined by applying Canadian Pacific cost performance on a mileage basis to the reduced mileage of the combined properties and deducting 20% on account of Unification. In analyzing the estimated saving (4,289,000) it is important to note that the resultant general expenses (less
insurance and pensions) of the unified properties would be slightly less than the general expenses of the Canadian National alone for the year 1930, although they would be about 76% greater than the general expenses of the Canadian Pacific for 1930. The officers of the Canadian Pacific believe that they have estimated the general expenses of the unified properties on a liberal basis in view of the many fields in which there is duplication of effort. Yet there are several reasons for doubting that the savings in this category would be as great as estimated. The best index of general expenses is that of their ratio to gross railway operating revenues, and it appears that the estimated general expenses (less insurance and pensions) of the unified properties would amount to $1.49 per $100 of gross railway operating revenues on the basis of 1930 operations. This may be compared with $1.95 for the Canadian Pacific and $2.85 for the Canadian National in 1930. While it seems reasonable that the C. P. R. would be able to duplicate its own unit cost performance on the combined properties, it is doubtful whether it is proper to make a deduction of 20% from such unit costs. Mr. Fournier goes on to point out that new expenses resulting from special problems of Unification would offset much of the saving in general expenses and concludes: "If, as a result of these factors, the Canadian Pacific were able only to equal its own cost performance on the combined properties, the realized economies would be reduced by approximately $2,000,000."

Savings through Reduction in Capital Investment

The estimate that there would be an annual saving of $1,700,000 on the value of materials salvaged from abandoned tracks seems
reasonable. It represents interest at 5% on a salvage value of $34,000,000. Under normal conditions and over a period of 5 to 6 years there should be little difficulty in realizing this amount from the abandonment of 5000 miles of track.

The estimated reduction in the future equipment needs of the unified properties as compared with the requirements of the two systems under separate operation was based on the estimated decrease in the number of locomotive and car miles as shown in the following tabulation:

<table>
<thead>
<tr>
<th>CLASS</th>
<th>Statistical Unit</th>
<th>% Reduction</th>
<th>Released Units</th>
<th>Estimated Unit Values</th>
</tr>
</thead>
<tbody>
<tr>
<td>Locomotives</td>
<td>Locomotive miles</td>
<td>12.2</td>
<td>637</td>
<td>$59,196</td>
</tr>
<tr>
<td>Freight Train Cars</td>
<td>Freight train car miles</td>
<td>3.3</td>
<td>7,247</td>
<td>1,174</td>
</tr>
<tr>
<td>Pass. Train Cars</td>
<td>Passenger car miles</td>
<td>14.9</td>
<td>1,037</td>
<td>40,710</td>
</tr>
<tr>
<td>Work Equipment</td>
<td>Miles of Road</td>
<td>12.2</td>
<td>1,786</td>
<td>2,500</td>
</tr>
</tbody>
</table>

The item "released units" refers to the number of units which would not have to be replaced and represents a cash saving to accrue in the future. The estimated unit values which were applied produced a total of $92,000,000 for the released units. Interest at 5% on this sum is $4,650,000, the amount of the estimated annual saving.

No allowance appears to have been made for the probable capital cost of unification of terminals, track connections, and so forth. However, it was considered certain that the capital expenditures of the combined properties, including the cost of Unification, would be much less than the capital expenditures of the two roads if operated separately, and that the savings would
be more than enough to take care of any reparation payments which
might arise in connection with track abandonment. There would
be more than sufficient material released from the various
abandonments to take care of necessary alterations in track
connections and terminals. Certain labour costs would be involved,
which, however, would tend to ease the displacement of labour as
a result of Unification.

Conclusions

"The foregoing analysis of the detailed savings appears to
justify the conclusion that they were determined, for the most part,
on a reasonable and conservative basis."

Having followed Mr. Fournier's examination of the methods
of computing the savings possible through Unification we find that
we must agree with his conclusions. From all appearances the
Canadian Pacific Railway Company has computed its estimated savings
upon a very reasonable basis. Apart from the estimated savings
through (1) "Reduction in capital investment" where "5%" is the
amount of interest expected, and (2) "General Expenses", where the
possible saving is perhaps a little exaggerated, the estimated
saving of $75,000,000 is possible of attainment. Considering the
"over-estimate" to be $5,000,000, the possible economies amount
to $70,000,000 which is a very satisfactory amount.

1. Fournier--Railway Nationalism in Canada, page 329
CHAPTER V

Objections to Unification

Why has the plan for Unification of the two systems not been adopted? What are the objections to this plan? There are five frequently voiced protests against any form of unification or amalgamation. Three were noted by the Commission and voiced in its Report.

1. "To establish a monopoly of such magnitude and importance would place in the hands of those responsible for the administration of the system powers that would, if not properly exercised, prejudice the interests of the Dominion as a whole."

2. "Should the population of Canada greatly increase, the volume of traffic would grow and the railway mileage be materially enlarged, with the result that the management of so great a system might well become unwieldy and necessitate segregation."

3. "Hesitation to commit, finally, future generations, and even the present one, to a policy adopted under the stress of difficult circumstances, which may not be best adapted to a new set of conditions difficult to forecast."

4. The Unification would create a great political machine, i.e., the political powers of such a great company would rival that of the government.

1. Paragraph 197, of the Report.
5. The greatest objection is that the savings possible through Unification would entail the discharging of thousands of railway employees.

Fear of creating a powerful monopoly is an unjustified one. Canadians have retained this fear from the days when the West suffered at the hands of railway monopolies but today, and in this circumstance, conditions are much different. The extent of competition, highway, lake and canal, and airline has grown. However, the railway company would have large monopoly powers, especially in the winter months. This power is largely removed by Government legislation and control. Such a united railway system would be unable to exert its monopoly powers to the disadvantage of the public in the face of present railway legislation.

To agree that the administration of such a railway system would be unwieldy is to confess ignorance of modern railway practice. A study of the efficient administration of the C. P. R. which includes, practically, as great an area as the unified property would, is very illuminating. The system of regional divisions and general decentralization is capable of controlling a far larger property than the one proposed.

The Commission wisely "hesitated to commit the future and present generations to a policy adopted under stress of circumstances...." In another place, however, the Commission stressed the need for immediate relief. The whole question is 1. See above, page11.
one of national importance and, as such, requires deep consideration.

Having considered the plan carefully it is difficult to see how the interests of the present or future generations would be jeopardized by its adoption. We do future generations far more harm by mortgaging Canada's future with growing debts. With careful government legislation the plan for unified management may be adopted with nothing but advantage for all concerned.

The two final objections are much more substantial. They point out two great dangers that may result from any plan of amalgamation or unification.

That such a powerful organization as that proposed would become a great political machine, resulting in more or less harm to the public is debatable. There is no doubt that the employees of such a system would represent a large block of the voting public. The existence of this more or less solid block of votes would be of considerable influence in Canadian politics. If it could be controlled by any powerful interests or political party, it would indeed become a formidable weapon.

Would the railway employees and their associates form a homogeneous group? It is difficult to say, but it is probable that there would be a united front on some political issues directly affecting the railways and railway employees. It must be remembered, however, that there would be a larger number of railway employees under a system of cooperation than under one of unified management. While unification of the two lines might create a more unified political group of the railway employees, the railway labour unions have a large measure of control over them at the present time. That a new power in Canadian politics might be formed is possible, but there is much reason to
believe that no stronger political machine would develop out of Unification than from the present system.

Unification of the two railways would result in considerable unemployment, augmenting the already large ranks of railway employees who are either unemployed or partially so. This, in the writer's opinion is the greatest disadvantage in any system of Unification. In the G. P. R. plan provision was made for those who would lose their jobs. Mr. Beatty pointed out that such dismissals as would be necessary would be made gradually, each person receiving a dismissal wage to tide him over until he could find other employment. It was Mr. Beatty's opinion that if this policy were carried out, the natural turnover of labour in the railway industry would soon absorb this unemployed group.

Mr. Beatty's estimate of the turnover of labour probably exaggerates conditions at the present time. There can be little doubt that unification would result in considerable hardship to displaced employees. On the other hand, this argument against Unification holds just as strongly against cooperation, which to secure any considerable savings must result in some displacement of employees.

It is necessary in this case to consider another angle of the question. If the Canadian people require 75,000 railway employees to serve them with efficient transportation, it is obviously wasteful to continue to employ 125,000.

1. These figures are used only for illustration.
This excess of man power should be released to find more productive occupation. This is the theoretical view of the situation and contains much that is logical.

Another very considerable objection to Unification is that it might prove impossible to abandon 5,000 miles of railway. The growth of communities and small industries along some of these lines makes it impossible to abandon them without a great deal of hardship. There is no doubt that the abandonment of much of the 5,000 miles would be strenuously objected to by local interests. Concerning this objection the Royal Commission concluded that the 5,000 miles considered would not result in a great deal of hardship. There are small stations, a few lumbering, and other small industries but on the whole the majority of those affected would be railway employees, who would naturally be transferred to another district. Mr. Beatty was of the opinion "that the loss of communication to individuals and small settlements would not be serious."

In considering the possibility of abandonments we must remember that such a program would require the approval of the Board of Railway Commissioners—or some like body. It is altogether possible that this body would interfere on many plans for abandonment of certain lines. As Mr. Hungerford pointed out before the Commission, much of the abandonments desired by the C. N. R. officials have been prevented by the

action of the Board. However, it is very probable that most of the 5,000 miles proposed by Mr. Beatty would be approved by the Board, if proper care were taken to compensate for any hardship caused. In a problem of this kind there is too much misplaced sympathy and not enough of hard-headed business methods. It is time something was done to put Canadian railways in a sound position. There must be some sacrifice and some hardship, but in the end the country will have gained immeasurably by it.

The best and perhaps only permanent solution to the railway problem, therefore, appears to be Unification. The whole aim has been to eliminate waste from unnecessary competition. No method can secure this desired result as effectively as Unification. The most desirable solution would be amalgamation of the two lines under government control; i.e., a public utility. This, however, is obviously impossible in the light of Canadian experience in public utilities on a national scale, and the inability of the Canadian Government to make an offer that would be acceptable to the Canadian Pacific Railway Company. We must conclude, therefore, that the Unification of the C. N. R. and the C. P. R. for the purpose of management is the best solution to the present railway problem.
CHAPTER VI

Other Plans

In addition to Cooperation and Unification as means of solving the present difficulty various other suggestions have been made. They are all plans which are applicable under the present separate management. Naturally such suggestions cannot get to the root of the difficulty, as they do not attempt to eliminate competition.

These plans have been advanced by different people at various times and have been assembled by some students of the railway problem into a plan for its solution. These various suggestions will be considered separately to see what possible solution they offer.

A. A Solution through Business Improvement.

There are many optimistic people who expect that the return of "good times" which is "just around the corner," with its increased business activity will so increase railway traffic that the problem will be automatically solved.

"To maintain that revival in traffic is the only way in which we can make any impression on the present problem" is to take a very narrow view of the situation. The trouble lies much deeper than this. The C. N. R. has never been a paying proposition. It has failed to earn any appreciable profit upon
its investments. While the return of traffic to normal will reduce the pressure of the railway problem it will not strike at the heart of the problem.

When the various railways which make up the C. N. R. system found themselves in a state of bankruptcy, the problem first originated. The proper process after this failure was to put the companies into the hands of a receiver, and then, if proved absolutely unprofitable, to abandon them.

In our present business system when producers expand in excess of the market the least efficient are eliminated by natural process. Similarly in the railway world, when too many competing lines are built the least efficient are forced out. Unfortunately in Canada, the Government was forced by circumstances to adopt these "unworthy" children and organize them into a "complete system" to compete with other more efficient lines. Thus today as in the years before the formation of the C. N. R., there are too many railways for the existing business.

The lines taken over could not operate at a profit and the Government was forced to subsidize them. The C. N. R. itself has met cash deficits for years, variously by loans from the Government or from the public. In either fashion the position of the C. N. R. has become steadily worse. The following table shows the increase in the indebtedness of the Canadian National
The debt charges of the C. N. R. have increased accordingly. The Railway Company's position has become steadily worse under Government control. For calendar year 1934 the cash deficit was $48,407,900, which sum was advanced by the Federal Government from the Consolidated Revenue Fund. This amount is approximately 13% of the total revenue receipts of the Dominion Government for that year.

1.-Canada Year Book, page 721
3.-See Appendix for the C. N. R. officials' stand on this point.
Revival in traffic will improve the situation considerably but it will never solve the problem. Some of the railways' business has been lost to other means of transportation and will never be recovered. Unification has been proved the method to reduce operating expenses and put the Canadian Railways on sound footing. To attempt to secure these results by means of awaiting business recovery under a policy of cooperation is a mistake.

The Canadian Railway System should be a public utility. There is no room for competition in Canadian railway business any more than there is room for competition in the Post Office business. Unfortunately, Canada got off on the wrong foot in the railway field. It is now financially impossible for the Dominion Government to operate its railways as it does its Post Office system. However, the C. P. R., a strong financial organization, whose efficiency in business is unquestionable, is willing to take over the railway lines of Canada, eliminating entirely the ridiculous waste of competition. In view of the wide powers of the proposed Unification, the proposed unified company would, for all practical purposes, be operating as a public utility.

B. Railway Rates

There has been much discussion of reorganization of railway rate structures with a view to solving the problem.

1. See above--Chapter II
Any discussion of railway rates in Canada involves very technical problems. The present system of rate structures is the most complicated and involved mixture of statutory and arbitrary agreements imaginable. To discuss the whole rate structure with a view to some solution of the present problem would mean a lengthy historical and technical discourse.

It has been claimed that the Canadian railways are forced to subsidize the Western wheat farmers by the enforcement of a maximum rate. Now, obviously, if the railways are forced, by statute, to charge rates below those necessary to secure sufficient revenue to meet their obligations the whole rate structure should be overhauled.

The problem of overhauling the rate structure is a difficult one. Let us first discover if, at present, it is at too low a level. The C. P. R. is still on a sound basis in spite of the rigours of the present depression. It has always secured a substantial profit in normal years. The C. N. R. on the other hand, is in a very poor position. It has never secured any substantial profits at all. If the C. P. R. can operate profitably on the present rates why cannot the C. N. R.? The difficulty apparently lies elsewhere.

Any solution through rate changes would necessarily come from raising them. Such a procedure would cause a storm of protest from the Western wheat farmer, whose very existence is bound up with low freight rates. Rates in the east could not

1. Known as Crownest Pass Agreement.
be raised to any extent because they are largely determined by competition with water and highway transportation. The welfare of the whole of Canada is bound up with the welfare of the Western wheat grower who, due to the great distance from the markets for his product must have low freight rates to seaboard. To put the farmer in an unfavorable position in the world's wheat markets by raising rates is much like the mythical story of killing the goose that laid the golden eggs.

Obviously there is no possible relief from rate changes. However, if during periods of stress, as at the present time, the railways are prohibited by statute, and by the Board of Railway Commissioners, from raising rates to offset losses from reduced traffic, to continue the practice of subsidizing the publicly owned system to offset its losses while the private company must suffer alone, is obviously unfair. In other words we cannot expect the C. P. R. to continue subsidizing the Canadian West while its competition, the C. N. R. is relieved of this burden by Government aid. In such a case the West must face increased railway rates, or the country increased taxation to continue the subsidizing of the grain-grower.

1. Writing down the C. N. R. Debt

The possibility of writing down the debt of the C. N. R. to a level which the traffic can bear has been much discussed.

1. See-Harris-The Economic Aspects of the Crowneest Pass Agreement—Conclusions.
The recasting of the capital liabilities of the O. N. R. involves several problems. Let us examine the capital liabilities of the railway in 1933.

**TABLE X**

Due to Dominion Government

<table>
<thead>
<tr>
<th>1933</th>
<th>Appropriations for Canadian Gov't Railways</th>
<th>Loans and Advances</th>
<th>Unpaid Accrued Interest on Gov't Loans</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$1,490,549,686</td>
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<tr>
<td></td>
<td>$404,376,002</td>
<td>$661,832,085</td>
<td>$484,332,109</td>
<td></td>
</tr>
</tbody>
</table>

Due to Public

<table>
<thead>
<tr>
<th>1933</th>
<th>Guaranteed by</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Dominion Government</td>
<td>Provincial Government</td>
</tr>
<tr>
<td></td>
<td>$962,992,676</td>
<td>$72,184,488</td>
</tr>
<tr>
<td></td>
<td>Grand Total</td>
<td>$2,745,851,941</td>
</tr>
</tbody>
</table>

It is held by those who favour this plan that a large part of the debt is irretrievably lost and that it should be written off the books. Mr. McDougall claims, "If this country is to retain this system it should charge the executives responsible for its management with a debt which bears a proportion to its normal earning power as great as the full charges and dividends on the common stock of the O. P. bears to its earning power." 1.

1. The Transportation Problem-Canadian Political Science Association, 1934.
It is all very well to talk about writing down the capital liabilities of the C. N. R., but let us examine these liabilities more closely. As shown in the table the total of 1933 is $2,745,851,841. Of this, $1,490,549,686 is due to the Dominion Government and $1,255,302,155 due to the public. Any writing off process could only include that due the Government. The Government investment in the C. N. R. is $1,066,211,877. On this investment there has been no appreciable interest earned for several years and the accrued interest now amounts to $424,338,109.

Obviously the C. N. R. can never repay this huge sum and it is doubtful if it can earn interest upon it. To overlook the accrued interest, as the Government does, there remains the huge sum of $1,066,211,877. It is, therefore, some part of this amount that must be written off. This amount includes $404,378,682 appropriations for Canadian Government railways and $661,832,895 loans and advances. All of this represents hard cash expended by the Government. To a large extent these advances and investments in Government railways have been raised by issuing Government bonds. Whether the C. N. R. is charged with this debt or not the annual interest charges must be paid. Whether you juggle the debt charges back and forth, from the C. N. R. books to the Government books, it matters but little. The interest must be paid in either case and the Canadian taxpayer is no better off.

1. Canada Year Book, 1935
It is granted that the huge burden of debt is out of all proportion to the earning power of the C. N. R. However, to write down this debt does not appreciably improve the situation. The C. N. R. has never paid interest on the Government advances. It would still require Government subsidies to meet its deficits. While we realize that the debt should be more clearly set forth and that much of it is completely lost, we must not forget that it represents real money invested in railways. That the C. N. R. debt should be reorganized; transferred to different accounts; transferred, as some suggest, to a "National Development" account to clarify the picture, may be necessary. However, all this is beside the point. It does not strike at the heart of the problem. Any "writing off" process can do little to permanently improve the situation,
CHAPTER VII

Other Plans--Continued

D. Railway Wages

It has been suggested that by a sharp reduction of wages of railway employees a considerable economy could be effected by both railway systems. This suggestion is based upon a study of wage levels in other industries as compared to the railways. Already some reductions have been made, with the agreement of the railway brotherhoods; but it is pointed out that there is room for further reductions. It is interesting to compare the statistics of wages in the railway field with those in the manufacturing industries and also with the cost of living, over a period of years.
The above table strikingly illustrates the situation.
The average wage of the railway employees has always been higher than that of the industrial employees. Up to 1933 the railway wages have increased more rapidly than other wages. In the face of this rise in money wages there has been a decrease in

1. Canada Year Book, 1934, page

2. Includes food, fuel, light, rent and clothing.
the cost of living, thus real wages are still higher. The suggestion is that railway wages should be reduced to conform with those of other industries. This is supported by the argument that no hardship would be entailed as cost of living has decreased.

The last year for which statistics are available shows railway wages (average) to be approximately 60% higher than the average wage for manufacturing industries. This great discrepancy is due to some extent to the fact that the manufacturing industries employ large numbers of females whereas but few are employed by railway companies. In the textile industries for example, nearly 58% of the wage earners are females. If this factor were taken into consideration the difference would be considerably less since women industrial employees receive notoriously low wages. In addition to this, the statistics of railway wages include salaries, whereas the industrial statistics do not. Thus, for 1932, if we compute the average of salaries and wages for the manufacturing industries we get the average wage of $1,021. Compare this with the average for railway wages and salaries of $1,369. The discrepancy is not so great and may be considerably accounted for by the difference in the number of females employed as explained above.

There is a small discrepancy between railway wages and industrial wages. It is impossible to determine the actual difference without taking carefully weighted averages, considering the number of women employed and the number of unskilled labourers. Assuming that there is a small discrepancy, the justice of removing this by reducing railway wages is questionable. A blanket wage reduction would distribute the burden unfairly as the lower wage groups would be seriously affected. In addition to this the wages of Canadian railway employees conform with those of United States railways and any further reduction would meet such opposition.

It is a fairly well accepted fact that wages are too low in most manufacturing industries in Canada, and especially in the textile industries. To reduce railway wages to this level is obviously a mistake, and would be opposed by most Canadians. The trend should be in the other direction, and, in general, there is a decided public opinion against wage reductions.

It is apparent, therefore, that any reduction in railway wages would be not only ineffective in producing any great saving, but would also meet with much opposition. Again, the solution offered does not strike at the heart of the problem.
E. Control of Highway Competition

No great economies could be effected through any control of highway competition. The losses to truck and passenger car are not very great, amounting to but a small proportion of the freight and passenger traffic of the railways.

However, the need for control over truck competition is great. As the Duff Commission pointed out in its Report the danger of truck competition lies in its effect upon the existing rate structure and thin traffic lines.

It cannot be denied that the motor truck offers an advancement in the transportation field. It is a service of great value and is here to stay. It is, however, becoming increasingly necessary that some form of control of this form of transport be adopted. There is room for both the railways and the motor trucks in the transport business, but control is necessary.

Today the vicious rate cutting of "fly-by-night" trucking agencies is damaging not only the railways but the truck operators themselves. Where the existing traffic is sufficient only to support one means of transport it is obviously a mistake to permit trucks to enter. It has been suggested that zones be erected where trucks might operate and where only railways might operate.

The whole problem of highway competition is a difficult one. Out of one pocket the Canadian people are paying to
make up the deficit on Canadian National railways and out of another they are paying to build and maintain highways so that trucks may increase their efforts to take traffic from the railways. Obviously there must be some form of control;— some rational basis upon which the railways and trucks may operate.

The Royal Commission has suggested a plan of control which would with a few changes and additions greatly improve the situation. This plan may be found in full in the Report of the Royal Commission, Appendix II, page 93. This plan includes, briefly, the following regulations:

(a) Schedules of rates and charges must be published.

(b) Within that schedule common carriers must accept and carry what is offered without discrimination between shippers.

(c) Operators must be insured against all risks, including third party risks.

(d) Operators must keep accounts on a prescribed system and render returns to public authorities on a common basis.

(e) Minimum standards in regard to working conditions, including wages and hours of labour should be required.

(f) Due regard must be had to the preservation of roads and the safety of the public.

(g) Similar regulations would be applied to passenger services and the whole system regulated by Provincial authorities.

Add to this plan some provision for regulating competition
between railway lines and highway transport, and similar provisions for each Province and the situation would be well under control.

While the necessity for some such control as that suggested above is very great it is not a part of the pressing railway problem under consideration in this study. It is a problem in itself and should be dealt with as such.

It is seen therefore, that while some of these plans offer room for some improvement in the railway situation, it is, at best, but a small fraction of that necessary to put the Canadian Railways in a secure position. The fault of all these suggestions is that they do not strike at the heart of the problem. Throughout Canada there is an unbelievable duplication of lines and facilities resulting in what is well termed "ridiculous waste." Until this "ridiculous waste" is eliminated there can be no solution to the problem.
CHAPTER VIII

CONCLUSIONS

This study has attempted to state clearly and concisely the problem that faces the railways of Canada. It has shown briefly how the present situation has developed, what the present financial positions of the two lines are, and attempted to show what the causes were that led up to the crisis. The second chapter indicates how far the present situation is due to new conditions in the transportation field while chapters three, four, and five compare the relative merits of Cooperation and Unification, showing the actual results of Cooperation up to 1934, and critically examining the possibilities of Unification. The final chapter includes a study of the other pertinent plans for securing some relief from the present difficulty. This presentation has omitted many factors which were not considered particularly relevant to the problem in hand, and contains but the barest facts in many cases. To go into any of the subordinate problems intensively would require months of tedious study. Many opinions have been overlooked and every possible angle of the various problems have been considered. Thus reaching the end of this study, there has been formulated a general conclusion in the writer's mind.

It must appear to anyone who really studies the situation that the problem lies much deeper than the present business
depression. The whole question revolves about the fact that "there are too many railways in Canada, and what is to be done about it?"

The Royal Commission came to this same conclusion and decided that the best solution was to adopt a policy of cooperation under separate management. Under the circumstances as the Commission saw them, this was the most satisfactory solution. It offered the quickest possible relief. Today we can examine the results of this solution. They are painfully small in comparison to the expected economies, as painted by Sir Henry Thornton and Mr. S. J. Hungerford before the Commission.

The plan for Unification is based largely upon the same type of estimate as that of Sir Henry Thornton and Mr. Hungerford. Can we expect the estimates of economies through Unification to be any more tangible than those for Cooperation? The C. P. R. plan is a detailed program of Reform. The Unification of management will eliminate much controversy and greatly facilitate measures of economy. As the outline of the C. P. R. plan shows, many of the estimated economies are possible only through Unification.

It is possible that Unification would not result in as great economies as anticipated. However, it would put the

1. See Chapter IV.
Canadian railway system upon a sound basis. There would be
great room for economies which, if not immediately available,
would become increasingly so as the years passed. The writer's
impression is that a considerable saving is possible through
Unification. It is impossible to say how much, but it is
impressive that the most prominent railwaymen of Canada accept
a sum of at least $60,000,000. This would make an estimate of
$60,000,000 very conservative.

Unification is a practical and logical solution to
the problem. At one fell stroke it opens the way to the
elimination of the most objectionable feature in the Canadian
railway situation, namely, duplication of lines and facilities.

In spite of the opposition to any form of amalgamation,
it would not prove difficult to obtain Unification. The people
of Canada, if acquainted with the facts of the case, would soon
recognize the advantages to Canada as a whole of securing a
sound basis for Canadian railways.

It cannot be too strongly emphasized that Canada's
entire economic well-being depends upon efficient and cheap
transportation facilities. The present inefficient system of
wasteful competition is a constant threat to low freight rates.
We have seen how the debt charges of the C. N. R. have
increased. Those of the C. P. R. have also increased.
### TABLE XII

<table>
<thead>
<tr>
<th>Year</th>
<th>Interest on Funded Debt: Canadian National Railways</th>
</tr>
</thead>
<tbody>
<tr>
<td>1923</td>
<td>$65,199,324</td>
</tr>
<tr>
<td>1924</td>
<td>69,632,747</td>
</tr>
<tr>
<td>1925</td>
<td>71,868,617</td>
</tr>
<tr>
<td>1926</td>
<td>71,287,687</td>
</tr>
<tr>
<td>1927</td>
<td>73,031,331</td>
</tr>
<tr>
<td>1928</td>
<td>74,318,217</td>
</tr>
<tr>
<td>1929</td>
<td>78,194,625</td>
</tr>
<tr>
<td>1930</td>
<td>84,009,997</td>
</tr>
<tr>
<td>1931</td>
<td>88,230,769</td>
</tr>
<tr>
<td>1932</td>
<td>92,490,819</td>
</tr>
<tr>
<td>1933</td>
<td>92,499,563</td>
</tr>
</tbody>
</table>

This largely due to uncontrolled competition.

As time marches on and new inventions come into the field of transportation the Canadian railways will find it necessary to secure new modern equipment. Already, Canadian railways are behind the times in the movement toward streamlined trains and "light-metal" cars. Under the present system it will be almost impossible to follow these advances without increased debt. The C. N. R. could do so only at the expense of the Canadian taxpayer.

1. Includes Interest on Public debt and Dominion Government loans. *Canada Year Book, 1934-35*
How much easier it would be for a "United Canadian Railway System" to take advantage of the new scientific advances in transportation! Expenditures would be less and the advantages more equally distributed. Indeed, this plan of "Unified Management" offers a glowing promise for Canada's future. It contemplates the elimination of one of Canada's greatest blunders. It will remove the millstone from around her neck and lighten her burden in the struggle for supremacy in the world markets.
Appendix (A)

The Case for the Canadian National Railways;

Popular Misconceptions cleared up.

An address by S.W. Fairweather, Director, Bureau of Economics of the Canadian National Railways, given before the Rotary Club of Moncton, Feb. 17, 1936.——A Summary.

Mr. Fairweather pointed out that he merely wished to indicate some of the misconceptions about the C.N.R., not with the object of developing any controversy, but to keep the record straight.

The Canadian National Railway is not the largest in the world and is not financially the weakest. Several U.S. systems exceed it in geographic extent and in gross revenues.

The contrast operation of the French railways partly by the state and partly by private interests last year resulted in a deficit of 4,600,000,000 francs, equivalent in our money to upwards of $300,000,000 as compared with a cash deficit of $47,000,000 on the Can. National.

The comparisons of the C.N.R. with other private lines is unfair, because it was not developed as a unitary system but is composed of two types of property—one type embraces the Old Colonial and other lines built for public service. The other type embraces railways built by private enterprise but which became bankrupt under private ownership. It is, therefore, absurd to judge public ownership from the results of the operation of the C.N.R.

The private lines absorbed by the C.N.R. were in debt to the extent of $1,000,000,000. These properties while in the hands of the private owners were bled white in an
Appendix (A)

attempt to preserve financial solvency. As a result the C.N.R. was required to expend sums in the neighbourhood of $250,000,000 to rehabilitate them. This, Mr. Fairweather points out, should not be charged to public ownership, but to private ownership.

More astonishing still is the way in which liabilities and annual losses of the Can. National are exaggerated. Mr. Fairweather in his capacity as Director of the Bureau of Economics has brought the "correct situation" squarely before the public. Dealing with the way in which statistics are quoted to magnify Can. National liabilities, he pointed out that duplications of figures amount to the colossal sum of $1,800,000,000. and "to that extent," he states, "the Canadian National liability as Canada's second national debt is non-existent." Against the remaining liabilities of the system, approximately $1,300,000,000, can be set the value of the property.

Equally false pictures are drawn of the annual losses. People wishing to "give public ownership a black eye by taking a crack at the C.N.R. quote distorted figures hardly ever less than $100,000,000 a year and ranging up to $200,000,000 per year.

The Can. National Railways from 1923 until well on into the depression in 1931, paid all its wages and materials on operating account, taxes, and all items of expense, except interest on invested capital, including substantial provision for depreciation and retirement of property and
Appendix (A)

amortization of bond discount—in fact, all items of expense whether immediately needed in cash or not, and had left over something as a return on the property investment. During the worst part of the depression years the property just missed doing this, but did supply more than sufficient to meet all its cash expenses, except interest.

Without any write-down in capital structure, due because of the bankrupt condition of the properties taken over, and without making allowance for the parts of the Can. National never designed for profit, the return on the invested capital prior to the depression ranged from 0.7 per cent. to 2.3 per cent. per year. If the properties not designed for profit were omitted, the return on the balance of the property would range from 1.3 per cent. to 3.1 per cent.

That the C.N.R. could be disposed of for $1 and so relieve Canada of an annual loss of several millions is a fallacy. Such a sale would not relieve the people of the guarantee upon the bonds in the hands of the public. The only difference would be that the sale of the property for $1 the people of Canada would have to pay under the guarantee without the benefit of the net available for interest—as high as $47,000,000 in a single year (What Mr. Fairweather is driving at is that Canada would have to be relieved of her guarantee with the property to profit from such a sale.)

Mr. Fairweather points out that no comparison of the operating ratios can be made as technical conditions vary between different railway systems. In a comparison of
Appendix (A)

efficiency the staff and officers of the C.N.R. will stand with the best, considering the difficulties imposed upon the C.N.R.

On the question of taxes it was shown that the C.N.R. does not receive proper consideration in the adverse propaganda distributed. The speaker stated that while the C.P.R. pays $4,100,000 in direct railway taxation the C.N.R. pays $542,000. The estimated indirect taxation for the C.N.R. is $16,000,000, and for the C.P.R. $10,000,000. So the C.N.R. foots a yearly tax bill of $21,000,000 as compared with that of $14,100,000 paid by its competitor, and in this way alone is a contributor to the public treasury on a scale that cannot be overlooked.

Mr. Fairweather states that the C.N.R. cannot be accused of aggressive expansion. He himself can see no evidence to support such an accusation and, he points out, the royal commission makes no such finding derogatory to the C.N.R.

As an Economist Mr. Fairweather remarks that he does not find the railway problem a serious threat to the existence of the country. If such were true one would find high unit transportation costs. Instead of the ratio of national wealth to invested railway capital being low, it is high. By reason of railway development national wealth has increased by an average of $10 for every $1 invested.

That the C.N.R. can never pay its way is a misconception. If Canada recovers from the depression (and who can doubt that it will?), the C.N.R. will demonstrate a very considerable earning power.
Appendix(A)

Mr. Fairweather does not consider the present financial difficulties of the C.N.R. to be insignificant or as something that can be lightly brushed aside. The system, in order to meet its interest payments to the public, had in 1934, to obtain $48,407,900 from the government, and for 1935 the amount required will be approximately $47,000,000. These sums, he points out, are very considerable amounts, and in 1934 made up 10.2 per cent. of the total federal budget outgo, and 5.2 per cent. of the total tax burden of the country. The remainder of the $115,000,000 book deficit calls for no additional cash outlay, and is non-existent in the sense of being an additional burden.

Mr. Fairweather points out that with any considerable increase in traffic, one may confidently look forward to the cash deficit diminishing until, should we return to the traffic level of 1927, it would disappear. At higher levels the system would not only easily pay interest on its bonds, but should also return a dividend on the capital invested in it by the government.

1. This summary of Mr. Fairweather’s address—"The Case for the National Railways." has been added here as an appendix to give the reader some indication of the arguments in favour of continued operation of the railways as they are.
APPENDIX (D)

Thousands of Miles of Track.

Miles of Steam Railways in Operation.
The Rate of Increase of the Number of Motor Vehicles
Registered in Canada 1913 ~ 1933
BIBLIOGRAPHY


5. Harris—Economic Aspects of the Crownest Pass Agreement.


10. Reports:

11. Various Addresses and articles by:
    2. Sir Henry Thornton.
    3. Mr. S. W. Hungerford.