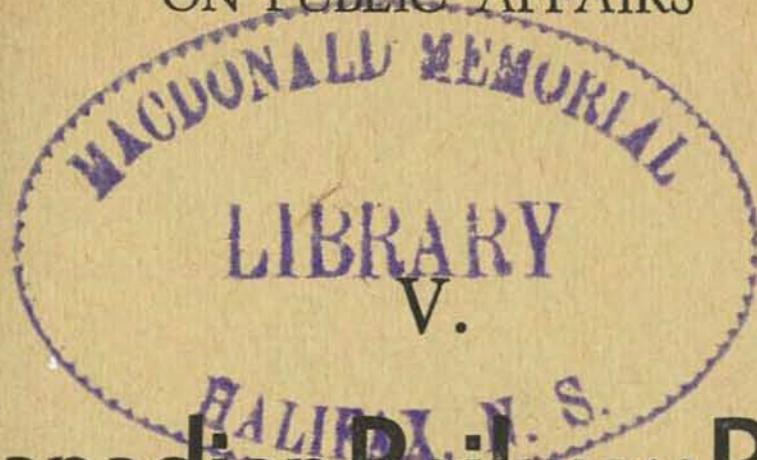


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ON PUBLIC AFFAIRS



# The Canadian Railway Problem

With a Supplement

## Competition Between Railways and Highways

By

SIR EDWARD BEATTY



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With a Supplement

## Competition Between Railways and Highways

BY SIR EDWARD BEATTY

It is with the greatest of pleasure that I have accepted an invitation to contribute an address on the railway situation to the series of discussions of public questions now being carried on under the auspices of Dalhousie University.

The functions of our universities are a subject of great interest at the present time. There is no small division of opinion between those who would encourage the general idea that universities should be guided by a policy of keeping the education which they give their graduates as general as possible in its type, and those who would make university courses highly specialized and professional in their nature and object. This is not a suitable occasion for a discussion of this subject—important as it is in its possible effect on the future of our civilization.

One experiment, in the nature of a compromise between these theories, which will unquestionably receive the warm approval of men of both schools of thought, is that now being made by Dalhousie University. Our universities can safely regard it as among their normal functions to stimulate the fullest and frankest discussion of the problems of public life.

In agreeing to contribute a discussion of our railway problem to this series I am not unmindful of the fact that the whole series is intended to be a real contribution to the formation of an intelligent public opinion in this country. As I am actually engaged in administering one of the two great railway systems of the country, my views on this problem are necessarily suspect. All that I can do is to assure you that I appreciate too highly the honour of the invitation extended me to be willing to use this opportunity as one for propaganda on behalf of any private interest. I shall try to approach the problem assigned me from the standpoint of a citizen of Canada, deeply desirous of contributing something honest and informative to the discussion of a question which affects us all as citizens.

In any discussion of the railway problem of Canada it might be well to commence by defining the problems which we are

\*This paper was given in a series of lectures on "Current Problems of Government in Canada" arranged by the Dalhousie Institute of Public Affairs.

Other lectures given in this course included: *The Crisis of Democracy* by B. K. Sandwell, *Canada's Foreign Policy* by P. E. Corbett, *Government and Progress of Education* by A. E. Morgan and *Government in Social Wellbeing* by Miss Charlotte Whitton.

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supposed to discuss. There are actually several railway problems in Canada. One is the existence of a mileage of railways in excess of the needs of the traffic available. Another is the fact that the people of this country have become involved in an amount now in excess of three billion dollars as a result of governmental railway policies to date, and that this amount continues to increase. A third is that the Canadian railways, in common with those in other countries, find themselves suffering seriously from the competition of other types of transportation.

That the first problem exists cannot be questioned. It has never been my contention that the construction of railways must be limited to those which private capital would be willing to build in order to obtain a profit. For example, not the severest critic of governmental railway policy in Canada has ever ventured to suggest that any error was made in constructing the Inter-colonial Railway. That accidents of geography and history made it impossible to find a short and economical railway route, entirely on Canadian soil, connecting Central Canada and the Maritime Provinces, was an adequate reason for the construction, at public expense, of a railway connection entirely within Canada.

Nor yet is it my contention that private railway corporations can be left entirely free to construct and operate only those railways which it suits them to build. A railway corporation which, as is the case, for example, with the Canadian Pacific Railway, undertakes to furnish a nation with transportation service, must be prepared to accept the proper status of a public utility, and to provide transportation on a scale adequate to permit the proper development of the national domain. Quite properly, of course, such a corporation would be expected to regulate its operations so that its total business can be conducted at a reasonable profit.

With all these limitations, however, it still remains a fact so well-known to all Canadians that its repetition is unnecessary, that we have succeeded, in this country, in building unnecessary duplicate lines of railway, and a considerable mileage of railway lines which are fundamentally useless in that their construction and operation do not add enough to the national income to justify their existence. This, of course, has resulted in equally uneconomical duplication of facilities, overlapping of effort and excess transportation plant generally.

I should like at this point to stress the fact that neither public nor private railways can be operated at a loss for long

without that loss becoming a burden on the nation. A public railway conducted at a loss must have that loss repaid out of increased taxation. A private railway can be operated at a loss until its capital and credit are exhausted. When that point is reached, its status as a necessary public utility means that it will, in one way or another, become a burden on the public.

We have in Canada, as I have stated, an excess of railways. We have more railway mileage per capita of our population than any country in the world. We have railway mileage enough to provide for all the population which this country is likely to have for many generations. Not a little of that mileage is, as I have said, duplicate, and therefore excessive, and certain to remain excessive even when we have completed the task of populating our half-continent.

A survey of the circumstances in which we acquired this excessive mileage of railways with its redundant facilities and other expensive consequences will lead us naturally to consideration of our second problem—the huge cost to the national Treasury of our railway adventures.

It is not uncommon to hear the statement made that the Canadian National Railway system is merely a case of private railways, bankrupted by the unwisdom of their builders and operators, being taken over by the nation to save the national credit. I venture to enter a most specific objection to this statement. I have already pointed out that the Intercolonial Railway was a reasonable attempt to meet, at public cost, a geographical problem with which private capital was not prepared to cope at that time, and the solution of which was vital to the national interest. The Grand Trunk Railway was a private corporation which did suffer from certain mistaken policies of its owners, but the Grand Trunk survived for many years, and might have survived forever had it not been wrecked by its unfortunate participation in the grandiose Grand Trunk Pacific-National Transcontinental adventure. It is totally impossible to pretend that this adventure was one of private capital intelligently seeking profit. We are still too close to that period of our national history not to know how directly political ambitions and too free a grant to private enterprise of public credit played a part in producing this disaster.

In exactly the same way it can be asserted that the Canadian Northern was not wrecked solely by the errors of private capitalists. In its original form—a network of prairie lines—the Can-

adian Northern showed every sign of becoming a profitable and valuable property. It was wrecked by the rash decision to make it a transcontinental system—and no one who knows the railway history of this country will attempt to deny that political ambitions and pressure played no small part in that.

On June 30th, 1916—when our railway problem was clearly taking shape—Canada had a railway mileage of 36,985 and an estimated population of eight million people. During the period of political encouragement of excessive railway building, railway mileage had increased far more rapidly than the development of the country would justify. In the sixteen years then ended railway mileage had increased by 110% and population less than 51%. The Government of that day found itself, during the greatest war in history, faced by the necessity of a decision concerning its railway policy in the immediate future. It had, from the first, aided private interests in the construction of railways. It had made contracts with private interests for the construction of the Grand Trunk, the Canadian Pacific, the Canadian Northern and the Grand Trunk Pacific. In every case, it had, as part of these contracts, furnished aid, either in cash, or in land grants, on condition that private syndicates would complete and operate certain railway lines. Of all these syndicates, the Canadian Pacific Railway alone had succeeded in carrying out its contract, and thus honestly earned its grants. The Grand Trunk, Grand Trunk Pacific and Canadian Northern were now all either insolvent, or facing the certainty of insolvency. The Government had made large advances to these three companies in an effort to keep them in existence. Before these railways finally faced inevitable insolvency they had received from the Government cash aid to the extent of \$175,932,666, and guarantees of bond issues in the amount of \$115,102,762—a total of \$291,035,428. In addition the Government had, up to March 31st, 1916, as part of the ill-fated Grand Trunk Pacific-National Transcontinental adventure, spent \$178,176,379 on the construction of the line from Winnipeg to Moncton, and had incurred on Intercolonial Railway and Prince Edward Island Railway account a debt of \$126,607,932.

If you will read the House of Commons debates of those days you will notice that the one thing which concerned the legislators of Canada at that time was how to end the Government's ceaseless pouring of money into railway adventures. A Royal Commission recommended the incorporation of the Can-

adian Government Railways with the Grand Trunk, the Grand Trunk Pacific and the Canadian Northern. While the Government of the day did not follow all the recommendations of this Commission, it did commence this general process, and, by 1922, the consolidation of these properties was completed, and the Canadian National Railway System assumed what is substantially its present form.

When the railways were taken over, the Government was involved on railway account through losses, borrowings and other commitments to an amount of \$1,334,000,000. These aggregate now in excess of \$3,000,000,000. Today we seem to worry less over the continued pouring of money into these adventures than over ways and means of hiding their cost.

So accustomed have we become to dealing with these astronomical figures that it is perhaps necessary to bring them in some relation with facts which we can grasp, if we are to appreciate what they mean. An American statesman not long ago pointed out that, had someone commenced to count out one dollar every minute at the commencement of the Christian era, he would but recently have completed the counting of a billion.

It is not my intention to discuss at this time the details of the process by which the debt of the publicly owned railways more than doubled in ten years. A second Royal Commission dealt with this in 1932, and its findings are generally known.

So much for the history of our second railway problem. Let us consider where it stands today. At present it can be measured by one of two figures. The management of the Canadian National reported last year that the System had incurred a loss of \$115,281,689. Parliament last year voted \$47,500,000 to cover the so-called cash deficit, and various authorities suggest that this is the total monetary loss. The difference arises in this way—\$35,000,000 is interest due by the Railway to the Government on money loaned by the latter, and while interest is not paid by the Railway it is paid by the Government to those from whom it borrowed the money. While, therefore, it is not a cash item with the Railway, it is very much a cash item with the Government. The largest part of the balance (\$31,000,000) is for the retirement of equipment and other property. This is a definite part of the loss. In part (the greater part) it represents unaccrued depreciation, omitted from recorded losses of prior years, and in part the discard of a capital investment no longer economically usable.

Large as are the losses shown by the Railway books, the true total is not recorded therein, since, owing to certain accounting policies permitted by the Government, they gravely understate the actual situation. For example, the Canadian National Railways have not been charged with any interest on the \$404,000,000 representing the cost of the Intercolonial, National Transcontinental and other Government Railways—although the Canadian National System enjoys the use of these lines and derives substantial traffic from them. Nor has the System been charged with the deficits of its Eastern Lines since July 1st, 1927, nor with any deficits on the entire System from January 1st, 1932. It is thus a fact that the figures given in Government publications of \$2,809,472,323, representing the actual debt of the Canadian National Railways at December 31st, 1935, is not too great, but too small, and that the actual obligations of the Government on this account are today in excess of \$3,000,000,000.

It has been suggested, following in general certain recommendations made by a firm of accountants, that the accounts of the System should be kept on such a basis as to reduce the deficit for 1935 from over \$115,000,000 to \$47,500,000.

The argument offered in favour of this is that the real deficit of the System is the difference between its net income and the interest which it must pay on the portion of its debt which is due the public only. Of the System's debt at December 31st, 1935, \$1,154,779,000 were of this nature—the remaining \$1,654,693,322 being due the Dominion Government. It is alleged that the Canadian National Railways should be entitled to the free use of all the money advanced it from the National Treasury both for capital purposes and for deficits.

It is claimed that, as the railway obligations to the Government are contained in the books of both the Company and the Government, there is a duplication which causes confusion and leads others to exaggerate the amount of our national debt. No one with any knowledge of accounting and with the figures before him could make such a mistake. Both debtors and creditors—if of business habits—keep books. The debtor "A", if he owes \$1,000 to "B", shows it on his books with annual interest, if unpaid, as a liability, and "B" shows it (in whole or, if collection is uncertain, in part) as an asset on his books. Anyone who is confused by seeing the same \$1,000 on the books of both debtor and creditor and adds them together does not deserve to have the privilege of reading railway balance sheets.

I have considerable sympathy with the obvious desire to make sure that the operations of the Canadian National Railways do not appear more unprofitable than they really are. As a citizen of the country, however, I have no sympathy with any attempt to lead the people of Canada to underestimate what our railway policy to date has cost us.

The whole theory of recapitalization is obviously dominated by a misconception. The Canadian National Railways is not a private corporation. While it has this legal form it is, for all practical purposes, a department of the Dominion Government. It can never divest itself of one dollar of obligation by any process of writing off or of bankruptcy. Every dollar which the Government has ever advanced to the Canadian National, and every dollar which the Canadian National owes the Government, and fails to pay, either for principal or interest, represents a dollar which the Government of Canada borrows from private capitalists and will pay back. The Government of Canada is involved, as a result of its railway adventures, to an amount in excess of three billion dollars. The annual burden on the taxpayers of this country as a result of these adventures is the interest on at least this amount of money, less any net operating profits which the System may produce.

I can see that a plan to write off the Government's past expenditures on the Canadian National would make the deficits of the Canadian National Railways appear less than they are. I say, without fear of contradiction, that the Minister of Finance, who is the custodian of the public funds in this country, cannot pretend for one moment that the losses of the Canadian National Railways, recorded in 1935, to be paid by the people of Canada were less than \$115,281,689, or that any readjustment of book-keeping will alter the facts of the case by one cent.

It is, in my judgment, absolutely essential that the Government of Canada give the people of Canada annually a correct statement showing the financial consequences of our past railway policies, and this can only appropriately be shown on the books of the Canadian National Railways.

These two first railway problems are one for the purpose of solution. When those who view the solution which I have offered—viz., that of unification for the purposes of administration—with suspicion allege that it will not work, I venture to suggest to them that proved foresight should be given some value in considering such a question. The officers of the Canadian

Pacific Railway repeatedly pointed out to the Government that one transcontinental system was all that the commerce of this country could support. They pointed out that the Grand Trunk was making a grave error in attempting to enter the Western field. They pointed out that the Canadian Northern would be well advised to limit its operations to the prairie provinces. They pointed out that a railway to Prince Rupert would not furnish an important outlet for Western wheat. They pointed out that a railway from Winnipeg to Moncton, built to carry grain for export, would not enjoy that traffic. They pointed out that the Hudson Bay Railway, which has to date cost \$70,000,000, and handled 17,000,000 bushels of wheat, would not be economically sound. My immediate predecessor in office, the first Lord Shaughnessy, suggested to the Government of the day, in 1917 and 1921, that the only method of avoiding the waste of hundreds of millions of dollars would be a unification of Canadian railways at that time. No man can contradict the correctness of any of these forecasts. Events have proved that they were right.

Unfortunately for this country, however, there have always been in it those who would try to prove that every use of private capital and enterprise to develop its natural riches constitutes a robbery of the people. It is not my intention to suggest for one moment that no looting of the public domain has ever taken place. It is not my intention to argue that either the Canadian Pacific Railway or any other man-made institution in this country has been always wise or just in its policies. I do say, however, that it is regrettable that it has been possible so often to stampede our people into unwise and costly policies by appeals based on the size and alleged power of the corporation with which I am connected.

Thus, when in recent years it has seemed necessary that, since no one else would do it, I should draw the attention of the citizens of Canada to the waste of money involved in our present transportation methods, the suggestion has been met, in many quarters, with arguments based on prejudice.

Some really important arguments have been offered against the project of unifying the railway systems of this country. It has been alleged that serious damage would be done to the interest of railway workers. Obviously, any programme of saving money is a programme of saving labour. It was for this reason, among others, that the present Dominion Government undertook the amalgamation of the Department of Railways and Canals, and

the Department of Marine, into the Department of Transport. It is with this object that other departments have been amalgamated into the new Department of Mines and National Resources. It is exactly in this spirit that Mr. Hepburn, Premier of Ontario, has recently suggested measures to coordinate the work of Provincial and Dominion Departments of Agriculture. In exactly the same way my suggestion has been that we might coordinate the operations of the two railway companies, and I am entirely willing to admit that the object is, to no small extent, to save labour. Every item of modern progress has arisen from efforts to save labour.

It has been pointed out, however, that there is no intention to sacrifice the interests of labour. Rationalization of the railway situation will require some years, and the ordinary turnover of labour will in all likelihood provide the greater portion of the savings necessary, without the need of discharging large numbers of railway workers. In addition, it may be definitely accepted that any plan of unifying the railways would make reasonable protection for labour a first charge against the savings so made.

Actually, unification should only be considered if it can be proved that it is as much in the interest of labour as it is of capital. Labour can only prosper as the undertakings in which it is engaged are prosperous. The present situation of the railways is such that both companies are finding it necessary to economize very drastically. They are both engaged in active attempts to replace labour by increased application of mechanical power. They are both forced to apply to the Board of Railway Commissioners for permission to suspend the operation of branch lines of very light traffic. They are both forced to take a very firm stand against undue increases in their present labour costs.

I do not suggest for one second that under unification we could adopt a policy of reckless disregard of labour expenditures, but I do say that unification will greatly ease the pressure which is at present driving the railways of this country to seek every possible method of cutting the amount of labour employed.

On the whole, public opinion has shown a reasonable appreciation of the logic of these arguments, and it is only rarely that anyone now raises the labour question as an objection to unification.

Another reasonable objection to unification has been the fear—quite unfounded in fact—that it might create a corporation which would be monopolistic in its policy. In the first place,

the railways are far from being monopolistic in their position today. The competition of other forms of transportation is exercising a powerful effect in the direction of every possible reduction of railway charges for service, and of every possible device for improvement of service. Secondly, it has been pointed out that it is taken for granted that the Government would not, once unification were accomplished, lessen in the least that strict supervision of railway rates and service which now lies in the hands of the Board of Railway Commissioners. On the contrary, I have repeatedly urged that unification should be accompanied by a definite strengthening of the powers of the Board. In this case also public opinion seems to have come to realize the folly of fear that unification might produce ill results.

The next argument against unification is really the only one which still persists. It is simply an appeal to prejudice, always couched in the phrase that unification will mean the turning over to the Canadian Pacific Railway of the property of the Canadian National, while leaving the debts of the publicly owned system still on the shoulders of the taxpayers.

Perhaps the best way of illustrating the folly of this statement is to consider, in terms of other forms of business, exactly what unification would mean. Let us suppose that in the City of Halifax there are two stores engaged in identical forms of business; about equal in size and volume of business; and suffering acutely from competition for a volume of business too small to stand the unnecessary overhead. Let us suppose that the suggestion is made that the A company and the B company should merge their operations. The plan is that each company will remain the property of its present owners; that an operating company should be set up, in the direction and management of which both the existing companies would have fair representation. This company would then, as economically as possible, operate the two businesses as one, and the savings made by removal of duplication would be divided between the two groups of owners, or accrue to workers and customers.

Under such a plan would it be possible to assert that the A company had taken over the B company any more than that the B company had taken over the A company?

In so many words I assert that it is at least as true that railway unification, as I have suggested it, would be handing over the Canadian Pacific to the Canadian National as it is to say that it is handing over the Canadian National to the Canadian Pacific. I do not suggest, either directly or by inference,

that the publicly owned railway of this country should be turned over to private interests, and it is a simple truth that anyone who uses this description of railway unification either misunderstands what I have said, or deliberately misrepresents it.

Let us admit frankly that this plan would not remove the entire burden of railway debt from the taxpayers of Canada. The savings made by unification would be insufficient to meet immediately the annual obligations of the Government on railway account. Various estimates have been made up of the amounts of these savings—ranging from an estimate of \$56,000,000 per annum made by a Canadian National Railways officer to one of \$75,000,000 per annum by officers of the Canadian Pacific. It would, of course, be a necessary part of this arrangement that these savings would be divided on some agreed basis between the owners of the two railways. Whatever estimate of savings is taken, however, under any conceivable arrangement as to the division of these savings, the relief to the Treasury of Canada would be important. Is it argument to say that, because what I suggest would not at once relieve the people entirely of their intolerable burden, we should refuse the substantial relief that can be obtained? Actual calculation has convinced me that the relief to be obtained by unification would be a major step to the balancing of the national budget. I suggest that, if the opponents of unification would take the trouble to prepare figures, showing what the cost to the people of Canada for the next ten years would be, with and without unification, their opposition, if honest in intent, would vanish at once.

Actually I believe that the only real argument against an intelligent and business-like solution of this problem is that offered by those who assert that it is politically impossible. I am unfamiliar with the mechanics of politics, and I am usually willing to take the opinion of specialists in this matter. When, however, I note that those who argue that railway rationalization in Canada is politically impossible are exactly the same men who do what they can to make it impossible by misrepresenting it and by creating prejudice, I begin to doubt the accuracy of their statements. It is impossible for me to believe that the people of Canada would for one moment hesitate to adopt an intelligent and business-like programme, intended to relieve the Treasury of unnecessary losses, provided the programme were put before them honestly and courageously by an Administration determined to give the taxpayers of this country what justice is possible.

There is no question of political prestige or consistency involved. The present situation was not produced by one political party. The voters of this country are not children. They appreciate courage and genuine leadership, and they will not hold it against any public man that he permits the pressure of circumstances and the logic of events to bring him to see truths which at one time he may not have seen. As I have said, I am no politician, but I know this much about Canadian politics.

The third of our railway problems is one on which it is possible to obtain more immediate and general agreement. The Canadian railway systems are today suffering acutely from the competition of highway and waterway carriers. Even in the discussion of this problem attempts at misrepresentation are not infrequent. There are those who attempt to interpret every move in the direction of solving a serious problem as being intended to legislate other forms of transportation out of existence, for the benefit of the railways. I believe that I speak for all railway men in Canada when I say that we do not believe that railways have special rights or privileges. The important problem before this country is to provide its people with transportation services as cheaply as possible. If, as conditions change and new methods come into use, the railways are unable to furnish transportation as cheaply as other agencies, then the railways must adjust themselves to circumstances as they are.

On the other hand it is impossible to measure the relative cost and value of different forms of transportation by considering merely the charges which they make to the public. The question before us is a simple one—if we take into consideration all the costs, are highway and waterway operators giving the people of this country as cheap transportations as that which can be obtained from the railways?

The only methods by which this question can be answered is, in my opinion, to make certain that each form of transportation pays all its costs. If we are to continue a policy under which any form of transportation may charge part of its cost to the general revenue, we shall never know which type of transportation is the cheapest. Each form of transportation should meet its entire costs from the charges paid by its users. Those who use railways should pay for railways. Those who use highways and waterways should pay for them.

In such a condition it is my confident belief that the railways of this country would not only maintain their present share of

the country's transportation, but would actually regain much that they have lost to competitors using rights-of-way, furnished in part or in whole at the charge of the public revenue.

It is important not to confuse our thought on this question of competition between railways and other forms of transportation. In a deliberate and planned attempt to meet this competition, and, indeed, to stimulate revived interest in railway travel, the railways in many countries have recently undertaken quite elaborate plans for improving and cheapening their services to the public. This is common sense. The railways must constantly progress, and I am one of those who urge unceasing study of improved methods of railway service. On the other hand, however, experience is already making it clear that recent improvements in railway service are sufficiently costly to make it difficult to foresee great extension for them in present circumstances. So far they have, as far as railway men can see, indeed increased the volume of our business, but at such cost as to make the net results not very impressive.

This condition is partly due to the fact that we are only now emerging from a condition of general business depression, and it is my hope and belief that improved methods of railway service will yet meet a deserved reward in increased net revenues. I merely point to the record of their results to date in order to remove finally the much touted idea that all that the railways have to do to meet competition of other types of transportation is to improve or cheapen their services. The problem is far deeper rooted than this and its complete solution in the best interests of the public as well as of the railways, must await the adoption, by public authorities, of sound measures of finance and control in connection with highway and waterway transportation.

Nothing which has occurred in recent times offers more promise of a genuine solution of this important transportation problem than the announced intention of the Minister of Transport to provide machinery for dealing with it, as far as it comes within the jurisdiction of the Dominion Government. I take it as certain that the Government intends to insure equitable treatment as between railways and waterways which come directly under control of the Dominion. The case of the highways, however, is somewhat different. There is, at this point, the question of division of authority between the Provincial and Dominion Governments. It is with warm approval that

railway men see the Minister of Transport facing this problem, and it is to be hoped that public opinion in the country at large will realize the necessity of proper action. We can only hope that in attempting to obtain such action, narrow interpretations of Provincial rights or petty jealousies between our governmental authorities may not interfere to prevent a solution of a most serious national problem.

The country is indeed fortunate that it is served, in this important respect, by a Minister whose public statements show a full appreciation, both of the problem which faces him, and of the measures which must be taken to solve it.

It has been my intention in this address to deal with the transportation problems of Canada soberly, honestly and frankly. I ask you to look at the map of this country. Canada is, and will remain, a series of communities stretching across a continent, along the northern boundary of one of the greatest of all nations, and isolated from each other by natural barriers. When we decided to make the colonies of British North America into a nation we committed ourselves to adventures in transportation such as no people of our numbers have ever undertaken. That we have made errors in dealing with these problems is not to be doubted. The facts which face us today prove that this is so.

Once, long ago, we had a national transportation policy in Canada. Excited by rapid expansion of our national activities; stimulated by rivalries between groups of private interests; misled by temptations to make political capital out of national problems; tempted by opportunities for sectional jealousy, and the favouring of local and class interests, we have allowed ourselves to forget that Canada is an adventure in geography and a problem in transportation. Is it too much to ask that now, before it is too late, the people of this country forget prejudice and local pride, political partisanship and petty greed, and set their hands to the task of making, from the debris of our errors, a national transportation system which will permit us to go confidently along the road of developing half a continent to make a nation?

# Competition Between Railways and Highways\*

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I welcome the opportunity of discussing the subject of competition between railways and highways, because it is apparent that there is a widespread misapprehension of the position of the railways with respect to the protection to which they think they are entitled, and with respect to the measures which they have taken hitherto in the interest of self-preservation.

In Canada the loss of passenger traffic due to the operation of private motor cars began to assume considerable proportions in the second decade of the century, but the real effect of the competition of commercial road vehicles—passenger and freight—did not make itself manifest until we came to the years of the great depression.

During the severe depression from which we are just emerging there was a noticeable increase in the proportion of the traffic which was diverted from the rails to the road. The increase came from several causes.

In the first place individuals engaged, during the good times, in many other types of business, found themselves unemployed or otherwise deprived of occupation as a result of the collapse of business. Many of them had available some capital or credit, and the tendency was for many of these to seek a new outlet for their activities in the purchase and operation of one or two motor trucks. In the second place, the great programme of highway construction and improvement which had been commenced during the boom years was continued during the depression, and, indeed, the desire to find useful public works as a corrective for unemployment actually intensified the road improvement programme. In the third place, the highway transport industry is still a comparatively new one in its present form, and is still in the stage of experimentation through which the railways passed in the years when we built too many in Canada.

For all these reasons there was a real expansion in the highway transport industry during the depression years.

\*This important problem was, owing to lack of time only slightly touched upon in the paper given under the auspices of the Institute of Public Affairs. Sir Edward Beatty has therefore kindly agreed to make it the subject of a special supplement. It is partly based on a paper given before the Engineering Institute of Canada at Hamilton, Ont., on February 6, 1936.

In addition, as the total volume of commerce in the country was declining in these years, and especially commerce in those primary products and raw materials of construction in which the railways have best held their position, the total railway revenues from transport services showed a marked decline, and the increasing volume of highway transport seemed to be depriving the railways of a greater percentage of their earnings than was actually the case.

Arising from these real and apparent factors, there grew up in the country marked criticism of the railways for their supposed failure to meet highway competition. This criticism was, in turn, accentuated, partly by the gratuitous contributions of that large number of our people who, during the depression, suddenly assumed the status of authoritative commentators on economic questions, and partly by contributions from those who, in an effort to avoid the difficulties of a logical solution of our railway problem, sought to argue that the real trouble with our railways was not too many railways, but too many highways, or, at least, the failure of our railways to meet highway competition.

From all this there was built up a quite generally accepted belief that the railways had been entirely negligent of their own and the public interest, and had, by too conservative an attitude, failed to adjust themselves to changing conditions.

It is thus today reasonably assured that any criticism of the developments of recent years in connection with highway transport coming from a railway officer will be taken by many as an attempt to draw a herring across the trail, and to defend the railways by evading discussion of their own mistakes.

This situation must be faced quite frankly. It will be necessary first to consider the justice of those criticisms of the railways which have been made, and, after this, to turn to an examination of the whole question of highway transport in itself.

On the first point I might suggest that it would have been impossible for intelligent railway men to have fought the development of highway transport in its early stages. What were the railways to do when the motor car came into general use? Is it realized that during the great boom, and during the depression, motor-cars, motor-trucks and refined petroleum and its products have been among the most important items in our railway freight business? In 1929, for example, out of a total steam railway freight in Canada of 115,187,028 tons, and out of a total freight haulage of 32,471,409 tons of manufactured and miscellaneous

commodities, motor-cars and petroleum products contributed no less than 5,687,792 tons of freight—and that of the highest classes. Wheat, coal, gravel, sand and stone, and lumber—all low grade commodities—were in that year the only specialized commodities listed as giving more business to the railways than we obtained from motor products and refined petroleum. Even in the bad year of 1933, out of 57,364,025 tons of freight on Canadian steam railways, and out of 14,239,120 tons of manufactures and miscellaneous, motor-cars, motor-trucks and petroleum contributed 2,748,716 tons of freight. In that year only wheat and coal, of all the specified groups of commodities, gave more business to the railways. Railway men are not given to trying to block the development of new industries. The internal combustion engine has added tremendously to human wealth in this and other countries. It was inevitable that it would take business from railways as well as give it to them, but railway men have to be logical and fair minded, and remember that the internal combustion engine has brought them gains as well as losses.

After these losses began to take shape the critics of railway management argue that the railways should themselves have entered this new form of transportation on a large scale. I cannot answer this criticism better than by asking you whether you believe that it has been unwise for the railways to refuse to enter a business which has, on the whole, and in the absence of reasonable and intelligent regulation, proved unprofitable. Vast amounts of capital have been lost in highway transportation enterprises. On the whole the business finds itself unable to give the workers in it fair wages and reasonable conditions of employment.

Indeed, so marked is the dissatisfaction of many of the more intelligent transport operators on the highways with conditions as they are that, both in the United States and Canada, much of the most active support for regulation of highway transport has come from them.

Critics of railway policy have suggested quite freely that a proper method of meeting highway competition would have been for the railways to have adjusted their general rate fabric in an effort to keep the field to themselves. One fundamental objection to this is that it is even today difficult, if not impossible, for the railways to discover precisely in what fields highway transport has a genuine advantage. There are cases where highway transport has a flexibility which would lead shippers to employ it at

considerably higher rates than the railways charge. There are items of highway transport which the railways frankly regard as entirely impossible for them to obtain by any conceivable lowering of rates.

About all that the railways can say on this point is that, over all, the actual average charge made by Canadian railways to shippers for transporting a ton of goods one mile is somewhat less than one cent. The actual average charge of motor-truck operators for a similar service seems to be somewhat in excess of  $2\frac{1}{2}$  cents. The railway rate is, for obvious reasons, not the same for all goods. The ability of goods to stand the charge for transport is a factor. Wheat and other primary commodities of comparatively low value per ton can and therefore do pay less per ton mile than can and do commodities of high value per ton. The railway freight rate structures are highly scientific affairs, and not hit-and-miss confusion, as uninformed critics sometimes suggest. On the other hand, highway transport charges are essentially hit-and-miss affairs, based on no economic theory, but made in a rough and ready fashion to get traffic wherever it can be obtained.

It must be obvious that in such a situation the railways could not conceivably meet highway competition by reckless reduction of rates. All that would have happened would have been that truck rates would have been reduced still further.

Actually the railways have made widespread and important reductions in specific rates to meet highway competition. Many of these reductions have failed to regain the traffic. Others have been more successful.

Other critics have suggested that the railways were negligent in not improving and speeding up their services. That is entirely incorrect. Railway practice has never been static. Despite financial difficulties resulting from reduced traffic, railway service has been greatly improved. Passenger train and—still more notably—freight train schedules have been accelerated; pick-up and delivery service has been applied where it is economically justified, and the most superior and convenient types of rolling stock have been introduced. The cost of air-conditioning passenger equipment alone has involved the expenditure of millions of dollars. The railways will continue, as rapidly as they can, to prove their service, but it is entirely erroneous to believe that, by some drastic series of changes, they could have prevented highway competition from reaching its present stage of development.

There are, of course, the usual number of critics who have some new and special method of revolutionizing all railway practice to meet highway competition. Suggestions of this kind are always examined by railway officers with the greatest care. So far none of them have proved useful.

Yet another group of critics suggest that the railways should, from the first, have entered transport field on such a scale as to prevent others from developing it. This is simply a statement that the railways should, from the first, have requested provincial governments to give them a monopoly of highway transport. In no other way could they have prevented others from engaging in it. Great corporations are usually at a marked disadvantage in engaging—except under a monopoly franchise—in any enterprise in which individuals with small capital may readily enter. Great corporations are very obvious objects for regulation by public authority and heavy taxation. They are held rigidly to their responsibility for the safety of person and property committed to their care. They must, in accordance with modern social customs, maintain reasonable standards of wages, and good working conditions. Small operators have more freedom in all these respects.

In so many words, had the railways attempted to enter the highway transport field—except under monopoly franchises—they would have lost far more money than they have ever lost by highway competition as it has been conducted.

This is the defence of railways against the charge of negligence or delay in meeting highway competition. Let us turn now to consider the highway transport industry in itself. With no doubt in the world that railway practice in this country can be improved, and can benefit from the advice of others who are not professional railway men, I still assert, for the reasons which I have given, that the solution of the problem lies only in part along this line. What I regret is the apparent indifference of too many of our citizens to aspects of the highway transportation situation which should concern them as citizens and taxpayers, rather than as friends of the railways.

It is not my intention to argue at length concerning the vexed question of the contribution which commercial highway transportation makes to the upkeep of our highway system. In fact, I am fairly confident that there is no precise economic formula as yet developed which can be applied to fix, with definite accuracy, the taxation which should be paid by highway transportation interests in Canada.

To me the problem is a far more important one. In 1935—the last year of record—the Dominion, the Provinces, and the rural municipalities of this country spent on highway maintenance \$24,464,428. In the same year the annual interest and sinking fund on provincial government funded highway debts amounted to \$25,587,461. The total annual highway expenditures were thus \$50,051,889. In the same year the total revenue from taxation on motor vehicles and the use of gasoline was \$55,042,267, of which \$454,347 was revenue derived from bridge and ferry tolls.

On the face of it, it would be easy to assume that the public authorities were obtaining a revenue from highway sources in excess of their expenditures for highway purposes. I do not believe that this is the case.

The figures were taken from the published documents of the Dominion Government. It is not my intention to criticize the accuracy of provincial public accounts, but I may be permitted to point out that the figure showing interest and sinking fund on provincial government funded highway debts of \$25,587,461, as I have given it, cannot be one fully reflecting true cost. The same public documents show total provincial highway debt to the end of 1935 of \$492,294,334. Proper provision for depreciation and sinking fund would require at least an additional \$48,000,000. It has been estimated that a further sum of more than \$600,000 is annually expended on police forces to patrol the highways. Add these sums to the admitted maintenance and interest cost of over \$50,000,000, and a total true annual highway cost is obtained of over \$99,000,000 as compared with provincial revenue from highway sources of \$55,042,267.

There are other reasons to doubt the accuracy of the published figures of highway costs and revenues.

In the first place, in recent years the rapidity of the process of improving the standards of highway construction has tended to interfere with correct accounting. In many cases the capital expenditures on highways by provincial governments include charges which, in my opinion, should have been maintenance charges. Where, as often has been the case, a gravel road has been constructed, and then replaced by a tar macadam road, and this in turn by a concrete road, is it good accounting to treat the three phases of construction as all capital expenditures? It must be obvious that it is a very dangerous accounting practice to accumulate capital charges as the result of replacing highways. Good accounting practice requires that, in such a case, the cost

of the highway which has been replaced be written off, and, in practice, this means that money borrowed to build a highway should be repaid out of current revenue during the life of that highway. In so many words, the replacement of a highway by another of superior type is essentially a maintenance operation, and should not be reflected in increased outstanding capital obligations. The cost of the replaced highway should be amortized during its life, or be charged to maintenance.

In the second place, the figures collected by the Dominion Bureau of Statistics, and given above, cover only capital and maintenance expenditure on provincial highways and provincially subsidized highways. The side roads of rural municipalities and small towns, and the enormously costly street systems of our great cities are all integral parts of the highway system which highway transportation interests use. The actual costs of constructing and maintaining our highway systems are far in excess of the figures which I have quoted.

In the third place, the custom of accounting in connection with highway expenditures is neither well defined nor uniform in this country. The cost of maintaining the engineering and supervisory services of provincial highway departments; the cost of snow removal in cities as a result of the employment of motor-cars; the cost of traffic lights and other protective methods—these should all be included in the total cost of highway transportation if we are to obtain an intelligible figure.

I well realize the complex question which arises when we consider the streets of one of our great cities. It has always been a function of a modern city to maintain streets for its citizens to use, and to maintain them out of the general taxes of the city. It is a nice question, which I recommend to your consideration, whether this principle can be considered as covering all those great costs placed on our city administrations by the coming of the motor-car. Certainly there is something economically unsound in the assumption that a motor-truck driving from the centre of Montreal to the centre of Toronto should be taxed only for the maintenance of the provincial highways between these cities, and should pay little or nothing for the use of the terminal facilities at each end. It would be very much easier for the Canadian Pacific Railway to make profits than is the case today had it free terminals furnished in the cities.

It is easy to understand why it is impossible to obtain a full and proper accounting of highway costs and highway revenue

when these complexities are considered. I have no hesitation in saying that the highway revenue of our public authorities as a whole is entirely inadequate to meet their highway expenditures.

That, however, is not the most important question. The vital point is that the public authorities of this country today—Dominion, Provincial and municipal alike—find themselves dangerously close to a point of financial embarrassment. It does not matter, from this point of view, whether they have diverted highway revenue to the support of schools and hospitals, or whether they have taken money from the general tax fund to cover highway expenditures. The important fact is that they are all feeling financial strain.

I should like to record the opinion that, with a few regrettable exceptions, the public authorities of this country will, by strict economy and by the willingness of the taxpayers to bear added burdens, be able to meet their obligations. It must be clear, however, that the time has come when we must consider most seriously the necessity of limiting or even reducing those obligations. We face the end of the period during which increase in public debt could be recorded with indifference.

One of the major functions of provincial and municipal authorities today is to maintain our modern highway system. The value of this to our people is enormous. Its construction—as those old enough to remember a previous time well know—has revolutionized the life of the country. It is unthinkable that the people of this country should be willing to revert to the era of mud roads, and to a condition in which highway travel in this country was uncomfortable for part of the year and impossible for the rest.

We have in this country made great investments, based on the assumption that our modern highway system can be maintained. The great motor factories; a tremendous investment in facilities for the service of highway travel; indeed, the livelihood of a great number of our citizens all rest on the foundation of our modern highway system.

It is thus with the deepest concern that I see a time approaching during which the ability of our public authorities to maintain this system may be imperilled.

There have been mistakes made in planning it. Too much of its mileage has been constructed to parallel older and entirely adequate systems of transportation. Too much of its mileage has been built in districts where the density of traffic will not

support the cost of the highways. Too much money has been expended in converting roads built for pleasure travel into rights-of-way for heavy commercial vehicles.

It is not unusual when I discuss the subject for me to receive the answer that in no circumstances will the people of this country accept a reversion to the use of poorer highways. I am afraid that we have built too much of our economic system in this country on the assumption that people will not accept certain things. The people of this country will accept what they can pay for. The ability of public authorities to raise and spend money is not without its limits.

For these reasons I regret to see too little of the thought and discussion of the people of our country given to a problem of great magnitude which should concern them deeply. Desirable as it is that our country should maintain its present system of modern highways, it is by no means certain that we shall be able to do so. Those charged with their maintenance, will, I fear, during the next few years be faced with serious problems in the direction of lowering their expenditures and increasing their revenues. I offer that thought to every owner of a motor-car and to every taxpayer in this country.

I trust that we shall hear a little less in the future of the highway problem as though it consisted merely of competition afforded to railways by a newer form of transport. Were that all, the problem could be solved by a simple process of "laissez faire". Difficult as might be the solution for railway men, they would have to face it.

The problem is, to me, however, really one of public finance, and as long as the taxpayers of Canada fail to make their voices heard on this point, so long will our very serious and growing highway problem fail of solution.

During the last Session of Parliament, the Minister of Transport made a courageous attempt to persuade the Parliament of Canada to deal boldly with this question. Unfortunately, the real or fancied dangers of a clash between Dominion and Provincial jurisdiction, were exploited to defeat his effort—precisely as I had ventured to warn might be the case in a recent speech made in Halifax under the auspices of Dalhousie University.

It is my sincere hope that the fact that difficulties exist in the solution of the problem will not prevent a concerted and loyal attempt on the part of all public authorities concerned, to deal wisely with it.