THE RAILWAYS—A PLEA FOR UNIFICATION

BERNARD LANDE COHEN.

I

CANADA'S railway problem becomes more comprehensible when we realize that nearly all other countries are facing similar difficulties, and not in Canada alone is public ownership bound up with the question of railway deficits. Railways throughout the world, even when originally in private hands, have tended to become more and more a government enterprise, so that to-day the greater number are owned and operated by governments. Now government ownership can be avoided only if the return on freight and passenger service be sufficient to cover the cost of operation and pay a return on the capital invested. If each country were a closed economic unit, it would be simple to adjust rates according to these needs. But freight rates, like other values, are subject to world-wide fluctuations, and it follows that they are not really determined by the cost of operation, but are influenced far more by the corresponding tariffs of neighbouring countries. Rates must be made low enough to draw the traffic of foreign countries, and also to encourage exports. The railways of any civilized country are thus part of an international system nearly to the same extent as are its banks, and so freight rates like interest rates fall under the sway of world conditions. Bearing this in mind, we easily understand why freight rates are rarely high enough to maintain a railway, why government ownership is usually a matter of necessity, and why it entails a burden on the taxpayers.

England is one of the few countries in the world where it has at all times been possible to maintain the railways on their earnings alone. In their country of origin, railways are still 100% privately owned and worked, and require no government assistance whatever. The great density of the population, with its vast industrial and agricultural output, has at all times yielded a sufficient volume of traffic. Moreover, England's trade being largely sea-borne, the cheapness of water transport makes it possible to allow higher freight rates for the relatively short hauls. In Canada the situation with regard to transport has been diametrically opposite to that of the mother country. Distances are great, while population is sparse, and in spite of the very low traffic density it has been necessary to fix exceptionally low rates to enable producers to sell in distant markets.

From the foregoing considerations it becomes evident that, because of an unfavorable geographical position, the railways of Canada will remain forever a burden to the taxpayers. In 1928 the deficit on Canadian National Railway account was twenty-nine million dollars. This figure ought to be regarded as normal. If at any time in the future the cost to the National Treasury should be only twenty-nine millions per annum, the railway problem of this country could be considered as having been finally solved.

The defenders of the *status quo* are forever assuring us that our hope lies in increasing the traffic of the railways. But this is a counsel of perfection that is really no better than the method of the legendary Micawber who waited for something to turn up. The advocates of this easy-going philosophy overlook the fact that the accumulation of debt—for which the Canadian National Railways is so largely responsible—is in itself an obstacle to the return of confidence; so that the hoped-for increase in traffic becomes even more remote. But this is not all. An increase in traffic, apart from its nebulous uncertainty, might not help the situation at all. I shall try to explain this paradox.

We are now entering a period of gradual inflation that will continue so long as nations are unable to balance their accounts. The bearing of this fact on the railway situation becomes readily apparent. Prof. L. T. Fournier (*Railway Nationalization in Canada*) has shown how rising world prices at the beginning of the century were a contributing factor in the swelling cost of railway construction during pre-war days. Discussing the position of the C. N. R. immediately after the war, he says: "The principal reason for the large deficits on the Canadian National was the rapid rise in operating costs beginning about 1918, which was not adequately offset by higher rates or increased traffic". He goes on to show that between 1910 and 1920, a period of rising prices, the index of cost for maintenance of way and structure rose from 100 to 236, while freight rates during the same period rose from 100 to 174, and passenger rates from 100 to 133.4.

There is good reason to fear that a rising price level will again prove unfavorable to the railways. Rising prices during the next few years will mean higher costs for rails, ties, rolling stock and fuel, to say nothing of labour; and the economies effected during the years of deflation may be entirely wiped out. To be sure, freight and passenger rates will presumably go up as well, but they are too inelastic to keep pace with the rising cost of operation. An increase in operating cost might well cancel any gain resulting from more ton miles or passenger miles. The prospect for the railways during the coming years is, therefore, not very bright, even with an increase in the volume of trade.

Again, one often hears it said that increasing population will solve the problem of the railways. Here too very little can be expected. There is sufficient reason to believe that the era of large scale immigration has now definitely gone by. The movement to this continent during the 19th century down to the Great War was due, fundamentally, to a natural growth in the population of Europe. This increasing population required more food and raw materials than Europe could produce at the time. Hence not only the manhood for this country, but also opportunities for their livelihood were provided. But all this has changed. Post-war Europe has neither increasing population nor a growing demand for food; and though the population of this country will still increase, its rate will be hardly any greater than that of the world as a whole.

It is clear that increasing the traffic of the railways is a thing beyond our immediate control. Therefore, the only recourse is to reduce their cost of operation. The Duff Commission reported that the present distress of both railways is in no small degree the fruit of unrestrained and irrational competition. After its final consolidation in 1923, the new management of the C. N. R. embarked upon an aggressive policy of expansion and development which came to an end only with the depression. During this time about four hundred and fifty-six million dollars on capital account were spent on the government-owned system, and nearly three hundred and fifty million dollars by the Canadian Pacific Railway. Four thousand, one hundred and sixty-one miles of new line were constructed by both railways, the greater part of which was, in the opinion of the Commission, uneconomical and unnecessary. Passenger services were enlarged during a time when traffic was declining, while vast sums were spent on ships and hotels that were entirely superfluous. The Commissioners offered no remedy for this harvest of regrets, except to recommend that future competition be tempered with co-operation. It has lately been asserted by the head of the Canadian Pacific Railway that an attempt to co-operate has since been made. The results have so far been meagre, however. It is now three years since the two railways were enjoined to co-operate, and for the last fiscal year the deficit on C. N. R. account was not far short of a hundred million dollars. Only seventy-nine miles of superfluous trackage have been lifted, up to the present time.

A more thoroughgoing reform will have to be tried sooner or later, and it is every day becoming more apparent that unification of the two lines is the only remedy that remains. Under the scheme propounded by Sir. E. W. Beatty, the Canadian National would be leased to the Canadian Pacific Railway under an arrangement as to the division of the profit from all economies resulting. That this proposal should meet with opposition is not surprising, when we bear in mind that every plan for reform must run the gauntlet of imaginary fears. There is much sounding verbiage about "handing the Canadian National Railway over to St. James Street." The Hon. H. H. Stevens even sees Fascism lurking in the background:

> The merging of the assets of the two systems under one trust board of private directors will set up a virtual dictatorship more powerful than parliament, to which we are unalterably opposed. The assets of the Canadian Pacific Railway and the Canadian National Railway together represent a large percentage of the invested capital in Canada. The private owners of the new combined system of railways would completely control the transportation of goods and passengers across Canada, and the cost of such transportation, even in the face of the Railway Commission, could not controlled, because figures can be made to tell any story.[1]

The foregoing statement is a good example of the technique of evading present dangers by the simple method of conjuring up others in their stead. That the unification of the railways will create "a virtual dictatorship more powerful than parliament" is the merest assumption. Furthermore, the defenders of government ownership ought not to speak of dictatorship. For nearly ten years parliament was subject to the exactions of a government-owned railway. It was through a form of dictatorship that the directors of the Canadian National were able to obtain public money for building a hotel in Vancouver at a cost of eleven million dollars when there was no shortage of hostelries in that city; or for the construction of a new terminal at Montreal at an estimated cost of fifty-one million dollars when the Windsor Station might have been enlarged to serve as a joint terminal for both railways. It is quite certain that private interests could not in recent years have extracted several hundred millions from parliament for purposes of wasteful prodigality.

Another assumption of Mr. Stevens—and one equally mistaken —is that "the cost of such transportation (of goods and passengers across Canada) even in the face of the Railway Commission could not

1. Mr. H. H. Stevens, as reported in the *Montreal Daily Star*, July 27, 1935.

be controlled because figures can be made to tell any story." It is perhaps this naive faith that "figures can be made to tell any story" that is behind Mr. Stevens's proposal to "write down" the liabilities of the Canadian National Railway. The problem should be viewed realistically. There is no reason to fear that rates would not be controlled under a "monopoly". The cost of transporting freight and passengers is fixed at the present time by the Board of Railway Commissioners in minute detail. One cannot seriously believe that if the forty-three thousand miles over which this control is exercised were to be run as one system instead of two, then the ability of the board to fix rates would in any degree be lessened. It is well to remember, moreover, that rates are fundamentally under the control of economic conditions. The present head of the Canadian Pacific Railway is on record as being opposed to any increase in rates, not for any reason of altruism, but simply because he knows that the traffic will not bear it at the present time. Should any increase become possible in the future, the gain therefrom would surely accrue to the people of Canada.

This is no time for ideology. References to "Fascism", "big interests" and the "handful of financiers" are all irrelevant in a domain where practical considerations alone should govern. Likewise irrelevant is the issue of public *versus* private ownership of railways. There is no especial virtue in public ownership, and no inherent vice in private ownership. Altogether too much stress has been laid upon "ownership", and there has been more disputing about the shell than the kernel. Ownership is a purely legal concept, which may or may not entail practical advantages. Ownership is desirable when there is profit, but otherwise it may be only a source of embarrassment. The present system of government ownership in Canada falls under this seecond category. It is wrong to make a sacrosanct fetish out of the government-owned railway, and those who would alter its status are not necessarily predatory financiers. For all practical purposes, the people of Canada have the same proprietary interest in the Canadian Pacific Railway as in the Canadian National Railway. Its service to the public is almost as important as that of its rival. It yields at the present time a huge revenue to the national treasury in the form of taxes, while giving nothing at all to its legal owners, the shareholders; and an untold calamity would befall the Dominion if the Canadian Pacific Railway were to become insolvent. The issue of private ownership *versus* public ownership as regards Canada's railways is entirely meaningless.

The real difference between the status of the C. P. R. and that of the C. N. R. is not so much in the matter of ownership, but rather in that of control. It is true that the people of Canada through parliament have more control over the Canadian National Railway than over the Canadian Pacific Railway. But it is likewise true, on the other hand, that the Canadian National exercises more control over parliament than does the Canadian Pacific. It would have been difficult to say, during the consulship of Sir Henry Thornton, whether parliament controlled the Canadian National or the Canadian National controlled parliament.

No Canadian railway has ever been entirely free from government control, and it goes without saying that should the Canadian National Railway be leased to the C. P. R., the measure of public supervision would be very considerable indeed. On the other hand, it has been sufficiently proved that government ownership pure and simple has not been successful in Canada. The cost of operating the Canadian National exceeds that of the privately owned railway in nearly every department—maintenance of way, maintenance of equipment, cost of transportation and general expense. The cost of construction for the Canadian National Railway branch lines has averaged from forty to fifty-one thousand dollars per mile, as compared with an average thousand dollars. Accordingly, it is difficult to dissent from the following opinion of the Canadian National Railway voiced by the Commissioners;

> Running through its administration practices, however, has been the red thread of extravagance. The disciplinary check upon undue expenditures, inherent in private corporations because of their limited financial resources, has not been in evidence. Requisitions of the management have been endorsed by governments, and successive parliaments have voted money freely if not lavishly. Within the government organization there has been freedom in expenditure and encouragement of plans for expansion and extension of services which were inconsistent with prudent administration practice.

A combination of state and shareholder control would be in the best interests of all. A board of directors responsible to the shareholders would be less involved in the broil of politics, with all its extravagant consequences. They would be less inclined to importune parliament for new grants of capital; and were they to do so, parliament would be less disposed to accede to their demands. On the other hand, a board responsible to private shareholders alone, while able to carry out the necessary economies, would not be so keenly concerned about the rights of the public and of the workers on the railway. It is here that a public service commission would have to exercise the utmost vigilance.

The immediate task is to reduce the burden of the railways to manageable proportions. It is obvious that in any amalgamation of the two lines the rights of various parties would have to be safeguarded, and certain dangers would have to be foreseen. The possibility of doing these things would depend entirely on the careful drafting of a series of agreements and their adequate supervision. The question as to who were the legal owners of the new system would have very little bearing in the division of rights among the public, the various holders of securities, and the workers.

It has been argued that unification would deprive many communities of their railway communications, and according to Hon. Dr. Manion two hundred thousand people would be injured by the elimination of lines that may originally have been superfluous but are to-day essential to many towns and villages. In answering this, I enter upon the lugubrious question of highway transportation, which should be considered in connection with the railways.

II

The proposed unification of Canada's railways ought to be conceived as part of a wider scheme of co-ordination that eventually would include motor transport as well. The Royal Commission of 1931 emphasized the loss of traffic in goods and passengers suffered by the railways as a result of the competition of autobus and truck, and declared that a wider use of motor vehicles must be expected for the future, with still further loss to the railways. A similar prediction for the U. S. A. was made by the Interstate Commerce Commission in its 46th annual report in 1932. "The effect of the loss of business to motor vehicles and waterways is serious, and will continue to be so with the revival of business".

Since 1923 there has been a steady decline in the passenger traffic of the railways, which even the intervening years of prosperity failed to arrest. The automobile has been mainly responsible, although the motor coach has been a growing factor. The economical range of operation of the motor coach estimated in 1932 to be 100 miles, has since been extended, and it would seem that should the present activities of road building be continued, a continuing loss of traffic will be suffered by the steam railways.

In the moving of freight, railways are faced also by competition from trucks. The truck, like the autobus, is a post-war development. During the war the railways of Belgium and Northern France were found inadequate for transporting troops and supplies to the front. The Allies thereupon began to use trucks to supplement the services of the railways. When the United States entered the war, the railways were taken over by the Federal Government, and so great was the congestion resulting from military requirements that many classes of freight were excluded from the railways. It was then that the truck was discovered to be a highly efficient substitute, and its use has grown rapidly ever since. It was estimated that in 1932 five hundred million dollars were lost to the railroads of the United States by such diversion of freight (Bureau of Railway Economics: *An Economic Survey of Motor Vehicles Transportation*, 1932).

The superior efficiency of motor transport for the short haul is at the present time beyond dispute. In the United States it is said to take thirty cents a mile to operate a bus, while the cost of a local passenger train is one dollar and twenty-five cents a mile. (Johnson & Huebner: *Economics of Transportation*). The truck enjoys a similar advantage over short distances, particularly in the handling of less-than-car-load freight. There is often considerable delay at freight stations both in the reception and in the delivery of this kind of freight. On the trip outward each lot must be consolidated with other similar lots according to destination; and the reverse process takes place at the point of arrival prior to final delivery. For short distances such delays are to be reckoned with, and it is here that the truck has an advantage, since it takes from the store door of the shipper and delivers directly to the consignee. A series of complicated movements at the terminal centres is then dispensed with.

As distances lengthen, however, the truck loses its advantage, since it is slower than the train, and transport by steam is normally cheaper than transport by gasoline. It would seem, therefore, that for long distance hauls the railway will always have an advantage over the highway transport. Notwithstanding, the distinction between long and short distance is not easy to define, and there are differences of opinion as to what constitutes a short haul. It has been defined as "the economic operating radius of motor transport", that is to say, the distance within which motor transport is cheaper. Until a few years ago, this radius was considered anything less than fifty miles. Now it is anywhere up to one hundred and fifty or even two hundred miles, depending on the class of freight, the nature of the highway and other circumstances. It is, however, certain that the conception of the short haul is an expanding one, and with every expansion there is further loss of traffic to the railways.

The Duff Commission devoted a good deal of attention to this problem. The general trend of its recommendations is towards increasing the taxation of highway carriers, and even their outright prohibition in some instances. Its aim was to discover some means of "equalizing" competition and eliminating "unfair" competition. It is, however, open to serious question whether merely ethical wisdom could bring any relief to the railways. The problem is more fundamental, and it is difficult to avoid the conclusion that competition between highway and railway, even when "fair", is no less detrimental to the public interest than the present competition between the two railways.

The unification of both forms of transport is bound up with the unification of the two railways, one being complementary to the other. To begin with, the gaps resulting from the lifting of superfluous branch lines could be bridged by motor coach and truck. This would be the first logical step towards fuller co-ordination of rail and highway. There is already at the present time a limited degree of such co-ordination. At terminal centres like Montreal and Toronto, both railways have entered into contracts with local carters to carry less-than-carload freight to and from the stations. American railways have gone further. During the period when Canada's railways outdid themselves in the construction of superfluous mileage, the American lines extended their facilities not so much by new building as through the adoption of supplementary truck and bus service. In many instances they have substituted motor trucks for local freight service, and by this means have improved their services and reduced operating expenses. The substitution of motor coaches for local passenger services has also been tried successfully. Thus the Boston and Maine Railroad Company had a special need to reduce operating expenses. It had 804 miles of branch line, many of them operating at a loss; while even for the main line, the cost of service on some divisions was so high that reductions in expense were imperative. Accordingly motor service was installed. In some cases it was a complete substitution for all rail passenger services on unprofitable travel lines with light traffic; in other cases the substitution was partial. Buses now make connections with passenger trains at the junction of the main and branch lines, provision being also made as regards baggage, express matter and mail. The change of service has proved economical.

In Canada the railways have not as yet availed themselves of the opportunity to enter the field of highway transport, in spite of legislation permitting them to do so. This is not to be wondered at. Further outlay of capital on new equipment, no matter how efficient, would result only in new competition and duplication.

Moreover, neither line would abandon any of its tracks or trains in favour of trucks and autobuses so long as the rival line would still remain. All plans for the closer integration of rail and highway would be premature unless preceded by the unification of the two railways.

Railway amalgamation could open the door to an almost unlimited series of economies. The elimination of duplicating rails and services would be the beginning. It would then be a comparatively simple matter for the united railway to enter into contracts with the existing highway carriers in each locality to remove duplication of service; so that little or no additional capital would be required for the purchase of new trucks and autobuses. Should it be found, for example, that milk could be carried from Huntington to Montreal more cheaply by truck than by train, this work could be left entirely to a group of highway carriers operating under a profit-sharing arrangement with the railway.

The integration of rail and highway transportation would necessarily be a slow process. It would have to be done piecemeal, and only after a careful survey in each locality of all the factors concerned. To be sure, certain legal difficulties would have to be overcome, since highways and highway transportation are matters of provincial jurisdiction. The first requirement for any substitution of trucks and buses for trains is the assurance that no new permits would be granted to other operators that would allow competition to start anew. Without this assurance, any contract between the railway and a bus company would be illusory. There would be no advantage for a railway to abandon one of its runs to a bus line and then find that a new bus line has suddenly entered the same field. The removal of the present chaos in highway transport is essential to a final synthesis of rail and highway.

A unified system of railways could be the forerunner of a unified system of transport. Unified transport would in its turn make possible the most economical utilization of every new device and invention. Improvements in highway transport would no longer be dreaded by railwaymen, but rather would be welcomed as the means of diminishing the cost of operating their system.

A cause of hopefulness for the railways is the development within the last few years of cheaper and more efficient rolling stock. The most modern equipment is the oil electric train which carries both freight and passengers. It is streamlined, and is equipped with rubber tires adapted for running on rails. The cost of operating is said to be about half as much as that of a steam train. Another innovation is the single unit rail-car, which is a kind of autobus fitted with a special compartment for freight. Like the oil electric train, it is exceptionally light, and is equipped with rubber tires. It carries about fifty passengers, and does the work of both autobus and truck more efficiently and cheaply.

The new agencies of transport, whose origin goes back less than a decade, have been tried with success in France and in the United States. They have not been adopted in Canada, because of the large outlay of new capital required, and because competition would soon neutralize and dissipate any of the advantages that could be gained.

INFINITE RICHES

ELIZA RITCHIE

Within my House of Life from curious eyes
Close hid, and guarded safe from robbers' power,
Is one fair room. Soft silken tapestries,
Faint-tinted, wrought with many a bird and flower,
Hang on its walls. In each recess doth stand
Some marble, warm of tone,—nymph, athlete, faun,—
Which tells its tale of Greece. On either hand
By carven tables are gold caskets borne,
Filled to the brims, which shimmer in the light,
With rubies, opals, gems of every hue.
From out the casement there lie, just in sight,
The distant tops of hills against the blue.
You say my House is common, poor and mean?
Ah! but its Treasury you have not seen!