U.S. Action Will Affect Canada

Return of U. S. Railways to Owners—Right to Fair Profits Recognized—Increased Rates in U.S. Will Mean Increases Here—Deficits Charged to Posterity

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The full import of the legislation under which the American railways are being returned to their owners has not yet been appreciated, either in the United States or in Canada. Its significance to this country is due to the economic influence which any existing schedule of rates in the United States must necessarily have upon the level of railway rates in Canada. The American railways have been systematically starved by the operations of the Interstate Commerce Commission and of various local commissions during the last ten years, not so much by way of reduction of rates as by the introduction of restrictions and regulations making operation more costly, and by refusal to recognize the need of the railways for increased remuneration to meet the increased cost of labor and supply. Throughout this period, the Canadian railways have suffered severely as a result of the effect of the American schedule of rates upon the rates currently charged in this country. It is not necessary to discuss how that influence is brought to bear, further than to point out that even if the Canadian Railway Commission desired to maintain rates at a level substantially above that which prevails in the United States, it would hardly be possible for them to do so, since much of the most valuable traffic of the lines would, as a result, be diverted to competing American routes. In brief, it may be stated as axiomatic that the American level of railway rates affects the Canadian level at least to the extent of preventing any variation of more than 2 or 3 per cent in either direction from the point at which the two levels are economically equivalent.

The legislation under which the American roads are being returned to their owners puts an end once and for all to most of the vexatious interference of the local state commissions and imposes upon the Interstate Commerce Commission an obligation to recognize certain claims for net earnings which it has never recognized before. In brief, the legislation lays down the theory that the mass of railway investments in the United States is entitled to a remuneration of 6 per cent, after all proper charges for the maintenance of the capital in an unimpaired condition has been provided for. Much must of course depend upon the valuation which is placed upon the present fixed capital of the American railways; but those who are recognized as experts on the subject state that the investigations of the valuators who have been working for the United States Government for several years have known that the true value of the whole mass of railway capital in the United States approximates very closely to the par value of the securities issued to represent it. While this is true of the entire mass, it does not of course prevent individual railway properties from being grossly over-capitalized, on the one hand, or worth a large premium over the face value of their capital, on the other.

A remuneration of 6 per cent, will, it is stated, involve an increase in the freight rates now charged by the American railways of close upon 25 per cent. The legislation provides that where a road by reason of special location or other advantages is able to earn more than the alloted return upon its valuation, the Government shall take possession of the surplus and use it for general transportation purposes—a somewhat more logical and justifiable proceeding than the discriminatory tax imposed by the Canadian Government upon the Canadian Pacific Railway, which appropriates the surplus profits of that railway and employs them for the general purposes of the Government, rather than for the interests of the transportation business which produced them.

The point of interest to Canadians is that an increase of 25 per cent in American freight rates must almost inevitably be accompanied by a closely corresponding increase in Canadian rates. Nor will it be possible in the long run for Canadians to allot to the owners of their railway systems a smaller ratio of profit than the Americans allow to theirs. The Canadian Pacific Railway under such a system should have little difficulty in proving a valuation which would entitle it to considerably more than its present 10 per cent dividend. The Government roads taken as a whole are not likely for some time to come to earn anything like even 6 per cent upon a moderate valuation of capital, but such an increase in rates should do a good deal to relieve the country of the burden of operating deficits which is at present imposed upon it in connection with its two transcontinental railways.

Another effect of the increase in transportation charges may be to postpone yet further the process of the reduction of the high cost of living. Freight rates are so large a part of the value of every article consumed by the modern citizen that an increase in this one element alone would offset many strong influences working in the other direction. The increased cost of transportation is of course brought about mainly as a result of the high level of wages established on the American railways while under Government control and immediately reflected in Canada owing to the close relations between the labor organizations of the two countries. No reduction of rates from the new standard now about to be erected can be possible until a reduction of wages is brought about, and this seems to insure that the new standard will remain in effect for a good many years to come.

It is not likely that at the present time new capital could be secured for the railway business in either Canada or the United States at so low a rate as 6 per cent, but it is one of the characteristics of the railway business that its constant expansion compels those who have engaged in it to carry out improvements and extensions from time to time whether they will actually produce enough to pay a return upon the capital involved or not, for the simple reason that if they were not effected the roads would lose a portion of the business that they now have. Thus it will pay the American roads to effect considerable improvements, especially in terminal facilities, even though the new capital should cost them 7 or 8 per cent, and they should only be allowed to earn 6 per cent upon it. From the point of view of the money market at the present time the rate fixed by the United States railway legislation is too low, but it is to be remembered that it will be permanent and will not alter with the fluctuations of the market; and there is reason to hope that after a few years capital will again be obtainable for such necessary enterprises as the transportation systems of the country at a lower rate than it at present demands. The rate of interest on high-grade bonds should already have gone down, were it not for the fact that the supply of them is still constantly being increased by Governments. The United States has recently come into the market for a quarter of a billion dollars of short date borrowings at the extraordinarily high figure of 5¼ per cent, and the Canadian Government will doubtless be compelled to pay a higher price than it has ever paid before for any funds which it may require to borrow during the coming summer. There can be no prospect of cheaper money until governments commence to pay their way as they go and cease to add to the output of high grade securities. When that happens, it may quite reasonably be possible for strong American railways to borrow at less than 6 per cent, and either of the great railway owners of Canada—the Government and the Canadian Pacific Railway—should be able to secure funds on terms as advantageous as those granted to any leading American railway.

The operating of railways at a deficit chargeable to the public accounts, at a time when the public accounts are themselves showing a balance on the wrong side and necessitating constant borrowing, is nothing more or less than helping ourselves to the service of transportation and charging a substantial part of the cost to posterity. So far as the deficits are an inevitable result of errors or disappointments in the calculations with which railways were built at the expense of the general credit of Canada, it may be legitimate to fund a certain proportion of the deficits in order that the whole consequences of those errors or disappointments may not be borne by the population of a single period. But in so far as deficits are the result of inadequate railway rates, rates which do not give a proper return, not only upon unwise or unfortunately planned railways, but also upon the best designed and most efficient systems in the country, they are without economic excuse. There is no valid reason why the people of one section of Canada should provide transportation at less than cost for the people of another section, nor is there any reason why the Canadians of the second half of the Twentieth Century should be called upon to pay for the transportation enjoyed by Canadians in the first half.

A Perfect Machine-Made Sporting Gun.

In sporting circles it has long been a tradition that the hand-made gun was far and away the best. In accuracy, balance and delicacy of trigger action, a well-made hand gun was accepted as superior to the best that machinery could produce, and sportsmen felt pride in the possession of a costly gun upon which some craftsman had expended many days, if not weeks, of his unique skill. This tradition seems likely to pass away. A British firm which turned out many millions of machine-made rifles during the war has now produced a sporting gun which is completely machine-made and finished to the highest standard in every detail. The cost is below that of the "good enough" machine-made gun of pre-war days, and far below that of hand-made guns. This result has been achieved by the highest skill in the design of special machinery to produce the various parts in large quantities and yet with the most meticulous accuracy.

The extraction of turpentine from Douglas fir, a new industry in forest products, has been established on Cortez island by a number of ranchers, and a company is being organized to actively develop the business. A royalty of one dollar per barrel is asked by owners of timber and it is estimated that about eight barrels of pitch is the average productionper acre. No tree smaller than ten inches in diameter is tapped and some of the larger trees yield great returns, one producing 48 gallons at one tapping. About two-thirds of a gallon of high grade turpentine is obtained from a gallon of sap, the residue being commercially marketable.