

Monetary Times

Trade Review and Insurance Chronicle
of Canada

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RAILROAD RATES ARE TOO LOW

RAILROAD transportation on the North American continent is in a deplorable condition, the trackage, power and equipment being quite unable to cope with the demands. As a consequence, large quantities of freight are held up, with an immense economic loss to the United States and Canada. The situation in the former country is admittedly due to the attitude of the Interstate Commerce Commission, which for several years back has construed "just and reasonable" rates to be those which would just keep the roads alive for the time being, without provision for the future. A new Transportation Act went into effect on March 1, however, which requires the commission to "give consideration . . . to the transportation needs of the country and the necessity . . . of enlarging such facilities in order to provide the people of the United States with adequate transportation." In the July "Index," issued by the Liberty National Bank of New York, it is stated that the demand for freight movement has increased 57 per cent. and passenger business has increased 32 per cent. since 1915, but the roads during this period have spent only \$1,900,000,000 on capital account, whereas they should have spent \$5,000,000,000 on the basis of the investment in former years.

The Canadian Pacific Railway is one of the most successful in the world, and it has come through these trying years with little difficulty. The Canadian National is burdened with long unprofitable sections to such an extent, that the net earnings from the profitable lines are entirely wiped out. In spite of these two extremes, however, although the regulation here has not been quite so restrictive, the general situation in Canada is the same. The Canadian Pacific, with its immense assets increasing in value, has been unable to pay more than a moderate dividend. These conditions have absolutely discouraged the construction or purchase of new equipment and improvements of service, and have made the construction of new lines entirely impracticable.

On July 20, the Railway Labor Board in Chicago issued its first award following negotiations extending for some

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time past. The award grants about one-half of what was asked by the two million employees concerned, and will mean over \$500,000,000 to the companies. The Canadian roads will, no doubt, adopt whatever award is granted in the United States, as they did in the case of the McAdoo award, and the result will be a still further increase in operating expenses. The application of the Canadian roads for higher rates is now before the Board of Railway Commissioners, and will be considered by them on August 10. Public opinion has been fairly well worked up to regarding an increase in rates as necessary. E. W. Beatty, president of the C.P.R., outlined the situation at the annual meeting of that company in March, and D. B. Hanna, president of the Canadian National, has presented a good case in articles in the "Canadian National Railways Magazine" for February, and in the "Grain Growers' Guide" of July 7. About 200,000 railroad employees in Canada are interested, and if the American award is adopted here it will mean an additional bill of about \$75,000,000 annually.

Railroad rates have, in fact, failed to keep pace with rising costs. The return on the railroad investments has, as a result, been too low on the one hand, and on the other hand, railroad service has been performed too cheaply. Considering the latter point, there is nothing extraordinary about the congestion of freight and the apparent inadequacy of the roads to meet the situation. In an open market for any commodity or service, such a situation would immediately result in a rise in price. Such an increase in rates is the obvious solution of the railroad difficulty, for in the long run the function of rate fixing is placed in the hands of a public body, not so much for the purpose of fixing the absolute level, which must be determined by broad economic conditions, but in order to overcome technical difficulties peculiar to the business of railroad transportation. The application of the Canadian roads for an increase of 30 per cent. in rates is, in fact, overly modest, considering the much greater increase that has taken place in labor and other production costs. The new wage award may cause the roads to ask for 45 per cent. in place of 30 per cent.