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position of the railways in the future. The competition of water-borne traffic has not been an important factor in bringing about the present difficulties of the railways.

#### IV. FREIGHT RATES

188. While we have refrained from making any recommendations we recognize that the question of freight tariffs and tolls is inextricably bound up with the question of transport. The position at the moment, however, is difficult and complex. It has been represented to us by many competent witnesses that any increase in tolls would only impose a further handicap on the Canadian manufacturer and producer at a time when they can least afford to shoulder additional burdens, and that the increased tolls might have the effect of so restricting traffic as to afford little, if any, relief to the railways.

189. It would appear that, at the moment, any adjustment of the freight tolls and tariffs would be inadvisable, but we feel it our duty before passing from this question, to express the view that even under more favourable circumstances the financial position of the railways may be such as to demand that the whole question of tariffs and tolls, in its widest sense, should be the subject of special investigation, with a view to determining whether or not the existing tariffs and tolls charged for the conveyance of freight are just and reasonable both to the railways and their customers. In determining what is fair and reasonable to the railways regard should be had inter alia to the cost (including the remuneration of the capital invested) of providing these services.

#### V. CONTRACTUAL RELATIONS WITH LABOUR

190. The wages and conditions of employment of a large majority of the employees of both railways are fixed by agreements with the trade unions concerned. A majority of these employees are members of trade unions which include not only employees of the railways in Canada but also of the railways in the United States. Whether by reason of this close affiliation, or for other reasons, it is the fact that the wages and conditions of service of railway employees in both countries are substantially on the same basis. In recent months the wages of the officers and employees of both systems have suffered certain reductions which have eased the burden upon the railways, and it is satisfactory to record that these changes have been made without any disturbance.

191. With the continuance of good relations between the management and employees of both systems, and a frank recognition of the serious financial situation, much can be done to ease the position of the railways, without imposing any undue hardship upon the employees.

#### VI. SPECIAL DISABILITIES OF THE CANADIAN NATIONAL RAILWAY

##### (a) EXCESSIVE CAPITALIZATION AND OVERHEAD CHARGES

192. The Canadian National System suffered under a heavy burden of capital liability and fixed charges with consequent unsatisfactory results of operations from the financial point of view. As this matter has already been dealt with in Chapter III no further reference to it need be made.

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#### (b) PHYSICAL DISABILITIES OF THE NATIONAL SYSTEM

193. From 1917 to 1922, the management of the companies now comprised in the Canadian National System expended upon capital account in completion and improvement of the lines under their care the sum of \$222,547,181. When the new management took over the consolidated lines in 1923, further capital expenditures were required to put the System in condition to obtain a proper share of traffic. The task of bringing the road and equipment to the standard required for efficient operation was undertaken with enthusiasm, and money for these purposes was generously supplied by Parliament.

194. In the result, there emerged an efficient transport system affording a service of high standard and with a loyal and enthusiastic staff of officers and employees, but the price was heavy. In the nine-year period, as will be seen from the figures set up in paragraph No. 49 of this report, there was expended for improvements and betterments to roadway, for rolling stock and on lake and river services and the Montreal terminal scheme, but excluding all branch line construction, \$304,551,249. Capital for these purposes had to be raised by increasing the debt of the System. Fixed charges increased in this period by approximately \$20,000,000. The introduction of new capital in so large a volume, with every dollar carrying liability for interest from the moment it was expended, would have caused in itself a difficult financial position for the railway, even if there had been no depression in business.

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