Regarding Freight Rates

Why increased rates are necessary—The rates for freight have been increased all over the world—How one railway earns dividends with the present rates in force

By D. B. HANNA.

Since January the United States railways have been turned back to their private owners after 26 months of government control through a director-general, and the railways' applications for increased freight rates are now under consideration.

In Canada, the Grand Trunk acquisition has been ratified and the joint board, under which the co-ordination of that system with the Canadian National Railways will be ensured pending the completion of the arbitration, has been appointed and is now at work. When the value of the securities to be acquired is established, the Grand Trunk lines will become part of the National system.

In United States the railways are asking for an average of 28 per cent increase in freight rates, as it is estimated that this is the increase required to comply with the legislation under which the U.S. railways were returned to private ownership, and which provides that the general level of rates is to be adjusted so that the carriers earn a fair return upon the value of their property, and for two years this fair return is fixed at five and a half per cent with half of one per cent additional for improvements, betterments or equipment chargeable to capital account. Of net income in excess of six per cent of the value of the property half will be placed in the individual railway's reserve fund, and the other half is to go into a general railroad contingent fund, from which latter the railroads can borrow for certain approved requirements at six per cent.

Increase in Rates Necessary.

There can be no doubt about the necessity for substantial increases in freight rates. The Canadian railways entered the war period with a reduction in rates under a judgment of the board's chief commissioner, dated April 6, 1914, under which tariff changes became effective "not later than September 1" of that year, and since then the increases granted have fallen far short of offsetting the tremendous increases in expenses which the railways had to meet during the war and which have continued their upward movement since the armistice was signed. It is perhaps well to briefly review the events that have placed the railways in their present predicament.

As will be remembered, a period of wonderful expansion had reached its peak in 1913. In 1914, prior to the war, a business depression had taken place which was particularly acute in the West. On the outbreak of war, the first effect was a stagnation of business, and this condition largely remained in effect for the railway year ended June 30, 1915. During this period of decline railway earnings fell off most alarmingly and every possible action was taken by the railway managements to reduce expenditure. Construction work was largely shut down and forces reduced wherever possible, and the number of railway employees was reduced from 178,652 in 1913 to 124,142 in 1915 (only 130 more than were employed in 1907).

Due to the stimulation which the manufacture of munitions gave to business, and the wonderful crop of 1915, the following year, viz., 12 months ended June 30, 1916, brought the railways earnings up to and a little beyond the high mark of 1913, and the fiscal year ending June 30, 1917, was a little better still.

In the last six months of the calendar year, however, conditions became much upset. The United States entered the war in April, which resulted in a greater industrial activity in that country already well established in war munition manufacture, and this following miners' strikes caused a shortage of coal, causing very high prices for the railways' fuel. The prices of all materials and supplies went up very rapidly.

On January 1, 1918, by proclamation dated December 26, 1917, the United States Government took over the operation of that country's railways. Demands for increased wages for U.S. railway employees which were pending were made the subject of enquiry by a commission. The McAdoo Award was the result, which issued in May, 1918, has been followed to date by 26 supplements. Canadian railways have generally maintained the same level of wages as paid on United States lines. The railway employees' brotherhoods are practically all international organizations. Therefore, particularly as there was serious unrest among certain classes of Canadian railway employees, the McAdoo Award was adopted and applied generally to Canadian railways from August 1, 1918, and, with the object of enabling the railways to pay the high wages, a special increase in freight rates in line with that granted by the United States railroad administration was made effective from August 15. The increase in rates was designed to meet the original award, and also to offset certain increases in cost of fuel, rails and other materials, but, due to the wage supplements which have issued from Washington at the rate of about one per month, the increase in rates did not by any means provide enough additional revenue to meet the existing scale of expenses.

Then when the armistice was signed there was an immediate dislocation of the munition business, which resulted in a loss of tonnage handled by the railways in 1919, although expenses continued to soar, largely due to the demands of Europe for foodstuffs and other supplies, which, however, did not make up in tonnage for the loss in munitions traffic.

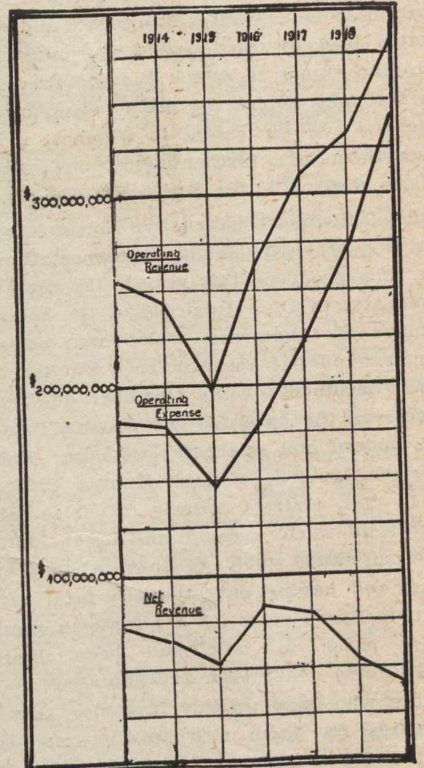
The resulting dislocation of earnings and expenses is forcibly shown in the figures of the accompanying table:

Canadian Railways.

Year.	Gross Earnings.	Operating Expenses.	Salaries and Wages.	Net Earnings
1907	$146,738,214	$103,748,672	$58,719,493	$42,989,542
1908	146,918,314	107,304,142	60,376,607	39,614,172
1909	145,056,336	104,600,084	63,216,662	40,456,252
1910	173,956,217	120,405,440	67,167,793	53,550,777
1911	188,733,494	131,033,785	74,613,738	57,699,709
1912	219,403,753	150,726,540	94,237,623	68,677,213
1913	256,702,703	182,011,690	115,749,825	74,691,013
1914	243,083,539	178,975,259	111,762,972	64,108,280
1915	199,843,072	147,731,099	90,215,727	52,111,973
1916	263,527,157	180,542,259	104,300,647	82,984,898
1917	310,771,479	222,890,637	129,626,187	87,880,842
1918	330,220,150	273,955,436	152,274,953	56,264,714
1919	382,976,901	341,866,509	208,939,975	41,110,392

Three Distinct Railway Periods.

The story is graphically told in the accompanying chart, which shows for all Canadian railways the gross earnings, the operating expenses, the salaries and wages of employees, and the net earnings for ten years. The lowest line tells the tale, and one has to go back to 1909, when the mileage was only 24,104 miles, or 60 per cent of what it is now, and gross earnings only 145 millions, or 38 per cent of what they are now, to find such low net earnings. The chart shows the situation of the railways in three distinct periods:



1.The pre-war period of prosperity, which after the dull years of 1907, 1908 and 1909 (when railway earnings held around 147 millions for the three years), reached its peak in 1913. The lines show that railway wages, while increasing rapidly, did not prevent the increase in net earnings in the peak year.

2.—The great war sag and revival period, showing the initial great slump in business, and the revival in 1916 and 1917, when, stimulated by war orders, business reached and passed pre-war levels.

The way in which the four lines in these two periods up to 1917 followed the same general (almost parallel) course should be noted, as well as the fact that the net earnings' line showed a much more gradual rise between 1916 and 1917, than that showing earnings, expenses and wages.

3.—The period of readjustment. This includes the last railway year of the war to June 30, 1918, and the following year, and will continue until the direction of the lowest or net earnings' line is corrected to follow the course of the other three lines as it generally did in the first two periods. The increase in earnings shown in this last period is not the result of more business, but reflects the increases grant-

Canadian National Railways.

Year.	Total Miles Operated.	Gross Earnings.	Operating Expenses.	Ratio of Expenses to Earnings. P.c.	Net Earnings or Deficit.
1916. . .	13,706.43	$57,731,109	$44,884,440	77.75	x$12,846,669
1917. . .	13,708.85	69,192,150	55,809,765	80.66	x 13,382,385
1918. . .	13,740.54	73,463,645	73,735,230	100.37	— 271,585
1918. . .	13,779.32	82,064,617	84,276,603	102.70	— 2,211,986
1919. . .	13,898.43	93,899,261	108,016,367	115.03	—14,117,106

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