costs of operation in the first three years, no less than 97.18 per cent of gross revenues being so absorbed in 1920.

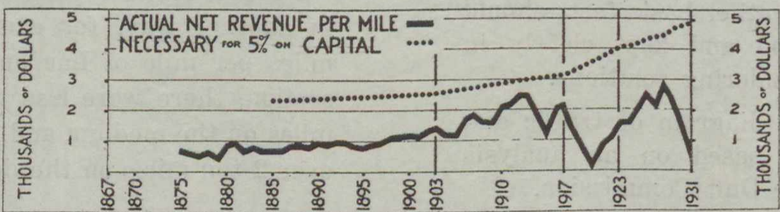
While volume of freight was greater than in any preceding period, nearly 20,000 more miles was being operated competitively than fifteen years before, general prices were rising, and wage schedules had been increased following the McAdoo award.

Under these conditions the Canadian Northern, the Grand Trunk Pacific and the Grand Trunk were unable to meet their obligations.

The Government granted an increase in freight rates in 1919 and an improvement in the ratio continued up to 1928, since when traffic has declined and even great reduction in costs has not availed to prevent an upturn in the ratio.

As will be seen below, Canada's operating ratio has never left a satisfactory margin for fixed charges.

This consideration and the fact that ratios much higher than average have prevailed since 1917, and even in the record traffic year of 1928, make it clear that the problem is not created by the business depression of the past three years but is more fundamental.



Capital charges, taxes and bad debts must be met out of what is left of revenues after operating expenses are paid.

Actual dollars per mile of net revenue on the average for all roads are shown on the diagram.

Merely as a very moderate standard by which the eye can judge these net revenues, a dotted line is added to indicate the numbers of dollars there should have been to represent 5 per cent on total capital liabilities, including government loans to all roads and investment in government roads. After taxes and bad debts, there would be left for capital something less than 5 per cent.

By this moderate standard, the best relative net earnings were in 1912 and 1913, and they were inadequate.

The dotted line also serves to indicate the very rapid increase of capital liabilities since 1917.

Roads which have met capital charges in the past have had better than average distribution of traffic and operating ratio and much less than average capital liabilities.

Traffic in Canada is heavy per capita and as a factor is controllable only within narrow limits.

The solution is readjustment of mileage operated, still greater efficiency and economy in management, or higher rates—or **TAXES.**

(Figures used for operating ratios, revenues, expenses and capital liabilities are taken from returns of the Dominion Bureau of Statistics.)

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