Unemployment—Freight Rates—And The Railways

THE indicator of true prosperity is employment. The presence of unemployed men, unemployed machinery, unemployed railway equipment and unemployed capital in Canada is reason enough therefore for every large Canadian business interest to study its relation to the general problem—to see whether anything in its power remains to be done to advance the general prosperity of the country.

IN this connection the railway companies have been specially interested. Freight rates touch every one and because they touch every one are always close to the public consciousness and more conveniently attached than the true causes of depression which are less easily discerned and more difficult, if not indeed impossible to control.

FURTHERMORE, the railways while joining with every one else in the general agitation for deflation of prices and wages—found themselves recently in the seemingly anomalous position of demurring when it was proposed to lower railway rates. They were made to appear as though they were endeavoring with one hand to put wages down and with the other hand to keep rates up, thereby securing for their own treasuries instead of passing on to the Canadian public, any saving effected from the wage rolls. They were placed in the equivocal position of having urged blanket increases of rates when wages went up — and of opposing blanket decreases when wages were seemingly decreased.

THE following statement is offered, therefore, with a view to expediting what the railways believe to be the true relation of railway freight rates to the question of unemployment, outlining the history of Canadian rates, explaining something of the groundwork of ratemaking and clearing up the seeming anomalies offered to, so that none may remain as possible causes for future weakening of confidence between the public and the carriers.

FREIGHT RATES AND UNEMPLOYMENT

With a large part of the world's population idle, or only partially efficient owing to wars or disturbed political conditions—with inventors in many parts of the world almost afraid to expose their inventions, organizers afraid to organize, capital hesitating to invest—a corresponding portion of the world production is missing. The total of goods available for the world is less than normal. Those who do not produce—speaking generally—cannot buy. Few purchasers—few sales; few sales do little employment. This is the great world-wide fundamental of the unemployment situation.

This condition is international, not local to Canada. If Canadian railway rates were a determining factor in making the sale prices of our export goods, in other words if Canadian prices were higher in international markets than the goods of our competitors, then railway rates would be contributing to unemployment in Canada by depressing our sales abroad, lowering the number of our customers and the orders coming to our producers.

But in the first place the real effect of freight rates on price making is a debatable point. This is proven.

(1) By the fact that prices fell last Fall after the rates were increased instead of rising as the retail firms had prophesied.

(2) By the fact that a 10 per cent. reduction on western coal rates offered in order to stimulate coal movement in the Summer months, was followed by a drop in the coal tonnage offering instead of an increase.

In the second place, assuming for the purposes of argument they did have serious effect, Canadian export rates are lower and not higher than the rates in countries with which Canada may be compared. Mile for mile the haul from Western Canadian point to the end of navigation is cheaper than in the United States. The export rate on grain is lower than it was last August.

In other words, in international competition on her chief items of export Canada is helped by her railway rates. So far as international trade is concerned, they are alleviating unemployment rather than aggravating it.

Inside Canada the same is true, although it is a very difficult point to prove or disprove, the railways of Canada are sincere in claiming that, by and large, goods are carried more cheaply in Canada than in the United States. Canada had one blanket reduction of 5 per cent. last January, whereas there is still no decrease nor immediate prospect of a blanket decrease in the United States.

THE TREND OF FREIGHT RATES

With the exception of war and post-war conditions the whole tendency of freight rates in this country, as in any other progressive country of its kind, is downward. As Canada's population rises, as our industries multiply and the density of traffic becomes more nearly like that of older countries, some of the principal costs of railway service can be subdivided among a greater number of shippers and travelers, levying on each, therefore, a smaller fraction of these costs than before. For twenty years prior to the war, traffic was on the increase. For twenty years therefore, the railways have beenadjusting rates downward—quite apart from special decreases put in effect by the Board of Railway Commissioners. These revisions have been skillfully applied by experienced, practical economists—that is, by the freight traffic experts of the railways, whose business it is to know all branches of industry intimately, so that the benefit of these voluntary rate adjustments would go to "Key Commodities," thus stimulating further growth of the country, increase in traffic, and in the end further reductions of rates. The difference between giving a reduction to a "Key Industry" rather than spreading over all kinds of goods is illustrated in the case of a certain small railway which by concentrating rate reductions on lumber enabled the mills of that region to remain open and the people to remain at work, whereas if the effect of the reductions had been scattered over all the goods carried by that road each family would have been able to save a small handfulof silver in a year,—(Provided the decreased rates had been passed on as decreased prices by storekeepers)—but there would have been almost no employment.

So much for the day to day reductions arranged on thousands of articles by the traffic departments of the roads. In 1907 a substantial reduction in eastern rates was made. In 1914 a very material cut was applied in the West. So that the transcontinental lines entered the war period with a depressed earning power.

Now while all—even the railways—see the desirability for low freight rates, there are certain limits beyond which no one urged reductions. Of course there are theorists such as Mr. Bernard Shaw, who believed that all railway service should be free. But leaving aside views so far in advance, as yet of public opinion it is assumed by most people that a railway will give best service at least cost—because, of course, even free railways must be paid by for by the tax payer—when their managements are allowed to show their mettle by meeting obligations of their properties out of their earnings. It is usefully recognized that these obligations fall into two groups.

GROUP ONE—To pay their employees; to pay for current supplies of materials such as coal, etc.; to pay for repairs and replacement.

GROUP TWO—To pay such a wage or hire for the use of the capital which built these railways as will make Canadian Railway securities always desirable, and easily marketed whether as bonds or stocks. This involves more than the mere payment of the established rate of dividend in the case of privately owned roads. It involves the earning also of some surplus—a safety margin of income over expenditure, which will assure investors of complete safety. This principle of a surplus was definitely established by the Board of Railway Commissioners in 1914 under the chairmanship of Sir Henry Drayton—and upheld by its judgment of 1920, when the matter was again considered exhaustively. On this principle rests Canada's ability to enter the money markets whereever she may need and feel confident of bringing back funds for extending her railways as she may require in the future.

War conditions, following the Western and Eastern rate adjustments brought the railway managements sharply up against these fundamental problems. Comparing the government's figures for 1907 against 1919—the last year for which the railway blue book is available—the wage bill of the railways rose 306 percent.; coal 345 percent; ties 320 percent. But neither the volume of traffic or the scale of freight rates increased in comparable degree during that period. The actual revenue per ton per mile (which is the real proof or disproof of the matter) advanced only 20 percent over 1907. The year 1920 enlarged the discrepancy, although an increase of 35 percent on Western lines and 40 percent in the East was supposed to yield enough additional revenue to meet the increased wages. The increased wages were effective from May 1st—the increased rates not until September 1st. The effectiveness of that increase depended on the volume of traffic remaining at a fairly high level. It did so for a time, then began to drop. Today it is very low. Nevertheless a 5 percent decrease was applied in January.

For the first six months of 1921 as compared to the first six months of 1920 the volume of traffic on the most fortunately situated Canadian road fell 26.72 percent. And its revenue on this business, in spite of the higher rates, fell 11.14 percent.

The net result of these changes has been a state of emergency in the offices of even the most fortunately situated of all Canadian roads. Wages could be paid and bills met on time. Even the usual dividend was paid and a very slight surplus—one of the factors in maintaining the reputation of Canadian railways securities, was earned. **But this was only done by refusing work that must ultimately be done on current account.**

Such economies cannot long be continued without eating too far into the broad safety margin which the Canadian roads maintain. Nothing but slackened speed of trains and reduced Canadian industrial efficiency can result if these savings have to be long continued. Falling traffic still further aggravates the conditions. Maintenance cannot continue to be sacrificed to protect the credit of our railway securities. Neither can be neglected.

In May the managements approached the task of reducing their wage bills. For the first time in many years it was managements and not the men who were taking the initiative. They had been forced to adopt the war-time increases granted in the United States—where 92 percent of the membership of the railway unions lie. Therefore when the reverse movement was undertaken in that country the Canadian roads at once gave due notice and a provisional and conditional decrease of roughly 10 percent—corresponding to the same movement in the United States—was put in effect, tentatively, as from July 15th. This reduction has not been accepted by the United States membership of the unions, where a vote is being taken on the question—nor by the Canadian membership, who have applied for a board of conciliation. Every resource of the managements will be used to sustain this imperatively necessary and only too moderate reduction of their wage bills—which account for 60 percent cost of operation—they are compelled to regard the matter as still unsettled and therefore not to be considered as a basis for the reduction of railway rates—a view which a majority of the board of railway commissioners has just expressed in its judgment.

IN CONCLUSION

The railway managements welcome deflation of railway rates and are working steadily toward that end. On two grounds, however, they asked that any general decrease be deferred.

First—Because the so-called wage decreases are not yet assured and cannot be until the parallel decreases in the United States where 92 percent of the union membership lies, (and where no general freight rate reductions have been ordered) are settled.

Second—Because the volume of traffic in the immediate future is problematical and any serious decline, if coupled with a decrease in rates, would have very grave effect on even the most favorably situated managements.

The railways have spoken against blanket decreases on the grounds that it would be in the interests of the country as a whole to concentrate any beneficial effect to be expected on "Key Commodities" rather than distribute them over all classes of goods, thereby benefiting only the distributors.

They have been actuated throughout by the desire to assist in the process of deflation—objecting only when that process might seem to threaten their solvency and injure them—and through them—the ultimate interests of the Canadian public.

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