# The International Aspects of the Railroad Rate Question

## The proposals regarding railway wages and freight rates in U. S., if put into effect, may re-open the question of freight and passenger rates in Canada

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The proposals regarding railway wages and freight rates, now under consideration in the United States, if put into effect wholly or in part, may conceivably re-open the question of freight and passenger rates in Canada. It will be noted that the United States, like Canada, authorized the railways this year to increase their rates 15 per cent—in the United States, however, the rate increase was not accompanied by legislation designed to prevent railways in good financial position from deriving full benefit therefrom. Then followed an intimation from Hon. W. G. McAdoo, Director-General of Railways, that the wages of railway employees were to be greatly increased, the lion's share of the increase to go to that class of railway labor, not highly organized, which has been receiving very small pay. Estimates were that the proposed increase of the wage schedules would represent for the carriers an increase of from $300,000,000 to $350,000,000 in the annual expense bill. The wage increases proposed by the Government are to be based on the wages in force on December 31st, 1915; and it is provided that any increases granted by the railways subsequent to that date should be counted as part of the increase now ordered. This latter provision makes it necessary for the carriers to check up all wage increases allowed by them in 1916, 1917 and 1918, in order to discover exactly how their finances will be affected. Some authorities say that it will be found, eventually, that the increase expense bill of the railways, due to this proposed change, will be considerably less than the figures above referred to.

However, after making such allowance, it is clear that the Government's order re wages will result in a very substantial increase of expenses. It is also well known that the railway expense bills will be swollen this year by the increased cost of fuel, freight cars, locomotives, and other supplies. These items along with the wage increases, according to the calculations of some Wall Street experts, may involve an increase of $600,000,000 to $750,000,000 in the expenses of the railways. Now, in taking over the American roads, the Washington Government guaranteed to each road a net income equal to the average earned by it for the three years ending June 30th, 1917. Consequently, if by reason of these heavy increases of expense, any of the railways fail to get net earnings equal to this average, the United States Government is under obligation to make good the deficit. If the Government allowed railway rates to stand unchanged, and met the deficit out of its general revenues, the effect would be to make taxpayers in general contribute the wherewithal for the increased expenses of the carriers. That would scarcely be fair and the indications are that if the new expenses cannot be offset by economies in operation there will be another rate increase. The New York Evening Post remarks that with the Government "in control, with opportunities for developing operating efficiency far greater than ever existed under private ownership, certainly such sweeping rate increase as has just been proposed will not be granted until efforts have first been made to see how much money can be saved through the much-discussed opportunities for developing operating efficiency."

Recommendations have been made to the Director General that he authorize a fresh rate increase of 25 per cent, and this is the proposal to which the Evening Post refers in the above quotation. It is argued that an increase of that percentage would yield something like $900,000,000 of additional revenue per year to the carriers; and this would enable them to meet the enlarged wage bill, with the other expenses of operation, also provide new rolling stock, equipment and facilities, and would relieve the Government from the necessity of making good the railway deficits.

Canada is directly affected by the course of events in the American railway world. It has already been intimated that when the United States railway men get the increased wages, Canadian railway employees will necessarily have to receive increases. Thus there is foreshadowed a substantial increase of operating costs of our railways. Another point is that stock, etc., for the American lines did so at advantageous prices. Our Canadian roads will have to pay much higher prices for their supplies. As regards the sufficiency of the recent 15 per cent increase, we have the statement made by the Grand Trunk Chairman at the annual meeting of shareholders held in London in April. Mr. Smithers said, "Every effort was made, from April to October, 1917, to induce the Railway Commission to allow an increase in rates, but without result. The year went by with expenses going up by leaps and bounds every month, with no relief granted during the year, and only on March 15th this year was the increase of rates sanctioned, of 15 per cent, which we asked for last April — an increase not only totally inadequate to meet the big increase in expenses since that date, but far too late to meet the new conditions which had rapidly developed during the summer and autumn and which had caused such a heavy loss to us for the year 1917." Those conditions were reflected in the company's annual report for 1917, which showed an increase of $4,500,000 in gross earnings accompanied by an increase of $9,000,000 in operating expenses, making the net earnings $4,500,000 less than in the preceding year, notwithstanding the increased volume of business.

Since the rate increase went into effect, Grand Trunk has been reporting large increases of gross earnings, but as expenses this year are relatively higher than in 1917, it is not clear yet that the net earnings will be increased. If there is a sharp advance in the wage bill, with no further change in freight rates, probably the 1918 net earnings would again show a decrease. Subsequent to the rate increase Canadian Pacific showed good gross gains the United States Government in ordering rolling up to the end of April, but in the first half of May, the gross earnings were only sufficient to overtop the 1917 gross by a trifling margin. In the first week of May the increase was 1.04 per cent; and in the second week, .35 per cent. As the rates were 15 per cent higher than in 1917, these indicate a smaller volume of traffic. Providing that wages and other expenses of operation were on the same level as in 1917, the fact that gross receipts were the same as in 1917 on a smaller volume of traffic would point to increase of net. But, unfortunately operating expenses are higher than a year ago. In March, 1918, the operating costs of the C. P. R. were 75.9 per cent of gross earnings — a much higher rate than in March of any recent year. In January and February also operating costs established new high records, as compared with the same months of previous years. So it would appear that if the Canadian Pacific is obliged to make further substantial wage increases, as a result of the movement on the other side of the boundary line, net earnings will suffer unless there is a further increase of freight and passenger rates.

If the freight rate quetsion is reopened here, and if the discussion thereon results in a further raise, it would perhaps necessitate a revision of the famous special taxation measure apply to Canadian Pacific's earnings. The railroad history of the United States as now being unfolded, illustrates clearly the deplorable results following the unwise policy of the Interstate Commerce Commission in stubbornly refusing to allow the railways to increase their rates in response to the steady rise in operating costs. If Canada follows the policy of determinedly refusing to allow the Canadian Pacific to develop or increase its net earnings, the inevitable result will be an impairment of the usefulness of this great system. When the net earnings are increasing satisfactorily, the directors of the C. P. R. invariably reinvest the extra funds in such manner as to greatly promote Canadian development. The country probably gets more benefit out of the state of affairs than do the shareholders.

# Clearings in April

The changes reported in the statement of the Canadian chartered banks for April are relatively small, but the trend of the month's figures was favorable.

Recovery from the effects of the Victory Loan is shown in an increase of 12½ millions in savings deposits, which now stand at 933 millions, against the high record of 1,008 millions last November, and the low level of the reaction that followed the Victory Loan, namely, 900 millions in January. There was a slight contraction in demand deposits, about 2½ millions, and the net gain of Canadian deposits was therefore about 10 millions. To that was added a gain of 7¼ millions in deposits abroad.

Current loans and discounts in Canada, which had been rising sharply in the months immediately preceding, registered a small decline, about 3 millions, from the high record level touched in March. Inasmuch as the spring rise in this item of the bank statement continued to the end of April a year ago —the April statement showing an increase of 35 millions following one of 29 millions in March—the present decline is satisfactory. Once navigation opens, goods stored over the winter months begin to move forward for export, with the normal result a great release of banking credit in May, June and July. That the active business of the country was able to be financed through April without further assistance from the banks is in the circumstances a highly satisfactory index to conditions.

Circulation fell off about 10 millions in the month, following a sharp increase in the months immediately preceding. There was nothing in the general business situation to explain the contraction, which is perhaps to be viewed as a war-time vagary. The item has risen when it might be expected to fall, and the other way about.

Other changes worth noting include gains in the cash holdings of the banks—specie, Dominion notes and Central Gold Reserve deposits—the last in the face of a contraction in circulation, and increases in the liquid or semi-liquid items of call loans. Call loans abroad are up 12½ millions for the month, and those in Canada 3¼ millions.

Leading figures of the April return, with the changes from March, follow:

| | April, 1918. | Change in month. |
|---|---|---|
| Circulation.. .. .. .. .. .. | $180,654,694 | —$10,403,440 |
| Deposits, demand .. .. .. | 558,509,221 | — 2,533,015 |
| Do. notice .. .. .. .. | 933,644,668 | + 12,563,865 |
| Do. abroad .. .. .. .. | 203,473,448 | + 7,215,816 |
| Current loans .. .. .. .. | 884,089,402 | — 2,905,820 |
| Do. abroad .. .. .. .. | 99,267,660 | — 3,050,019 |
| Municip. loans .. .. .. .. | 55,685,350 | + 5,033,289 |
| Call loans .. .. .. .. .. | 77,497,360 | + 3,239,483 |
| Do. abroad .. .. .. .. | 179,818,531 | + 12,521,830 |
| Specie, etc... .. .. .. .. | 78,283,307 | + 28,274 |
| Dom. notes.. .. .. .. .. | 169,345,075 | + 4,147,521 |
| Cent. G. Res... .. .. .. | 80,470,000 | + 1,050,000 |
| Total liab. .. .. .. .. .. | 2,063,554,861 | + 10,655,288 |
| Total assets .. .. .. .. .. | 2,312,271,158 | + 9,793,497 |

When the foregoing figures are set against those of April a year ago, call loans in Canada alone show contraction. Total deposits in Canada are 145 millions higher. Despite that large gain, the increase of current loans, call loans and municipal loans in Canada combined is only about 17 millions:

| | April, 1918. | Change in year. |
|---|---|---|
| Circulation .. .. .. .. .. | $180,654,964 | +$35,104,345 |
| Deposits, demand .. .. .. | 558,509,221 | + 87,196,936 |
| Do. notice .. .. .. .. | 933,644,668 | + 58,695,944 |
| Do. abroad. .. .. .. .. | 203,473,448 | + 20,450,762 |
| Current loans .. .. .. .. | 884,089,402 | + 3,565,505 |
| Do. abroad .. .. .. .. | 99,267,660 | + 3,209,440 |
| Municip. loans .. .. .. .. | 55,685,350 | + 19,753,354 |
| Call loans .. .. .. .. .. | 77,497,360 | — 5,240,057 |
| Do. abroad .. .. .. .. .. | 179,818,531 | + 20,662,477 |
| Specie, etc. .. .. .. .. .. | 78,283,307 | + 3,892,860 |
| Dom. notes .. .. .. .. .. | 169,345,075 | + 36,541,039 |
| Cent. G. Res. .. .. .. .. | 80,470,000 | + 39,320,000 |
| Total liab.... .. .. .. .. | 2,063,554,861 | +200,511,794 |
| Total assets .. .. .. .. .. | 2,312,271,158 | +203,774,808 |