

It is evident that if our railways are to serve the public satisfactorily and our country is to remain solvent, some rearrangement of our railways is imperative. We shall soon be faced with the expenditure not only of tens of millions of dollars to rehabilitate our roads, but of many millions more to bring them up to date. Except for larger equipment, they are operating on the same plan as they did fifty years ago. No successful or extensive effort has been made to meet the new competition.

I shall attempt to deal with our railway problem on the basis of the five possible solutions which I think are in the minds of honourable senators at this time. They are as follows:

First, unification—a subject which has been very much under discussion in our special committee.

Second, voluntary co-operation between our two systems. For the success of this effort the Government alone appear still to have hope of results.

Third, enforced co-operation—a proposal which I thought had been largely discarded, but which bobbed up and was prominent in the last sessions of our committee.

Fourth, status quo; that is, to continue as we are at present.

Fifth, government ownership of both railway systems—a result that many people in Canada fear may be the final outcome of our railway troubles.

Hon. Mr. CALDER: Hear, hear.

Hon. Mr. McRAE: The plan most discussed at the moment is unification. The inquiry in the committee was limited to savings in operating costs through unification, and even in that respect it was far from complete. The question of taxation, for instance, was not even mentioned, although it would form an important item in expenses. No member of your committee knows whether the proposed unified company would be subject to taxes, as the Canadian Pacific Railway is at present, or whether all taxes on our railways would be washed out. Certainly the railways, when put together, could not be treated separately for taxation purposes. This is an important item in any unification plan, and one which would deeply concern the municipalities throughout Canada whose revenues would be affected.

When you go into a deal you usually look into it to see "where you get off at." So far as I know, this has not been done, at least so far as the country is concerned. It was not a subject of discussion before the committee.

I have said unification is not a solution of our railway problem, although I fear many people think it would be the end of our railway deficits. At best it is only a palliative. If honourable senators will bear with me I shall endeavour to show how the present unification plan might be expected to work out.

Let us begin with Sir Edward Beatty's revised figures of joint savings under unified management, \$59,747,000 annually, which would be reached at the end of the fifth year. For ready calculation we will call it \$60,000,000. All figures are based on the railway business of 1937. Originally, in the discussion of labour displacements, it was stated that it would take seven years to accomplish the final objective. Later, five years was mentioned, and, as this reduces the picture I shall present to you, I will take five years as the basis instead of seven years. To average this gain over the five-year period, joint savings of sixty million dollars reached in the fifth year would mean a saving of \$12,000,000 the first year, and an increase by the same amount each year. As it was proposed that at least one-half of this saving should go to our National Railways, we will take \$6,000,000 of this \$12,000,000 saving as being applicable to the reduction of the present deficit of the Canadian National Railway system from the first year of the unified operation, and an additional \$6,000,000 each year for the next four years. We thus arrive at \$30,000,000 as the saving to the National Railways for the fifth year. Starting with the National Railways' deficit of last year, \$54,000,000—for convenience I will use round figures—and reducing it by \$6,000,000 the first year, \$12,000,000 the second year, and so on for the period of five years, you will find that at the end of that time our National Railways would still have a deficit remaining of \$24,000,000 a year; and in the interval the people of Canada would have had to provide as their contribution to the partnership a total of \$180,000,000 to make up the remaining deficits over the five-year period after full credit was taken for the savings Sir Edward Beatty proposes under his unified plan.

These are giant figures of continuing losses which the country would have to make up in connection with our National Railways, and after the five-year period we should still be carrying a heavy yearly deficit of \$24,000,000. I think you will all agree with me that this is not a very encouraging prospect for us to look forward to. And this is based on the assumption that the present railway business will show no further shrinkage.

Let us see how this plan would work out for the Canadian Pacific at the end of the