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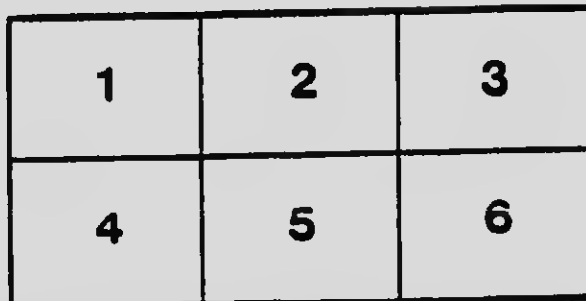
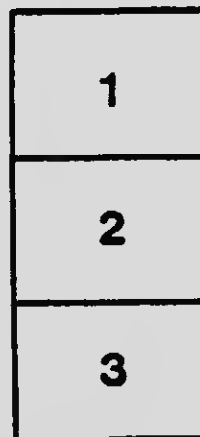
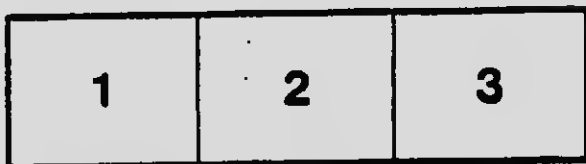
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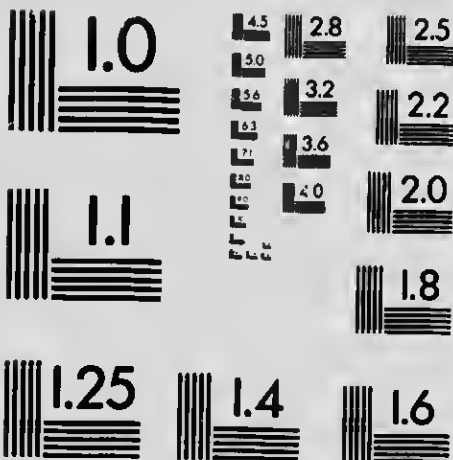
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THE RAILWAY PROBLEM

FROM THE VIEW POINT OF

BOTH

CAPITAL AND LABOR.



JANUARY, 1908.

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*383-*

# THE RAILWAY PROBLEM

FROM THE VIEW POINT OF BOTH

## CAPITAL AND LABOR.

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*The Interstate Commerce Law passed by the Congress of the United States, took effect April, 1887.*

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So eminent an authority as President Hadley, of Yale University, who is considered by all who know him as one of the wisest thinkers and greatest men of our Continent, has said in a Lecture on "Ethics of Corporation Management," delivered in 1906: —

"Personally, I am one of those who look with serious distrust on each extension of political activity. I believe that the Interstate Commerce Law did more to prevent wise railroad regulation than any other event in the history of the country. I think that the Courts would have dealt with our industrial problems better than they have done if the Anti-Trust Act had never been passed. I have gravely doubted the wisdom of some of the more recent measures passed by the National Government."

The results show that what he said with reference to the conditions arising from restrictive statutes affecting railways passed in the United States is unquestionably true. This is evidenced by the actual figures, as published in Government reports, and other reliable publications for the past 20 years.

While the following tables show enormous progress and development during the *past* twenty years in many other lines of industry, it will be observed that the construction of new railway mileage during that period has made much less progress in the United States, whereas it should have made the most, the increase being less than 50%. Likewise Agriculture, the most dependent of all classes of industry upon the railways, has made comparatively poor progress; the increase in production during that period, for corn being 47%, wheat 77%, and cotton 91%.

For the *two preceding* decades, the progress of *railway construction* was far more rapid, the increase in mileage for the twenty years prior to the passage of the Interstate Commerce Law having been over 280% as compared with less than 50% since that date.

## MILEAGE OF RAILWAYS (Poor's Manual).

	TOTAL MILEAGE	INCREASE MILES	PER CENT OF INCREASE
1867	39,050	.....	.....
1877	79,082	40,032	103% over 1867
1887	149,714	70,132	282% " 1867
1897	184,590	35,376	24% " 1887
1906	222,635	38,045	49% " 1887

Whereas the average increase for the "ten year" period prior to 1887 was 7,000 miles per annum (the year 1887 alone showing an increase of over 12,000 miles), the average increase for the "ten year" period 1887 to 1897 was but 3,500 miles per annum.

(U.S. Census)	1905	1890	Per Cent. of Increase
Manufactures, Value of products.....	\$16,866,700,000	\$9,372,000,000	80%
Agriculture, Value of products.....	5,738,800,000	2,933,900,000	96%
	1906	1888	Per Cent of Increase
Bank Clearings.....	\$1,59,808,000,000	\$49,098,000,000	225%
Pig Iron output.....	28,000,000 tons	7,000,000 tons	300%
Lake Superior Iron Ore shipments...	38,000,000 tons	9,000,000 tons	322%
Total Freight Traffic thro. "Soo" Canal.	51,751,000 "	6,411,000 "	707%
Total Freight Traffic all Railways in U.S.	1,427,731,000 "	539,639,000 "	164%

It is interesting to note that the Bank clearings which usually serve as a safe guide or indicator of the general business conditions, as well as the Iron production and Ore shipments (for which records can be readily obtained), show very marked increases during the period under consideration. Also observe the vast difference between the progress of development in tonnage carried on the Great Lakes (unrestricted by legislation) 707% and the increased tonnage carried by the Railways, under Government supervision 164%.

The Canadian Census, and U. S. Census and Ry. Commission Reports show the following as the total Capital invested in the three great Departments of industrial activity, Agriculture, Manufactures and Railways, in both Canada from 1891 to 1901-5, and the United States from 1890 to 1905: -

CAPITAL INVESTED.			
CANADA.	1901	1891	Per Cent of Increase, over 1891
Railways... .. { 1905	\$1,042,785,000	\$786,447,000	33%
Agriculture.....	1,248,666,000	.....	*59%
Manufactures.. { 1905	1,787,102,000	(Not published).	.....
	446,916,000	296,350,000	50%
	846,585,000	.....	185%
UNITED STATES	1905	1890	Per Cent. of Increase
Railways (net).....	\$11,167,000,000	\$7,577,000,000	*47%
Agriculture.....	30,043,000,000	18,082,000,000	66%
Manufactures.....	13,872,000,000	6,525,000,000	113%

This will graphically show the channels Capital has been and is now seeking, both in Canada and the United States and how rapidly other lines of Commerce are developing as contrasted with the slow progress of railway construction.

It is also interesting to learn what the net returns are on Capital thus invested.

The estimated net return per \$100 of Capital invested is as follows, for the industries mentioned: -

	UNITED STATES 1905	CANADA 1901
Railways .....	\$ 4	\$ 3
Agriculture.....	10	18
Manufactures.....	15	20

\* Note per centage of increase in new mileage in Canada, in excess of increase in the United States. Canada's restrictive legislation became effective in 1904.



Now what is the lesson to be gained from these facts? Is it not that Governmental supervision of, or restriction of a legitimate business undertaking, without a compensating guarantee for such control, has a deterring effect upon the investment of Capital in such undertaking, and that by the adoption of restrictive legislation (sometimes sincere but unwise,—but too often of a "sand-bagging" character), the earning capacity and, co-incidentally, the developing ability of the railways are curtailed and checked? In other words, the policy followed is that of starving and thereby weakening the arteries through which the life blood of our commerce must pass, the very policy that should by all means be avoided in the general interest of the entire country.

The result of this unwise policy can now be seen in the low values of large areas of productive land, because of the lack of communication, especially the vast areas located West of the Mississippi River, capable of sustaining double the present railway mileage, of a little over 100,000 miles, and far more than double the present population.

As illustrative of the point sought to be made, compare for instance the land values in the territory served by a railway like the New York Central, which was an established plant and "on its feet" before the Interstate Commerce Act was passed (and which railway now serves probably the richest and most intelligent community of people on this continent excepting, perhaps, the Pennsylvania Railroad and the people of the States of New Jersey and Pennsylvania), with any of the values in territories served by the Southern and Western Railways, whose development has been hampered by ill-advised State (and National) Railway legislation, where land values will be found on a much lower basis.

Some critics, however, may say that these figures are misleading, because only the increase in the mileage has been taken into consideration in the above tables, and that the great increases in railway equipment during the past twenty years should be shown as well. While this is true to the extent of making the above comparisons more explicit it also serves to show why the communities served by the old established roads, <sup>which</sup> ~~who~~ have all secured the largest proportion of this increased equipment, have prospered to a greater degree than the newer communities—it is the increased mileage that creates increased values in undeveloped areas of land.

But let us see what the criticism amounts to in actual figures:

(INTERSTATE COMMERCE COMMISSION REPORTS.)

	1906	1887	Increase	Per Cent
Avg. No. of engines. . . . .	55,439	27,275	28,164	103
"    "    passenger cars. . . . .	46,190	25,893	20,297	78
"    "    freight cars. . . . .	1,979,667	950,889	1,028,778	108

From this it will be seen that while the railway mileage of the United States increased about 50% during the period under consideration, the freight equipment increase is 108%; but compare even this large increase with the great increase in output of pig iron, 1888, 7,000,000 tons, to 1906, 28,000,000 tons (300%), as shown by Census reports above, and with the increase of Bank clearings, 225%; or the unrestricted traffic through the Soo Canal 707%.

Is not the true reason for the Railways "breaking down" under the heavy strain thrown upon them in 1907 by abnormal crops (and other industrial developments) very apparent.

Agricultural production, owing to large immigration, endeavored to increase in the United States the same as here in Canada, but could not reach that measure of development to which it was entitled, because of lack of transportation facilities to make delivery to the markets. Who was blamed for the failure—the Legislatures, or the unwise press who were largely instrumental in creating the restrictive legislation of the past twenty years? No,—the Railroads were blamed. "The ignorant teamster vented his displeasure in kicking and abusing the willing horse he had at his mercy (reducing his usefulness incidentally), because the other horse was not there to help carry the overload." How often in the mass the uninformed public are like the most ignorant of its individuals,—at least, the foregoing is a picture of the railway legislation in the United States during the past year. With the natural development of Agriculture retarded, all other lines of commerce must likewise suffer.

Now there is a valuable lesson in this for Canada and Canadians, as we also have recently followed the fashion set by the legislators in the neighboring Republic (whether wise or otherwise remains to be seen), and

adopted Dominion and Provincial Acts that give powers that are almost unlimited (and in fact greater than <sup>have</sup> ~~has~~ for centuries been exercised by the Crown itself) over the Railway Companies that have contributed so much toward the development our land.

By an Act of the Dominion Parliament of 1903 a Board of Railway Commissioners was created, composed of three men (appointees of the Government), who, under the provisions of the Act, have practically the final decision upon all questions affecting over one billion dollars worth of railway property. The right of appeal to the Supreme Court of the land from such decisions, applies only to questions of law and jurisdiction,—there is also an appeal from the Board to the Governor-in-Council. Further, as at present constituted, this Board is composed of three gentlemen, who, however high they may stand in their respective professions, have had little or no special training in either the Railway service, nor in the financial world, which would qualify them to always successfully decide the numerous and perplexing problems that daily arise in the railway business which are liable to affect the financial position of the Companies and which often prove difficult and puzzling to the men who have given all their time to their study and solution.

This Board now exercise entire authority and power over all the service of policing of, and schedules of rates charged by the Railways, as well as often dictating what expenditures shall be made in the way of affording increased facilities, the most of which are properly chargeable to Capital Account only, and yet, by rulings which reduce the rates and thereby reduce the incomes of the Railways (and their power to obtain increased credit or Capital), create an anomalous condition that is certainly unbusinesslike to say the least, and will certainly lead to financial embarrassment in the end, not only to the Railways, but to the entire country served by the Railways,—for on the credit of the Railways much of the credit of the country is necessarily founded, and whatever operates to weaken so large a portion of the foundation on which our prosperity depends, is responsible for the greater injury to all, that will undoubtedly follow.

While there is no disputing the fact that the existence of a Government Commission is justified so far as the proper policing of the Railways is concerned, in order to readily settle disputes arising between the Railways themselves and between the Railways and Municipalities, etc., regarding the proper protection of life and property, and to see that ser-

services paid for are rendered and vice versa, when, however, such Commissions are empowered to deal with and assume the making of rates for such services without regard to the ownership of the properties, and thus affect the sources of income of the Railways, it is treading upon very sensitive ground, and is liable to cause more injury than benefit, by but one mis-step. Capital is proverbially timid, and will withdraw like the snail into its shell upon the mere suspicion of danger, and while we may have power to restrain and abuse the property representing the present Capital investment, we may be quite sure we will be slow in securing more when perhaps we most need it, not only for constructing more Railways, but for other enterprises as well. This will naturally result in a decreased demand for the services of labor.

And is not the present need for more Capital here in Canada very apparent? Turn to the last report of Railway Statistics of the Department of Railways and Canals, for the year ending June 30th, 1907, and on page 9 you will find the following statement:—

“It may be instructive to compare by two simple tests the railway mileage of Canada with that of other countries:—First, with respect to population, and second, by territorial area. The result is as follows:—

COUNTRY.	Population to each mile of railway.	Square miles to each mile of railway.
United States.....	381	13.61
United Kingdom.....	1,821	5.29
France.....	1,590	8.46
New South Wales.....	686	146.09
New Zealand.....	358	43.42
Victoria.....	360	25.89
India.....	10,119	61.09
Canada.....	289	161.80

From this it will be readily perceived that Canada has the largest and richest, unoccupied and inhabitable territory of any of the great countries named, and perhaps in the World, (excepting Siberia,) which requires railway facilities to develop it. Compare the 161.80 square miles of territory to one mile of Railway in Canada, with the 13.61 square miles to one mile of railway in the United States (to say nothing of the 5.29 square miles in Great Britain), and if we are to have the same railway development and agricultural development here in Canada that the United States have enjoyed, it stands to reason that Capital must have the same liberal treatment that it had in the United States prior to 1887

(the year of the passage of the first Interstate Commerce Act) when that great country made its greatest railway and agricultural progress,—the two main sources of wealth, upon which all the other sources are chiefly dependent.

Again, compare the population to each mile of railway in the United States of 381 with the population in Canada of 289 (less by 25%) and then, judging by this feature alone, say if we can justly and fairly ask our railways to handle our Canadian traffic on the same bases of charges as prevail in the United States, and require them to pay the same rates and taxes as are assessed upon the American Railways,—without taking into consideration the further facts that owing to the greater distances from the mines, and the severity of our Northern climate, the railways of Canada are subject to far greater expense for their fuel supply (plus a high rate of duty assessed by the Government), and for the cost of fighting the heavy snows, which create an unusual burden not felt by the Railways in the land to the South of us.

If Capital is not liberally treated, and therefore not to be readily obtained by the Railway Corporations for private investment, what means must be adopted for the opening up of the new and undeveloped sections of our land? There can be only one answer—Government construction, ownership, and control. In this connection the present method of "Government regulation" by Commission is only a mask for Government control more absolute, and quite capable of being made more tyrannical than Government ownership, because it is control without responsibility or guarantee. Any business man needs no prophet to point out the ultimate result of a business undertaking when handled in this way. Capital is slow to seek investment in Government channels unless accompanied by absolute guarantees.

From Government ownership of the lines in the new and growing territories of the Dominion, the politicians who are likely to profit to the greatest extent by the adoption of such a policy will readily find a way to force Government Ownership of all the old established as well as the the newer Railways, upon the people.

Let us pause to consider what this would mean. Comparatively few have any conception of what the result would be here in Canada.

In the first place, let us consider the question of Capitalization of our Canadian Railways, as compared with the Railways now owned and

operated by Governments. The Railway Statistics published by the Department of Railways and Canals for year ended June 30th, 1907, show the following figures:—

	Capital per Mile of Road.
Canada, all standard gauge.....	\$56,900
Victoria (cost), largely narrow gauge).....	63,110
New South Wales (cost), largely narrow gauge).....	63,060
India (half narrow gauge).....	56,790
to which should be added:—	
German Empire .....	99,260
Russia.....	75,500

(Of course the question of efficiency enters largely into this subject. No one who knows the facts will question the superior efficiency of our own roads).

Included in the above statement of Capitalization of Canadian Railways are many securities that are of but nominal value and have never paid a cent. of dividend. The facts speak for themselves.

Then the question of taxes must be considered. The Railways of Canada paid in direct taxation in 1906 approximately \$1,000,000., which reached, directly, the treasuries of the Municipalities and Provinces. This amount would have to be found elsewhere should the policy of Government ownership prevail, and would be a direct charge upon the pockets of the people, who would also be called upon to pay the great deficiency that would be created by the discontinuance of the payment of duties upon the materials imported for the consumption of the (Government) Railways, which duties are now paid by all roads except the Inter-colonial Railway.

While it is difficult to ascertain just what this deficiency would amount to, an idea can be obtained when we consider that the Railways paid as duty on coal alone in the neighborhood of \$2,000,000. during 1907.

Again, when the question of the collection of claims, both for personal injuries, fire and stock losses, as well as claims for goods lost or damaged in transit, overcharges, etc., is considered, it gives food for much thought. It is a well known fact that Governments are slow to recognise claims and slower to pay them (as it frequently takes an Act

of Parliament to authorise such payments), and it can be readily realised that the present unpleasant experience of claimants against the Railways will be multiplied indefinitely under the Government ownership policy.

While these are but two of the many important questions arising in connection with the subject of Government ownership of Railways, they are only incidental, the great and vital questions being that of "Efficiency" and "Cost." Will Government ownership improve the efficiency of the Railways as now operated by Public Service Corporations?

This can perhaps be answered best by making a few comparisons. The rules governing the working hours of the majority of Railways, require their official and clerical staff to be on duty from 8.30 and 9.00 A.M. to 6.00 P.M., while the hours of all the Governmental Departments are from 9.00 A.M. to 4.00 P.M. This is illustrative.

The present method of promotion in all Departments of railway service is usually based on ability and merit, seniority being the second consideration, while in the service of the Government, as is well known, promotion is most frequently based on "pull," or influence, especially in the official and better paying positions (competency being a second consideration), and much of the time of the incumbent is devoted to strengthening his "pull" rather than to the improvement of the service.

A member of one of the most responsible firms of Certified Public Accountants of New York City, has publicly expressed his opinion after many years of experience in auditing the accounts, and observing the staff of both Government Bureaus and Departments, and Railways and other Corporations, as follows:—

"I know as a matter of fact that the management of our great properties is generally intelligent and economical, and that the management of our Government bureaus is generally loose, irregular, and frequently dishonest; and when I read the articles with which so many of our newspapers and magazines are filled nowadays, reflecting on the men whose genius is developing the country's resources, and when I hear the proposals of politicians, from the most eminent to the least, for the passage of laws to hamper and restrict the energies of these men on the theory that their integrity is open to suspicion, my mind inevitably brings up the contrast that I always observe between a corporation's way of doing things and a government's, as disclosed by their respective records and books of account.

"For the purpose of this comparison, incompetency and dishonesty need not be separated. Putting them together it is my deliberate estimate, that, judged by the highest standards prevailing in the best conducted corporations, there is less than 10 per cent. of both among men in the management of corporations generally, and at least 90 per cent. of both among public office holders, and I base this estimate upon my experience as a public accountant."

As is well known, this is the general rule, not the exception, so far as Governments are concerned.

As to the question of "Cost," the average <sup>CHARGE FOR</sup> ~~cost of~~ transporting a ton of freight one mile in Canada during 1907, was seven tenths of a cent (7/10thsc.) "Railway Statistics". A table published in Leslie's Weekly of New York, prepared by Mr. G. Walker shows comparatively the average <sup>CHARGE FOR</sup> ~~cost of~~ transporting a ton of freight one mile in the great countries of the World, as follows, which is approximately correct to-day:—

COUNTRY.	Cost of Transport- ation per ton mile in cents.	Wages per Day, in cents.
China.....	.10	\$ .10
Japan.....	.05	.23
Russia.....	.022	.34
Italy.....	.024	.26
Austria.....	.0225	.50
Germany.....	.015	.90
France.....	.019	.80
England.....	.026	1.04
United States.....	.0069	2.60

(Canada, about the same as the U. S.)

From this it appears that where labor unassisted by brains, and machinery, is cheapest, as in China, the cost of transportation is greatest, and in countries where GOVERNMENT OWNERSHIP prevails, the cost of transportation is over 100% greater than the cost as compared with Canada and the United States, where the best and cheapest transportation service the World has ever seen is provided by Corporations,—while the returns to labor employed on such Government Railways are far less than the average wages paid to labor on our railways.

In the United States (where the records have been carefully kept), the Railway Companies have in the past fifty years increased their capacity over 100%, while the cost of the medium has increased 100% per mile, and the capitalization of the medium has increased less than 75% per mile. Could this same result have been attained under Government ownership?

It is earnestly to be hoped that should the Canadian people ever adopt the principle of Government ownership, they will do so with their eyes open, and not blindly follow the poor example of some other nations. The saying that "He is a wise man who profits by the mistakes of his neighbor" is true to-day.



