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Canada's Railways

BY HON. R. J. MANION, M.D.

PRESIDENT JAMES:—Gentlemen, I had prepared what I regarded as an extremely nice introduction for the guest of honor today. On the other hand, I have promised him definitely a full forty minutes. I, therefore call upon Dr. Manion to speak on, "Canada's Railways."

DR. MANION:—Mr. President, gentlemen, I should like at once to thank the Canadian Club of Toronto for this encore appearance, so to speak, because I am coming back to this very fine institution to address you on the same subject, but I shall deal with a very different aspect today and I shall waste no time in preliminaries except perhaps to say I always come to Toronto with a great deal of pleasure as my second home, Fort William being my first.

The question I am going to deal with is the railway problem, as it is no doubt Canada's greatest problem, considering even such a serious problem as unemployment. The aspect with which I shall deal is the question of amalgamation, or unification or joint management and operation. Call it what you will, it is the same thing. In the first place, I, on behalf of the government on a number of occasions—I think four times in the last four months—have stated that we were opposed to amalgamation and I have consequently been accused from friendly and some unfriendly sources of merely taking that attitude because of political exigencies. May I point out at once that the question is so vital to the Dominion of Canada that I could not take that attitude for political purposes. In a national question of this kind we should ignore politics and take what is the best view for our country as a whole.

May I make another point? I am not replying here today to E. W. Beatty. He has been making a number of speeches. I do not think it would be dignified for us to travel to and fro across the country in a sort of oratorical Derby. He is a dear friend of mine, for whose opinions generally I have the utmost respect, but from whose opinions on this particular question I differ very distinctly. No man knows more about railways. Mr. Beatty is a railway man. Mr. Beatty on that subject would have ten times the authority I have. But this is not a railway question. This is a national question of public policy which, I submit, I am just as capable of judging as Mr. Beatty, or anybody else. I say that without disrespect. Let me outline a few principles for purposes of background. In the first place, this is not a question of public ownership or private ownership. We have public ownership in Hydro and the Canadian National Railways. We will never again, I believe, any of us, go in for unlimited public ownership, but neither do any of us believe in uncontrolled private ownership. Our railway problem is mainly the result of blunders in the past—three blunders particularly. First, in the early years of this century, we built two transcontinental railways in addition to the C.P.R., which was a transcontinental railway, in that way doing an injustice to the C.P.R. That was the first blunder. Secondly, in 1910 and 1920, we made another blunder when we took over the Grand Trunk and Canadian Northern, together with their bonded indebtedness amounting to something like \$400,000,000, instead of allowing these two railways to go into liquidation. To have done so would have been no great crime, because practically every railway in the United States has been there. Our third great blunder was between 1922 and 1930 when we permitted a great showman—I say this with no disrespect to a man who had many very excellent qualities but he knew nothing of the value of money, which he squandered to the extent of hundreds of millions on capital expenditures, and he cost this country \$15,000,000 to \$250,000,000 per annum on waste of operation of the Canadian National Railways. These were the three great blunders that gave us the railway problem.

We have made other blunders. We are a young people. So do older people blunder. The Welland Ship Canal cost \$130,000,000 and it only permits upper lake boats to come into another lake. The war was Europe's blunder. It was the most tragic blunder made by the older civilization. I mention it to show that other countries make blunders, even more tragic. I say with all due respect even business men make blunders. The pulp and paper fiasco is one of the best examples of a really tragic blunder on their part. The people who started building the other transcontinental—Charles Hayes of the Grand Trunk and Mackenzie and Mann of the Canadian Northern—were railway men. Most of us in this room have some bonds which we hold at very low valuation.

But do you want to make any more blunders? If we don't then do we not want to know the facts about the railway question? I think so. Therefore, I will give you a few facts, so you will have the background. In the first place, what do we mean by a solution of the railway problem? We mean some procedure by which, instead of you and me as taxpayers paying \$50,000,000 or \$60,000,000 interest to bondholders, the Canadian National Railways will earn it and pay it themselves.

That has nothing to do with the government interest. In *The Globe* this morning I noticed a letter from Ottawa telling of a deficit of \$85,000,000. That includes government interest. I ignore that as it is not a cash expenditure. The cash need is \$57,000,000 which is payable to the bondholders in the United States, Britain and to a few in Canada. That is a distinct cash payment which we have to make. Might I add this: the solution of the railway problem would be the only justification for the amalgamation of the two roads—unification, joint management, what you will. Amalgamation would be justified only on the ground that you would solve that problem. We do not want amalgamation just to please some person. We want it if it is the solution of the problem. If it is—if I were sure or had any conception that it was the solution I would unhesitatingly support it.

I do not support it because I do not think it is the

solution and I shall endeavor to give my reasons. I do not speak without some knowledge and experience. I have been a member of the House for 18 years and Minister of Railways for five years. Therefore, unless I am a complete dunce, I should have some knowledge of the question. I am in good company because a Royal Commission, appointed on the suggestion of Sir Henry Thornton and endorsed by Mr. Beatty, went into the whole question. That Commission was headed by Mr. Justice Duff, the head of Canada's Supreme Court, and included Lord Ashfield of Britain, Mr. Loree, president of the Delaware and Hudson Railway, and Sir Joseph Flavelle, big business man of Toronto, and three other Canadians of wide experience—a very fine Royal Commission which went into the question and reported unanimously against amalgamation. Someone, a person from the United States who visited us for a week and solved the railway problem, has suggested that we appoint another Royal Commission. The Drayton-Acworth Commission reported against it also in 1917.

What are the arguments for amalgamation? The chief argument is that it would save \$75,000,000. You read it every now and then. One Montreal paper said I was a fathead because I did not want to save \$75,000,000 for the people of Canada. Everyone knows we need it. Where did that \$75,000,000 story originate? It arose in 1932, three years and three months ago, before the Royal Commission I mentioned. It was proposed by the C.P.R. officers who favored amalgamation and who said that if you would amalgamate the two roads—and get this clear—then on the basis of 1930 revenues, in five year's time they thought they could save \$75,000,000 per annum to the people of this country—on the basis of 1930 revenues remember. The 1930 gross revenues of the C.P., and C.N., were \$440,000,000. Last year they were \$293,000,000. Therefore, what applied in 1930 would not apply today. You cannot get more profit out of such greatly reduced earnings. That is absolutely clear. Let me tell you another thing. There have been vast economies in both railways since then. Since February, 1932, vast econ-

omies have been put into effect on both the C.N. and C.P. In other words, a huge part of the economies included in the 75 million estimate have already been made.

The C.N. in 1930 took in \$250,000,000 gross revenue, but the net income was only \$15,000,000. With the same gross today the railway would be able to pay at least \$35,000,000, towards fixed charges—I think closer to \$45,000,000—in other words close enough to \$57,000,000 to enable us to absorb the balance and charge it up to experience and the development of the country. After all, the C.N. has done something to develop the country so that if we got to that point we would be close enough to accept the balance. Where did we make special economies? We saved \$2,000,000 on officers per annum. There was one particular gentleman from the United States who received \$62,000 for doing nothing. He went back to the United States and a number of friends with him. We saved in official salaries \$2,000,000; and we saved on entertainment account \$1,000,000; and \$500,000 on radio expenditures. They were not good for anything any way except making a noise. These are some of the savings—of the type just mentioned, and including train mileage—making a saving to the C.N. of anyway from fifteen, twenty to twenty-five million dollars per annum. The C.P. did not save so much. It was perhaps better handled. I do not think they are a bit better handled today than the Can. Nat., but were at that time. You cannot make those economies again—the tens of millions that were saved.

The C.P. committee who proposed amalgamation said to the Royal Commission that under unification there would be a saving of 13,000,000 train miles. Since then the C.N. itself has taken off more than 13,000,000 train miles and the C.P. almost 10,000,000 miles and that cannot be saved again. The two roads under co-operation and due also to decline in traffic have since 1930 effected a reduction of 24,000,000 train miles at a saving of a dollar per train mile. I do not want to labor the point, but it is obvious that no such figure as \$75,000,000 could be saved any time, any place, by amalgamation or unification of these two roads. The next time you read this ask

yourself where you could get it? Or ask Mr. Beatty. He is too fine a fellow to make any such suggestion at the present time.

Somebody says to me, "there are other economies; you have not made the abandonments proposed." That is true. There were abandonments proposed. I took the liberty to bring a map to show the proposed abandonments. Would you hold this (map) up, Mr. President. I do not know if you can see it. The deep red lines show the possible abandonments of C.N. mileage and the deep blue the possible abandonments of C.P. lines. The proposed abandonments together total a little over 5,000 miles, about 3,200 of which would be C.N. Many of the C.N. abandonments proposed are away up in Northern Ontario where they are getting gold and pulpwood and where a great many other resources are being developed at the present time. Well, you would abandon, at the same time, a lot of terminals. That is where much of the estimated savings comes in—you abandon railway shops and towns. Do you know, there is one town on that road which has over 2,000 inhabitants and would have no railway for 200 miles. Not a pretty picture. What would you do with the people? It is a lumbering town. I am not going to name it. What would you do with the 200,000 people who are on the total of these lines proposed to be abandoned? Would you abandon them to the wolves? In that part of the north there are no automobile roads. Have we become such a hopeless lot of purblind pessimists that we are going to isolate 200,000 people? How are we going to compensate these people? How much is it going to cost? Will it cost as much as the savings? It will probably cost a good deal more. Is it just another scrap of paper? We encouraged these people to go in. Are we going to tell these people, "You cannot have railway transportation?" What is it going to cost? Nobody has ever mentioned what it is going to cost. Nobody mentioned the number of people involved.

Suppose you tear up all of the C.N., you would not save a cent of interest. You can close the C.N. down. What do you do? Throw 75,000 men out of work. The

only savings you can possibly make by amalgamation are savings on labor. It cannot be anything else. You do not save any interest, which even on abandoned mileage would still have to be met. The C.N. is paying operating expenses and employing 75,000 men. The deficit is on the interest owing to the bondholders which interest we as a people have guaranteed. Until you repudiate your debts you are going to go on paying. I think you will agree.

I am not going to quote Mr. Beatty more than I can help, but both he and Mr. Euler have stated that unification can be done in such a way that it won't affect labor. You cannot have it both ways. I do not mean that 100% of the saving would be labor. I do mean 75% to 85% would be labor.

Then amalgamation would bring about the greatest monopoly we ever had in Canada. I do not know any corporation that has more than 75,000 employees. That is what the C.N. alone has. I think it is the biggest corporation in Canada. The second biggest is the C.P. Unite them into one and you have a huge monopoly. Someone says you can have a railway commission to check the rates. That has nothing to do with service. With the exception of the motor bus, which cannot handle very heavy bulk traffic for long distances, you cannot get along without the railway. Someone says you need not be afraid of a monopoly. I noticed when the Bank of Montreal and another bank merged it was regarded as a bad thing. If it is a bad thing to have one bank in control of all the money, is it a good thing to have one railway in control — a monopoly for railways and competition for banks? We all contribute to the railways if not to the banks. We only pay to the banks when we borrow and a lot of us cannot borrow. The bad thing to my mind is the huge corporation proposed. It would be the largest corporation Canada ever had, with 150,000 employees (150,000 voters) and as many more among families and relations. Thus you would have the greatest political machine, including the voters on the same side due to favors, purchases, and so forth. Imagine a concentrated voting power of 500,000. Political pressure would be put on governments.

I do not care what side they are on, they could be subject to pressure. Fair, honest, healthy competition is what is wanted. Amalgamation is a national menace to our country.

Now, I made a statement a few moments ago. I want to be clear on this point. If the C.N. got back to 1930 gross earnings of \$250,000,000 it would probably make \$40,000,000 toward interest. Surely the C.N. will get back to 1930 gross. Why not? Between 1921 and 1930 we had seven years when it ran over \$250,000,000 and one year \$312,000,000 in 1928. Have we become such a hopeless, gutless group of Canadians that we don't think we will ever recover? What is the matter with our people? With our sparse population, rich resources and immense area, surely we are coming back. I think we are. I am not such a despairist as some of the papers pretend to believe.

If in due course there is not a revival in business, not only will your railways fail but this country cannot survive. Do you think this country can go on if you do not have a revival? I am telling you it cannot. Why worry so much about the railways? It is not a policy of despair. It is a policy of common sense — such common sense as my brain possesses.

If we have no revival, of course, the C.P. is not going to come back to its previous flourishing condition. Would it be a good time to take over the C.P. and hold the bag for them? Would that be a good thing to do at the bottom of a depression? Not to my way of thinking. We blundered twice. The second mistake was not allowing the Grand Trunk and Canadian Northern to go into liquidation. Are we going to do the same thing with the C.P. if it gets into financial difficulties? C.N. bonds are held in the United States. We have backed them and will have to meet them unless we repudiate our debts.

I think the revival is on. I think in two or three years we will look upon today as a bad dream. But if we have no revival I do not see why we have to take on any more railways. If you are going to have a revival, the problem solves itself. If there is no revival there is no solution. It is no time to decide to move.

The afternoon is advancing and the time is short but I still have five minutes before 2 o'clock. I have marked out a couple of points. Suppose you decide to amalgamate, is it going to be under private or public ownership? Suppose times got good and the C.P. is under government control. Suppose your directors are just rubber stamps. Suppose another showman got in. Suppose a weak government (Liberal or Conservative) were in power. Suppose they were allowed to do as in 1929 and make it double the \$500,000,000 committals on hotels, terminals, branch lines, and so on, of 1929, or next time? Then what about private individuals and private corporations? Were they so much superior to governments? I say with all due respect I have found in 18 or 20 years that politicians are just as fine a crowd as you business men—not a bit better or worse. They are out to serve their country. They are patriotic—most of them—and will not sell themselves. Most of them try to care for the interests of their country. So I submit that amalgamation is not justified because private control is proposed. Because, gentlemen, there are no more super-men. That is one of the myths of the past and exploded with other things in 1929, and this corporation would be too big for any one man. There are no super-men in either government or private business.

I have touched a few aspects—as many as time permits. The whole proposition is too nebulous and too hazy for you to decide upon. Surely we are not a lot of children and we are not going to allow ourselves to be flimflammed into another railway blunder. I do not mean that anyone is trying to flimflam us intentionally, but that would be the result.

I am going to put a series of questions which I want somebody to answer. Tell me what the answers are. Everyone of these twelve questions should be answered before you business men decide that amalgamation is a good thing. These are the questions:

(1) Are the amalgamated railways to be under private or government control? Nobody has answered that yet.

(2) How much saving can be made by amalgamation under present traffic conditions? Anybody, who says it would be \$75,000,000, has had a pipe dream.

(3) If, by amalgamation, savings are made, in what proportions are these savings to be divided between the Canadian National and Canadian Pacific?

(4) How much capital expenditure will be necessary to effect the physical union of the two railways, such as the uniting of terminals, and how will the money be raised? Are we going to guarantee some more millions?

(5) If the Canadian National is to be absorbed by the Canadian Pacific, how much of the present deficit of \$50,000,000 is the Canadian Pacific ready to absorb? Certainly not the whole of it—probably not half of it—but surely we should have some estimate. Will the Canadian Pacific guarantee to absorb any stated portion of the deficit? If the Canadian Pacific states it will, and then fails, what could we do about it?

(6) If, on the other hand, the Canadian Pacific is brought under government ownership, are the bondholders of the Canadian Pacific to be guaranteed their interest, and would the holders of common stock expect to be guaranteed dividends? Or are all the security holders willing to throw in their lot and take chances on the result?

(7) In case of amalgamation will the Canadian Pacific put in all its assets (such as steamships, express, hotels and land) or only part of them?

(8) What is to be done about the settlers and industries, and towns and terminals, on lines to be abandoned? Are they to be compensated? If so, how much will it cost? Are they to be moved? If so, where?

(9) Where railway terminals or shops or towns are closed up through union, are those affected, who located there in good faith, to be compensated? Or do they become wards of the State—on relief in other words, like many of our industrial workers today?

(10) As the estimated savings necessarily must be made out of railway operating and maintenance expenses, and as from 60% to 65%, of such expenses are made up of labor, what provision is proposed to provide for these

displaced wage-earners until they can be absorbed into other industries?

(11) Should not these questions be answered, or are we to decide on amalgamation, or unification, first and get the answers, good or bad, afterwards? Or are we to be stampeded into doing something—anything—going somewhere—anywhere? Has not that been our trouble in the past?

(12) Finally, is this the time—at the bottom (or near it) of the financial crisis—for a final decision on this very important question?

I for one do not intend to go into the question of amalgamation with blinkers on. I thank you very sincerely for giving me your kind attention. I have appreciated being here and I hope I have given you something to think about.

PRESIDENT JAMES:—I am sure we appreciate the visit we have had from Dr. Manion today and his frank statement of facts.