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The Railway Problem

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PRESIDENT CHALMERS:—I think we all agree there is one outstanding problem in this country and that is the railway problem and that there is one person in Canada most eminently qualified to introduce that problem and to discuss it. To-day we have as our guest speaker the Hon. Dr. R. J. Manion, Minister of Railways and Canals. All of us know Hon. Dr. Manion. Most of us know one or other or both of the two sides of his character, the one side of his character which we see when he attempts to nail the hide of a political opponent to a fence and the other side when we see him as now the smiling, genial Dr. Manion of Ottawa. To-day all we have asked him to do is to discuss the railway problem, tell us a little bit about the report of the Duff Commission, and discuss it to the extent that he is able to do at this stage in the political proceedings. Dr. Manion.

HON. DR. MANION:—Mr. President and gentlemen, it is always to me a very great pleasure indeed to come to the city of Toronto. I have been coming here for well over thirty years and every time I come my mind goes back to the days twenty-five or thirty years ago when I was a student here. Fond memories bring the light of those happy days around me, and when I get a reception such as that of this magnificent audience it increases my love for Toronto and gives me still greater pleasure in coming to meet you.

As the question which I am discussing, "The Railway Problem," is such a vast problem I shall, to a group of business men such as you, touch only the highlights of it. In

doing so may I say at once that it is without doubt still the greatest problem which Canada has to face. In spite of unemployment conditions, in spite of other problems of all sorts which we have because of our financial position, because of the pressure put on the federal treasury by other sections of the country whose credit may not be so good as is the credit of the federal branch of government, in spite of all these things the Canadian railway problem is without doubt the greatest problem which Canada has to face. And may I add another thought, and that is without doubt also there is no solution for that problem as business conditions remain to-day. In other words the railway problem cannot be solved on any plan or scheme or method until there is a business revival not only in Canada but throughout the world.

Now you being business men, I intend only to touch, as I said, the highlights but it is such a vast question, such a complicated question, that even business men who have given it much study may be confused about the situation. Only the other day at lunch at Ottawa a gentleman, perhaps our oldest parliamentarian and one of the big business men in Canada, said he had read in the press that a prominent senator the day previous had stated we might just as well quit humbugging ourselves, and add to the national debt of Canada the debt of the Canadian National Railway. Suppose that were done, he said, that would double the debt of the Dominion of Canada, because now the debt is something like two thousand four hundred million dollars and the debt of the Canadian National Railway is two thousand six hundred millions. If you add them that would double our debt, and as I had never had the question put to me quite that way for the moment I thought he was right. But then I realized he was wrong, because the National Railway debt that would have to be added to the Dominion of Canada debt is not two thousand six hundred millions but just half that, for the reason the National Railway debt,—and this is a fundamental fact we should have in our heads,—shows one thousand three hundred millions owing to the Dominion of Canada, and shows another one thousand

three hundred millions—one thousand two hundred and seventy-six millions to be exact—owing to the investing public. Now the part owing to the Dominion of Canada which is called Dominion of Canada account would not be added to the Dominion of Canada debt because it has already been paid by the Dominion of Canada and is part of the consolidated debt of the Dominion, or has been paid out of revenues of the Dominion Government. So the figure you have to keep in the back of your head is the one thousand three hundred million dollars owing to the investing public largely in the United States—two-thirds in the United States and one-third in England, with a small portion of it in Canada, seventy-five per cent of which has been guaranteed by the Dominion of Canada, and the interest upon which amounts in round figures to fifty-eight million dollars that has to be met by the Dominion of Canada or by the railway if it can meet it from its operating revenues, unless Canada repudiates her debts. And that is the figure one must keep in the back of his head as to the debt we have to meet. It is that upon which there is a deficit in operating revenue. This operating revenue paid operating expenses and part interest to the public and it is the balance which is called the deficit. It might be rudimentary, but I mention it because this old parliamentarian had it wrong, the idea about this one thousand three hundred million dollars owed to the Dominion of Canada.

Writers and speakers have stated that if the debt of the Canadian National Railway were arranged fairly on the books of the railways the Canadian National would pay its own way. Of course that is not true because you could wipe out the whole one thousand three hundred million dollars owing the Dominion of Canada and it would not make any material difference to the Canadian National because not one cent of capital or interest has ever been paid back by the Canadian National and I may as well add, I don't think it ever will be. At least half of it was spent in capital expenditure—Intercolonial, transcontinental, etc.—at least half of it was put in capital expenditure, and recapitalization would not do any good unless you wiped out some of the funded debt owing the public as well.

I do not wish to waste time offering you causes of our railway troubles. But in two or three sentences I can give them to you. 1. Overbuilding of railways in the early years of the century whereby we built a second and a third transcontinental when two would have been sufficient. 2. Motor competition which has taken away traffic. 3. Excessive capital expenditures, and I am speaking largely of the Canadian National because it is the railway of which I know most. 4. Extravagant management. 5. Depression which not only brought the whole railway question to a head but brought us to our senses.

Now it is said by those who object to these facts being told, which I have been telling for a couple of years, that other railways on this continent are in trouble. So they are. All the privately owned railways in the United States and the privately owned Canadian Pacific Railway are in trouble. But the difference is this; the Canadian National is our problem; the others are private companies and they are not directly our problem. The Canadian Pacific Railway indirectly is, because its credit is mixed up with the credit of the Dominion of Canada, but the Canadian National is our own problem. But there is another big difference that has struck me and I have never seen it mentioned even in the *Financial Post*, nor in the Duff Commission report, nor any other place. It is suggested that the private railways of this whole continent have borrowed a lot of their money. For example, the railways of the United States, the two hundred and fifty thousand miles of railways over there, have a book investment value of about twenty-six billion dollars. But instead of having bonds for a large proportion of that their bonded indebtedness only amounts to from ten to twelve billions. More than half of it is in stocks or has been washed out in receiverships. The Canadian Pacific Railway is in the same situation. It has a capital structure amounting to roughly one thousand million dollars, but out of that thousand million only half of it is in bonded indebtedness, and the other half in stocks. It makes this difference:—the Canadian Pacific Railway and the American Railways are in the same position, they can

stop paying dividends and yet it doesn't endanger the possession of the road. The Canadian Pacific Railway has stopped paying. It paid dividends to the end of this year, but this year I think it has paid no dividends. The other American roads have practically stopped. But the C.P.R. has interest on its bonded indebtedness amounting only to twenty-two million dollars, but the interest on the bonded indebtedness of the Canadian National amounts to fifty-eight million dollars per annum. Now that is a vast difference. In fact the Canadian National bonds being guaranteed to a large extent by the Canadian people makes the interest virtually a Dominion of Canada debt; and the fifty-eight million dollars interest on the Canadian National against twenty-two million dollars interest on bonds for the Canadian Pacific Railway puts our Canadian National as a much heavier load on the people of Canada generally than the interest necessities of the Canadian Pacific Railway on its owners.

Now, some months ago we appointed the Duff Commission to go into the whole railway situation. You have read the reports but I am going to sum it in brief language as it struck me. The Duff report gives a splendid summing up of the whole railway situation. They showed the urgent need of economies. They pointed out the dangers of our financial structure if something was not done to correct it. They advocated greater co-operation between the Canadian Pacific Railway and the Canadian National Railway and suggested methods by which this co-operation and the greater economies could be brought about. Then they emphasized very emphatically the extravagance of the Canadian National while they pointed out the mistakes of the Canadian Pacific Railway. In clause thirty-three they said the red thread of extravagance was running through the administration of the Canadian National; they condemned the excessive building of branch lines of the Canadian National and the excessive cost of these lines. They condemned purchase of railways which had been bought for tens of millions and practically none of which were paying operating expenses, let alone interest; they condemned the building of hotels and steamships and luxurious passenger

service. That is the picture. They finally used the year 1929 as the horrible example, as in that year the Canadian National had committed the people of Canada to expenditures amounting to well over two hundred million dollars. And they finally uttered a note of warning which I shall take just a moment to read:—

“We feel compelled, as a matter of public duty, to strike a serious note of warning to the people of Canada. Unless the country is prepared to adopt the plan we have proposed or some other equally effective measure to secure them efficient and economical working of both railway systems, and thereby not only reduce the burden on the Federal Treasury but improve the financial position of the privately owned railway, then the only courses that would be left would be either to effect savings in national expenditure in other directions, or add still further to the burdens under which the industries of the country are suffering by the imposition of yet further taxation. Failing the adoption of one or other of these courses—and there are obvious limits to their application—the very stability of the nation's finances and the financial credit of the Canadian Pacific Railway will be threatened, with serious consequences to the people of Canada, and to those who have invested their savings in that railway.”

Now, Mr. Chairman and gentlemen, I have been pointing out the same thing for two years. I think in my first speech as Minister I said the railways must adopt the motto of care, caution and economy. I gave some examples. No word of mine was so strong as theirs. And yet because I told the truth I was accused of being an enemy of the Canadian National Railways. I was accused of attempting to wreck it, of attempting to throw it into the hands of its great competitor. Now I am glad to see even the most partisan papers have quit saying those things because the Duff report has justified the statement which I and other members of the Government have made. It has justified the position we took of pointing out the dangers to our financial structure if a change was not brought about. I do not believe any decent citizen of this country would attempt

to wreck the Canadian National. I believe any man who would dare to take such an attitude would not be fit to be a member of Parliament, much less to be a minister of the government, and I also submit that the real friends of the Canadian National have been the men who fearlessly stood up in this country and told the facts to the people and advocated changes in the management to bring about a proper economic handling of that great railway. And I am going to illustrate to you a little further what we were up against. There were many other irregularities in the handling which had to be corrected and I can tell them now. The Canadian National Railway to-day is being handled wisely and economically and I can tell these facts now that the errors are corrected.

For example, up to a couple of years ago, to 1930 or thereabouts, the Canadian National could get an estimate passed by the government for a million for a hotel in Vancouver and spend it in Halifax, or get an estimate for a hotel in Halifax and spend it on a branch line in some far section. In 1930 they switched eight million dollars voted for other purposes, switched them to some purpose they had not been voted for at all. That was a greater power than the Dominion Government had or than any other government has to-day.

Another example. There was a clause in the contracts of the Canadian National, in which when they entered into contract for the construction of branch lines, whereby one man, and one alone, one engineer, could change the specification so completely that it meant a difference of hundreds of thousands of dollars to the constructing company. And it did not have to be submitted to the Board of Directors, or president, or to anybody. That was changed.

Another. I got many complaints of the specifications put out by the architectural firm in Montreal doing most of the architectural work for the railway that they were specifying American goods and, on enquiry, the management gave me information quite frankly, and I found that of the specifications put out forty per cent of them specified American goods, and yet in most cases there were products

of just as good a class made right in the Dominion of Canada. That of course was changed.

Hundreds of thousands of dollars were being wasted in club dues and expense accounts, men's salaries were being paid for nothing. One man drew sixty-two thousand dollars a year and certainly was performing no useful function for the Canadian National Railways; others drawing fifteen thousand to twenty-five thousand dollars for doing just as little as he did. And most of the officers, no matter how able they were, were drawing salaries that I believe were too high when the citizens of Canada had to dip into their pockets to pay these salaries. To show you how difficult it was to correct, thousands were being let out in the lower ranks. We were getting protests and are yet, whereas these immense irregularities were going on.

The present Board of Directors attempted to correct it. On one occasion, perhaps a year ago, one of the directors was fighting particularly hard to get some of these excessive things eliminated and he was waited upon after he came out by one of the high officers of the railway, the head of a department, and he was told he did not think it was wise for him and other directors to press for these salary changes. "I know enough of this Canadian National Railway to blow the government to smithereens"—and that was not the word he used. And he said, "In fact I know enough to blow the old government to smithereens," and he implied that if they did not look out he was going to blow them.

I heard this story. I called in the western director. He confirmed it absolutely. And I insisted this man must be dismissed. I said, "Let him blow his dynamite. We will take a chance." And it took about a month or six weeks fighting to get him out, but he was dropped. But it illustrates the difficulties the present directorate were up against in cleaning up what was not particularly a pretty picture. I am not implying necessarily anything discreditable. The condition was due probably to overenthusiasm which some of us had in all walks of life. But the condition needed to be cleaned up. Now that the Canadian National Railways are being managed sanely and economically, I say deliberately

that up to a couple of years ago the higher up management of the railway was so grossly extravagant that it was a real scandal. Not only had we large sums of money being thrown away on hotels, steamships and other useless capital expenditures, but other millions were being wasted annually in a manner which gave no return. Due to the pressure put on the Board of Directors and the management, and due to the splendid work of the present Board of Directors the Canadian National Railway is now being managed wisely and economically.

I am telling you these things to make the contrast as to the picture, as it was and as it is. I say the management is handling its work splendidly at the present time, so much so that I believe the economies on the Canadian National are largely accomplished. I will prove this two different ways. The other day Mr. Hungerford gave a statement to the press when the Duff report came out. I did not know he was making the statement. He said that had the same economies been enforced in 1928, the peak year of earnings for the Canadian National Railways, as are in force now, the net earnings of the Canadian National would have been nineteen million dollars more than they were. The gross earnings of the Canadian National Railways have gone down in the last ten months as compared with last year thirty-two million dollars. Now in the ordinary railway operation, and I have checked this with other roads, when the revenues decrease, the lowest you can bring down the expense is by about sixty or seventy per cent of the decrease in revenues because of fixed overhead. But instead of expenses being brought down seventy per cent they have been brought down one hundred and fifteen per cent. In other words the thirty-two million dollars decrease in revenues has been more than balanced by thirty-eight million dollars decrease in operating expenses. I think that is a magnificent showing on the part of the Canadian National Railway, and it is due to the fact that these wastes have been eliminated, and they have gotten down to a proper and economic management.

Just a few of the savings accomplished to illustrate the

special economies. I mentioned salaries. In salary reduction and salary eliminations above four thousand dollars the economy in 1932 as compared with 1930, as given to me by the management, is two million dollars; in travelling expenses and club dues eight hundred thousand dollars, and other services five hundred thousand dollars, making a total of three million three hundred thousand dollars or five per cent on a capitalization of about sixty-five million dollars. That is saving in overhead, and the best of it is, it should be permanent unless the railways go back to slovenly methods again, and I do not think they should. But in addition to this many millions of heavily losing passenger services have been eliminated because they are not being given the traffic by the people. People cannot expect daily train service on branch lines which they do not patronize. It is not the popular thing but the necessary thing to do. It is being done by the Canadian Pacific Railway as well. In general the necessity of economies was urged upon the director and the management by myself, but the details of the economies were largely worked out by the management and the directors and put into effect by them.

Let me speak of the directors and in that connection I shall mention the Duff report. The Duff report clause one hundred and forty-five says: "The directors' functions have been in practice nothing more than advisory; they generally gave formal approval to programmes of expenditures," and so on. In other words the Duff report condemned the directors in general. I think it is only just and fair that I should say the work of the present directors has been splendid work, loyal work, patriotic work, not only on behalf of the Canadian National Railways but on behalf of the people of this country. There are two of them here to-day. Out of the seventeen directors there is certainly a majority of them who have been doing the finest kind of work, and the management to-day is doing splendidly. The management have attended to arranging all the details of the economies that were brought about. They have done such splendid work that some have a fear that the railway is even too economic at present. I do not think it is, though

probably it has got down to rock bottom because of the decreased earnings. The earnings of the Canadian National Railways to-day, and it is true, I think, of the Canadian Pacific Railway, are just about half what they were in the peak year, and they are lower to-day than have been the earnings since back beyond 1919. There is also further fear expressed by the people. I see it stated by a very prominent man the other day, that it was not a good condition for a man to go to work in the morning and not know at night whether he was going to have a job. I asked Mr. Hungerford if there was danger of further eliminations. I said it seemed to me he had pretty well got this railway into an economic condition. And from what Mr. Hungerford told me I am convinced the eliminations are now largely completed. There may still have to be some detail changes and, if traffic continues to lessen, further reductions cannot be avoided; but traffic is at such a low ebb we hope it will not go lower. Therefore, I think those fears that probably do exist can be to a large extent eliminated from the minds of the employes because if business picks up, as we all hope it will, instead of being laid off, thousands will be put back to work.

To-day the management is doing splendid work. There is a splendid *esprit de corps*. But they are carrying on under difficult conditions in a way that does them credit. The foundations have been laid for a real revival of the Canadian National Railways in a business way once the business upturn does take place.

May I just offer you a couple of sets of figures? One of them is in regard to passenger traffic. In 1923 there were thirty-eight million passengers carried by the railways of this country; last year there were twenty-two million—not much more than half, largely due to the competition of the automobile. A year or so ago in the House of Commons I pointed out that here was a service, a passenger service, which was losing year after year. In 1923 the total losses for the passenger services of the Canadian Nationals amounted in 1924 to four million dollars and last year amounted to twenty-four million dollars; and yet

by their over-enthusiasm, hotels, ships, summer hotels and other luxurious services were being put on to add to the losses with the passenger traffic rapidly decreasing. To show that this decrease is due to the automobile is this fact, that the automobiles from 1923 to 1931 have exactly doubled in the Dominion of Canada. Now we should remember that the railways are an absolute necessity in a country such as Canada, of long distances, of long hauls, and a country which produces to a large extent primary products. The railways are an absolute necessity, and it is certainly an injustice that the railways should have to carry on an expensively built roadway which they have to maintain themselves in competition with the automobile which operated for private gain on public highways, built to a large extent out of the taxes of the people, and to some extent out of the taxes of the very railways with which they are competing. The Duff Commission recommended that the drivers of the motor busses and trucks should be regulated as are the drivers and the trainmen on the railways, and it recommended that Dominion and Provincial conferences should take place with the purpose of bringing about some regulation of the motor truck to do justice to the railways, and I submit that probably at this coming conference of the Dominion and provinces in January it is hoped this very question will be discussed. There is no doubt we cannot get along without the automobiles. They can be both complementary and supplementary to the railways and should be used that way, but they should not be permitted to interfere unfairly with the railways in which we have invested such a vast amount of money.

Regarding political interference the Duff Commission said this in paragraph one hundred and forty-six: "Of direct political interference by Ministers and members of Parliament in detail operations of the railway, the Commission was assured by officials there was little or none. It was in the larger sphere of policy that political considerations led to unwise and unnecessary capital expenditures, the result of which was to create an atmosphere in which the ordinary principles of commercial operation of the railway were lost sight of."

I absolutely agree with that. I say, without fear of contradiction by anybody who knows, that there has been no political interference with the Canadian National Railway which cost that railway to the extent of one dollar. I am speaking of my own regime, as I can only speak of it.

Now what were the recommendations of the Duff Commission? I will sum them up. 1. There should be no amalgamation. They feared there would be too much of a monopoly. 2. The deficits should be voted and not funded and I think they are entirely right in that. It is certainly not fair to the Canadian National Railways that we should take our losses as we have and turn them into bonds. But for the satisfaction of myself, and I will pass it on to you, I made inquiries a couple of days ago, and out of the thirteen million dollars owing to the investing public in the United States and England only fifty millions of that can be really said to have been bonded deficit, and on the other side is six or seven or eight hundred million which the Dominion of Canada spent out of its debt on the Intercolonial, the Transcontinental, the P.E.I. and other railways, now part of the Canadian National. 4. That the parliamentary committee which has been sitting since 1925 should no longer bring before it the officers of the company. With that action I agree. But I do submit the work of the Parliamentary Committee even in bringing the officers before it was excellent work on behalf of the Canadian National Railways itself, because it exposed to the people the conditions which had to be remedied. 5. The last two are the gist of the whole report. I was going to say the guts, and after all it is a word which is being used in the best social circles. They recommend that three trustees should take the place of the seventeen directors of the Canadian National Railways and that the three trustees should be self-perpetuating, that is, when one retires or passes away, he should be replaced by the other two, and they all should be appointed for a fixed period of years. I have no quarrel with that; there are those who say the best kind of a directorate is one of three with two ill. In other words a despotism is the best, and if you get the right

kind of despot it is, but sometimes you do not get the right type. However, the fact is all the big corporations of our country have big directorates. The biggest is the Bank of Commerce with thirty-seven, and the other banks run from eleven to thirty-seven; the Canadian Pacific Railway has seventeen; the Sun Life seventeen; Canada Life seventeen, and International Nickle, with which some of you are familiar, twenty-five. It is true they all have a small executive but so has the National Railway. The Canadian National had an executive of seven.

The second important part of the recommendation was that there should be greater co-operation between the Canadian National and the Canadian Pacific Railways. With that I wholly agree, because while there has been a certain amount of co-operation there has not been the co-operation that should have taken place. That has been commented upon by the Prime Minister and myself and various other people, but for some reason it seems to be difficult to get them to co-operate as they should. The Duff Commission, however, said there should be an arbitrary board with the power of compulsory co-operation between these two roads, and it is that power which Mr. Beatty has opposed before the Senate Committee. There is no doubt the competition between these two railways was excessive, but as the whole Duff Report is *sub judice*, is before the Senate Committee and will come back to the Commons, I shall not pass opinion on that.

May I point out that the future economies of the two roads must be along the lines of co-operation because, not only has the Canadian National got down to rock bottom in its economic management, but I presume the Canadian Pacific Railway has done likewise. As an example of competition, take the corner of King and Yonge Streets where they have two ticket offices diagonally across from each other on perhaps the most expensive office sites in the City of Toronto, competing to sell tickets to passengers on the two roads in a branch of service which is losing more every year the railways exist. It illustrates economies that can be brought about. The same is true in Ottawa and in Winni-

peg, Edmonton and Vancouver. The same is true you will have noticed in the train service between here and Montreal or from Ottawa to Montreal. At the same hours the two companies have trains going out. By pooling their passenger traffic, by bringing it into one fund, a solution can possibly be worked out.

You must not expect too much by any report or any method or any plan because you cannot get a solution of this railway problem until we get a solution of our general business problem. In other words a business revival is needed to bring back to the Canadian National and the Canadian Pacific some of the business they have lost in the past few years. Only by co-operation between the two roads, by a business revival which unfortunately we cannot force into being, and by the continuation of a motto of care, caution and economy on the part of the railways, can we bring about a solution of the railway problem in Canada.

President Chalmers expressed the thanks of the Club to Dr. Manion for his illuminating and highly appreciated address.