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## The Railway Problem and the Ruel Plan

BY MR. GERALD RUEL, K.C.

PRESIDENT CHALMERS:—The Canadian Club to-day has a great deal of pleasure in presenting to this large audience one of the most distinguished and best informed authorities on railway matters in Canada. I say one of the best because Mr. Ruel has been connected with railway work for over forty years. Most of that time he has been counsel, dealing in the legal matters connected with railway operation but he has also had some experience operating a railway. In fact when he was very young he practically was the general Pooh-Bah of an eighty-mile railway down in New Brunswick from whence his family hails. More recently we have known Mr. Ruel as vice-president and chief counsel of the Canadian National Railways. Recently Mr. Ruel has given some publicity to his own proffered solutions of the railway problem in Canada. He presented it to the Duff Commission and from the records of the Duff Commission it has been extracted by many zealous newspapermen in Ottawa and published from coast to coast. He told something of this plan of his before the Senate hearing on the railway committee's report recently. The Canadian Club which, as you know, is presenting a series of addresses on the railway problem, the first of which brought us last week Dr. Manion, Minister of Railways and Canals, invited Mr. Ruel to come to-day and tell us exactly what he has in mind. We believe his background on the railway problem, the knowledge he has garnered through the years, and his eminent position in the railway world of Canada entitled

him to a hearing from this audience. I have the greatest pleasure in presenting to you Mr. Ruel.

MR. RUEL:—In the first place Mr. Chairman and gentlemen I should say I am very glad indeed to be here to-day. When I was down in Montreal last year I was a member of the executive of the Canadian Club in Montreal and I know the high standard they endeavor to maintain in getting speakers for their meetings, and consequently I consider it a signal honor I should be permitted to address such a large and distinguished gathering to-day.

The subject of my address is, "The Railway Problem and the So-called Ruel Plan." I did not intend to put it as a Ruel plan at all. It happened to be the Sir Henry Thornton plan but it didn't work out. Sir Henry Thornton didn't want it. The first feature of course is the railway problem and we have in Canada a real railway problem. When we consider last year the Canadian National went behind one hundred and fifty thousand dollars a day, a million a week and fifty-two million dollars a year, it is a very, very serious situation, and that is what I tried to impress on the Railway Commission and impress on our people as well, that we did have a situation which had to be remedied. In former days, when things were good in financial circles, we could easily go to New York and borrow on guaranteed securities fifty or sixty million dollars. But nowadays the American market is closed to us. Consequently we have to go to Canada and the Canadian stocking is getting a little down to the bottom. The last Canadian loan was not taken up in five minutes or one day. It dragged a bit. And so the problem before us is; we must economize and the question is, just how and what is the best machinery.

I would like to tell you how this plan originated. When Sir Henry made his announcement in the House of Commons Committee that he had applied to the Government to appoint a Royal Commission to look into this railway problem, he sent for me and I went down to his office. He said, "What do you think of this proposition?" I said I did not think anything of it at all. "Why not?" "Because you, Sir Henry and Mr. Beatty are the best paid railway men in

Canada. You are surrounded by two groups of probably the best experts in every branch of railway service in Canada, possibly on the whole continent," and I said, "it doesn't strike me as right that you should go outside and ask other people to tell you how to run your business. Why don't you and Mr. Beatty get together with your experts and agree on a plan to meet the situation? Surely you are in a better position than anyone else." Sir Henry said it was too late for that. "I have made the announcement and I have taken the plunge. But have you any plan?" I said yes, I had a plan. "You know for eight years I have been suggesting to you and others that we could pool the passenger business in Canada because the passenger business does not pay, and never will pay, especially with the expensive features that have recently been added to it: the expensive trains, heavier rolling stocks, expensive hotels and offices all over the country. All these are passenger business and other features that won't pay." I said, pooling the passenger business years ago would possibly have saved the situation but now we will have to go further. "We will have to pool other services as well, because greater economy is necessary than can be accomplished by pooling the passenger service alone." Sir Henry asked me if I would put the plan in shape; and that was the plan I talked over with the Senate a few days ago. Sir Henry was quite pleased with it for a while and I thought possibly he was going to adopt it. But my plan did not have any teeth in it. I was not looking for teeth. I was looking for co-operation and that was the basis of my plan. So he adopted compulsory co-operation plans. He went to the Railway Commission and presented his plan. I filed my draft. I thought that was the end of it. I did not intend to resurrect it at all. A little later on I happened to be in Ottawa and I was asked: "What are you going to do about this railway situation?" I said, "Did Sir Henry tell you my plan?" "No, he didn't say anything about it. Would you tell me about it?" So I gave him a rough sketch. "Have you put this before the Railway Commission?" "No, I never thought of any such thing; furthermore I haven't been asked." "Well, you will be asked." So I was asked and went up.

When I went to the Railway Commission I gave them a synopsis of the plan, endeavoring to be frank and honest as I could be; and I talked to them pretty plainly. I think they appreciated it, for someone said afterwards, "I think you had considerable nerve to talk to the Railway Commission the way you did." I didn't think so, because we were talking in a friendly manner around the table and they were most courteous; and we talked not at arm's length but for the good of the community and trying to help the people out of their railway difficulties. I did not see any reason why one should be afraid. But fear is based on wrong doing and if you haven't done anything wrong and do not intend to, you can look the whole world in the face.

Now the railway commission turned down the plan. At least they adopted the compulsory co-operation plan, a plan which insists that the parties shall get together, and if they don't they will have their heads banged together by an arbitrary tribunal. The result would be that in the compulsory plan each party keeps all the benefits they may derive from enforcing economy on the other fellow. Well, if anybody thinks they are going to get anywhere with that kind of plan, I do not see it. You can only get economy from friendly co-operation, not co-operation at arm's length. That is the reason I object to the plan as given by Sir Henry Thornton to the Railway Commission, and that is the view I still hold with regard to it.

Now there were many plans under discussion before the Railway Commission but it narrowed down to three: 1. Permanent sale to the Canadian Pacific Railway of the Canadian National Railways. I do not think anyone suggested the other plan. Of course that would be absolutely unthinkable. Permanent sale or leasing of the Canadian National Railways is impossible. It would not be at all fair to the very excellent staff of the Canadian National, because even if I were in a position of that kind where I had absolute power of the entire organization, I am afraid I would be rather too severe on the other fellow. That is human nature, so I think it is absolutely impossible to talk of any permanent sale or leasing of the enterprise to the

Canadian Pacific Railway because it cannot be carried out fairly to the Canadian National staff, whose only fault is they have served the Canadian National for years loyally and excellently.

The second plan is of course compulsory co-operation and the third plan is the one which I call the joint operation emergency plan. I will give a rough outline of what the plan involves. In the first place you form a managing company of which five directors would be appointed by the Canadian Pacific Railway and five by the government. It would be assumed that from those five directors a president and chairman would be selected. The President and Chairman should not be the same person under any circumstances again. We have seen enough of that. The President would be selected one year by the Canadian Pacific Railway and the Canadian National Railways would select the chairman. And the next year they would alternate. I think that is a very fair way. I put that in deliberately; I wanted Sir Henry to know he was being taken care of. As I told the Senate, this new company would simply be a managing company. They would have managership powers; no ownership powers at all. They could, of course, discharge officers, change them, change services, and carry out general economies. But generally speaking they could not build anything without the consent of the owning companies. As soon as the managing company were formed—it would be a no-capital stock company—we would make a list of all the transportation companies in the Canadian Pacific Railway and all the transportation in the Canadian National Railways service and such of the transportation features of the Canadian Government Railways as the Crown wanted to bring in and have them all execute agreements. The Crown would issue an order in council. In that way the whole of the undertakings of the various companies which would sign these agreements would be fused into one organization, handing over to the managing company to operate that whole enterprise as a going concern and as one independent unit. It seems to me that is the only way you can get sane economy. You cannot get economy by creating two adverse

interests and asking them to get together. You must give them an interest so that every economy that is made will redound equally to the benefit of both. That is the truth. As soon as you get your agreements the next thing is the statutory duty to operate as one concern. That I have mentioned. That would appear in the statute, and not only would the managing company be told to operate this as one concern, cutting out duplication of services and offices and everything not necessary, but the Board of Railway Commissioners would also be told to co-operate with them for the benefit of the common good, for after all it is the common good of the country we are seeking. The powers would be very largely to make all kinds of changes just as if they were absolute directors of the companies incorporated in the first place with the entire entity in their hands. But all officers and employes of the owning companies would continue and remain officers of the owning companies, there would be no change in their status, so that if any man has a pension service with either company that would carry on notwithstanding he was working under new management.

Now we come to the most important feature of the whole thing, that is the division of the net operating earnings, and the Royal Commission asked, how are you going to divide the operating earnings? I said, of course there would be operating earnings arising from economies; and they said, "that is all very well, but how will you divide them?" I said, "That is your job. I am not an accountant. I am only a lawyer. I am merely suggesting you have a staff and can call in anyone you like and you can study their accounts and find out what is the proper division. A fifty-fifty basis of course would be easy and best to get at. A mileage basis would be another way but that would not be fair because a great deal of mileage would be abandoned." And the next question would be whether or not the Canadian Pacific Railway, having always paid interest on fixed charges would not at any rate continue fixed charge interest being paid. That was what happened with the Grand Trunk Railway, because the Grand Trunk Railway always

paid interest on its debenture stocks. Well the Canadian Pacific Railway has always paid interest on fixed charges. So I said it is quite reasonable that the lion's share should be given the Canadian Pacific Railway in respect of fixed charges, but the Canadian National Railway should get the first amount before you make any further division. Well, they were not sure whether the Canadian National should get the whole amount or eighty per cent, before anything went to the Canadian Pacific Railway for stock dividends; or whether the Canadian National Railway should get a certain proportion of the amount already paid to the Canadian Pacific Railway on account of its interest on fixed charges.

So I said, suppose we have ten million dollars to divide the first quarter. We will say the Canadian Pacific Railway interest charge is two million dollars. We will give them two million dollars. We will give the Canadian National eighty per cent of that and then we will have something left over so we will divide that up and give the Canadian Pacific Railway one, two, three or five per cent of the capital stock and give eighty per cent of the same amount to the Canadian National and then before you divide all your money up we will set aside a rehabilitation fund. A rehabilitation fund will have to be set up so that when parliament decided it had had enough of this plan and wanted to get back to competition, then those lines which had been dismantled could be rehabilitated by means of this fund which could be added to, year after year, in so many millions of dollars; something like a depreciation fund, but actually set up in cash and not merely set up in books. We did not come to any decision as to what the proper division should be.

Then we got down to capital expenditures. Of course everybody knows that every year you have to spend in capital outlay about one per cent of your property account. That is expenditure that has to be paid out every year and you cannot get rid of it. That is the account for expenditures on hotels and things like that, of which I think not much will be done for a while, but the capital expenditures would

be taken care of each year and the proper way to do that is for the managing company to make a legal *faux pas* and have them issue their own securities. It is not quite reasonable for a manager to issue his own notes for a debt of his principal but it would work out in this case, because it is a non-capital company. The company would issue its own notes guaranteed by the Crown and the Canadian Pacific Railway. With the credit of the Crown and Canadian Pacific Railway behind them the notes would be easily saleable and each company participating in the proceeds of any issue of notes would put up its own securities with the managing company for the same amount, the same security, maturing the same day. And the company which was the owning company would pay these securities, when due. In other words, the issue made by the managing company would be backed by the securities obtained from the owning companies and one would pay off the other. You might have a sinking fund behind the issue, providing the owning companies paid.

The next feature was as to the duration of this scheme. I told them it was only an emergency scheme and I said five years would probably be enough to carry on with, but parliament may cancel the scheme. It would not be possible for any of the owning companies which had entrusted their organization to the management to say we are going to cancel. That would not do. Consequently I put in the provision that parliament and parliament only can determine when these agreements shall come to an end. And I told the Railway Commission it was just possible when that time did come, say in ten years, and we were back in prosperity again, possibly they would still leave the passenger business pooled, possibly they would still leave the telegraph business pooled. I do not see any necessity for two telegraph companies in this country. And possibly the hotel companies; possibly they will leave the express companies pooled. And if by that time they have come to their senses, probably they would leave the trucking business pooled. However, it all comes back to the little red box car, that is where the money comes from in these railway

services, and that is where the competition is necessary, if it is necessary at all. Competition from my point of view has not proved itself to be necessary. It has been causing a great loss and waste of money to our country as a whole.

Now the main feature of my plan is joint operation for the common good. It seems to me if this managerial proposition is carried out and you appoint five good men from the government, five men from the Canadian Pacific Railway, (you can make it three—but not more than five—too large a Board of Directors is no good), if you have five good men from each party it seems to me those men with the eyes of the country upon them could at least adopt principles of sane economy. Mr. Meighen asked me whether or not it would not be better handled as a single management and I said of course, single management is capable of making great economies but possibly not wise economies because it would bear too heavily on one or the other. Joint operation where each have benefits from the economies effected seems to me to be the right idea and I cannot see any sense in the compulsory principle where you say to two parties, "you get together and if you don't we will bang your heads together," knowing at the same time that they can never get together, because each one is trying, as he is striving to-day, to benefit at the expense of the other fellow. There is only so much traffic in this country. There is not enough to go around and consequently that competition just means waste and loss. Like the man who had two husky dogs to guard his house and one dog was quite sufficient and food was scarce. He wanted to kill one dog and the family wanted that dog saved. Whatever he did he was going to have trouble. He couldn't very well fuse the dogs. He was up against a greater proposition than Canada. I can fuse these two railways without difficulty. But fuse two dogs! However, the dogs themselves solved the difficulty, they got together and decided they would eat less. And that redounded to the general good.

I want to say this in addition. This plan of mine I am not wedded to at all. If anybody can show me something better I will be only too glad to consider it. Not

that it makes any difference whether I consider it or not or whether I pass it; but nevertheless I would be glad to advocate a better plan if anyone can suggest one. I have gone over the thing from end to end for years. I knew this situation was coming on. I saw it in 1923. We were in trouble. We forgot it when we got out of the trouble and I then urged the pooling of the passenger business but nobody paid any attention. In 1929 and 1930 again I recommended it. In any event here we have this very serious problem and something must be done. We cannot go on as we are going on, because Canada cannot stand the burden of taxation. And we don't yet quite see the end of depression. We thought when the elections were over in the United States we would see a change of sentiment which would probably end depression, but the United States does not seem to be in a hurry and possibly we have to wait until this depression sweeps society. What we are trying to find out is some reasonable plan, some reasonable means of meeting the situation, to get these economy moves into effect so we can benefit and see the end of our troubles. And in bringing forward this plan I am not urging anything on my own behalf. It has been said I had a good deal of nerve to bring this up. I don't see that at all. I am a Canadian the same as all of you and I am very much interested in Canadian problems; and I am happy to say I stand on guard for Canada the same as the rest of you do.

The President thanked Mr. Ruel for his delightful informal address.