

6

# RAILWAY FREIGHTS AND FARES

---

*Why a  
Reduction  
is  
Impracticable*

---

BY  
HAROLD W. CLAPP,  
CHAIRMAN,  
VICTORIAN RAILWAYS COMMISSIONERS

**T**RANSCRIPTION  
*(abridged) of an Address by Harold W. Clapp, Chairman, Victorian Railways Commissioners, before a meeting convened by the Central Council of the Melbourne and Metropolitan Progress Associations, on 17th June, 1931.*

IN any discussion regarding railway freights and fares, it should always be borne in mind that the railways of this country are State-owned, and that the whole theory of State ownership of the railways is to operate them not as a means of making profits, but to assist and to consolidate the development of the State by giving service to the community at the cost of operation. This cost must include not only the actual operating costs, but also all fixed charges.

*Less Than Cost*

In recent years, however, railway users have been getting railway service actually at less than cost. To the extent that there are railway deficits—the difference between the revenue and the total expenditure, including interest—to that extent the railway user has obtained service at less than cost.

The following table shows the railway results, as published in the Commissioners' annual reports, for the past 11 years :—

Year.	Deficit.	Surplus.
1920-21	£651,635	—
1921-22	£19,109	—
1922-23	—	£20,183
1923-24	* £108,765	—
1924-25	—	£25,943
1925-26	£182,369	—
1926-27	£47,540	—
1927-28	£553,709	—
1928-29	£62,829	—
1929-30	£1,036,997	—
1930-31	† £1,500,000	—
	† Estimated	

\* In the year 1923-24, an amount of £136,417 was written

off in respect of losses on non-paying lines, which were incurred in 1917-18 and 1919-20, but for which no recoup was made by the Treasury in those years. As the amounts were not paid, they had necessarily to be written off. The actual result for the year was thus a surplus of £27,652.

The increase in the deficit for 1930-31, that is, for the financial year ending 30th June, 1931, is entirely due to the unparalleled decline in revenue. The earnings since 1st July, 1930, have been dwindling at an average rate of nearly £40,000 a week, and the total revenue for 1930-31 will be approximately £2,000,000 less than in 1929-30, and £3,180,000 less than in 1928-29.

### Working Costs Reduced

We have done what we can to meet this huge decline, but it is not practicable to reduce the total expenditure in direct ratio to the reduction in revenue. A complete structure must be maintained to give the essential services, and all fixed charges, including interest, must continue to be met.

The working expenses for the year 1930-31 by comparison with the previous year were reduced by approximately £1,800,000. Lower wages, as a result of the decisions of wages tribunals, were responsible for about £650,000 of this saving, and the balance was largely due to curtailment of train services, deferment of works, reductions in staff, and other administrative economies.

The following comparison shows the reductions which have been made in staff:—

At 1st July.	No. of Staff Employed.
1927	29,450
1929	27,645
1930	24,742
Present Staff (approx.)	22,000

The outlook for the year 1931-32 is by no means bright. It is quite unlikely that there will be any improvement in traffic for some time to come, and on present indications, it may be expected that the revenue will be from £500,000 to £750,000 less than in 1930-31.

Additional economies are constantly being effected, and these, in conjunction with further wage savings, which are likely to come about, will result in a reduction in working costs for the year 1931-32 of approximately £1,500,000 by comparison with the previous year's costs. The estimated working costs will thus be about £3,300,000, or approximately 33 per cent. less than for the year 1929-30.

As a result of the contemplated Loan Con

version, substantial relief is expected in our interest payments, but this unfortunately will be largely offset by the additional amount now involved in exchange on interest payable in London.

### Million-Pound Deficit

Notwithstanding the very considerable economies which have been and are still being made, and in the absence of a substantial increase in traffic—which, as I have said, cannot be expected in the near future—everything points to another serious deficit in 1931-32. Probably it will be not less than £1,000,000.

In these statements of railway results, there is, moreover, an important cost which has not been included. It is a very definite cost which has been largely ignored. The railway administration has not wanted to ignore it; on the contrary, we have on many occasions made the strongest representations to successive Governments that it should be taken into account.

I refer to depreciation, for which the provision being made is altogether inadequate. If the whole of the property were new, the amount required to meet the annual depreciation is estimated to be in the neighborhood of £300,000 a year more than is now being provided. The non-provision of an adequate depreciation fund has resulted in a loss of value to the property estimated at not less than 16 million pounds.

Every business man will agree that the loss of value in the property should be made good in the year in which it occurs, but apparently it is not the policy of the State to adopt this principle.

The fact remains, however, that to the extent of the deficits which I have quoted, plus the extent to which the provision for depreciation is short of what is necessary, the community has been receiving railway service at less than cost.

\* \* \*

### Railway Charges

NOW, the view has been expressed that railway freights and fares should be reduced. It is argued that reductions are being made everywhere, and that they should apply equally to railway charges. Let us get down to bed-rock on this.



Reductions in railway freights and fares should unquestionably be made if it is in the national interests that they should be made. Conversely, they should not be made if it is against the national interests. The question, then, is : What is likely to be the result of a reduction in railway charges ?

Assume that an all-round reduction of 10 per cent. were made. This would be equivalent in round figures to a million pounds a year. To offset this reduction, an increase of roughly 11 per cent. in traffic would be required. All this additional traffic would be necessary, without incurring any cost for handling it, to preserve the existing position in regard to the railway finances.

My definite opinion is that any gain in traffic would be unsubstantial. For example, no one who is now using his motor car for his journeys would be likely to keep the car in the garage because of a 10 per cent. cut in railway rates. Apart from this, the only people who are travelling nowadays are those who must of necessity travel. I cannot conceive of any practicable reduction in rates which would lead to any appreciable stimulation of travel under the existing economic conditions. I am convinced that instead of reducing the deficit, a general reduction in charges could have no other result than to increase it.

And, bear in mind, deficits must be made good by the community at large. They cannot simply be written off by a journal entry. The amount must be raised by additional taxation. What would be the national gain by reducing on the one hand the cost to the railway user, and on the other hand having to make up what is lost by further taxing the community ?

The tremendous decline which has taken place in railway revenue is due to the collapse of business generally, with the consequent widespread unemployment, and to the heavy fall in the prices obtainable for our primary products.

For instance, during the first six months of the year ending 30th June, 1931, the slump in building and allied operations resulted in a 56 per cent. decline in the revenue from building and construction material, by comparison with the corresponding period of the previous year.

During the same period, the revenue from Workmen's Weekly Tickets declined by 31 per cent.

It is entirely improbable that a reduction of 10 per cent. in railway charges, as has been suggested, would create additional business from these sources, nor indeed from any other source.

The cost of a Workman's Weekly Ticket from a suburb 10 miles distant from Melbourne is 4/3d.; from a suburb 6 miles distant 3/5d. I am unable to assume that a reduction of 10 per cent., or 5d. per week in the one case and 4d. per week in the other, would have any appreciable influence in the matter.

A fact that is frequently overlooked is that railway charges have a relatively negligible effect upon the cost of commodities. Actually, a reduction of 20/- per ton would represent about one penny for every 10 lb. of merchandise, or one-tenth of a penny for a lb. of butter, one-fifth of a penny for a tin of jam, and about a half-penny for a suit of clothes.

### Why Fares Vary

The argument has been used that there should be no discrimination in regard to the bases upon which railway charges are fixed in the suburban area, and that the lower fares which operate in what are known as "competitive areas" should be applied generally.

The lower rates which are applicable on certain lines which have to meet the competition of an excellent tramway service, are necessary to enable the railways to retain a share of the traffic. If these arbitrary "competitive" rates were applied generally, the result would unquestionably be a huge loss of revenue; while, if the ordinary mileage scale were charged in the areas where there is tramway competition, it is just as unquestionable that the railways would lose the traffic which they are now obtaining from those areas, and the ultimate outcome would inevitably be an all-round increase in the general mileage rates to offset the loss. Thus it can be said that the operation of the lower rates in the "competitive areas" is not prejudicial, but on the contrary, is actually beneficial, to the districts which complain of the discrimination.

It has been suggested that the cost of railway transport is a factor responsible for the movement of residents from the outer to the inner suburbs, and that this is tending to create congested, slum areas.

There is no evidence that this congestion has been increased of recent times; as a matter of fact, from the information we receive, I find that at the present time there are more than

300 empty houses in the city of Richmond. This does not bear out the contention that congestion is taking place.

In any case, I should say that there are much stronger reasons than railway fares for any tendency to move to the inner suburbs. There is the reason that smaller dwellings are procurable at lower rentals, and there is also a further important reason that in the more thickly populated suburbs, there is intensive competition amongst retail traders, and costs of commodities therefore are generally somewhat lower.

### Road Competition

The contention has also been advanced that a reduction in railway rates would counteract road competition, and thus help to restore the railway finances. People who say that have not been through the experience that we have.

The fact is that the road competitors do not fix their charges upon any economic basis. All they do is to ascertain what the railway charges are, and offer a lower price. This undercutting has gone on—is still going on—everywhere, both in regard to passenger and to goods traffic.

Let me give you an example. The railway rate for a certain commodity to a distant country town was 62/10d. a ton. A road operator offered 55/- a ton and got the business. Later, to test the position, we reduced the railway rate to 29/5d. The road operator immediately offered the same rate, and because he carried from door to door he continued to secure the business.

Another road operator recently offered to carry 200 pigs, a distance of 180 miles to Melbourne, for a total charge of £7. Four trips each way were involved and his remuneration would have been slightly over 2d. per loaded truck mile. The railway charge for the two trucks necessary for the consignment was about £19.

As an inducement to patronise his service, another road freight operator in a country district offered his customers a free trip to and from Melbourne whenever he was running.

What hope has the Railway Department—what hope could anyone have—of successfully meeting such competition?

It is quite certain that the competitive road services will continue to do this kind of thing as long as they are permitted to operate without any form of regulation or control—without

even being obliged to act as common carriers—and without any regard whatever to the actual costs of their operations.

The fact is, of course, that in many cases they do not realize what their operations are costing them until their vehicles wear out; but for one man who goes out of business when that happens there is someone else ready to step into his place.

This competition cannot be controlled by any practicable reduction in railway charges. The competitor starts off too far ahead of scratch. He has his roads constructed for him practically free of charge, and he pays only a negligible proportion of the cost of maintaining them, while the railways are debited with the whole of the costs of constructing and maintaining their tracks and the rest of their plant.

The question is: can the community afford to continue this subsidising of the road competitors, while being obliged at the same time to pay in additional taxation the amount by which the railway deficit has been increased as a result of their operations? I am inclined to think that many people nowadays will agree that this costly luxury of duplicated service could very well be dispensed with.

It is a striking fact, by the way, that every individual taxpayer—on the basis of the same number of taxpayers as in 1929-30—will on the average be obliged to pay the amount of £10 in additional taxation to meet the estimated railway deficit for 1930-31.

### Effects of Competition

A conservative estimate made in respect of the year 1928-29 was that revenue to the amount of £1,500,000 was being diverted from the railways by the use of road vehicles. The popularity of the private motor car is, of course, largely responsible for this huge loss of revenue.

Look at what has happened to the country passenger traffic since 1923:—

Year ending 30th June.	No. of Country Passenger Journeys.	Journeys Per Head of Population.
1923	10,047,058	6.2
1929	8,161,894	4.6
1930	7,547,240	4.2
1931	† 5,920,000	3.2
	† Estimated	



The same inroads have been made upon the high class freight traffic—the class of freight business upon which the competitive road operators are concentrating their energies.

Between the years 1919 and 1923 the tonnage in high grade traffic carried by rail increased by 60 per cent. Since 1923—when motor transport really began to develop—this traffic has not only ceased to increase, but in 1929 had actually decreased by 92,000 tons, or by 20 per cent, by comparison with the tonnage carried in 1923.

One fact is clear. Every passenger and every ton of goods diverted from the railways increases the taxpayers' burden. There is no escaping the fact that railway costs, including an interest bill of over £3,600,000 yearly, must be paid for either by revenue earned, or by taxation, and sooner or later the community will be compelled by sheer economic forces to recognise that fact.

We have been economising in every direction. We have been obliged to take steps which are no doubt unpalatable to many people. But despite every effort which has been and will continue to be made, your railway system cannot support itself on the volume of traffic available during the present economic crisis. *But its costs must continue to be paid.*

### *Balancing Impracticable*

Until normal economic conditions have been established, there is, I have no doubt at all, no prospect of sufficient traffic becoming available to enable railway finances to balance, and I am equally convinced that a general reduction in freights and fares under existing circumstances would merely accentuate the difficulties of the community.

The railway finances would, of course, be materially improved if the Capital Liability were reduced by 16 million pounds which, as I have stated, is the estimated less of value due to the non-provision of an adequate depreciation fund. The view of the railway administration is that this lost value should not continue to be a charge against present-day railway users, but is a fair and proper charge against the community as a whole, and that the amount should therefore be transferred to the Public Account.

If this were done, the interest charges would be reduced by approximately £750,000 per annum. While I can say that this would bring nearer the practicability of reducing freights and

fares, I must at the same time emphasize my very definite view that nothing should be permitted to overshadow the importance of placing the railway finances upon a proper basis by the establishment of a depreciation fund adequate to meet the loss of value in the property as it accrues.

### *A Vital Consideration*

Railway operation is so closely allied with primary production that I cannot let this occasion pass without referring to the serious situation in regard to our primary products, which represent 97 per cent. of Australia's exports.

For the five years up to 1930 inclusive, the average price of wheat at the seaboard was 5/6d. per bushel. The railway freight, represented on the average, 7 per cent. of that value. The price of wheat, as at 15th June, 1931, had dropped to 2/3d. per bushel, and on that basis the railway freight, on the average, represented about 17 per cent. of the value.

Similarly, a huge fall, as shown in the following table, has taken place in the value of wool, which represents 40 per cent. of the total exports from Australia:—

Year.	Average Price per lb. s. d.
1923-24	2 0'5
1924-25	2 4'5
1925-26	1 5
1926-27	1 5'5
1927-28	1 8
1928-29	1 6
1929-30	0 10'5
1930-31	0 8'6

Primary production is so vitally important to this country that anything which adversely affects it cannot fail to react against the interests of the whole community, and my definite view is that it should be given consideration prior to any other interest whenever a reduction of railway charges can be contemplated as within the realm of practicability.

71040

NWD 02-11-04

Box 13

*Issued by the*  
**VICTORIAN**  
**RAILWAYS**  
**COMMISSIONERS.**

*July, 1931.*