

Getting on Board or Running off the Rails?
The Past, and Some Possible Futures, of Passenger Rail in Canada

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Summary

In June of 2012, Via Rail management announced cutbacks in both employment and train frequency. Earlier that year, the Government of Canada announced (through its omnibus budget bill) another round of cutbacks in Via Rail's public funding. The cutbacks by the Harper Conservatives threaten the viability of passenger rail in Canada. This paper will catalogue the cutbacks, put them in historical and international context and then sketch a possible future for rail passenger renewal in Canada. We believe that the decline of passenger rail is neither desirable nor inevitable. We think it's time for a fresh approach to the funding and organization of Via Rail. The revitalization of passenger rail will require leadership from government, vision from management and cooperation from the employees who actually move people. A summary of some key points is as follows.

- The biggest obstacle to passenger rail renewal in Canada is ideological: many stakeholders presuppose that if passenger rail is going to have a future, it must be profitable. Let's be clear: passenger rail travel has *never* been commercially profitable in Canada and is rarely so in other jurisdictions. Confusing 'economic viability' with 'business profitability' has led to a radical narrowing of our passenger rail possibilities.
- A vicious circle has developed at Via Rail: the federal government cuts funding, management responds by cutting employment and service and then passengers respond by avoiding rail travel, thus inducing another round of cuts in the name of 'reduced market demand'. This strategy has a near perfect record of failure. The only thing it has succeeded in doing is pushing riders away from rail onto the roads and into the sky.
- While successive Canadian Governments were fixated on cutting Via Rail's funding, competing jurisdictions such as Japan, France and Germany chose heavy public investment. The results are both predictable and telling: declining passenger rail ridership in Canada and expanded ridership in Japan, France and Germany.
- By viewing expanded passenger rail in the context of other public goods, competing jurisdictions have created a virtuous circle that not only efficiently moves people; it simultaneously reduces congestion, conserves energy, increases geographic integration, bolsters the manufacturing sector and reduces environmental degradation.
- We encourage the Canadian Government, the opposition parties, provincial and municipal governments, Via Rail and other passenger rail enterprises, and other stakeholders to participate in a national discussion about the future of passenger rail in Canada. By adapting the best practices of other jurisdictions to Canada's unique transit needs, passenger rail could become a vital ingredient in a national transportation strategy and a vibrant mode of transit for the twenty-first century.

1. Introduction

Every political community requires a national mythology. National myths are shared stories that help solidify social bonds by connecting a community to its past and indicating, or at least suggesting, an ideal future. National myths, in short, tell us where we come from and where we might go. Like the beaver and the canoe, the railway is an important symbol in Canada's national mythology. A sprawling geography and unforgiving topography made the creation of a national community, not to mention a national political economy, very difficult. By linking people and commodities over large distances, railways helped form modern Canada.

Consider the role the locomotive played in giving Canada its geographical shape: by shuttling agricultural immigrants to the Canadian West in the mid-nineteenth century, railways helped block American settlers from pushing their settlements northward into British North America. Canada's political structure, too, was influenced by railways. Confederation in 1867 was premised, in part, on the creation of a railway that would link New Brunswick and Nova Scotia to Quebec and Ontario. These four provinces would soon be joined by other provinces whose entrance into Confederation was premised, again in part, on the creation of a transcontinental railway connecting Canada West and the Maritimes to Central Canada.¹

Despite the important role that railways played in forming modern Canada, passenger rail has suffered from a lack of vision and commitment on the part of government, the railway industry, and other stakeholders. The most recent round of cuts announced by the Harper Conservatives is pushing Via Rail deeper into crisis. This paper will chronicle the funding cuts, contextualize them historically and internationally, review the benefits of passenger rail and then discuss what passenger rail renewal might involve. The core argument to be made is that the decline of rail ridership is a consequence of short-sighted public policy. Furthermore, a revitalized passenger rail system could help realize many important public goals, not least among them the efficient movement of people, but also energy conservation, reduced pollution and congestion, manufacturing renewal and greater national integration.

¹ Manitoba and British Columbia joined Confederation in 1870 and 1871, respectively, on the promise of a transcontinental railway. The railway corporations were also crucial in the development of Canadian capitalism insofar as they were among the earliest businesses requiring a permanent and substantial waged labour force. On the latter point, see Greer and Radforth (1992: 5).

The paper is organized into seven sections. The second section will document some of the history surrounding passenger rail usage in Canada and then compare Canada's ridership and investment with other countries. The third section will discuss the most recent round of cutbacks and explore their impact on Via Rail's stakeholders. The fourth section will contextualize the cuts by examining the history of Via's funding and ridership. The only (seemingly) certain consequence of the recent funding reductions will be reduced passenger rail ridership. The fifth section will describe some of the public benefits of passenger rail and the sixth will outline some of the options around passenger rail revitalization. The seventh section will close with some reflections and an action plan.

2. Passenger Rail in Historical and International Context

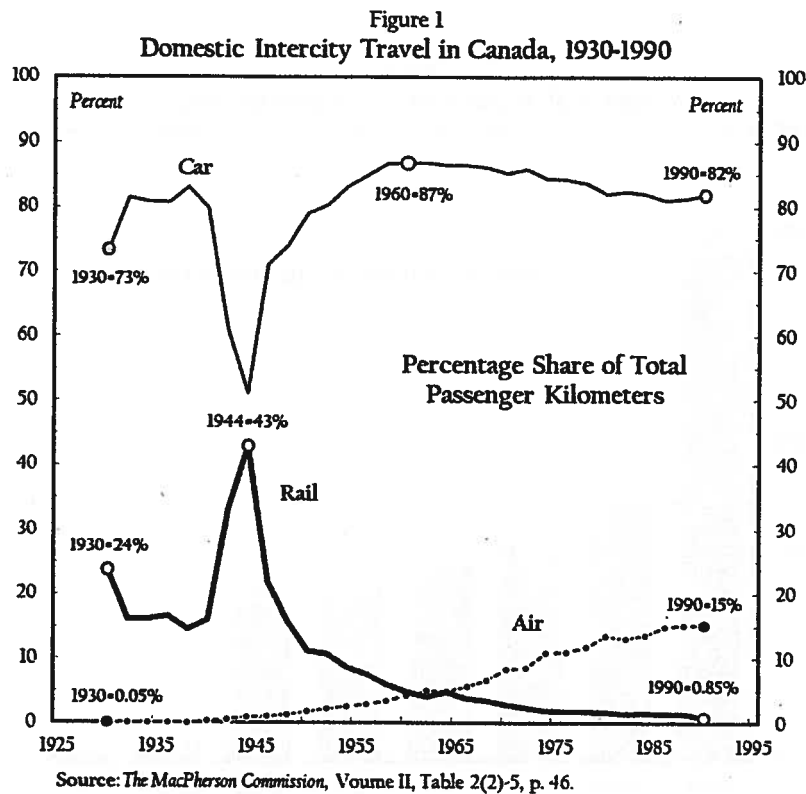
For the first years of Canada's existence, the major transportation options included canoe, boat, horse & carriage and sleigh. Waterways would freeze for up to five months during the winter (effectively cancelling the first two options), which had the effect of immobilizing commerce and people. In this context, railways were revolutionary. By increasing the distance covered, the speed travelled and the volume transported, transcontinental railways compressed time and space and vastly accelerated the pace at which human life unfolded. Canada's first public railway dates back to 1836 when the Champlain & St. Lawrence Railroad had a line built east of Montreal. For the next century, passenger (and freight) rail expanded at a rapid pace. By the early part of the twentieth century, railways became the dominate form of inland transportation.²

By the end of the Second World War, however, the expansion of passenger rail travel came to a halt. The flexibility of the automobile made it comparatively easy for people to move within and between cities and the speed of the airplane made it a more attractive option for continental travel. As the car and plane increased in usage, passenger rail began a long decline. This decline is partially captured in Figure 1, which maps the three modes of domestic intercity passenger travel between 1930 and 1990.

In 1930, the car accounted for 73 percent of intercity passenger travel, rising to 87 percent by 1960 before declining to 82 percent in 1990. In 1930, passenger air travel was hardly in use, accounting for a fraction of one percent. However, air travel steadily grew in

² See Canadian Encyclopedia (2012) and Via Rail Canada (2013) for a discussion.

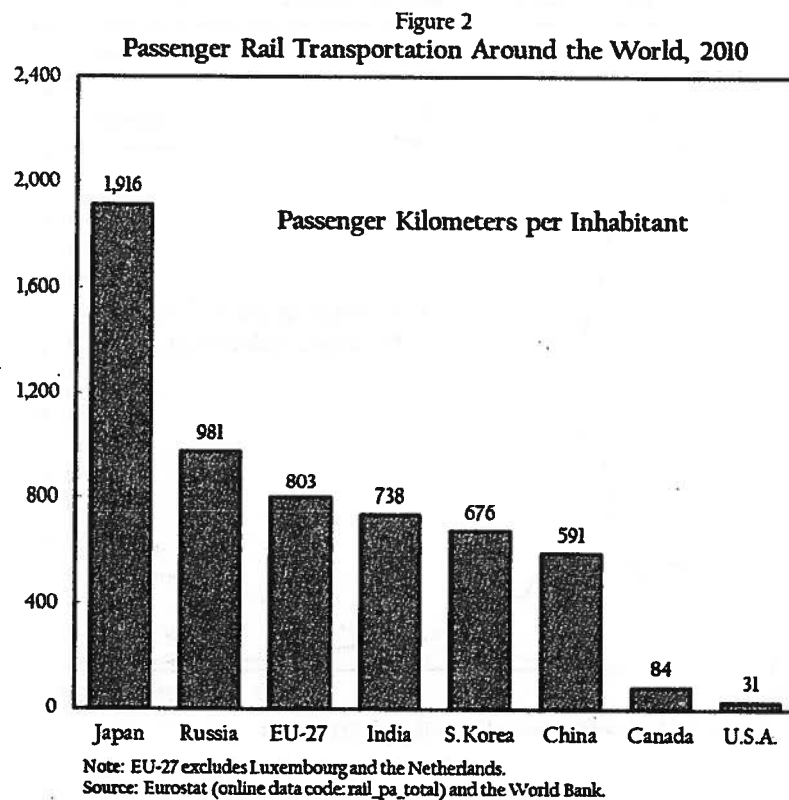
usage and by 1990 made up 15 percent of intercity passenger travel. The rise of air travel appears to be an important factor in the decline of passenger rail in Canada. In 1930, passenger rail accounted for nearly one-quarter of all domestic intercity travel. The transport of soldiers to Maritime ports (and then to battlefields in Europe), as well as constrained car travel (due to gasoline rationing and other constraints) are the likely explanations for the spike in rail usage between 1940 and 1944. After the Second World War, passenger rail began a long decline, reaching a low of one percent in 1990.



The decade after the Second World War was an important turning point in passenger rail (Dupuis 2001: 1). In 1945 Canadian railways transported 55 million passengers (which made up 20 percent of their total revenues); a short decade later, ridership more than halved to 27 million passengers (representing 10 percent of revenues). But if Figure 1 documents the triumph of the automobile and the ascent of air travel, does it necessarily imply the death of passenger rail? Some would have us believe that it does. Auto flexibility and air speed, they might say, made the descent of passenger rail 'inevitable'.

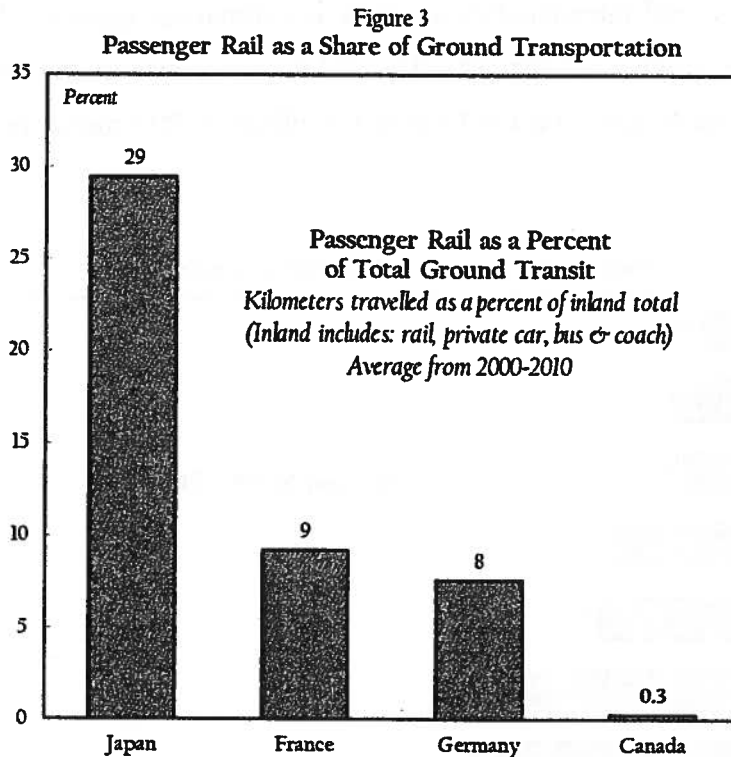
However, Figure 2 suggests that passenger rail remains a vibrant mode of transit for the 21st century, just not in North America.

The data (for 2010) depicts the average distance travelled by rail in each country per inhabitant. On the high end is Japan, where the average inhabitant travels nearly 2,000 kilometers by rail per year. The average Russian travels nearly 1,000 kilometers per year, the average inhabitant of the European Union 800 and in China the figure is nearly 600. Canada and the United States are extreme outliers in this group, coming in at a dismal 84 and 31 kilometers per inhabitant, respectively.



Let's look at this from a slightly different angle. What role does passenger rail play in the transportation mix of competing jurisdictions? We know that Canadians do not utilize rail to the same extent that people in other jurisdictions do, but how does passenger rail usage stack up against other modes of inland transportation? Figure 3 documents the percentage share of all inland passenger transportation accounted for by rail. On the high end of the sample we find Japan, whose reliance on passenger rail makes up 29 percent of all

inland ground transportation. Rail accounts for 9 and 8 percent, respectively, of the passenger travel needs of those residing in France and Germany. Once again, Canada is an outlier in this sample, relying on rail for less than one percent of its inland passenger transit needs.

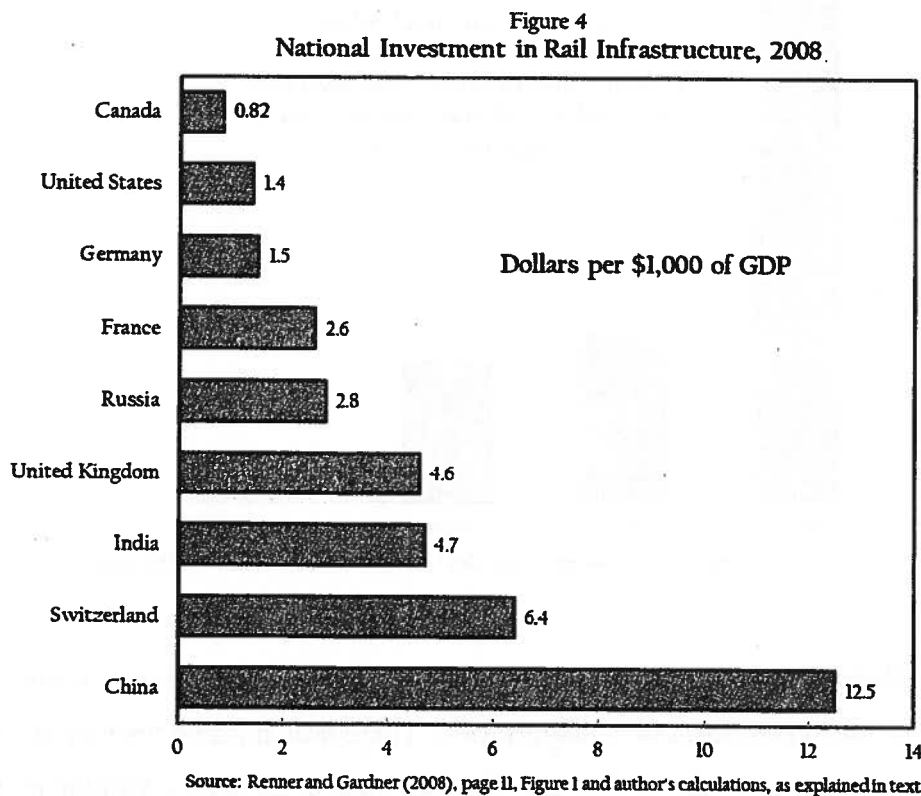


Source: Millions of passenger rail kilometers and inland passenger kilometers from OECD Statistics.

What do these numbers tell us? First, they shatter the deterministic notion that passenger rail is an outmoded form of transportation. There was nothing 'inevitable' about the steep decline of passenger rail in Canada. The fact that it remains a vibrant mode of transportation in other industrialized societies means that its decline cannot be attributed to technological innovation. Second, the utility of passenger rail is not limited to either rich or poor, developed and developing, societies. On a per capita basis, Japan is rich and India is poor; however, both rely on passenger rail to a far greater extent than do Canadians. So the reliance on passenger rail is not linked with the degree of industrial development. Third, because the data includes societies that are both geographically large and demographically dispersed (as in Russia) and geographically small and demographically dense (as in Korea),

we know that the decline of passenger rail in Canada (and elsewhere in North America) cannot be chalked up to 'environmental' or 'geographic' factors.

So if technology, industrialization, geography and population density cannot be fingered as the culprits in the steep decline of passenger rail in Canada, who or what is to blame? Figure 4 represents the beginning of an answer. The figure presents the amount of national spending on rail infrastructure in 2008, benchmarked against GDP. In China, for every \$1,000 of economic activity ('GDP'), \$12.50 is spent on rail infrastructure. In Switzerland it was \$6.40 per \$1,000, in Germany \$1.50 per \$1,000, and so on.



The figures for the United States and Canada are computed slightly differently, due to a lack of comparable data. For the United States, the \$1.40 per \$1,000 of GDP includes national spending on rail infrastructure *plus* all other public transit infrastructure *plus* private rail infrastructure. These additions should serve to bolster the US figure, but it still comes in well below competing jurisdictions.

Canada only spent \$0.82 cents per \$1,000 of GDP in 2008, making it an international outlier. This figure comes from The Railway Association of Canada (2009: 27) and it represents the 'additions to property' undertaken that year by Via Rail and many other private railways.³ Passenger rail ridership is very low in Canada, and given the history of underinvestment, it's not difficult to see why.

So we know that Canada underutilizes passenger rail travel in comparison with other countries and that that underutilization is roughly mirrored by deep underinvestment. Anthony Perl is a passenger rail expert and he sees Via Rail's 'descent into crisis' (2002: 6) as the result of many missed opportunities, especially in the domain of public policy. He also tells us that auto and air transit benefit from large public subsidies, funded with taxes, user fees, and other revenue sources. The car and plane also benefitted from military and space research funding into civilian aviation and automotive R&D (2002: 13). So the idea that passenger rail is 'uneconomical' because it relies on 'public subsidies' is deeply misleading. All forms of passenger (and industrial) travel rely on public subsidies of one kind or another; with Via Rail they are simply more visible than other forms of transit.

Before we explore why Via Rail seems to be in perpetual crisis, we need to understand the latest round of cutbacks and the impact that they have on some of the relevant stakeholders.

3. Cataloguing Cutbacks: Via Rail on the Sacrificial Altar (Again)

The most recent round of employment and service cutbacks at Via Rail began in 2012, continued into 2013 and are anticipated to continue into 2014, given the federal government's funding projections. This section will document those cuts and discuss the impact they have on both Via workers and on the riding public.

Although Via derives revenue from passenger fares and other services, it requires public funding from the federal government each year to run its operations and maintain its equipment and infrastructure. This arrangement is not unusual, rail experts tell us. According to Gormick (2013: x), 'there isn't a rail passenger system in the world that operates without public investment'. In 2007, Via was given \$923 million to spend on

³ The total amount--\$1,391 million Canadian dollars--was converted to 82 cents per \$1000 of GDP as follows: the total amount was divided by nominal GDP for 2008, multiplied by 1,000 and then converted to \$USD using the average exchange rate for 2008 (from Global Financial Data).

upgrading its locomotives, passenger cars, track and stations⁴ — the largest injection of funds in its history — which led some to believe that the Harper Conservatives were committed to the preservation, if not the expansion, of passenger rail in Canada. However, the shift from ‘stimulus’ to ‘austerity’ has put Via on the neoliberal chopping block again.

Under the guise of ‘modernization’ and ‘reduced customer demand’ — the seemingly eternal code words for anyone who wants to slash public services — Via Rail cut 195 Unifor (formerly CAW) positions across Canada in June of 2012.⁵ In July of 2013, another round of layoffs was announced that will see approximately 45 positions eliminated, mainly at Union Station in Toronto but also in other parts of Southern Ontario. Approximately 20 percent of stations are now unstaffed (Ditchburn 2012).

The cuts to employment are mirrored by service reductions. Iconic routes such as *The Canadian* (Toronto to Vancouver) were cut from three trains weekly down to two (in the off-peak season of October to April). *The Ocean*, which travels between Montreal and Halifax, was compressed from six times weekly down to three. The halving of service to the Maritimes was perhaps the deepest cut, but there are significant reductions in Southern Ontario as well. Aldershot, Bellville, Cobourg, Cornwall, Kitchener, London, Niagara Falls, Sarnia and Stratford are just some of the communities that will have their train frequency reduced or eliminated.

Why does this matter? And who is being asked to bear the brunt of the cuts? For starters, the workers (and their families) who lose their jobs are being asked to pay for the cuts. The ‘fortunate’ employees who retain their jobs will also pay for the cuts in the form of increased work intensity. On the latter point, let’s take an example from the West. Historically, wait staff used to rely on a pantry person to clean the dishes between meals, but the pantry position has been terminated, which means the wait staff are left to wash the dishes themselves. Similarly, there used to be one attendant per car to assist passengers (especially the elderly and disabled). In some instances there is now one attendant for every two cars, effectively doubling the work-load. In both examples, we would be safe in presuming that the increase in employee work-load is mirrored by a reduction in the quality

⁴ The money was earmarked for infrastructure improvements, not for increases in service or employment. This aspect of the funding-service nexus will be discussed later in the paper.

⁵ Council 4000 and Local 100.

of service (despite the best efforts of the staff). So it is not only the employees who bear these cuts, but the riding public who endure lower quality service.

Of the routes being cut, who relies on Via Rail's services? Seniors who live in outlying areas use the train to travel to medical appointments in cities and to visit family when they are no longer able to drive. In the Maritimes, many students rely upon the train to travel to and from school. For students living in remote areas, air travel is not feasible and the automobile not affordable. Those who are disabled and are not able to drive rely upon the train to visit family and friends. So reducing the frequency of service or cancelling routes altogether increases the isolation that individuals and communities, especially in small or remote communities, are subject to.

Cutting Via Rail's funding effectively means increasing regional isolation. In many small towns and remote communities, passenger rail is the only mode of transport (apart from the automobile) connecting them to urban centres. In Bathurst, New Brunswick, for example, the cuts to Via's Ocean line comes at a time when regional bus services are also being reduced (Ditchburn 2012). Strathroy-Caradoc has lost all train and bus service, inducing the Mayor — Joanne Vanderheyden — to remark: 'we are a little oasis driving our cars again' (Daniszewski 2012). It has tended to be smaller towns and more remote communities that are being demanded to endure the funding cuts.

So in answer to the question 'who pays?', we can generate the following list: the employees (and their families) who have their jobs terminated; the employees who maintain their employment but now have a greater work-load; the people inhabiting small towns and remote communities who will be even more transportationally isolated; the riders who have reduced service quality on account of the employee squeeze; the elderly and infirm; the disabled; youth/students; and those who cannot afford other modes of transport. Collectively, these people will pay for the funding cuts to Via Rail. They are not 'free'.

From the government's point of view, not to mention the point of view of Via's management, this is a politically 'savvy' move insofar as the burden is being forced upon those who are least likely or least able to fight back. And the 'savings' associated with the funding cuts (if we can use that term without blushing) amounts to a few million dollars, which is next to nothing when we consider that the federal government has annual budgetary revenues approximating a quarter of a *trillion* dollars. Moreover, the savings are

illusory, since (as discussed above) there are offsetting, often hidden costs imposed on other stakeholders.

Table 1 details the public funding of Via Rail since the Harper Conservatives came to power in 2006 (including their projections for the 2012-2013 and 2013-2014 fiscal years). Although operating funding was increased during the stimulus phase, the shift to austerity will see deep cuts to the operating budget, reducing it by nearly 46 percent between 2012 and 2014. Capital funding peaked at nearly \$270 million in 2010, but is set to be radically retrenched by 2014. In terms of total operating and capital funding, 2014 will be lower than any year since the Harper Conservatives first came to power in 2006. Via Rail will have its combined funding cut 65 percent between 2010 and 2014. It is doubtful that any organization could sustain such cuts without radical reductions in employment and service.

Table 1
Via Rail Funding Under the Harper Conservatives: 2006-2014 (millions of \$CAD)

Public Funding	2006	2007	2008	2009	2010	2011	2012	2012-13	2013-14
A. Operating	169	200.6	214.2	226.3	261.5	260.9	279.1	166.4	151.3
B. Capital	0	12.4	42.1	116.8	268.6	237	170.3	140.1	36.5
Sum of A + B	169	213	256.3	343.1	530.1	497.9	449.4	306.5	187.8

Source: Via Rail Annual Report (for 2006-12) and Federal Budget Estimates for 2012-13 and 2013-14.

Via appears to already be on life support, but its funding is scheduled to be rolled back even more. How did we arrive at this point? What approach has the federal government and Via Rail's management taken to passenger rail travel in Canada? In the next section we will explore some of the history of Via Rail with a view to understanding why it seems to underperform as a public service.

4. 'Doing Less with Less': The Government-Management Approach to Via Rail

The problems with Via Rail pre-date its inception, dating back to how governments and railway corporations approached the challenges surrounding passenger rail in the early part of the postwar period. Thus, we need to understand how passenger rail was handled prior to the creation of Via Rail.

With the declining profitability on passenger ridership after the Second World War, railway companies were eager to reduce passenger services, especially on unprofitable routes. In response to declining passenger rail profitability, the Royal Commission on

Transportation (known as the 'MacPherson Commission', 1959-1961) recommended that transportation policy should be driven by 'market forces'. The presumption here appears to be that this would lead to the development of the most efficient modes of transportation (reported in Dupuis 2011: 3). One of the key recommendations was to grant railways more freedom to terminate unprofitable railway routes. Contrary to the MacPherson Commission's recommendations, in 1967 the federal government began to subsidize railway corporations up to 80 percent of their losses on unprofitable routes. The other 20 percent was borne by the railways as a way of incentivizing them to find efficiencies.

Between 1967 and 1976, the subsidies increased from \$110 million to \$182 million (Dupuis 2011: 4). Heavy losses by Canadian National Rail (CNR: then a Crown corporation) on passenger routes led the President, Robert Bandeen, to transfer all of CN's passenger service assets to the subsidiary that would eventually become Via Rail.⁶ In April of 1978 Via Rail became a crown corporation. Lacking an explicit legislative mandate, Via's implicit mandate was to provide year-round passenger rail services to communities both large and small. In practice, this meant three things:

1. The provision of intercity rail service in the Quebec-Windsor corridor (representing 85 percent of passenger volume);
2. Coast-to-coast transcontinental services in eastern and western Canada, targeted largely at the tourism industry;
3. Services to remote communities whose accessibility would otherwise be confined to air travel (cited in Dupuis 2011: 5).

According to one commentator, Via Rail was created in a 'highly constrained environment' insofar as it 'lacked an official mandate' and was not provided with direction from government during its formative years. This commentator goes on to tell us:

⁶ For a discussion see Greenlaw (2007: 57). Note: CN Rail was formed as a Crown Corporation between 1919 and 1923 in a merger orchestrated by the federal government that aimed to preserve a number of railway firms that would have failed (including Canadian Northern, Grand Trunk, Canadian Government Railways, Intercolonial Railway and others). See Greenlaw (2007: 11) for a discussion.

In essence, Via was given the responsibility for providing rail passenger service without the corresponding authority to control costs, yet it was expected to reduce costs and subsidy reliance (Greenlaw 2007: 100).

But Via's problems were not restricted to its legislative status. Via did not own any rolling stock, trains stations, equipment or facilities that it needed. The infrastructure that was required to move passengers belonged to CNR and CP Rail (CPR) — even some of Via's operational personnel were employed by the latter two railroads.

Via was obligated to forge contracts with the two main railways. This involved paying subsidies for use of the track, equipment and personnel, though ownership of some equipment and infrastructure was gradually transferred to Via. According to one commentator: '[Via's] operation performance... [and its] passenger rail services must compete for the use of the same tracks with freight trains owned by CNR, CPR and other shortline operators' (Dupuis 2011: 5). So not only is Via beholden to the Minister of Transportation and the federal Cabinet, it also needs to appease CNR and CPR.

Despite this all these constraints, Via Rail got off to a promising start. In 1977, ridership was nearly 5 million people, increasing to roughly 8 million by 1981 — a 60 percent jump in four short years. It stayed in the 6-7 million range throughout the 1980s.⁷

Despite the promising start, 1981 was the first of several times that Via would be put on the chopping block. That year, the Trudeau Liberals announced that they were cutting Via by 20 percent. The Progressive Conservatives, then in opposition, capitalized on the public outcry by launching a 'Task Force on Rail Passenger Service' that held public hearings across Canada in the summer of 1981. The report that was generated highlighted the public support for passenger rail, but noted that a coherent rail policy community had not yet been formed. Part of the report's conclusion bears quoting because it neatly captures the precarious position Via Rail has been in since its birth:

... the government's current policy of increasing the level of subsidization for other modes of transportation while decreasing the support for rail passenger service is extremely short-sighted and totally out of tune with Canadian transportation needs and concerns regarding energy conservation, urban sprawl, pollution and safety... the arbitrary manner of affecting the cutbacks in this circumstance, constitutes a serious abuse of executive power by the Government of Canada (quoted in Perl 2002: 123).

⁷ Figures extracted from Dupuis (2011: 6).

Recall: it was a Conservative party that reached these conclusions!

Gormick (2013: 13-14) tells us that the public outcry that followed the 1981 Trudeau cutbacks induced Brian Mulroney to include passenger rail as part of his 1984 platform. Following the election, the Rail Passenger Action Force was created with a mandate to develop a blueprint to renew passenger rail. The plan was to modernize Via's physical equipment, fix its financing and overhaul its management. In practice, the plan would have included new locomotives, the restoration of routes cancelled by the Trudeau Liberals, a more stable funding program and new management.

Perhaps most importantly, Via would be given a legislative mandate insofar as its rights, obligations and objectives would be explicitly stated. Instead of being answerable to the Minister of Transport and the Cabinet, Via would be institutionally answerable to the House of Commons (thus paralleling the legislative position Amtrak — the publicly-funded American railroad — was in).

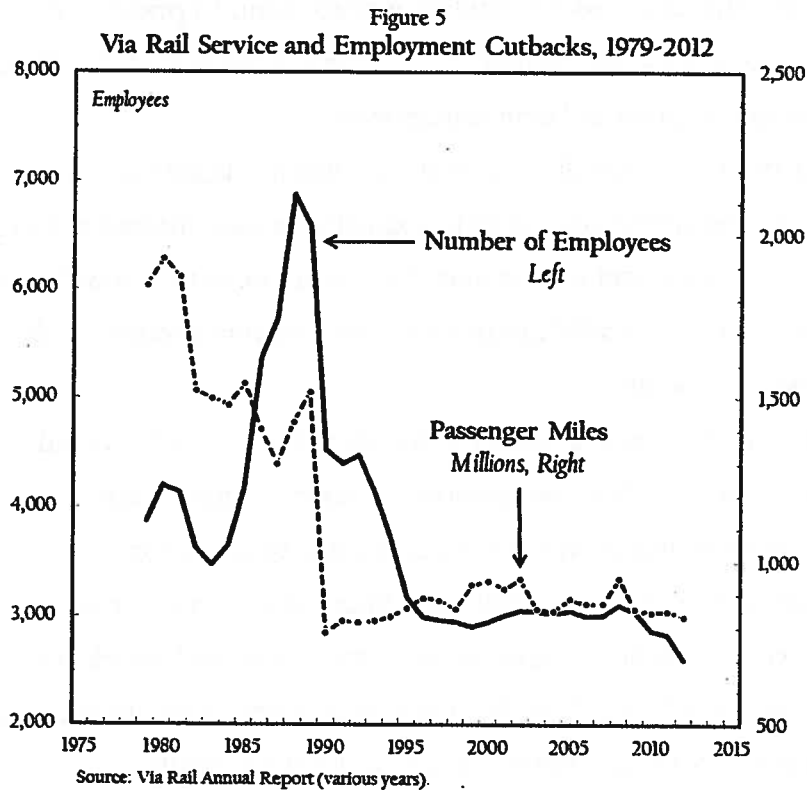
Hostile civil servants and lobbyists for air and bus travel succeeded in derailing the modernization of Via Rail. The combination of legislative limbo, lack of a clear mandate and insecure public funding meant that when challenging financial times came Via Rail was put on the sacrificial alter. In 1989 the Mulroney Progressive Conservatives cut Via Rail in half. Major routes were cancelled, approximately two thousand employees terminated and funding was radically reduced. Like the first round of cuts, this did nothing to improve the quality or quantity of passenger rail in Canada; it did the opposite.

Let's examine the history of Via Rail's funding and ridership to see (1) the scale of the cutbacks and (2) determine if there are any lessons to be learned about the relationship between funding and ridership. Figure 5 documents the size of Via Rail from 1979 through 2012 using two metrics: the thick black line captures the number of employees (left scale) and the thin broken line measures the number of passenger miles (right scale).

The number of employees was increased from (approximately) 4,000 in 1979 to 7,000 in 1988. Between 1989 and 1990, the Mulroney cuts amounted to 30 percent of employment. But the cuts didn't end there: employment shrank most years after 1990 as well. In 2012, Via reported 2,600 employees: a 42 percent reduction since 1990 and a 62 percent reduction since 1988.

The cuts in employment were mirrored by cuts in passenger miles. Between 1980 and 1989, passenger miles shrank by 21 percent and between 1989 and 1990 passenger miles

were cut in half (48 percent). Via has been limping along ever since, with passenger miles remaining effectively flat since 1990. Since 2008, employment has been cut by a further 16 percent (500 jobs), leaving passenger miles at a decade-low. Via has been reduced to bare-bones.

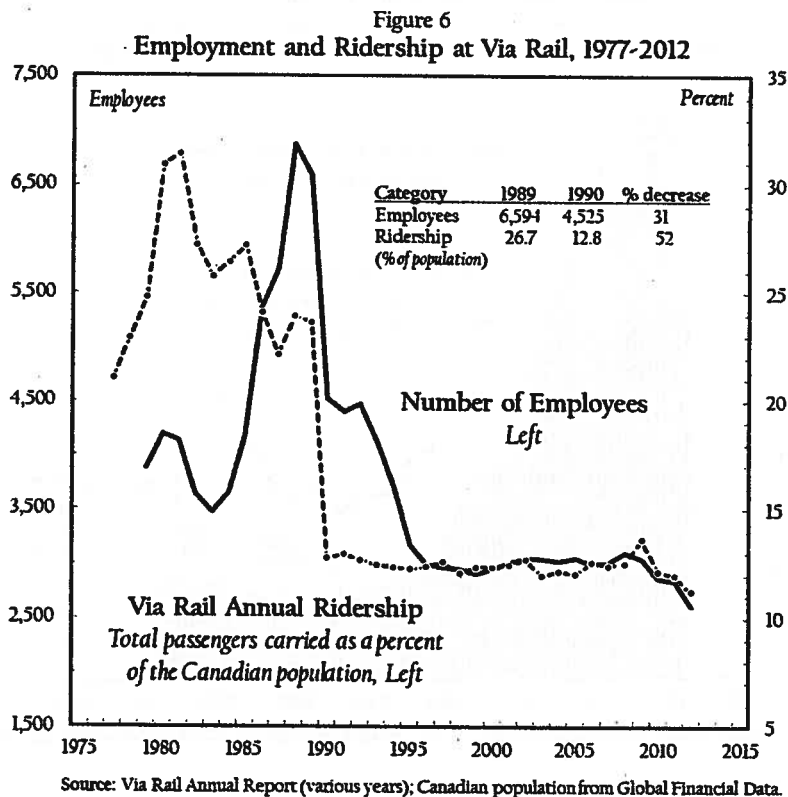


So we know that Via's funding and infrastructure (human and mechanical) has been radically cut. The next question to ask is: for all the hype about 'modernization', have these cuts done anything to increase the quantity or quality of passenger rail in Canada? The answer, according to data in Figure 6, is 'no'.

The thick black line captures the number of employees and the thin broken line captures Via's annual ridership — the latter computed as total passengers carried as a percent of the Canadian population. Ridership increased in the first few years of Via's existence in step with the increase in public funding; however, the funding cuts of 1981 served as a prelude to reduced ridership throughout the 1980s. Then came the Mulroney PC's 'surgery' of Via Rail in 1989-1990: employment was sharply cut and ridership greatly

reduced. It is unclear why some assumed that radically shrinking Via's ridership (read: customers) would magically make it more 'commercially viable'. Two decades later, Via Rail is not a healthy, well-functioning public utility; it has been on perpetual life support ever since the Mulroney cuts.

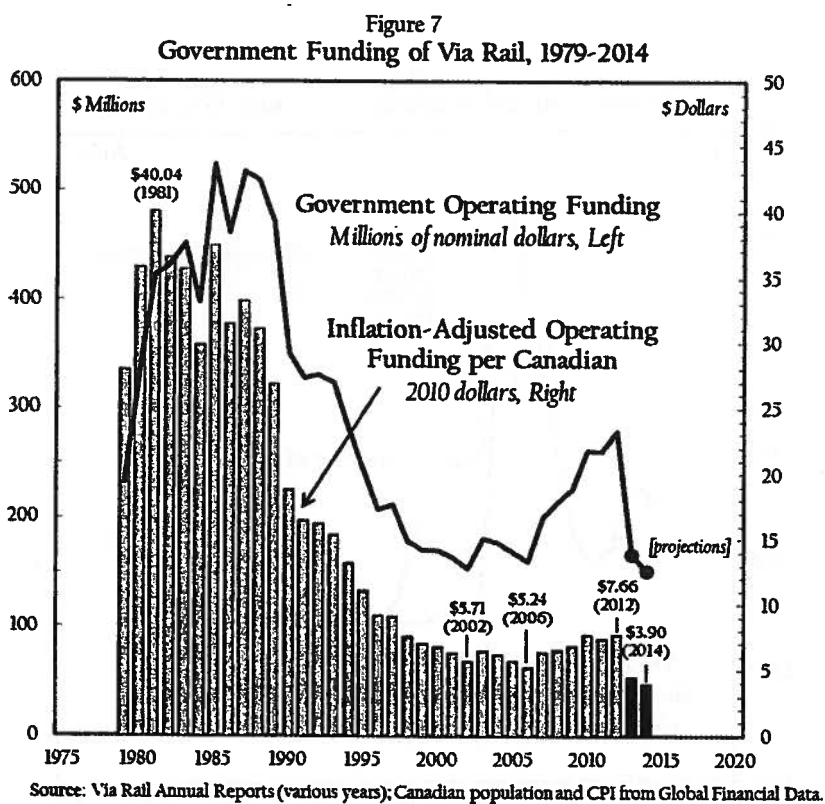
There is something else in Figure 6 that warrants our attention: the close relationship between employment and ridership. If the Government of Canada and Via Rail management are sincere when they claim that they want Via (read: passenger rail) to have a future, then without hesitation we can say: cutting employment does nothing to attract riders; instead, the historical facts suggest that it turns riders away. The deeper the cuts to employment, the fewer the number of people who choose to ride the rails. If that simple truth cannot be digested by the decision-makers, then passenger rail may not have a future in Canada.



If Figures 5 and 6 paint a bleak picture about passenger rail in Canada, the data in Figure 7 will do nothing to brighten things up. One way of assessing the commitment a

society has to its core institutions and principles is to determine how much of its resources are spent maintaining and expanding that institution. In Canada we can infer that publically-funded health care is valued because health care budgets have increased (proportionately) year after year, decade after decade.

How committed is the Government of Canada to passenger rail? Figure 7 documents government funding of Via Rail from 1979 through 2012 and adds its projections for 2013 and 2014. The thick black line captures the amount of money provided each year to Via Rail's operating and capital budgets (in millions, left axis). We see an increase in funding throughout the 1980s followed by a sharp reduction throughout the 1990s. The Harper Conservatives increased funding between 2006 and 2012, though not to the levels seen in the 1980s.



There are two reasons why the data registered in the thick black line are misleading. First, prices tend to rise over time, which tends to overstate the 'inflation-adjusted' funding that Via Rail receives. Second, the population tends to rise over time as well, which

increases the tax base and bolsters the number of potential riders. Adjusting for inflation and population, a better picture of Via's funding is portrayed in the grey bars. In 1981, for example, the Government of Canada provided Via Rail with \$40 for every Canadian (in 2010 dollars). In 2012, Via Rail only received \$7.66 per Canadian. And if the budget estimates for the future are accurate, Via Rail is scheduled to receive \$3.90 per Canadian in 2014.⁸

The Conservative Government's projections indicate that it plans to significantly reduce Via's funding in 2013 and 2014. When we adjust for population and inflation, the public funding of Via Rail will hit all-time lows. What institution in Canada could survive, let alone expand, when its funding is slashed by 90 percent!? Despite GDP per capita having grown 42 percent since 1981, the Government of Canada will have effectively reduced Via Rail's inflation-adjusted funding per Canadian by 90 percent. And we wonder why Via is on life support?

Why would we expect passenger rail to survive, not to mention thrive, when the Government of Canada has systematically starved it of resources? Could hospitals, universities or other essential infrastructure survive such radical funding reductions? Given that Via Rail has been on life support for decades, we might just as well remind ourselves of the benefits of passenger rail.

5. Some Benefits of Passenger Rail

Some might argue that the costs associated with revitalizing passenger rail are too high and that 'scarce resources' would be better used to bolster the infrastructure capacity of air and road travel. These types of arguments have tended to carry the day until now, hence the crisis in passenger rail. But no amount of public investment in air or auto will be able to match the benefits of passenger rail, if it is done wisely. If the costs of revitalizing passenger rail in Canada appear high, so are the costs associated with the status quo.

A short list of the benefits associated with an expanded, revitalized and truly modernized rail system are as follows: (1) increased energy conservation/efficiency, reduced urban congestion and lower ecological footprint; (2) increased passenger safety, passenger comfort and ease of access, especially for people with comparatively restricted mobility

⁸ The Government of Canada's projected funding of Via Rail into 2013 and 2014 had to be adjusted for population and inflation. Canadian population and inflation were projected into 2013 and 2014 by taking the average growth rate of each variable for the years 2010-2012 and then projecting it forward using 2012 data.

capabilities; (3) increased geographic integration; (4) and a potential catalyst to manufacturing renewal.⁹ Each benefit will be discussed further below.

Conservation, Energy Efficiency and Eco-Footprint. Compared with airlines and the automobile, passenger rail is the 'green choice'. Passenger rail can be operated with electric traction instead of oil-driven diesel. Unlike the airplane or automobile, rail power can be derived from renewable sources, including hydro, geo-thermal, tidal, wind and solar. Electricity propels the 300-km/hour trains in Japan and Europe, for example. Shifting from oil- to electricity-driven transit would not only reduce energy costs; it would hedge against the fluctuations in the global price of oil.

The US-based National Association of Railroad Passengers estimates that airlines consume 20 percent more energy per passenger mile and cars 27 percent more than the passenger rail alternative. Consider how much fuel is wasted with cars sitting in gridlock: in 2007, it was estimated that 2.8 billion gallons of fuel was spent on highway congestion in just 85 urban areas in the United States. In terms of imagining what the differences are between the car and rail, consider the experience of GO Transit (the Greater Toronto regional commuter system). One 10-car GO Train carries approximately the same number of people as 1,400 cars. On a typical weekday morning, approximately 45,000 people arrive at Toronto's Union station by GO Train. If all those people were to use highway instead of railway, Toronto would need to build four more Gardiner Expressways and four new Don Valley Parkways (two of the main auto arteries in that city) to accommodate the traffic.

Passenger Safety, Comfort and Access. Passenger rail has the best safety record when it comes to accidents, injury and fatality of any mode of intercity transportation. Passenger rail is also a safer and more reliable all-weather travel option. Insofar as public health care costs are elevated with higher-risk car travel (not to mention the health effects associated with CO₂ emissions and other forms of pollution), shifting to passenger rail will reduce long-term health care spending. Diverting more people off the roads and onto the rails would also reduce the amount of resources ploughed into the maintenance and expansion of highways. In terms of space and comfort, passenger rail offers more space than either the car or

⁹ This list and the discussion that follows rely heavily on Gormick (2013: 21-28).

airplane and is more easily accessible to those with more demanding mobility needs (seniors, for example).

Connectedness and Integration. At present, Via Rail links 450 communities through its 12,500 kilometre of track, moving four million passengers annually. Much of the wealth of a nation depends upon its human density or 'critical mass', both in terms of creativity and innovation but also in terms of raw industrial power. Historically, Canadian governments took it as one of their core policy challenges to increase the geographic integration of Canada. Demographic dispersion and localization was not only seen as an impediment to industrial and commercial development, but was (correctly) understood as an impediment to national unity. The addition to austerity not only threatens Canada's industrial future and undermines the drivers of wealth creation, but it heightens regional isolation and increases the risk of national disintegration. Canada should go back to its roots and treat Via Rail as a public utility, not just a business enterprise. The fast and efficient movement of people and the connectedness of regions and communities should be the ultimate goal of Via Rail, not business profitability.

Manufacturing Regeneration and the Multiplier Effect. According to a recent study (Renner and Gardner 2010), the global market for rail equipment, infrastructure and related services was \$169 billion in 2007 and is projected to grow to \$214 billion by 2016. The supply chain for rail and rail-related products is deep, including such diverse jobs as research and development, engineering, construction of tracks, facilities and other infrastructure, the manufacture of rolling stock and locomotives, the production of communications and signalling equipment in addition to the people who work directly for the railways. By sourcing domestically rather than from abroad, Canada could capture some of the lucrative activity currently being done by manufacturing powerhouses such as Germany, Japan and China. Strong home market sales are a proven factor assisting the development of domestic manufacturing capacity in all of these sectors.

The Association of American Railroads estimates that for every \$1 million dollars of investment in rail infrastructure, \$3 million of total economic activity is generated (according to U.S. Department of Commerce data, reported in Gormick 2013: 23), including

the direct and indirect creation of 20 jobs. Historically, railway firms invested 40 cents out of every revenue dollar back into the rail network, a reinvestment rate which is roughly double that of other businesses. According to the States for Passenger Rail, rail stations are active catalysts for economic growth and many stations are developed into 'mixed-use' properties. In short, by publicly funding passenger rail and procuring domestically, the stimulus to manufacturing, the creation of jobs and tax benefits could be enormous. The more Via Rail is starved of funding, the more is drained from people's incomes, business revenues, government taxes and public services, not to mention the many (unquantifiable) community benefits that are lost as rail usage declines.

6. Revitalizing Passenger Rail

Broadly speaking, there are three directions passenger rail could go in Canada. The first (and present) direction is moving inexorably toward the eventual *termination* of the passenger rail system altogether. The Government of Canada could end the public funding of Via Rail altogether and then sell its remaining profitable routes to private investors. The recent round of cutbacks suggests that this is the direction the Government of Canada might go, effectively ending passenger rail for communities outside the Quebec-Windsor corridor. The second direction is the *preservation* of the existing system. This would involve the maintenance of existing infrastructure and equipment, a restoration of the federal subsidy, with more or less upgrading. A third direction would be to *overhaul and expand* passenger rail, in part through the creation of a high speed rail (HSR) system.

If Canadians choose either of the latter two options, the institutional and policy constraints that currently impede the development of passenger rail in Canada will have to be removed. According to Dupuis (2011: 11), the four core constraints that impede the functioning of Via Rail include: (1) lack of a legislative mandate and subsequent absence of independence from the federal Cabinet; (2) an uncertain level of public funding; (3) the sharing of rail tracks and other fixed facilities with CNR and CPR; and (4) the lack of autonomy on the part of management to decide what routes to maintain or discard.

Given the many benefits of passenger rail, and given that the status quo of chronic underfunding (which Via Rail has effectively endured since 1981) has left passenger rail in perpetual crisis, neither the 'termination' or 'preservation' options represent a wise choice. If

passenger rail is to provide a truly progressive transport option for Canadians, the system must be overhauled and expanded. In this regard, there are two possible options, one more ambitious and one less. The more ambitious direction would be to create a HSR system in high-density routes, combined with a thorough revitalization of equipment, services and facilities in the rest of the country. A less ambitious, less expensive direction would be to utilize existing infrastructure, but increase the speed of trains, the breadth of reach and the frequency of service. We will discuss each option in turn.

Option #1: High-Speed Rail System. Let's begin with a definition: according to Charles, Ryan and Kivits (2012: 127), HSR is defined either through the use of a dedicated track for trains that reach a maximum speed of 250 km/hour, or trains that use existing track to reach speeds of 200 km/hour. Dedicated infrastructure and 'in-cab signalling' mean that HSR typically requires its own infrastructure, though it need not rely on the most advanced technology such as magnetic levitation. Much of eastern and western Europe along with countries in east and west Asia are developing HSR networks. Japan, France and Germany offer important lessons for Canada in the development of a HSR system.

The development of HSR in Japan — the *Tokaido Shinkansen* — began in the 1950s before passenger rail was displaced by the automobile and airplane. The objective in Japan was to make rail faster than the car and more frequent and convenient than the plane. The major organizational innovation in Japan, according to Perl (2002: 15), was this: instead of 'moving everything everywhere', Japan separated high-speed from traditional rail infrastructure. The latter included freight and passenger rail and it was used to accommodate everything from local, inter-city and long-distance travel on a single line. With dedicated 'platform to platform' infrastructure and frequent service, HSR in Japan could be competitive with the car and plane.

France only began to renew its passenger rail infrastructure in the 1980s, at which time the car and plane had largely displaced passenger rail. Despite the decline, passenger rail was revitalized in France. According to Perl (2002: 24), France's major policy innovation was to create new infrastructure for its HSR system and leave existing infrastructure for freight. France's *Train a Grande Vitesse*, or TGV, operates on a dedicated main corridor with connectivity to existing infrastructure at major catchment areas (Charles *et. al.* 2012: 128).

Another innovation in France was to utilize 'yield-management' pricing — charging different prices for the same trip depending on the time of day (e.g., charging a premium price at peak travel time and a discounted price during off-peak hours).

Germany began its passenger rail renewal in the 1990s with its *Inter-City Express*, or ICE train. The German experience offers useful instruction to Canada insofar as the policy community there was less than fully supportive of HSR and, like Canada, Germany has a decentralized federal system of government. The Germans used a combination of existing infrastructure and a dedicated HSR line, which created the possibility of allowing freight operations outside peak hours. ICE ridership rose from 6 million in 1991 to 36 million by 1999 (Perl 2002: 35).

Despite the different geographic, demographic, cultural and political-economic settings, each country managed to renew passenger rail. What unites these three countries — and here Canada is an outlier yet again — is their openness to 'industrial policy' and their extensive reliance on public investment and public ownership. Canada's policy community tends to be committed to business-led development. The problem is that business has not (and will not) spearhead the development of passenger rail in Canada, hence the perpetual crisis at Via Rail. The rail policy community could borrow and adapt the best practices of other jurisdictions — technological, organization and policy-oriented — to meet Canada's unique transit needs.

There are multiple opportunities for the development of HSR in Canada. One option would be to build a HSR system in the Quebec-Windsor corridor, which accounted for over 90 percent of Via Rail's passenger volume in 2012. Another option would connect key cities in western Canada, such as a line between Calgary and Edmonton. A more ambitious direction would aim at crossing the continent from Vancouver to Halifax.

The federal government, in conjunction with the Ontario and Quebec provincial governments, commissioned a group of consultants in 2011 to update an earlier 1995 study on the feasibility of a HSR system in the Quebec-Windsor corridor. The new study concluded that it would be both possible and desirable to introduce HSR in the corridor, but not without heavy public investment that would cover approximately 75 percent of the project's costs. The estimated total cost of the project ranged from \$19-21 billion CAD, depending on the technology used. The study also found that passenger revenue generated on the HSR could cover all operating costs, but that the governments would not receive a

financial return on their infrastructure and equipment investments (Dupuis 2011: 11).¹⁰ The Harper Conservatives and McGuinty Liberals both ruled out the project on fiscal grounds (Zeliger and Greenberg 2011).

This was a mistake. Recent years have witnessed persistently sluggish GDP growth in Canada, largely because private business has failed to invest sufficiently in the expansion of productive capacity. Instead, it has been left to governments to 'prime the pump'. In the past, governments of all ideological orientations engaged in ambitious 'nation-building' projects. For example, construction of the canal system began in early 1824 with the Welland Canal and concluded in 1848 with the St. Lawrence Canal. The result was a waterway system that connected the staples-producing regions of the North American continent with markets in Europe (Easterbrook and Aitken 1956: 351). Similarly, the construction of a transcontinental railroad linking central Canada with western Canada and the Maritimes began in the late 1840s and, symbolically at least, concluded in 1885. Governments emptied their coffers in an attempt to 'build Canada'. The publicly-funded construction of the St. Lawrence Seaway in the 1950s was another example of a nation-building infrastructure project which sparked massive economic activity, and contributed importantly to subsequent industrial diversification.

We think the creation of a world-class HSR system in Canada could play a comparable role for the twenty-first century. According to Charles *et. al.* (2012: 128), HSR provides unparalleled environmental and energy-efficiency performance compared to the automobile and airplane. And according to Dupuis (2011: 10), a HSR system provides the best chance for commercial profitability, so long as it operates on a dedicated track with an electrified network. The profitable parts of the system could be used to subsidize the non-profitable parts. The significant infrastructure and equipment costs associated with the project would require financial support from government — and here we think provincial governments could assist with the funding.

The macroeconomic and employment spin-offs from investments in HSR would help to lift Canada's national economy out of its multi-year stagnation it has endured since

¹⁰Public institutions are not business corporations, so the assertion that there would be no 'financial return on investment' is hardly relevant. If the project generates net economic and social benefits for Canadians, then it should go ahead.

the global financial crisis and subsequent recession of 2008-09. The stimulative effects of these investments extend far beyond the direct construction work required on the project. Input-output linkages extending back through the supply chain would create additional jobs and income, as would the downstream spending and re-spending of new incomes generated by the project. The federal Department of Finance has estimated the combined multiplier effects on GDP from infrastructure construction at 1.6 dollars of total GDP for each dollar of direct expenditure (Department of Finance 2011: 148, Table A1). By that measure, a HSR investment in the Quebec-Windsor corridor (with direct capital costs of \$20 billion) would generate \$32 billion in new GDP over the years of its construction, and close to a half-million person years of employment. In an era of chronic economic underperformance, a major capital project like HSR could kick-start the entire national economy – in addition to the direct benefits from the project itself.

Option #2: Increased Spread, Speed and Frequency on the Existing Network. The second direction is less ambitious because it would not necessarily involve the creation of new rail infrastructure (though new infrastructure spending would be required to upgrade existing assets). Through public investment, Via Rail's Via's operating and capital funding would be restored to the levels comparable to the early 1980s, before the company was subject to multiple rounds of deep cuts. New funding would be used to modernize its fleet of locomotives, increasing their speed and comfort. It would also be used to increase the connectedness of the overall passenger rail network in Canada – for example, by restoring the North Shore Rail, as well as other routes that have been terminated. Via could increase the level, range and quality of the services that it offers in the station and on board, and importantly, the frequency of service would be greatly increased.

With faster trains, better service, increased connectedness and higher frequency, passenger rail would more effectively compete with the automobile and the airplane. This is all the more so if the entire transportation network is synchronized so that municipal transit systems all link up with Via's services. The major shortcoming with this option is that Via would remain beholden to CNR and CPR, insofar as it utilizes their track infrastructure. The current arrangement Via has with the two major freight railway companies would have to be reconfigured to allow Via the flexibility (and certainty) to craft

an ambitious train schedule – without bumping Via trains to sidings to allow freight trains to pass it, as regularly occurs under current arrangements. Even without investing in a brand new rail infrastructure, therefore, the Canadian Government could still increase passenger rail ridership through the rebuilding of public funding of Via Rail.

While the various stakeholders discuss what direction Via Rail should take, there are a number of steps that can be taken to immediately improve service at Via. First, we call on the Government of Canada to reverse course on the coming cuts to Via Rail's operating and capital budget. We also call on management to restore the services that have been reduced or terminated over the last two years. Reducing Via's funding and cutting its services will only have one definite consequence: to shrink the number of passengers Via carries, pushing Canada's national rail passenger system deeper into crisis.

Second, we call on management to stop spending scarce resources on 'management inventive programs', executive bonuses, and lucrative consulting fees. Instead of enriching management, money should be spent to upgrade passenger rail service. If the Government of Canada and Via Rail management are serious about funding restraint, we think a management hiring freeze and salary freeze appropriate policies.

And third, Via should renegotiate 'track usage charges' and 'wheelage' fees with CNR. Public funds should be used to enhance the performance and accessibility of passenger rail, not as a back-door corporate subsidy to CNR: now a private company majority-owned by foreign shareholders. The Government of Canada's 'Economic Action Plan' mandated that the increased funds for Via Rail were to be used to improve infrastructure – but CNR owns much of that infrastructure. So even though the Harper Conservatives preach 'non-intervention' in 'the market', they are all too happy to line the pockets of a huge corporation while simultaneously cutting rail services. This must end.

7. Conclusion and Action Plan

Canada is at a cross-road when it comes to passenger rail. A choice will have to be made whether to let a once-vibrant public utility continue its decline, and eventually perish altogether. The alternatives are to either keep the firm on life support, in its current underfunded state, or more optimistically to revitalize the network through new investments that improve service, win back customers, and generate massive spin-off benefits for the national economy. The conventional insistence that Via Rail must be

commercially profitable is a distraction, not a genuine constraint. If Canadians want to renew this powerful national symbol and have access to a fast, efficient, eco-friendly transportation network, then they need to hold their public officials' feet to the fire. In the nineteenth and twentieth centuries, passenger rail brought Canadians together, both literally and metaphorically. We think it can do so again in the twenty-first century.

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