cannot now be foreseen, and this makes it difficult to forecast the future so far as the matter of reduced working-costs is concerned. All that can be said in this connection is that a policy of constant review will be rigorously pursued, and there will be no relaxation of effort in this connection. The matter of working-costs is dealt with in more concrete form in the comment set out in this report under the heading of "Statistics."

Regarding No. 2, this is a matter which not only lies with the Department but also with the community. So far as the Department is concerned, we are, by improved facilities and the adoption of commercial methods in seeking and attracting business, endeavouring to develop rail-borne traffic. In this connection, however, we find ourselves faced with serious difficulties arising out of motor competition, which is dealt with subsequently in this report under the heading of "Regulation of Transport."

Question No. 3 involves considerations of policy which do not come within the province of the management as such. A few thoughts, however, might be helpful as possibly clarifying the issues. In the first place I would say that it should not be impossible to raise the rates to an extent that would be sufficient to produce the revenue required to meet all charges. It will be seen that an average increase of 0·45d. per ton-mile would be required. The capacity of the railways to raise the rates on the commodities in the higher classes is very definitely affected by the motor competition, such competition being confined, as it almost wholly is, to traffic in those classes. The great volume of the tonnage is, however, in the lower classes, and the amount by which those classes would require to be increased would not be substantially more than the figure above mentioned. Whether the rates of these lower classes should be so increased is the policy question involved. I desire, however, at this stage to emphasize the aspect of the effect that is likely to accrue from a growth of the practice of allowing the road motors to take high-class goods, while leaving those in the lower classes to the railways. The inevitable results of such a procedure are, I think, such as call for the very serious consideration of every member of the community.

The capital invested in the railways is irretrievable, and it is, moreover, borrowed capital. The overhead costs remain more or less fixed, and, however good the management may be, costs cannot be reduced in proportion to the loss of business diverted to the roads. The expenses hitherto recovered from passenger or high-grade-goods traffic must be recovered from the business that remains or be passed on to the taxpayer. If such expenses are charged against the long-distance or lower-grade traffic a serious position must arise. An increase in the long-distance rates will penalize the inland areas, which, being almost entirely dependent on rail transport, will pay more for their imports and can export only at higher cost. The cost of primary production will rise owing to increased freights on such low-rated goods as coal, fertilizers, timber, grain, fruit, live-stock, and road metal, whether for long or short distances.

Coastal districts that already reap the benefit of short-haul-road-transportation rates will receive no additional benefits, but will pay more on bulk traffic.

Speaking broadly, it appears that the tendency will be to reduce the cost of imported goods in districts adjacent to sea ports and to increase the costs of primary production in all districts, a tendency which may result in disaster to a country depending so largely on its exports of primary products.

The further question arises out of the ambiguity of the phrase "making the railways pay." This may mean either of two things: Firstly, whether the revenue accruing from the railway operations should be sufficient to meet the railway expenditure and interest charges, or, secondly, whether the railways are to be regarded not in an abstract way, but as a community investment bringing advantages to the community both directly financial and indirectly in other respects. If the former interpretation of the phrase is adopted, then we have the advantage of knowing, so far as the position is disclosed by the railway accounts, the amount that would require to be made up through the medium of an increase in rates. On the other hand, we would be undoubtedly placing a burden on the railways that would not be expected of a privately-owned railway, and which might lead not only to wrong judgments regarding the efficiency of the organization, but also to inequity by placing a burden of advantage on the shoulders of those who are not necessarily the sole beneficiaries thereof.

So far as the first matter is concerned—namely, the question of wrong judgments as regards the working of the organization—it will be clear that if certain concessions are allowed as a matter of "policy" which would not be allowed by a privately-owned railway established for the earning of dividends, then if the organization is required not only to earn the dividend which the privately-owned railway would earn but also to make up the deficiency involved in the "policy" concessions, then, to the extent that we may presume that the privately-owned railway is extracting every penny out of the industry that it economically can, an impossible burden is being placed on the State-owned railway in asking it not only to do this but also to make up the additional margin involved in the policy concessions.

As regards the second, it seems undoubted that there are many policy concessions given through the medium of the railways, the justification of which is not the concession to the individual so much as the community benefit that will result. An outstanding illustration of this principle is to be found in workers' tickets and concessions in connection with our primary and secondary industries. As regards the workers' tickets, it is generally recognized that the policy in this connection is justified by the social betterment accruing to the community by the facilities afforded for better living-conditions and the prevention of slums in our city areas. Policy concessions to our industries are generally founded on the benefit that will accrue to the community as a whole through the development of those industries that are helped by the concessions; but, inasmuch as the community as a whole benefits, should not the community as a whole make some payment in the sense that as the railways stand the primary loss involved (which is the investment made)