Capital Investment.—The capital structure of the Canadian National Railways, changed by the Capital Revision Act, 1937, was reduced by $262,770,972 (see p. 644 of the 1939 Year Book). The excess of capital liability as shown in Table 3 over the investments in road and equipment shown in Table 4 is accounted for by loans and advances from the Government to cover deficits of the Canadian National Railways and by the fact that some railway stock issues represented little actual investment in physical property. The investment account in recent years has been affected by write-offs for lines abandoned, transfers of property to other Government Departments, etc.

4.—Capital Invested in Road and Equipment of Steam Railways, 1938-43

Investment	1938	1939	1940	1941	1942	1943
	$	$	$	$	$	$
New Lines—						
Road	1,946,830	329,739	1,182	Cr. 422,363	74,972	71,838
Equipment	Nil	Nil	Cr. 3,500	Nil	Nil	7,935
General	118,316	"	7	3,776	"	1,688
Totals	2,065,146	329,739	Cr. 2,311	Cr. 418,587	74,972	81,461
Additions and Betterments—						
Road	6,522,746	5,855,876	6,659,074	8,786,600	46,537,589	Cr. 8,890,247
Equipment	17,310,743	Cr. 4,452,439	66,340,262	9,566,002	19,603,725	28,214,476
General	63,095	1,665,148	92,198	Cr. 17,112	Cr. 89	418,705
Undistributed	Cr. 32,075	Cr. 13	Cr. 17,056	Cr. 265,260	Cr. 11,917	Nil
Totals	23,864,509	3,068,572	73,074,478	18,070,230	66,129,308	19,742,934
Undistributed[1]	Cr. 3,685,804	Cr. 2,163,803	Cr. 9,437,903	Cr. 10,052,083	Cr. 4,800,297	Nil
Totals, Investments as at Dec. 31	**3,094,704,775**	**3,095,939,283**	**3,159,573,547**	**3,167,173,107**	**3,228,577,090**[2]	**2,990,274,391**

[1] Details of this item are given in the "Annual Report on Steam Railway Statistics" issued by the Transportation and Public Utilities Branch of the Bureau of Statistics. [2] Includes $74,728,521 transferred to depreciation reserve and a credit of $34,534,220 transferred to premium on capital and debenture stocks.

Earnings and Expenses.—The operating ratio, or ratio of expenses to revenues, of Canadian railways increased from around 70 p.c. to above 90 p.c. between 1917-20, and remained high thereafter. The United States Government took over the operation of the United States railways and increased the rates of pay of the railway employees when that country entered the First World War. The Canadian railways were also obliged to make corresponding increases and these have been the chief factor in increased operating ratio. Declining revenues without corresponding reductions in expenses during the depression period also maintained the high ratio. The period after 1938 showed a sharp decline in this ratio, due primarily to the greatly increased freight traffic occasioned by the War, and a subsequent acceleration in gross earnings.