

(March 25, 1935)

## Co-ordination of Transportation Services

BY PROFESSOR WILLIAM JACKMAN.

PRESIDENT JAMES:—Professor Jackman, gentlemen, with our guest's indulgence I have an announcement to make which, I think, will be of some real interest and very appropriate. On Tuesday, April 9, the Gyro Club are holding a luncheon at this hotel, and an invitation has been extended to members of the Canadian Club. The speaker is E. W. Beatty, president of the C.P.R. If you plan to go kindly get in touch with the office and Mr. Philp will arrange for tickets.

Professor Jackman, on this your first visit to us as guest speaker, I tender you a very hearty welcome. This season the Club has studied many important national problems. It has, I think, fallen to our guest speaker's lot to deal with one of the biggest problems facing Canada—transportation. Transportation has been really the life work of Professor Jackman who occupies the position of Professor of Transportation at the University of Toronto. In addition to his work as Professor he is the author of several works, one of which should be of particular interest to Canadians, "Economics in Transportation."

Professor Jackman, we are delighted to have you here today and it is with much pleasure we call upon you to address the Club on the subject, "Co-ordination of Transportation Services."

PROFESSOR JACKMAN:—Mr. President, gentlemen of the Canadian Club, you are engaged in a similar work to what we are engaged in at the university—educational work, which is one of the most exceedingly important

things in our national life, and it is a privilege to be able to speak to you—with you rather—in connection with this vital subject which, as your president has said, is the most vital thing in connection with our national welfare.

I am reminded, sir, of a visit which I made in the southern part of Old Scotland across from Carlisle. In the little town of Annan where Edward Irving, that noted gentleman, was born, and in his house which is still standing there, there is a tablet on the wall, and it reads: "He left neither enemy nor rod behind him." I wish I could say that nearly every time when I address an audience in connection with this transportation problem. There are some—I won't say enemies—but there are some who entirely disagree with what I have to say. I have no objection whatever to that. It would not be reasonable to expect every person to agree with the speaker, and for that reason, I am going to leave it entirely to you to disagree, and disagree as violently as you like. But I will be, at the same time, accorded, as I know, the privilege of expressing these views.

Now, there are general principles, a few of which I would like to mention in connection with the study of this co-ordination of transportation facilities, and the first of those general principles, which, I think, ought to be regarded, is that the system of transportation should be divided into the particular phase of it for which it is best adapted. It is only in that way you can get adequate, economical and efficient transportation. To turn the system of transportation into channels for which it is not adapted is to get nothing but waste continuously. And, in the second place, insistence of competition of various agencies as fully as possible is not suited to the present economic conditions. If better service can be secured without competition than can be secured with it, and if those services can be obtained at less cost, then the only reasonable thing to do is to avoid waste and co-ordinate these transportation facilities so as to enable them to work together in the way in which each can render its services most acceptably.

That, I know, is contrary to the old doctrine that competition is the life of trade. But we have got away from

that old doctrine of trade and we see, in many cases, it is the death of trade rather than the life of trade. And while it was true in the time of Adam Smith, in the last part of the 18th century, it is not true today. The objective of public policy, therefore, should be the control of that competition and the avoidance of the wastes which are so pronounced in connection with it. And, in the third place, to eliminate wastes of competition we should have co-ordination of the railway and the highway facilities. It is those we are speaking of more particularly. We should have co-ordination of these railway and highway facilities so as to enable the railway to render the services for which they are best adapted and give the highway carriers services for which they are best adapted.

Effective co-ordination on the part of these two requires two things. In the first place, fairly reasonable conditions for rendering that service to the community so that one will not obtain any advantage over the other. And, in the second place, fair competition even in the competitive field. There is a great deal of chaos in the present highways system. I am dealing with that first and I shall come to the other. The present chaos in transportation is due to a great many different factors. In the first place, there is endless rate-cutting. You never know what your rate is going to be by highway carrier. In the case of the railway company, on the other hand, its rates are fixed and they are not changed over night or in the course of an hour, but in the case of the highway carrier, the rate may be changed any time and one competitor in business may be able to obtain one rate and another competitor who can get a little bit more advantage will get a lower rate. That incessant system of rate-cutting is so utterly derogatory to reasonable business procedure that something ought to be done, and something should have been done before this in order to eliminate it. Not one of the carriers on the highway knows what his costs are. A carrier goes out from Toronto to an outlying point. On his homeward journey, if he cannot get a rate which will pay for a return load, he will take a rate which will pay part of the costs. If he can get enough out of the traffic to pay for

the oil and gasoline all right, but that is all he can get out of it. But if he cannot get enough to pay for the oil and gasoline, he may get enough to pay for the gasoline. The system goes on like that with incessant rate-cutting which is disastrous to any community and makes it impossible for the business to be anything else but a gamble. But in the second place, there are far too many of these highway carriers. I know I am treading on dangerous ground. There are far too many of these highway carriers. Look at any main, important highways and see the vast numbers of these carriers who are engaged in the handling of that traffic. You will see many of them with only a mere meagre loading, and when they are coming back the other way they may not have any load. Do you mean to say that all these people are needed? There is such a multiplicity of these carriers that it is impossible to conceive of them as being required. It is true they are paying something in the way of taxation to the government and how much are you paying in the way of taxation for the facilities that are provided for these roads through cost of construction, their upkeep and the system of administration up there?—and a multiplicity of other things? Their drivers, as long as they can drive a car, are all right. The driver can go in and buy a truck—a second-hand truck which is \$15, in the expectation that he can pay for it from the work he will be able to do with it and the possibility that he may be able to cut the rates under a better man. I do not call that, in any sense, production in the same way that I call manufacturers' work production or the agriculturalists' work. That is simply taking it away from those to whom it should properly belong. And, in the third place, those carriers are not paying a reasonable share of the costs of the facilities which are furnished to them.

The British Commission in 1931-32 enquired into this system in the British Isles and, after going into it very fully and showing the costs of the services so far as they could be ascertained, and knowing the costs of the highways and the costs of the upkeep and costs of administration, they found that the motorist was paying only a third

of the cost of the highways—not of the cost of construction, but a third of the cost of the upkeep, and the general taxpayer was paying over two-thirds.

If you look at the cost of the system here and the difficulties connected with the maintenance of this system of highways in a country such as ours, with the climate we have, and contrast that with the British climatic conditions you will see something of the difficulties in securing the cost of even the maintenance from what is provided through taxation of the motorist.

Changes are necessary in this highway transportation. I should say, in the first place, a reduction in the number of operators. It is only in that way you can have reasonable stability in the business and only in that way can it aid in the building up of the country. I think it would be highly advantageous (this is a personal opinion) to have an advisory board, over two years say, make a thorough census of the highway traffic possibilities, and having made a census of the traffic and determined the number of motor vehicles and motor trucks which should be required along with the existing facilities, provide necessary requirements for the country's welfare. But, under no circumstances, should this mass of unorganized carriers be allowed to continue.

In the second place, I think there should be a reasonable test or reasonable tests as to the carrier's fitness and as to the conditions underlying his operation. There are many of them who are employed altogether too long hours. I do not know whether the eight-hour day is going to improve it entirely. There are many of them who are employed at irregular hours and they have to make the best of a bad job while they are operating. The conditions underlying the operation of carriers' employment are derogatory to anything like reasonable conditions. And, in the third place, the motor vehicle should pay adequately for the facilities that it has.

I mentioned the British Royal Commission. As a result of their study they decided that it would be reasonable to have a nine to ten ton truck pay—what do you think?—£120 or \$585 a year for taxation for the license. That

is more than three times the amount which is paid by nine and ten ton trucks here. We will grant the conditions are different there from what they are here. We will grant that there is perhaps more traffic in a short space, but, on the other hand, they have contrary conditions which are just as difficult for them to meet. Under these circumstances, the motor vehicle should pay a reasonable share for the facilities which it enjoys. At the same time, the only safe, sensible way is to have a thorough-going study of these questions and know exactly how much wear and tear is on the highway and then adjust the costs accordingly.

The British Royal Commission has distinctly stated that the motor vehicle should pay, not the entire cost but at least two-thirds of the cost of the highways. At the present time the general taxpayer is paying two-thirds of the cost. And, in the fourth place, in order to adjust this problem, there should be a regulation of rates and the conditions of services. The government should not provide a subsidy for highway transportation and require the railway to maintain its highway without subsidy.

Reasonable regulation both of the rates and the services should be effected in a way which would make them stable and would give all those using that particular service the same rate and not give any preferential rates. I would like to read a few words from the report of the recent Royal Commission on Railway Transportation in Canada, the Duff Commission Report as it is called. "We feel that not only is unfair competition between railways definitely harmful to the general welfare but that unfair and unregulated competition between railways and road carriers is also damaging, resulting in waste and duplication of effort. It is generally recognized there is need of regulating road motor service and for equalization of conditions under which road and rail services are provided."

And the British Royal Commission came out in much the same way. "In our view the true function of road transportation is auxiliary and complementary to the steam railways. To get proper co-ordination, the railways should be empowered to operate the services of road motor

vehicles, subject to the same restrictions imposed upon other road operators."

If we had a system which would give say a franchise to two or three highway operators between Toronto and Windsor and a franchise for two or three operators between Toronto and Montreal and enable the railway company to put, at the same time, or to arrange for road transportation services to co-ordinate with its service, we could have a system which would contribute to stability and which would give, at the same time, two services which are necessary under our present conditions. Well; I must leave that question of road transportation in its relations with railways and come to the other side of the question, viz., the relationships of these two companies.

It is a mighty problem. I approach it with fear and trembling because something may come out in tomorrow morning's paper which might indicate that I was in favor of such and such a course and that I was not telling the whole truth. I want to tell the whole truth so far as I can get it. I am not here to form your judgment. I am here to determine if we can weigh the merits and demerits in connection with this issue.

When the Canadian National Railways were taken over by the government the entire debt of that system was \$1,336,000,000, according to the report of the Dominion Bureau of Statistics. Today, or rather at the end of 1934, the debt of that system constitutes a total of \$2,782,000,000. I am quoting these figures, because they were given out by the Minister of Railways in the Hansard of February 11. In other words, the debt of the system was doubled in that period of time. Loans to the public system amounted to \$1,246,000,000; loans to the government \$672,000,000, the accrued interest, due and unpaid \$459,000,000. On the basis of the Duff Report, the Canadian National increased its assets by \$452,000,000. It increased its liabilities by \$922,000,000, the liabilities being double the assets. It is largely due to the enormous amount of unpaid interest which it could not meet and the deficits of operation.

Let me turn away from that question. We have to

consider the remedies. What are we going to do about it? The Drayton Ackworth report stated definitely its recommendation that the railways should be taken over by the government and should be put under a board of five trustees, constituted as a Dominion Railway Company, the five trustees constituting a self-perpetuating non-political body to administer these properties in the interests of the public welfare. Was it done? I read to you from page 51 of the Duff Commission's Report. "But the Government of the day declined to follow the plan of organization recommended by the Commission which was, in substance, to place them under control of a permanent self-perpetuating board of trustees."

Whom are you going to believe? That permanent self-perpetuating non-political organization might have had a reasonable chance of putting these roads on their feet, but no, it had to be brought into politics. The government could not possibly allow it to go on that basis. Lord Shaughnessy recommended a similar system under which the C.P.R. should be joined with these other roads that had been taken over and that the operations of these roads should be under the administrative body. The Senate Committee of 1925 suggested that these roads should be operated as a combined entity with five directors appointed by the C.P.R., five directors appointed by the government and the other five chosen by those ten. Nothing came of it. So we have to come to the two final suggestions which have been made—one by the president of the Canadian Pacific and the other by the Duff Commission.

The Duff Commission plan declared, in effect, that its plan was to group these roads and establish, instead of fifteen or sixteen directors, a board of three trustees or three directors; that these two roads should be urged to work together to co-operate and, at the same time, that they should be required to compete with each other. It is very difficult for one to think of the possibility of two organizations of that kind co-operating and actively competing. If you get competition which is anxious to secure the greatest amount of profits for its own treasury, it is difficult to get co-operation which is thinking of the wel-

fare of the community rather than mere individual welfare. And the Duff Commission suggested as an additional provision that there should be the establishment of an arbitral tribunal to settle any points of dispute between the management of the two properties. That looks nice until you get any substantial knowledge of what the conditions are or were because when you get a road which is under the influence of political factors and another which is looking towards securing sufficient profits to pay its stock holders a reasonable return, you have two roads which are looking at each other's problems from entirely different angles.

In the case of the C.N., the political influences are very strong and have been very strong. And if you get political influences in that way it is very difficult to see how you can get anything like co-operation between two organizations which are so vastly different in their motive and in their purpose.

Let me read to you from the Duff Commission's Report, page 51, the words of the late Sir Henry Thornton, spoken before the members of that body. . . . "Leaders of political parties and the people of Canada as a whole are a unit in their desire to prevent political invasion of the Canadian National Railway, but the plain fact is that, irrespective of such wishes and desires, the problem presents difficulties beyond control of our leaders, be they ever so patriotic and in harmony. It must be accepted that the business of government is politics. Irrespective of whether one looks at it that way or not, politics is something with which the government must reckon in its activities."

And if you do not believe that, read the report of the Special Committee on Railways and Shipping to the House of Commons, 1934, and see the way in which politics really acts in furnishing facilities for wastes. Just see for yourself in the statements which were made by Mr. Hanbury and Mr. Hanson. Can you get these two roads to work together under those circumstances? Not if those are the conditions which are set forth in the statements of these men who are responsible members of Parliament. The other is the suggestion of President Beatty

of the Canadian Pacific that these two roads should be merged in operating. Not amalgamation of roads, that is not the policy. There is no sensible railway man who would want to take over the C.N. with its obligation of debt and the Minister of Finance is my authority for that statement. But operation—combined operation for the purpose of eliminating wastes—it is not combined ownership of the properties but combined administration of the properties in order to eliminate wastes. Let me give you a few words. This comes from the recent report of the Federal Co-ordinator of Transportation at Washington. In the report of 1934, page 39, he says at one point—"Studies made by the staff of the Co-ordinator show beyond question if the railways are to furnish a service and charge rates necessary to take care of the traffic, they must function to a far greater extent as a unit." His staff apparently has come to the conclusion that there must be a merging so far as operation is concerned.

Let me refer to another of his statements. "The rapid development of competition with the railroads from other forms of transportation has made the emphasis upon the preservation of competition unnecessary in the public interest."

If the preservation of competition is unnecessary for the public interest on account of the vast numbers of competitive agencies, are we going to allow that waste to go on or are we going to bring these roads together into an operating unit which will get rid of this vast proportion of waste and bring us to something like sanity in our transportation affairs?

PRESIDENT JAMES:—Professor Jackman, we are extremely grateful for the address just delivered. I think you have given us as much food for thought as any speaker we have had here.