

(April 19th, 1937)

## Government and Transportation

BY THE HON. C. D. HOWE, MINISTER OF TRANSPORT.

COLONEL MESS:—A little better than a year and a half ago our Prime Minister selected for his Cabinet nine lawyers, two gentlemen of Finance, one journalist, one publisher, one farmer and a lone engineer. I don't suggest that that was intentional, or that such a thing as an engineer in the Cabinet was unheard of. How could one so prominent be persuaded to make the necessary sacrifices? That question is very easily answered.

He brought to his post a keen mind, imbued with sincerity and a desire to be of service to Canada; and opportunity for that service was found for him in the Ministry of Railways, Canals and Marine. The name was shortened to The Ministry of Transport, in the hope, perhaps, of minimizing duties placed on the shoulders of one man. Gentlemen, you all know that engineer, who is so deserving of our kindly welcome, The Hon. C. D. Howe.

MR. HOWE:—Mr. Chairman and gentlemen of the Canadian Club, I wish to thank you very much for the invitation to speak to you today. It was extended some time ago, and while I realized the importance of the occasion, I found it difficult to arrange the engagement while Parliament was sitting. But, as you see, I have lost no time in accepting, now we have disposed of that annual nightmare, the Parliamentary session.

I propose to discuss today the work of my own Department. The Department of Transport was formed last October to take over from the former Department of Railways and Canals, the Department of Marine and the Civil Aviation branch which was formerly under the Department of National Defence. It is the Department that operates the government railways and canals, its function

is to supervise the registration and inspection of shipping, the administration of national harbours, docks and ports—including some nine hundred small harbours from coast to coast, administration of pilotage and the St. Lawrence ship Channel, of the radio telegraph which links up with the more inaccessible parts of the country, of the Weather Bureau centered in Toronto, of civil aviation, which will include the new service which is shortly to be established from coast to coast. In addition it is the link between the Government and the Canadian National Railways, and also cooperates with the Canadian Broadcasting Corporation. So you will see that the work of the Department is very diversified and touches on a number of matters of great public interest.

One purpose of centralizing all these activities under one Department was to give the Minister in Charge a view of transportation as a whole in Canada. I believe it important in matters affecting transportation that the Minister of Railways should also know something of shipping, aviation and harbour operations, and the influence each has on the transportation industry. The fact that I have had that view for some time has led me to certain conclusions about transportation in general.

As you know, transportation developed before Confederation, and in the beginning was chiefly concerned with waterways and distribution from water carriers. In the early days transportation, therefore, was by sailing ship and distribution by stage coach. Things developed and on the waterways sail was replaced by steam, but distribution was still by stage coach. About a hundred years ago, the first line of railway was built as a link connecting two waterways, the St. Lawrence and the Richilieu Canal. Meanwhile water transport had been extended by means of new canals. The first Welland Canal gave shipping access to the great Lakes, the Chambray Canal to New York, and there were others not so important. These have been maintained and developed as the railroads have developed, but the last hundred years has really been the era of railways. The Inter-Colonial Railway was government-owned from its inception, and its completion was part of the agreement of Confederation. The Canadian Pacific Railway was built

as a private enterprise. It received some government assistance, but it still stands as a monument to private industry. The Grand Trunk Railway, one of our earliest, was also built as a private enterprise.

But as these railways developed, the government came into the picture through the matter of regulation. Before the turn of the century, some regulation was applied by the committee of the Privy Council, and early in this century, the Board of Railway Commissioners was appointed. It was the duty of the Board to make sure that in the operation of the railways there was no discrimination, and that the rates were reasonable.

The development of the railways is rather interesting. It followed water transport, and for many years water transport was the regulating force affecting rates. In other words, on roads which in any way paralleled a waterway rates had to be set in competition with that waterway. Shipping at that time was in the process of development and offered a very healthy means of regulating rates. As lines were extended across the prairies we got to the factor of statutory rates. It was necessary for wheat from the interior to reach the Seaboard, at a cost which would make it competitive with wheat grown in other countries. The beginning of statutory rates came, when the Crows Nest line was being built, and the government made a compact with the Canadian Pacific Railway for a low rate for the haulage of wheat to Fort William. Eventually application of that rate was extended to all prairie lines, and we had a cheap export rate from all parts of the prairies to Fort William. East of that there was competition, and a low rate was guaranteed by the cheap haul on lake and river. In 1923 the Panama Canal was opened up, and boats were bringing grain from Vancouver, so that a demand came for low rates to western ports on a parity with the rates eastward. This was granted in 1926, and now the Crows Nest rate applies both east and west.

So our rate structure was built, and the result was that we had a very low rate for bulk commodities and a higher rate, as far as the railways were concerned, for high-cost commodities moving to the domestic market. These rates had a new competition when the Panama Canal was opened,

and there was a very definite effect in lowering the cost of moving commodities from one part of Canada to another by rail.

But the real attack on the rate structure came with the introduction of motor vehicles, on a large scale after the war. The rate structure was particularly vulnerable to competition of this kind. The motor vehicle was more flexible in the moving of goods, and, particularly on short distances, it was cheaper to operate than the railway. It could concentrate on the carriage of high grade commodities which carried a high railway rate, and it was only a very short time before a considerable portion of this type of traffic had been won from the railways. The railways themselves were inclined to accept the loss of the short haul traffic as inevitable, on the ground that the flexibility of the motor truck and the low haulage cost made that part of the traffic theirs more or less automatically. Moreover this highway competition started in the years of prosperity in Canada. From 1924 to 1928 we had big crops in western Canada and there was plenty of traffic for all.

But when the drop in business came in 1929 and 1930, when we passed from bounteous crops to poor ones, truck competition became much more of a feature in competition with the railways.

There had been considerable increase in the efficiency of all motor vehicles. The motor truck had been brought to a high state of efficiency. Its operating costs had been lowered and its competition was very keenly felt by the railways. Trucks were no longer satisfied with the short distance hauls, and we began to get interprovincial movement of goods—Montreal to Windsor and other points—and even international movements, such as from Detroit through Canada to Buffalo. So that in recent years we have had practically every mile of the railway paralleled by express truck service, and the resultant loss of traffic has been very serious.

The railways have now taken steps to regain some of it by giving better service, and have met with considerable success. Freight, in less than car load lots, is being handled as express was handled a few years ago, by pick-up and delivery. The service has now reached the point where, if

a shipper in Montreal wishes this afternoon to send goods to Toronto in less than car load lots, a truck will call for them at his door, and the goods will arrive in Toronto next morning and be delivered before noon tomorrow. Similarly, if the goods were consigned to Hamilton, they would arrive tomorrow afternoon, and if to Windsor, the next morning.

That departure has been extended through all the industrial sections of Canada and even into the west; and today that express service for freight has done a great deal to win back traffic, that would otherwise have gone to the motor trucks. Just how profitable it is to the railways you may judge for yourselves, when you compare it with the service previously given at the same rates. But it was a necessary development, and has done much to hold business for the railways.

In recent years we have had considerable loss of business to the water carriers. The opening of the new Welland Canal in 1930 made a serious change in the shipment of grain. Previously on the great lakes, grain had been moved to Port Colborne, where it was transhipped to vessels of Canal size for further movement to Montreal. The opening of the new Canal allowed the large bulk freighter, that cheapest of all carriers, to carry grain from the head of the lakes to Kingston or even Prescott. This set free a vast fleet of canal size boats and made them free for use in other services. And these immediately went into the package freight business. As these boats were already paid for, or close to bankruptcy, the only question asked was what freight rate was necessary to get the business.

That was another factor that had a great deal to do with taking freight from the railways, in what had hitherto been looked on as their exclusive province. The net result has been that, whereas 1936 was rated at 112 in comparison with the index of 100 for 1926, the gross income of the two railways was only rated at 76. In other words, while general business showed an increase, the railways had a decrease of twenty-five per cent in revenue, and there I think you have our problem in a nutshell.

The question is what should be done?

I refer again to the Board of Railway Commissioners. It was set up for the purpose of standing between the public

and the railways, to insure fair play for both in matters affecting railway operation. Its principal duty is to avoid discrimination, and its examinations of rates is largely from that basis. In addition it was to protect employees, and a great many safety devices have been established as the result of its orders. It was also to protect the safety of the public, and under its aegis the abolition of a number of dangerous level crossings has been brought about.

Nobody can say that the Board has not played a very valuable part in the development of the Railways, and the question is, Why should it be confined to railways? Is its work not just as applicable to other forms of transportation?

We are about the only country in the world that can afford the luxury of absolutely unrestricted competition. South Africa, perhaps, is the country that goes furthest in the other direction—that of eliminating competition. There we find that, if an industry is already efficiently served by one form of transportation, no other form is allowed to compete. A motor truck cannot carry goods more than eight miles from its centre, and a taxi cab cannot operate between two centres where the road parallels the railway. Nor are the aviation services allowed to compete with the railways in the carriage of passengers.

In England the Department of Transport found confusion similar to ours in operation between railways and motor vehicles. Now the regulations have been changed, so that the railways are no longer restricted in their competition as they were formerly. In other words, the motor truck was able to contract for the movement of goods from one point to another at any rate it liked, and the railway was only allowed to offer one rate. That was changed in England, and now the railways are allowed to contract for the movement of goods, provided they do not discriminate between traffic producers. Recent reports indicate that these regulations have worked to the benefit of both.

In Australia a similar condition existed and regulation became necessary. In that country a certificate of necessity and convenience is necessary, before any carrier can enter into competition with another carrier, and trucks cannot compete with paralleling railway lines.

In the United States coastwise shipping has been closely regulated as to rates, as has intercoastal shipping through the Panama Canal. Similarly, we found that the Interstate Commerce Commission regulates the rates for vehicles that cross state boundaries. That law has been working very well in the last year or two. At first there was a good deal of chaos in the regulations, but lately there has been a very definite control of the rates in this type of movement. Both rail and road transportation industries find themselves in very much improved position as the result of those regulations. There is now a bill before Congress, sponsored by Senator Wheeler, which proposes to apply the control of the Interstate Commerce Commission in the matter of rates to commodities moved on the great lakes by American shipping. Provided that bill passes, there will be complete control of all forms of transport in the United States.

It seemed to me that there was room for similar regulations in Canada, and while at the same time I appreciated that that form of regulation must be approached very cautiously, it did seem to me that the time had come for some attempt to be made at regulation in Canada.

The result was that I brought down a government measure at the last session of Parliament, which provided for the changing of the Board of Railway Commissioners to a Board of Transport Commissioners, and applying the authority of the Railway Board to other forms of transportation, so far as they lie within the jurisdiction of the Dominion Government. The intention of the Bill was to provide that water carriers operating in the coastwise trade of Canada should be required to file their tariffs. It also provided that aeroplane operators and operators of inter-provincial motor transport should file their tariffs. We were, of course, aware that the Dominion Government had a very limited jurisdiction over motor tariffs. Highways are the business of the provinces, and the regulation of motor vehicles lies almost wholly within the jurisdiction of provincial authorities; but there is no doubt whatever that the interprovincial traffic is subject to the Dominion Government in the matter of rates.

There was a great deal of misunderstanding about the

bill, some of which was hardly removed. It was felt that its purpose would be to fix minimum rates, whereas it was entirely in the direction of fixing maximum rates.

Any carrier can lower its rate within twenty-four hours simply by wiring the new rate to the Commissioners. It is in effect immediately, and can only be changed on the grounds of discrimination. On the other hand, it takes the railway thirty days to raise any rate. Notice must be given thirty days in advance of any proposed increase in rate, so that the mere filing of a rate exercises a stabilizing influence.

A duty of the Board is, to examine any rates to see if they are discriminatory. It is not the purpose of the Board to regulate one industry for the benefit of another. In other words, the regulations applied to steamships would not be applied for the benefit of the railways.

That bill was defeated and I felt very badly about it. It seems to me that steps should have been taken to give the Board of Railway Commissioners more jurisdiction. It was never intended that such jurisdiction should have been drastically applied at the beginning. Very careful study of all conditions would have been necessary, before any changes were introduced. But I still believe that the bill will have to go through, if we are not to be faced with complete chaos in the industry of transportation.

Almost the entire shipping industry has been through bankruptcy, and present operating does not indicate much improvement. The highway industry is going along very well, but it, too, is moving towards chaotic conditions. The railways are in the impossible position of having to furnish service three hundred and sixty-five days of the year and twenty-four hours of the day, whether there is any traffic left or not. Trucks and busses usually operate at just under the railway rates, and if some commodity does not show a profit they can move over to some other, that will show a profitable haul. That is a condition that occurs in almost every country in the world, and even Argentina has had to provide for regulations to cope with it.

I know that many of you are thinking: "Why worry about a step of this kind, when there are other steps that could be taken?" I know that this is the case, because I read some of the Toronto publications, not the Globe. I mean not in the Globe; not, that I do not read it.

Some suggest amalgamation, but amalgamation is not a thing that will solve the problem of the railways. If it were, then the Canadian National Railway should be the most prosperous in the world, for it is the amalgamation of four systems in Canada.

The feeling behind the amalgamation suggestion is: that if it were undertaken a great deal of mileage could be taken off, and if that followed there would be a serious saving. But as a matter of practical fact, there is very little mileage that could be taken up. Both the Canadian Pacific Railway and the Canadian National Railway have a great deal of mileage they would like to take up, and they have tried hard to do it, but they have been able to take up very little to date. Most of us think there is a huge mileage in the less settled parts that is very little used, but there is more mileage within two hundred miles of here that the railways would like to abandon, than there is in any other part of Canada.

What happens when they want to abandon a branch line? They make application for permission to do so to the Commissioners, and everybody who lives on that line appears before the Board and protests that his business will be ruined. The railways advance the argument: that the mileage would be left to the trucks who do the business anyway, and the answer is that business would be at the mercy of truckers who would charge higher rates. But why, you might ask, should the railways work at a loss to regulate the rates for trucks? They argue also that they cannot use trucks in winter when the highways are closed, but they go back to them as soon as the roads are open again.

In a very few cases the Board says that the railway has made a case for abandonment. Then there is the battle before the Privy Council, and if it agrees to abandonment the matter may be appealed to the supreme court of Canada. If the railways win the decision there, they encounter a state of almost civil war when the rails are finally moved.

Does anyone really think it would be possible to take up five thousand miles of railway in Canada? The companies have both applied for about a thousand miles and so far have been able to take up three hundred.

Another suggestion is that costs should be cut and waste

eliminated. I doubt if there is any other railway in the world that is more efficiently run than these of ours. We have the lightest traffic on the Canadian National Railway of any in the world, and the only way to make a profit is to find more traffic or get higher freight rates for the traffic we move now. The recent return of wage-cuts will mean four million this year, and eighteen million next year. The cost of all materials is increasing so that something must be done to protect the revenues of these systems, and I believe that the most effective step that could be taken is in the direction of more effective regulation.

I hope during the next few months to discuss this in other parts of Canada and so bring about a better understanding of the need for the bill that was defeated. If I make progress, I may again try the same type of bill in April next year. The fact that the bill was killed in the Senate is rather discouraging, for the Senate does not change very rapidly.

But above all we must keep up a constant study of the problem, and I have no doubt that it can be worked out satisfactorily. I believe its solution lies, not in cutting costs, but by building up traffic and obtaining a reasonable rate for that traffic.