CHAPTER II

THE PROBLEM OF RAILWAY AND HIGHWAY COMPETITION

A problem of Dominion-provincial relationships, to which little attention was paid in the various submissions, but which grew in importance in the judgment of the Commission as it pursued its studies of the financial aspects of these relationships, is that arising from the situation which has been created by the emergence of the highway and the motor vehicle as a highly efficient agency of transportation. The absence of representations on this important matter can only be attributed to failure to look beyond the advantages and benefits of these new forms of competition to their secondary consequences in the field of Dominion and provincial finance. The fact that as matters stand at present there is an almost complete division of jurisdiction has tended to blur considerations of foresighted prudence which might have come into play if these powers had been in a single hand.

The problem stated in its briefest form is that an exclusive transportation system in the Dominion field established by expenditures almost astronomical in character has been effectively challenged by a newer method of transportation falling exclusively—or almost so—within the jurisdiction of the provinces, with a consequent possibility of great and increasing damage to the earlier system. The situation which has developed is that a Dominion Government investment of three billion dollars in railways, together with an investment of considerably over a billion in a privately-owned road, made originally on the assumption that railways would have a monopoly of land transportation, have now to face increasingly dangerous competition which not only divides tonnage but is destructive of the rate structure upon which the railways rely for their revenue. The provinces on their part are confronted by the need of revenue from road traffic sufficient to meet fixed and other charges on an investment already large and likely to increase at a minimum rate of $50 million per year. 1

The problem cannot be approached with any assurance that it can be dealt with successfully without widespread and well-informed recognition that it is one of major importance and that refusal to deal with it or failure in an attempt to deal with it will have consequences, financial and political, dangerous alike to the Dominion and the provinces. Involving as it thus does both the Dominion and the provinces and having within it possibilities of so alarming a character, this question has engaged the most earnest attention of this Commission.

We have been particularly charged with examining the ways in which the cost of government may be increased by overlapping between governments. The most serious case of overlapping, and one which constitutes a menace to the financial solvency and to the economic well-being of Canada, lies in this field of transportation. We do not here allude to the expenditure incidental to the continued existence of two railway systems, for matters within the competence of a single government lie outside our terms of reference. We have in mind the fact that the provinces are now engaged in developing means of transportation which may destroy the possibility of solvent operation of the railways; and also that there is the likelihood that over-investment in transportation facilities which, in the past, through too-lavish provision of railway facilities, imposed so heavy a burden upon the Canadian economy, may be duplicated, perhaps upon an enlarged scale, in the highway development now taking place.

The basic problem is how to assure to the public a national transportation system in which all the parts will function smoothly in their proper sphere so as to furnish the best service at the lowest overall cost. For the purposes of this discussion, however, the rail-motor aspects of the whole problem of transport co-ordination are arbitrarily isolated and dealt with as a separate problem, despite a certain artificiality in this approach.

JURISDICTION OVER TRANSPORTATION

The railways of Canada with inconsiderable exceptions 2 are under the sole control of the federal authority. This condition has been brought about by the earlier exercise by the Dominion of

1 Estimate by Mr. R. A. C. Henry in memorandum prepared for the Commission.

2 Exceptions: The Pacific and Great Eastern in British Columbia, The Temiskaming and Northern Ontario, seven small railways in various parts of Canada, and generally street railways.
its right under the British North America Act to declare works for the general advantage of Canada, and by the gradual merging of the many separate roads that once existed, into two great transcontinental railway systems—the Canadian Pacific and the Canadian National. The ancillary powers over labour which followed upon this exercise of power have also been clearly defined.

The Dominion also appears to be able to exercise exclusive jurisdiction over water transportation by lake, river or canal, except possibly in the case of purely intra-provincial traffic.

Air transportation appears to be exclusively under Dominion jurisdiction.

The method of land transportation alternative to the railways—truck ing and motor transport generally—falls within the jurisdiction of the provinces except with respect to interprovincial and international services. These exceptions do not as yet give the Dominion authority any large measure of control over highway transportation. Except between Quebec and Ontario, interprovincial highway motor services are not on a large scale; and the same remark applies to the volume of international business. These conditions will change with the development of motor traffic, but at present the provinces have almost complete control over highway transportation without protest of the Dominion.

In a bill introduced in the Dominion Parliament by the Minister of Transport in 1937 an attempt to exercise a measure of control over highway transportation was foreshadowed. The measure was not proceeded with, and when it was reintroduced at the 1938 session, this provision was missing for a reason frankly stated by Hon. C. D. Howe, Minister of Transport.

"The bill differs from that of last year in that any attempt to include control of traffic on the highways has been deleted. The difficulty in that connection, of course, is that the government has jurisdiction only at certain points. Our legal officers advise me that we have jurisdiction over trucks passing from one province to another, or crossing the international boundary, or in certain of the Dominion Government parks. It was felt on reconsidering the matter that such jurisdiction as we have is too limited to be particularly effective, under the conditions which prevail in Canada, and in view of the strenuous opposition of the provinces we have decided to delete that feature from the bill this year."* 

These delimitations of control over motor transportation have been accepted with a minimum of questioning; there has been relatively little litigation over matters of jurisdiction. The situation may, however, not be permanent since main motor highways might possibly be brought under Dominion jurisdiction under section 92, subsection 10, of the British North America Act, which provides that local works and undertakings wholly situate within a province may be declared by Parliament to be for the general advantage of Canada or of two or more provinces. By the exercise of the declaratory power, Parliament attained jurisdiction over many railways wholly situated within a province, and over grain elevators. While the term "works" awaits definite judicial definition, there would seem to be no reason why it would not cover highways of the type indicated.

Thus, Hon. Mr. Meighen, while the proposed Transport Act was being considered by the Senate Standing Committee, February 10, 1937, said: "It would not be unreasonable to declare that the Trans-Canada highway was a work for the general advantage of Canada."

The problem which has resulted from the emergence of alternative systems of transportation is to be found wherever there are highways and railways; but there are features about the Canadian situation which make the problem one of exceptional concern to the governments of Canada. There is, for instance, the high railway mileage in relation to population, the result of the multiplication and duplication of railway lines in keeping with policies which commanded strong popular support, and the extent to which this construction represented lavish outlays of public moneys.

The record of the extraordinary development of railways in Canada is set out in detail in Book I of this Report, and only the briefest of references to it is called for here. This record reveals faith in the beneficial effects of railways, and a resulting railway development, without parallel in the world.

In the policies of integration by which it was sought to unify the interests, economic and political, of the diverse geographical units which had been brought together to form the Dominion of Canada, railways held first place. Their construction was encouraged and assisted by the Dominion, the provinces and, in some instances, by municipalities. Indeed, in time it came to be thought that the building of a railway—almost any railway—would create, directly or indirectly, enough wealth to justify the financial risk involved in construction.

* House of Commons Debates, 1938, p. 911. This decision was approved by Right Hon. R. B. Bennett, then Leader of the Opposition; "I cannot but think that the Minister is well advised in not endeavouring to deal with highway transportation, having regard to the difficulties he would encounter because of the fact that it might impinge at so many points upon provincial jurisdictions."
Supplementing its large expenditures for the construction of the first transcontinental railway, the Dominion Government in the year 1882 initiated a policy of offering cash subsidies, at varying rates, for the construction of railways subject to a time limit for the earning of the subsidy; within the next twenty years $26,800,000 were paid out under the provisions of the statute for the construction of local lines in the Eastern Provinces.

It was in this faith that the provinces, despite their meagre sources of revenue and their limited credit, encouraged the building of railways, supplementing those constructed under federal auspices, at first by direct aid, and later by the device of guarantees of bonds. As long ago as 1884, Sir Leonard Tilley, Minister of Finance, in submitting a proposition for readjustment of the subsidies, said that the purpose was to afford "relief to the provinces" from burdens self-imposed, in the matter of furthering railway construction. "Such," said Sir Leonard, "has been the desire on the part of the people in all the provinces to have railway extension, we know that the pressure has been such that these provinces have had, from time to time, to yield to that pressure, until there is scarcely one province that is not embarrassed at this moment, or if not at this moment, that will not be embarrassed when the engagements entered into in the shape of subsidies to roads not yet constructed are met."

Later, in the stimulating atmosphere of what is termed in Book I "The Wheat Boom", the Western Provinces undertook to second the action of the Dominion Government in enabling two additional transcontinental railways to be built by assisting these railway companies to supply themselves with feeder lines by the device of bond guarantees. Confidence that these guarantees involved no risk was universal on the part of the governments that granted them and of the promoters who asked for and obtained them. They meant cheaper money for the railways and no risk for the public; why not then make free use of the magic? The Western Provinces were relieved of contingent liabilities, incurred as a result of following this policy, of $85,874,000.

13 Viewed in the light of present conditions these railway policies, which met with the ardent approval of the Dominion Parliament, the provincial governments and the public generally, appear as rash speculations, entered upon in a spirit of undue optimism. But these enterprises were projected in the pre-War era: and the estimates and predictions upon which they rested were not so divorced from reality as they appear in retrospect. There was justifiable expectation that there would be a continuous growth in traffic and that this traffic would be handled exclusively by the railways. No one saw in the motor vehicle, then beginning precariously to travel the roads built for horse transport, a competitor that, in the course of a few decades, would take from the railways a large and profitable proportion of their business. The Great War, and its aftermath of world disasters in the form of a continuing and intensifying economic war with its accompaniment of closed markets and controlled trade, in due time to breed new wars, lay below the horizon and far beyond the range of man's gloomiest apprehensions. Had the conditions which at the turn of the century seemed to justify the expectations of that day continued, the too-optimistic prophecies of that time could not, it is true, have been fulfilled, but the burden and loss arising from the over-estimation of possibilities would have been carried with no great discomfort. It ought always to be borne in mind in considering these matters that in 1913, the last of the pre-War years, although by that time the losses of too extravagant railway policies had begun to show themselves on the balance sheet, the total outstanding gross debt of the Dominion were given to these same railways, the amounts ranging from $13,000 to $20,000 a mile. In British Columbia guarantees were given in 1910 to the extent of $35,000 a mile for 600 miles for the construction chiefly of the Canadian Northern main line to Vancouver; and in 1914 this guarantee was increased to $40,000 a mile. There were also guarantees to Canadian Northern in 1912 at $35,000 a mile for 296 miles of branch railways. These provinces were only saved from the consequences of their policies by the fact that ultimately the roads for whose construction the guarantees were issued were taken over by the Dominion Government.

Manitoba, $24,330,000; Saskatchewan, $17,004,000; Alberta, $18,394,000; British Columbia, $25,026,000; Ontario was also relieved of a contingent liability of $7,860,000.
of Canada was $483,232,555, a total which seems almost trivial to eyes accustomed to the figures of today.8

The disastrous collapse of ambitious private railway enterprises in the War period, which compelled the intervention of the Dominion in protection both of its financial investment in them and of the general interests of the state, resulted in the creation of the Canadian National Railway system. But it did not induce an attitude of caution toward additions to railway equipment and mileage during the next decade. There was a still unshaken faith in a policy of agricultural expansion in the West, with an accompanying confidence in the willingness of the outside world to buy the products of this expansion.9 This, together with the industrial boom of the twenties, which was interpreted as the beginning of a period of rapidly rising prosperity, encouraged the investment of new capital by the railways.

The Canadian Pacific, in the period 1923-1935, inclusive, made net capital expenditures of $364,009,039. The Canadian National Railways in this period made net capital expenditures of $461,258,000. The combined total was $825 million. Most of this money was spent prior to 1930. The mileage of the Canadian Pacific grew from 13,123 miles in 1923 to 17,222 in 1935 and that of the National Railways from 21,851 to 23,684.

The story of the astonishing growth of railways in Canada is indicated in outline by mileage figures. In 1870 there were 76 miles of railway for every 100,000 of population; by 1901, they had risen to 338; and by 1917, the year of the Drayton-Acworth report, to 469, which represented the peak. In 1936, with a population of 11,028,000, there were 42,552 miles of railway in operation, or 385 miles per 100,000 of population. This is nearly twice the corresponding figure for the United States. Canada, indeed, overhauled the per capita mileage figures of the United States as long ago as 1884, and thereafter in proportion to population ran far ahead of her neighbour in the projection and building of railways.

Public opinion in the twenties showed little uneasiness as to the future of railway transportation. The common view was that there had been undue expansion for which the country would have to pay, but there was no realization of the full seriousness of the situation, nor of the fact that rival forms of transportation were beginning effectively to challenge the railways. This lack of appreciation of the true situation can be explained, no doubt, by the tendency to take the Canadian Pacific rather than the Canadian National as the index of normal railway operations. There was no indication of impending difficulties in the operation of the Canadian Pacific. The net operating income of the Canadian Pacific Railway rose from $37,479,000 in 1923 to $51,694,000 in 1928; an increase which seemed to foreshadow continuing prosperity.

The experience of the depression, however, revealed the realities of the situation in which the railways find themselves. Not only are they burdened by a capital investment of staggering proportions, but on the income side it has been made apparent that their normal sources of revenue have now to be shared with new agencies of transportation which, in certain respects, are destructively competitive. A study of the records shows that this competition has been operating with ever-growing effectiveness since 1920, but the public is only now becoming conscious of the problem for the railways and for the governments of Canada which this condition is creating.

There are various ways in which the effect of this competition upon the railways can be measured. If the industrial production of Canada is plotted on a graph, together with the movement of freight by rail, it will be seen that the rail movement up to 1924 was, on average, about 20 points higher than industrial production. When production increased, the movement of rail freight increased proportionately. But after 1924 these lines rapidly converge. The line of industrial production passes through and above the line of rail freight movement in 1926 and since 1933 there has been an ever widening gap between the two. Today, industrial production stands more than 30 points above the movement of rail freight.10 Told in another way, the volume of rail freight increased about 6 per cent per annum between 1890 and 1920. From 1920 to 1929, a period of great economic expansion, the increase was but 2 per cent per annum. Thus the railways have suffered progressively from competitive methods of transportation (and from greater rationalization of Canadian industry, elimination of cross-shipments and industrial unit self-sufficiency). This competition has come from several agencies—as, for instance, from facilities for shipping provided by the Panama canal which have.

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8 These are the figures given in the Public Accounts published annually by the Dominion Government. The debt of Canada and the provinces on all counts, inclusive of railway obligations as shown in the consolidated statement prepared for this Commission, was $794,269,000.

9 See Terms of Order in Council re Inquiry into Freight Rates, 1926, in previous chapter.

out into transcontinental business and also forced a reduction in transcontinental rates. But our inquiry here is limited to the conditions which are the result of competition between the rail carriers and the comparatively new motor carriers, and the problems it is creating for the governments in Canada.

The astonishing development of the automotive industry can be indicated by a few striking figures. In 1904 there were 535 registered motor vehicles in Canada, all in Ontario; in 1936 they numbered 1,240,124, nearly half in Ontario.

A tabulation of provincial expenditures on motor highways (exclusive of expenditures for rural roads and urban streets and also of $40,000,000 given for highway construction by the Dominion as a relief measure) up to 1937 prepared for the Commission by its research department shows a total outlay of $549,725,000 of which $228,053,000 was spent by Ontario.11

Great as has been the growth in the number of motor vehicles, the development of motor highways has been proportionately more rapid. From 1925 to 1936 motor registrations increased in Canada at the rate of 5 per cent per annum, while the aggregate investment of the provinces in motor highways in the same period grew at the rate of 9·5 per cent per annum.12 These statistics are significant as showing the strength of the public demand for highways to meet not only the present but the developing needs of motor transportation.

What are the effects of this competition on the railways? In what respect does this conflict of interest between railways and highways affect Dominion-provincial relations? Is an arrangement or understanding between the Dominion and the provinces possible which will be mutually advantageous and also of benefit to the general public by providing a national co-ordinated system of transportation which will give maximum service at minimum cost? What are the lines upon which such a readjustment might be made? It is to these questions that we shall now direct our attention.

The public advantages of motor transportation will be discussed later; we here direct attention to some of the consequences to the railways of motor competition. No exact figures of the effect of highway competition on the earnings of the railways are available; but there are reliable estimates which indicate a progressively large percentage of the freight business of the country is going to the trucks. A statement prepared jointly by the railways for the information of the Duff Commission gave three million tons of freight and $24,000,000 in earnings as the share of the trucks in 1930. By 1937 the earnings of all common carrier and private trucks operating over the highways were estimated at $59,503,000 by the Bureau of Research and Development of the Canadian National Railways. In 1930, with motor earnings of $24,000,000, gross railway freight earnings were $322,733,000; in 1937 railway freight rate earnings had fallen to $270,498,000 and motor earnings had risen to $59,503,000. This Commission has been given by its own experts an estimate of an annual loss to the railways from highway competition of from $75,000,000 to $80,000,000 of which $30,000,000 represents lost passenger traffic. These comparative figures are to be borne in mind in any consideration of this question; they are significant as to the nature and seriousness of the problem.13

Trucks have extended the area of water competition in the Great Lakes region to the whole district which can be served by trucks plying from lake ports. There has been a spectacular increase in travel by private motor car. There has been a steady rise in the transport of passengers by buses, threatening electric railways with extinction. A new situation exists. The monopoly of land transportation by the railways is gone, and they are faced with competition not foreseen when the railway structure of Canada was in the process of building.

In competition with motor transport, railways are particularly vulnerable with respect to short hauls and to particular classes of freight. In this last respect motor competition is destructive of the freight rate structure upon which the railways rely for their earnings. The principle upon which railway rates are fixed and the reasons for its application are thus stated in a memorandum prepared for the Commission.

"It was very early found, in the history of rate making, that the charges for transportation could not be apportioned amongst the different articles of freight based solely upon the cost of transporting them severally, even if such cost could be ascertained, because if an attempt were made to base rates entirely on the full operating cost for each particular commodity, or character of service rendered, it would restrict within very narrow limits the commerce in articles whose bulk and weight are large as compared with their value; consequently, the carriage of low-grade commodities for considerable distances would

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11 The Ontario expenditure until the end of 1938 is given as $296,000,340 in the report of the Ontario Commission on Transportation.
12 From material prepared for the use of the Commission and its research staff by Mr. R. A. C. Henry.
13 Ibid.
be prevented, while the rate for carriage of other articles of much greater value would be absurdly low. "The actual difference in the cost of the movement of a carload of silk and a carload of coal is relatively insignificant, compared with the difference in the value of the two carloads and, under any theory of cost of service, the rate on coal would be prohibitive, whereas the silk would not contribute its fair share to the carrier's revenue. Accordingly, it has always been considered not unjust to apportion the whole cost of service on all the articles transported upon a basis which has regard to many considerations."14

Thus the state from the outset gave railways the power to provide themselves with a subsidy for carrying bulk freight at a charge which made little contribution to the overhead cost of the railway by exacting from the shippers of articles of high intrinsic value rates far in excess of the actual cost of transporting the goods. This is popularly called fixing rates "on what the traffic will bear." Railway services could have been supplied on no other basis. To fix rates on the sole basis of cost would mean prohibitive rates for bulky and relatively cheap articles such as fuel, lumber, agricultural products. A country of vast distances such as Canada could not have been developed on any such plan of rate-making. This rate-making by the railways thus presents highway carriers with favourable opportunities, of which they take full advantage, for choosing particular classes of traffic to which high railway rates apply. Convenience and expedition of movement, and less exacting packaging requirements are further trucking advantages which tell heavily against the railways. Motor truck operations compete with railways chiefly in the class of goods designated as the merchandise group. The effect is the undermining, on an ever widening scale, of the basic principles of rate-making, particularly in the short hauls.

Within the area of effective operation motor service has replaced the principle of "what the traffic will bear" by, at best, a charge representing the cost of carriage plus a profit, and often by a bargain rate based upon "what the carrier can get."15

The character of this competition and its effect on Canadian railways were thus stated to the House of Commons by Hon. C. D. Howe, Minister of Transport.16

"We have built up over the years a rate structure which I think we all believe is absolutely essential to the well-being of Canada. The basis of that rate structure is that low-price commodities shall be carried at a low rate, and that the natural products of our country, particularly those of our prairies, shall be carried the great distances to our seaboard at export rates which are undoubtedly the lowest on this continent. I believe Canada has the lowest ton mile rates of any country in the world. To permit our railways to carry these commodities the long distances at exceedingly low rates, it was necessary that the structure provide that the rates on commodities of a greater value and moving shorter distances should be proportionately higher. The rate structure having been built on that basis, the result is that the railroads have been exceedingly vulnerable to competition from motor trucks. These motor trucks are interested only in high-grade commodities, and serious inroads have been made in the tonnage of these commodities carried by the railroads."

It is in this capacity to pick and choose that motor service finds its opportunity to do a profitable business. But it is not an agency that, however it might be extended, could supply a service, on the lines upon which it is operated, at all comparable with that given by the railways. The average cost of moving all freight carried by the railways is one-half cent per ton per mile; on highways the standard rate is about five cents, but the information in the possession of the Commission is that this rate is falling, particularly in Ontario, and that some freight moves by truck at three cents per ton mile. It is thus evident that trucks are usable for only certain kinds of traffic. Railway freight services remain indispensable to the Canadian economy and must be supplied. This is an unchallengeable fact which cannot be overlooked in the consideration of this question.

In an effort to meet this competition in areas where it is particularly effective, the railways have been experimenting with modifications, regional in character, in their rates and services by establishing for less than carload freight "pick-up and delivery"

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14 Ibid.
15 Everywhere this is the effect of motor competition upon one of the main sources of railway revenue. Thus Sir Josiah Stamp (now Lord Stamp), Chairman of the London Midland and Scottish Railway, speaking at the annual meeting of his company, February 27, 1937, complained that "the ability of road hauliers to pick and choose traffic and to change rates and charge without any responsibility for transport as a whole continues to wear down the upper ranges of that railway rate classification on which the industry of the country has been built up."
16 House of Commons Debates, 1938, p. 1658.
rates designed to meet the trucks on their own ground.17

But competition since 1937 has operated remorselessly to undermine this tariff. The railways have been compelled again to reduce their charges. One example is the rate on first class less than carload traffic between Toronto and Montreal. The 1937 rate was 83 cents per hundred, but this has now been reduced to 70 cents on any commodity in lots of 1,000 pounds or over and 60 cents in lots of 5,000 pounds or over, both including free pick-up and delivery. The experience in Central Canada shows that truck competition influences railway rates on railways meet carload competition as it arises by railways have adopted a different method. The railways meet carload competition as it arises by fixing rates as and when competition requires.

The lowering of railway rates in the Central Provinces has lessened the advantages given to Maritime shippers under the Maritime Freight Rates Act which was passed to meet the recommendations of the Duncan Commission, and this has given rise to protests, to appeals to the courts and to representations to this Commission. The effects of these readjustments in the freight rate structure will be felt elsewhere, as was stated in the Brief of the Transportation Commission of the Maritime Board of Trade: “Industries outside the pale of the competitive area are at a distinct disadvantage because of destroyed parities and also because of the conveniences their competitors enjoy through the greater flexibility of truck transportation.”18

The tendency toward equalization of sectional freight rates, noted elsewhere19 is thus being checked and may in effect be reversed. This would be a definite departure from a policy accepted as desirable in the interests of national unity.

Other experimental modifications in the traditional railway freight rate structure are also being made in the hope that the competitive position of the railways will thereby be improved. A provision in the Transport Act of 1938 permits a railway to make an arrangement with a shipper for the transport of all or any part of his goods at “agreed rates” subject to approval by the Board of Transport Commissioners. These rates may be lower than the rates in existing tariffs provided they do not involve “unfair discrimination”. This provision is an adaptation of British railway legislation of 1937. The hope behind it was that by making agreements with a shipper, whereby his shipments would be carried for a stipulated period at a rate reached by negotiations, the railways would be able to protect themselves to a considerable extent against motor competition. In the annual report of the Canadian Pacific Railway for 1938, issued in March 1939, it was announced that appropriate regulations and methods of procedure under the Act were being worked out between the railways and the Board, foreshadowing an effort to take advantage of the provision. By the end of the year four applications providing for “agreed rates” affecting a considerable volume of freight had been negotiated between the railways and shippers and approved by the Board, while two other applications were pending.

These expedients—lowered regional rates, pick-up and delivery facilities, and adoption of “agreed rates”—are expressions of a hope once generally held in railway circles, and still entertained in some measure, that in the long run the superiority of railway services would be established. Those who hold this view foresee higher taxation for the trucks to meet the greater cost of the improved highways that will be required, increasing costs in the operation of trucks, greater railway efficiency and the progressive freeing of the railways in the matter of rate-making. An objective survey of the situation is apt to suggest that these are hopes rather than justified predictions. The question remains whether or not there is to be a continuing “free-for-all” between these competing services with increasing capital outlays in the newer field leading to almost certain over-expansion in the total investment in all transportation.

In dealing with this problem of transportation the prime consideration must be the general public

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17 In the Central Canadian area extending from Windsor to Quebec and north to North Bay and Sault Ste. Marie, the first railway tariff to meet motor competition became effective in 1933. Under pressure of competition, the 1933 tariff had to be changed, and on June 14, 1937, it was superseded by a new tariff. The 1937 tariff made five important changes:

1. The railways gave free pick-up and delivery to and from named stations. The Canadian Pacific, for example, named 140 stations, some of them being towns with less than 1,500 population. This free service is equivalent to a reduction of 10 cents per hundredweight on the normal rate.

2. The packaging rules were made easier and the penalty clauses, in effect, were withdrawn.

3. A special classification was provided which reduced the rate on a wide class of traffic.

4. In a number of commodities, the carload rate was given to “any quantity” shipments, with free pick-up and delivery thrown in.

5. A wide reduction in rates was made.

18 Brief, p. 9.

19 This matter of sectional equalization of freight rates is discussed in the preceding chapter of this section, “Railway Policy As Affecting Freight Rates.”
interest. This interest is not identical, either with
the protection of the older forms of transportation
against newer methods which, in respect of many
commodities, are more convenient, more efficient
and cheaper, or with the subsidization of these
newer methods by artificial advantages supplied
at the public expense. Nor can the general public
interest be identified either with that of the ship-
ners and consumers of heavy and bulky commodi-
ties, who desire to perpetuate a rate structure
affording them low rates, or with that of the
shippers and consumers of those commodities which
have in the past borne rates that absorbed a high
proportion of the overhead costs of the railways
and so made possible the low rates for heavy and
bulky goods.

It must be remembered that when this rate
structure was built up there was no fundamental
clash of interests as between these two classes of
shippers and consumers. There was no deliberate
sacrifice of one set of interests to the other. There
was a union of interests. Both heavy and light
goods received the benefit of lower rates than they
would have had to pay had the other party to
the union been excluded. In a sense, therefore,
the shippers of light and costly goods received
help from the carriage of heavy and bulky goods
on terms which made some contribution, slight
though it sometimes may have been, to the over-
head costs of the railways. The aid which the
railways received from the state was thus extended
to all shippers and to all consumers. The vital
element in the transportation problem today is
that conditions have arisen which destroy this
union of interests so that a once happy marriage
faces dissolution. As in all divorces the imme-
diate interests of the parties may have to be sub-
ordinated in some degree to the general public
interest. But it is peculiarly difficult to say where
this general public interest lies.

This Commission is not the body which must
define this general public interest. It is concerned
rather with the question of where it is desirable
that the responsibility for defining this interest
and the power to give effect to it should lie. A
decision must be reached in Canada as to the
adjustments to be made between various competing
interests, all subject to the idea of a general public
interest which includes them all. The shippers and
consumers of heavy and bulky commodities are
of great importance in the Canadian economy and
a rate structure which curtailed the movement of
these goods would involve a most serious disloca-
tion of that economy. The shippers and consumers
of light and costly goods naturally feel that they
are entitled to the advantages which new and more
efficient forms of transportation might afford them
and that it would be outrageous to require them
to continue to buy their transportation facilities
in indissoluble partnership with others whose inter-
est no longer coincide with theirs. Taxpayers are,
presumably, reluctant to assume the enormous
burden which may be involved in subsidizing
(directly, or indirectly through meeting railway
deficits) the movement of heavy and bulky com-
omdities. Taxpayers ought certainly to be spared
the misfortune, which may easily arise from the
present system of divided jurisdiction, of having
to subsidize both classes of shipper and con-
sumer—by absorbing railway deficits through the
Dominion treasury, and providing roads at the
public expense through provincial treasuries.

In a general way it is easy to say, and hard to
deny, that the situation is one which calls for
gradual adjustment based on intelligent and gener-
ous compromise. The form of compromise cannot
be predicted with any precision. Presumably what
would be aimed at would be a revision of the rate
structures both of railways and of highway carriers,
ethe effect of which would be to divide traffic
between them so that the railways would be kept
from bankruptcy, while shippers and consumers of
goods likely to move by road would make some
sacrifice during the period of adjustment. At the
same time (as will be explained later) the taxa-
tion of trucks might be put on a basis that would
protect their competitors against any danger of
subsidized competition.

With this idea in mind the possible allocations
of jurisdiction may be briefly reviewed. Exclusive
jurisdiction by the Dominion would concentrate
power and responsibility. But (as will appear when
conditions in Great Britain are examined) even a
single omnipotent authority may find the trans-
portation problem extremely difficult. In Canada
(as a comparison with American conditions will
show) it would not be easy to regulate transporta-
tion in the national interest without frequent inter-
ference in matters of vital provincial interest.

In a sense the roads pay for themselves if the provincial
taxes on automobiles and gasoline can be regarded as earmarked
for road construction and maintenance. But, even on this favour-
able hypothesis, the operators of commercial vehicles are heavily
subsidized at the expense of private users. This somewhat fanciful
partnership has points of resemblance with that between the
shippers of heavy commodities and the shippers of light com-
omodities in the case of rail transportation. If this is not too
fanciful an idea the jackal of the railway partnership has
developed into the lion of the road partnership.
Concurrent jurisdiction by the Dominion and the provinces would avoid the evil of debarring a province from dealing on its own initiative with matters of urgency. But it would expose provinces to constant danger of reversal of their policies by the Dominion and this danger would be particularly serious in view of the large capital investment involved in road construction.

The present division of powers may easily lead to chaos, unless the policies of the Dominion and the provinces can be co-ordinated. But, given a disposition on the part of the various governments to co-ordinate their controls over transportation and their financial aid, so as to leave to each type of transport a chance to perform on remunerative terms those classes of service which it is best adapted to perform, the Canadian transportation problem may not be insoluble.

The Commission, while it can make no specific recommendation as to the lines which governmental action should take, feels that it can usefully stress the seriousness and urgency of the problem, illustrate some of the difficulties which must be faced, and make some suggestion as to the possible methods of securing co-operation between the Dominion and the provinces in framing a co-ordinated national transportation system, either on the basis of the present distribution of legislative powers or of some modification of it. It will, however, be useful to discuss first British and American experience.