Research and Public Policy Issues: Some Canadian Comparisons

F. W. ANDERSON

UNIVERSITY OF SASKATCHEWAN

Canadians have always observed American affairs with interest, enthusiasm, or alarm. While the sheer size of the American nation and what we regard as the complexities of its institutional systems make it difficult for us correctly to categorize all the developments in our powerful neighbor, nevertheless the orientation of our interest is predominantly southward. Our interest continues to be whetted by news of what appear to be significant advances in your economic, political, or social progress, even as it is piqued by your problems.

Anyone who undertakes a critique of a situation which has become unstable through general dissatisfaction runs the risk of seeing the problem he is examining solved between the preparation and delivery of remarks, should the inertia of the political system be overcome and action taken. It is entirely possible that this may happen in this instance. General dissatisfaction with transportation policies in Canada has grown to such an extent, beginning first with railway policy and spreading rapidly to other transportation policies, that pressure has grown on all sides upon the federal government. Policy action has been promised during the present sitting of the federal Parliament.

The rising tide of interest in transportation policies evident on both sides of our border is an indication of similar dissatisfaction with outmoded policies. Yet it does not follow that comparable types of policies have been in existence in the two countries throughout the past century. Coincidently, rising dissatisfaction in the United States and Canada with transportation policies does not mean that the policies are similar. I take it as the main purpose of this paper, not to draw a comparison between the policies of the two nations but, more simply, to set out in a broad framework the nature of the policies which have existed in Canada and the extent to which they have failed to meet the demands of the nation for a modern transportation system.

Governmental acknowledgment of policy dissatisfaction takes a course in Canada different from that in the United States. When a problem becomes acute enough, the technique of the Royal Commission is invoked. Following this technique, an attempt is made to set out the problem and a group of commissioners is appointed to gather a staff, hear evidence, and propose solutions. The parties that appear before a Royal Commission present their briefs, and eventually their argument, and the Commission then prepares a report of recommendations for the consideration of the government. The government accepts or rejects the recommendations as it sees fit, and the proposed policy changes are introduced into the legislature where debate takes place. In matters of transportation, this process has been undertaken at least three times by federal Royal Commissions since the end of World War II. In addition, there have been numerous special and provincial inquiries into particular aspects of transportation problems. Certain remedial legislation was offered following the reports of the first two federal Royal Commissions, but the basic problems continued, and general dissatisfaction grew. In order to present the nature of these basic problems faced by the most recent Royal Commission, appointed in 1959, some historical recapitulation is necessary.

Transportation in National Policy in Canada

In many aspects of the political life of a nation one could agree with Edmund Burke that we read principles into history only after the event. But the first sixty-year period of Canadian nationhood is a notable exception. Before the Confederation, during its negotiations, and for at least sixty years following the passage of the British North America Act in 1867, policy on a broad scale, policy with principles easily discernible, characterized the national growth. The measure of success was not due entirely to the policy; good fortune and world affairs contributed to economic growth. But without some such policy, the economic growth would most likely not have occurred within the framework of a Canadian nation. The contention that Canada is economically and logically bound with the continental United States would have been demonstrated before the end of the nineteenth century, if the advent of the steam railway had not enabled an otherwise inexorable economic pull to be resisted.

Canadian developmental policies have always embraced transportation policies. The transportation policies of the Dominion after 1867 merely intensified and extended the policies of the pre-Confederation colonies, with emphasis more particularly upon railways than upon other modes.

The colonial provincial governments of British North America before Confederation had built certain main highways as public works. Toll roads were little used and private turnpike companies were unknown.

The Canadian and Imperial governments built nearly all the canals of the St. Lawrence system as public works. Those, like the first Welland Canal, which were built by private companies, received help from government and were without exception taken over as public works. The magnitude of these works and the lack of adequate private capital made state action necessary and inevitable. Military needs often reinforced the need for state action.

The same considerations applied in a varying degree to railway construction, ownership, and operation. As in the United Kingdom, public opinion and government policy at the beginning of the railway age were divided as to whether railways should be built and operated as public works or as private enterprises. In Canada, because of the size of the country, the sparce population, the lack of private capital, and the imperative need of improved communications to develop the country, the decision was rarely or wholly in favor of outright private construction, ownership, and operation. Private enterprise seldom proceeded without state aid in one form or another. Thus, after the prolonged discussion between 1846 and 1862 on the construction of the Intercolonial Railway to link the St. Lawrence region with the Atlantic provinces, all assumed that the political and military considerations governing the construction of the railway would see it progress as a public work. The construction of the Grand Trunk Railway to parallel the canal system of the St. Lawrence is an outstanding example of how Canadian government, before Confederation, aided the construction and operation of railways by private companies to a degree which exceeded the help given railways in the United Kingdom and even the United States. The company was given a bonus of £3,000 a mile, about one-third the cost of construction, and government support was extended in other ways. When the Grand Trunk Railway encountered early financial difficulties, guarantee of a new bond issue was made in 1855. In 1856, a further guarantee followed and an outright grant was voted; further aid was given in 1857.[1]

[1] A. W. Currie, *The Grand Trunk Railway of Canada*, University of Toronto Press, 1957, Chaps. 1 and 2.

The construction of the Grand Trunk was an act of provincial policy, designed to give Montreal a share in the trade of the American Middle West and a winter port in Maine by meeting the competition of American railways and canals.

The Pacific railway was not less necessary, but it was an even more complex and enormous undertaking. The acquisition of Rupert's Land and union with British Columbia had to be first negotiated. Then the incomparably longest railway of its time had to be built over some of the most difficult terrain on the continent. Manitoba entered the Confederation on the understanding that a railway would be built to connect it with the outside world. Its public lands, purchased from the Hudson's Bay Company in 1870, were to be "administered by the government of Canada for the purposes of the Dominion." Of these "purposes of the Dominion," two transcended all others—railways and settlement. Those public lands were to provide the railways which would link the scattered regions of the Dominion and were to encourage the settlement, which would in turn support the railways and give stimulus to the older regions. In 1929, sixty-two years after Confederation, it was officially declared these "purposes of the Dominion" had been fulfilled, and the process of returning the remaining public lands to the prairie provinces began.[2] When British Columbia entered the Dominion in 1871, the terms of union required the national government to begin a railway to the Pacific within two years and to complete it in ten—that is, by 1873 and 1883, respectively. Railway construction was thus an integral part of national union and national expansion.

The decision to utilize railways to create and bind the nation carried with it the decision to utilize all-Canadian routes. The railway policy evolved before Confederation was designed to create a railway system, paralleling the water system, to penetrate the heart of the American hinterland. While there is no evidence that this pre-Confederation policy was to be abandoned, it was definitely relegated to second place. The Grand Trunk Railway finally gained access to Chicago in 1880. Since that time, the St. Lawrence canals have been continuously improved and deepened. But the construction of a transcontinental railway system implied that the means of access from eastern Canada to the prairies and the Pacific coast should be contained entirely within Canadian borders. This decision meant that the costs of construction were increased, and that a much larger participation by government would be necessary. In the budget speech of Samuel Leonard Tilley

[2] Chester Martin, "Dominion Lands Policy," *Canadian Frontiers of Settlement*, Vol. II, Toronto, 1938, pp. 223–228.

on April 1, 1873, some indication of the hopes for this new policy are revealed. In justifying the proposal of ambitious expenditures of $10 million on the Intercolonial Railway, $30 million on the Pacific railway, and $20 million on canals, he referred to the great benefits which would come to all parts of the Dominion as a result of these national investments. The construction of these great facilities was intended to have a stimulating effect upon all the established centers in central Canada and the Atlantic provinces, and the increase in trade was intended to yield tax revenues to the Dominion. The Dominion government confidently expected to recoup its investment in transportation.

Certain other national policies inevitably followed from this decision to capture and settle the western lands for Canada by the establishment of all-Canadian transportation routes. For trade to move through the channels constructed by massive public assistance, Canadian railroads required some degree of monopoly, or imports and exports would be free to move from the more settled portions of the United States across the border into the Canadian frontier. So, the third national policy of development, the promotion of industrialization by protective tariff, was established in 1879. The tariff wall, in conjunction with railway rates, was designed to assure effectively that trade would move east and west to and from the more populous centers of central Canada, and to Canadian river and sea ports. Thus it was intended that, by heavy public investment, the Canadian nation would obtain a viable economic place, and the necessarily great investment would be recovered through the expanding volume of imports and exports of the growing nation.

Public Concern with Railway Pricing

The task of railway construction was far more imperative in the first generation of railway building than were the rates the railways might charge when in operation. Furthermore, the economic philosophy of the day led to the assumption that competition would protect the interests both of the general public and of private persons. Obviously, until additional railways could be built by other companies, such competition was not present. Even after additional railway schemes were promoted with varying degrees of public support, it became obvious that competition between railways was not pervasive enough to protect the shipper. Other modes of transport to insure equitable treatment through intermodal competition were unavailable in many sections of the country.

When public complaints began in the 1870's, the Canadian government, under the British North American Act of 1867, had full jurisdiction over interprovincial railways. The right of Parliament to limit or regulate rates charged by railways was never in doubt; as the creator and benefactor, certain presumptions of control were expected. In addition, the current doctrine of public responsibility attaching to common carriers gave residual and remedial powers to government. Federal statute in 1879 gave power to the government to limit rates when railway dividends exceeded 15 per cent of capital expended on construction. In 1881, when the Parliament of Canada chartered the Canadian Pacific Railway, that principle was extended to permit rate control if dividends of 10 per cent on capital expended were exceeded.

The principle of public regulation, important as it was, could not alone create a national policy of rate regulation. Because of the lack of water competition in western Canada, rates were generally higher there than in central Canada, and the imposition of the tariff policy after 1879 prevented the most settled portion of the prairies, the Province of Manitoba, from enjoying the benefits of competition it might have had from U.S. railroads. The tariff operated to diminish the flow of goods northward from the United States and thus diminished the competitive capacity of American railroads to haul exports from Manitoba. The general effect was to make the prairie provinces an area in which Canadian railways were sheltered from the competition of American railroads.

Until 1888, the Canadian Pacific Railway had an effective monopoly of railway transportation in western Canada due to a guarantee in its charter that no other railway would be permitted between its main line and the American boundary. The withdrawal of this monopoly clause in 1888 allowed the entry of the Northern Pacific Railway to Manitoba, but its competition was restrained and forced only slight reductions of rates.[3]

It was not until 1897 that national policy sought a means of modifying the monopoly position of the railways in western Canada and of reducing the disparity between rates charged in central and western Canada. In that year, the first statutory limitation was placed upon certain railway rates in an *ad hoc* attempt to control the prices of railway services in an area where other modes of transportation were lacking.

The circumstances surrounding the introduction of that measure need not concern us here in detail. It is sufficient to recall that the federal government, in return for a cash subsidy and a land grant to

[3] G. P. Glazebrook, *A History of Transportation in Canada*, New Haven, 1928, p. 309.

enable the Canadian Pacific Railway to build a line through the Crows' Nest Pass in southern British Columbia to the rich mining area in the Kootenay Mountains, required the railway to reduce its rates on specified commodities moving to Western Canada and on grain and flour moving east for export. Those statutory rates were the first and fundamental attempt to achieve a national policy of minimizing differentials in freight rates in the interregional and export trade of Canada. The rates on commodities moving to the west have long since been released from statutory limitations, but the rates on grain and grain products moving to export positions from western Canada have remained the same since 1897, with the exception of a few years following World War I. That exception was brought to an end with the re-establishment of the statutory rates, about the same time that the second national attempt was made to devise a transportation policy to mitigate the disadvantages of great distances from the more outlying sections of Canada to its center.

In 1927, as a result of agitation from the Maritime Provinces of Canada and after examination by a Royal Commission, the Parliament passed the Maritime Freight Rates Act. Since the economic welfare of the Maritime regions did not depend upon any single staple product, as the western prairies did, no attempt was made to fix statutory rates on specific commodities. Rather, a new device was introduced. The federal government undertook to pay 20 per cent of the railway freight charges on commodities moving within the "select" territory, either point to point, or from points to the western boundary of the territory. The Act did not extend its benefits to goods imported from overseas through Maritime ports or to goods moving into the select territory from central Canada. In spite of the fact that the Maritime area has accessible water transportation, the Act reduced only railway freight charges. Since 1957, the rate reduction has been 30 per cent on the select-territory portion of outbound rail shipments to other parts of Canada. This further rate reduction has not been incorporated into the Maritime Freight Rates Act, but has been authorized by annual vote of Parliament.

The third major component of national policy in transportation is relatively new. It is highly significant, and indicative of the failure of the older policies to adjust to a new situation, that the third policy was not introduced until 1951, long after the emergence of highway transportation as a complicating factor in the provision of rail transportation.

Following World War II, increasing complaints of regional inequities in railway freight rates caused the establishment of a Royal

Commission in 1949. Faced with mounting costs of railway operation and loss of much lucrative traffic to intercity highway operators, the railways had sought and received permission to apply a number of "horizontal" percentage increases to traffic considered able to bear them. Basing its analysis and recommendation upon the well-established principle of national responsibility for assuming part of the costs ascribable to overcoming long distances in transportation, the 1951 Royal Commission made the following comment:

> Various submissions were made to the commission as to steps which ought to be taken to lessen the burden of freight rates for the western provinces whose geographic location necessitates a haul of traffic inwards and outwards over a long stretch of unproductive or only partly productive territory.[4]

The territory referred to was the long stretch of railway through northern Ontario. The recommendation was that "the cost of maintaining that portion of our transcontinental railway system which serves as a link or bridge between east and west be charged upon the general revenues of the country."[5] Such a step was expected to "be particularly effective as a measure of relief in the case of charges on westbound traffic passing over this bridge."[6] The recommendation was approved by the government and a bill to amend the Railway Act was introduced in Parliament in 1951. This act, known as the Freight Rates Reduction Act, but popularly as the "bridge" subsidy, provided among other things for an annual payment of $7 million to the transcontinental railways to cover the cost of maintaining the "bridge." The act clearly set out the method by which the $7 million was to be apportioned between the two transcontinental railways, but it did not establish the method by which it should be applied toward reduction of freight rates. It was left to the Board of Transport Commissioners for Canada to work out the formula.

From time to time, there have been other special provisions from the public treasury for assistance to the movement of certain classes of commodities within Canada. But the principles implicit in the three main pillars of transportation policy are the bases from which policy issues today arise. Each of the three, Statutory Grain Rates, Maritimes Freight Rates Act, and the Freight Rates Reduction Act, although separated by over half a century, are logical only if a railway enjoys a monopoly in overland transport and if, as a monopoly, needs restraint, is able to recoup possible losses from other traffic, and can be used as a

[4] *Report of the Royal Commission on Transportation*, Ottawa, 1951, p. 253.
[5] *Ibid.*
[6] *Ibid.* p. 254.

vehicle to pass on public assistance to shippers. If any or all of these conditions do not hold, then in one measure or another, the policies misallocate resources, distort market demands for transport, or fail to ensure benefit where it is intended.

The Search for Transport Policy

In the Canadian past, great national aspirations were reflected in national policy, of which transportation policy was a part. At no time was it discernible that careful economic criteria were the parameters of transportation policy. Transportation, which meant primarily railway transportation, was intended to serve the national interest and, in so doing, was expected to be extensively endowed by the public purse in capital construction and protected sufficiently to see the private investor adequately rewarded. Imperfectly as it might appear in terms of an economic analysis, the transportation function was well defined in relation to national policy.

The forms of public investment in a multimode transportation environment are so diverse, and the intermodal effects of it so implicating, that transportation policy has shifted its focus and, in shifting, has become blurred. Rather than designating the function of transport, policy has been turned inward until it has become a series of expedients for permitting each mode to live regardless of the effects upon the adequate total provision of transport service. Each mode has its voice, and each voice seeks to achieve a better competitive posture in the face of other modes. Public policy recommendations in Canada, since 1949 at least, have been based on studies initiated by the breakdown of the older identification of transportation with railways, and have been aggravated by special interests. The definition of special interest in this context ranges from proximate administrative necessity to resolve special problems created by the failure of policy to keep abreast of technology, through vested public and private interest in the regulatory *status quo*. Between these limits are set the terms of reference for specific research, which means that research begins with its broad directions predetermined. These factors have been determining because study at a more fundamental level to define a simple standard of national interest in transportation is lacking. The continuing collection of pertinent data is inadequate, and there is insufficient basic research on the economically strategic aspects of industry, on regional structure, economic behavior, organization, and interrelationships. These failures leave transport-policy studies disoriented to the present and continuing needs for transport services in the economy and, therefore, defenseless against special interests. Unless and until a long-range and far-ranging program of study receives legislative and public support, any attempts to rationalize the transport functions must inevitably be limited in scope, and be in the nature of palliatives to meet emergent shorter-run crises.

The economic and political shape of Canada, the constitutional forms, and the distinct development of national policy may superficially obscure the relevance of American problems to the Canadian situation. But the similarity is real. The smaller size of the economy and the parliamentary system of government do help us to focus attention on economic problems with which transportation is closely associated. But, at least until recently, the legacy of past policy has successfully kept Canadians from isolating the symptoms from the real causes. The transportation requirements of technological progress in industry, growing regional diversification, and changing consumption patterns have been met by adding to the total private and public investment in transportation, without sufficient consideration of the total transport needs, and without sufficient concern for the changed environment in which regulation operates. As each new mode appeared, *ad hoc* regulatory arrangements have been set up without regard for the inevitable impacts upon other modes. In response to regional and national demands, new investments of significant magnitudes have been undertaken without regard to the need for a policy which defines the roles of each mode, and without policy adjustments suited to changing roles.

Constitutionally, in Canada, regulation of all modes of transport are, or can be, concentrated at the federal level, either totally or for interprovincial segments. In practice, all modes except highway transport are federally controlled in varying degrees. This has not brought the uniformity which might logically have been expected in a relatively simple economy. So far as experience shows, there is no coordination of regulation or of policy between numerous federal authorities separately charged with transport responsibilities. Theoretically, such coordination and responsibility for policy coalesce in the federal Cabinet which, under the parliamentary system, is responsible to the Legislature. The evidence is that the Canadian system has been no more successful than the American has been in achieving unity of outlook. Even after a generation of intermodal competition, the most recent Royal Commission set up by the federal legislature was directed to investigate railway transport problems and to seek solutions to the many regional complaints, solely within the framework of railway operations. Fortunately the Commissioners interpreted their terms of reference more broadly.

Canadian Royal Commission reports on transportation, like similar investigations in the United States, have been accused of being pro-railway. This is true of the most recent report. That it appears so is purely an accident of history: the only form of overland transport available at the time the Canadian nation set its course was the railway. Consequently, transportation policy was almost entirely railway policy. The close association of railways and politics throughout our history still leads many Canadians to believe in the continuing political and economic influence of railways. The sheer size of our two railway systems gives some validity to this conviction, but it distorts public objectivity. Canadians have not yet realized that the wealth, size, and number of interests vested in other modes make them politically more powerful, considerably more vocal and, in some cases, create interests more vested in the *status quo* than those of the railways.

To the casual reader, or to one whose assumptions respecting the relative and relevant role of each mode of transport in Canada are biased by special interest or failure to allow for the rapid pace of change, the report of the most recent Royal Commission on Transportation is very little different from any other. Set up at a time when transportation was the most vexatious of all domestic problems in Canada, its purpose was interpreted by many as solely to find a solution to rising freight rates without public subsidy, without substantial restriction on the freedom of competition, and without withdrawing every Canadian's inherent right to regular and frequent rail service. Now, two years after the substantive report, the national anguish over transportation problems seems to have subsided. And, as yet, no part of the recommendations has been implemented.

I am convinced that, in spite of the prejudicial circumstances which surround research into policy, the Report of the Royal Commission on Transportation succeeded in reaching down toward some understanding of basic transportation functions in a multimode environment. Short-term solutions had to be found, and I believe they were found, consistent with the longer-term assessments. The Commission recognized the changed role of rail transport, and the redefinition inevitably implied definition of some other roles. It recognized the fact of competition and that public investment is the single largest determinant of the degree of competition. The Commission recognized and attempted to illustrate structural differences in various segments of the transport industry and suggested the nature and extent of regulation in keeping with those differences. It divested itself of any suggestion that the purpose of policy is to keep any segment of the industry alive, save for clear and evident nontransport purposes, and further suggested that the costs of those purposes are a national burden. Furthermore, it had the humility to say that no single investigation could hope to solve permanently the problems associated with a dynamic and unpredictable industry serving a growing nation, and it proposed continued research. It had the foresight to see the limitations to continued study without adequate universal data, and without the relevant cost data collected and collated in a manner useful for increasingly sophisticated costing processes. Finally, the Commission embarked timidly into the federal constitutional problems associated with coordination in public policy, but could only recognize the necessity of federal leadership.

In any nation, the allocation of resources in transportation cannot be determined at less than the national level, although not necessarily exclusively there. Coordination of public investment or, at the very least, full knowledge of public investment plans in transport is absolutely essential. The resolution of issues of public policy today must begin with some attempt at their definition, some understanding of the quantitative significance of the issues, some study of the effects of past and projected policy enactments, some assessment of the impacts of public investment. In the modern idiom these are all embraced in the word "research."

Research regards its tasks as essentially nonnormative preparation for policy decisions. Canadian experience in transportation policy decisions does nothing to encourage such an attitude. The reverse is often apparent: some special regional or interest groups are convinced that policy decisions are justified on the grounds of special need, and that the sum of "good" enactments must be the larger good. This fallacy of composition and reliance on the doctrine of the invisible hand applied to public policy is far from dead in Canadian transportation.

No one dealing with policy questions is naive enough to believe it will ever really be otherwise. The great lack in Canada has been the refusal of policy makers to see the need for larger examination of transportation problems on a continuing basis. This failure is the more regrettable, because there is no serious constitutional limitation to the creation of an impartial and continuing research group removed from the daily administrative decisions requiring study. Instead, there has been a multiplication of administrative branches and boards, each charged with regulation of one mode or one aspect of one mode, in an excessive growth of departmental rigidity, to the detriment of the cabinet system of government. With the growth of heavy federal financial responsibility in the past twenty-five years, a perfect rationale exists for creation of a research group to examine the needs, size, and impact of public investment in transportation in the light of national policies of growth and development. It would place in the hands of policy makers an improved defense against importunate regional or special demands, and provide at least one rational basis for positive national policy decisions.

From a study of transportation investment—past, present, future—almost every other aspect of the whole transportation problem would open up. An explicit recognition that public investment is the single largest determinant of the degree of competition within the whole industry is invaluable in assessing the validity of competitive pleas from various segments of the industry for public help or pleas to equate somehow the flow of public bounty between modes.

Early in December, 1963, the first statement of legislative intention was given to the present federal Parliament. The statement indicated that this government, which is not the one which set up the most recent federal investigation into transportation problems, is going to attempt to find solutions without the establishment of a research group for continuing investigation over all modes. The closest intention is to exert considerable effort toward dismantling some of the railway plant that is excessive by means which will cause the least economic disturbance. This, like some other recommendations of the Royal Commission, is useful, but it does not get down to the basic issue of the role of each of the modes of transportation in the national policy of development. Until that is at least begun, disputatious public policy issues in transportation will continue to be met by intuitive response to special pressures, inaccurate assessment of competitive realities, inept and contradictory *ad hoc* measures which will surely be fuel for future burning issues.