

**THE ROAD AND RAIL
TRANSPORT PROBLEM**

**BRIG.-GENERAL
SIR H. OSBORNE MANCE**

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BY

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LEAGUE OF NATIONS
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TO THE INTERNATIONAL CHAMBER OF COMMERCE**

WITH AN INTRODUCTION

BY

SIR ARTHUR SALTER, K.C.B.



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**TO MY COLLEAGUES
ON THE
ROAD AND RAIL COMMITTEE
OF
INDEPENDENT EXPERTS TO THE INTERNATIONAL
CHAMBER OF COMMERCE**

INTRODUCTION

I FEEL at once honoured and embarrassed by the invitation to contribute an Introduction to Sir Osborne Mance's book on the Road and Rail Transport Problem. His experience and qualifications in regard to all questions of land transport are so incomparably superior to my own. In South Africa, in East Africa, in Germany, in Austria, as well as in this country, he has borne direct and personal responsibility. As adviser to the British Peace Delegation, the Supreme Economic Council, the Court of International Justice and the League of Nations, and member of numerous international Conferences, he has studied the international aspects of transport, and as technical adviser to the Ottoman Bank he has studied their financial aspects. The mantle of Sir William Acworth has fallen on him.

Only a small part of my own administrative experience has been concerned with transport, and the greater part of that has been with sea, not land, transport. I have, however, seen enough of the latter to realize the difficulties of the subject of which Sir Osborne Mance treats in this book, and have been in enough Conferences with him to appreciate his unique qualifications. I remember coming back from Paris with him shortly after the last war. We travelled with great comfort by sea, and extreme discomfort by land, and I remarked chaffingly "I think my ships have scored over your railways." To which he at once replied, in one of the best retorts I've ever heard, "Yes, but God made your permanent way." I was to learn later, when I was Chairman of the Road-Rail Conference in 1932, how basic a factor this is in the whole controversy. Railways provide their own tracks, which are used by no other form of traffic. Motor transport uses roads provided for general public use by public authorities. It is, however, subject to special taxation. What rates of taxation, on the vehicle and on petrol, would be appropriate in these circumstances?

Similarly, railways work under statutory restrictions as to their tariffs and have uniform conditions as to wages and hours. What corresponding arrangements should be made for road transport? These were the immediate questions presented to my Conference, which was able to reach unanimous recommendations upon both. But underlying them was the real problem of the right division of function. What kind of goods between what destinations would be most economically carried by rail and by road respectively? It should be possible to obtain a scientific answer with the aid of appropriate research. But knowledge itself will not secure the desired result if different interests are involved, for both railways and road will try to get classes of traffic which, on any scientific allocation, would go to the other. On the other hand, if a monopoly were established, the consumer would encounter all the dangers against which he finds that competition is his best safeguard, and a principal stimulus to increasing efficiency would be removed.

What is the answer to this enigma? I have long cherished the idea that it would best be found in a financial amalgamation of the railways and the main road services, combined with freedom for businesses requiring transport to run their own vehicles. It would then be to the interest of the combined road-rail monopoly to allot traffic between rail and road on the most scientific basis and, with the economies so secured, to prove to the great businesses requiring transport that it would pay them to resort to the public service rather than use their own lorries. Thus, in principle, the advantages of monopoly and competition would both be secured. Sir Osborne Mance, after an exhaustive analysis of the whole problem, has shown the difficulties which would result from complete freedom for such "ancillary" transport, and undoubtedly *some* limitations would be necessary. I am still inclined, however, to think that the solution may be found along this line. In the meantime, Sir Osborne Mance has made an invaluable contribution, alike in his exhaustive analysis of the factors of the problem, his record of the

experience of other countries and in his own proposals, to one of the most important of the novel problems of our day. }

It is a novel problem, for the advent of the internal combustion engine as an economic, social and military factor of the first importance is a phenomenon of this century and of the present generation. The art of war, the basis of our economy, our social habits, the distribution of population and the location of industry have all been transformed by one of the three or four most important inventions in the history of civilized man. If we calculate the horse-power of the motor traffic now on our roads we shall see that, within the space of a few years, the internal combustion engine has placed a mechanized horse at the service of each man and woman in the country for the conveyance of themselves and their goods.

We are at present concerned more urgently with a problem which this same invention has presented to us in another sphere. The aeroplane, which it has made possible, is the principal menace to the insulated security in which we have hitherto been able to work out our economic and social evolution. But when the military struggle is over, and we can once more view our problems in a peace perspective, the one which Sir Osborne Mance has here discussed with such skill and knowledge will again resume its importance and its interest.



15th February, 1940

PREFACE

THE road and rail problem emerged immediately after the Great War; its magnitude and the rapidity with which it would demand solution were not, and perhaps could not be, fully appreciated; yet for nearly twenty years it has been the subject of constant argument and discussion among the transport interests themselves, has claimed the long-continued attention of three advisory bodies—the Royal Commission, the Salter Conference, and the Transport Advisory Council—and has occupied much Parliamentary time. Most of what has been done has been necessary and useful, but has not reached the heart of the problem of road and rail co-ordination. In this we in this country are not alone, as the problem has not yet been completely solved in any country.

Transport is a vital public service, and the road-rail question cannot be left to solve itself regardless of the interests of the community. The problem is complex, but the main difficulties have lain in the inability of the interests concerned to examine the matter objectively, the general reluctance even to consider measures which might involve a complete or notable departure from long-established practice and, in the background, the hesitation of Governments where so many voters are concerned. It has been evident for years that the resulting failure to reach a successful solution based on a long-range policy has led to a progressive deterioration of the situation, which can only be rectified at increasing cost to road and rail transport undertakings, to the taxpayer and the user, though certain classes of user may have temporarily benefited.

Much has been written on the subject, mostly on current aspects of the problem, but there is a lack of a concise objective exposé of the main issues at stake such as might be useful to those wishing to find some key to the present complicated

situation arising out of the "Square Deal" Report. I have, therefore, ventured to try and supply such a key. In doing so I have borrowed freely from my previous contributions before the Institute of Transport and other Societies, to *Modern Transport* and other papers, from memoranda prepared for the Committee of Independent Experts of the International Chamber of Commerce, from the Report of that Committee, and from my Report on the Co-ordination of Transport in East Africa. The fact of my being able to do so in a book which aspires to be up to date encourages me to think that my previous work has been on permanently sound lines, and has led by gradual development to the suggestions I shall have occasion to make. While any book on the road and rail question appearing at the present time must deal with certain aspects of transient interest, the ultimate object of this work is to provide an exposé on the more lasting aspects of the problem. It is hoped that the book will be useful, not only to transport executives and students and to the transport user but also to the taxpayer whose long-range interests have not hitherto received the consideration due to them.

In my endeavour to achieve this object, I have divided the book into two parts. The first eleven chapters are devoted to an economic exposé of the problem and to an account of the experience in certain countries, both of which are intended to be entirely objective. The remaining chapters, which are admittedly controversial, contain a critical analysis in the light of the preceding chapters of the proposals which have been made to solve the problem in this country, and suggestions as to the policy which might be adopted.

It is hoped that even in retrospect these chapters dealing with the current situation will hold their lessons—possibly at the expense of the writer who dares to venture on short-term prophecy.

The road and rail problem affects both passenger and goods traffic. As, however, the passenger side is comparatively simple, I have to a large extent concentrated on the

more difficult goods side of the problem to avoid complication, though the underlying principles apply equally to passenger transport.

I desire gratefully to acknowledge the assistance which I have received from many quarters and in particular, as regards the checking of the parts relating to road and rail developments in other countries, from Staatssekretär F. Kleinmann for Germany, on the basis of a translation by Dr. K. Hardt—one more example of the unfailing help I have always received from this quarter; for France from Monsieur L. Delanney, Head of the Transport Department of the International Chamber of Commerce, whose wide and detailed knowledge of the subject and unsparing willingness to help have alone made it possible for me to attempt perhaps the most complicated chapter in this book; for the U.S.A. from Dr. L. Homberger, of the American University Graduate School, Washington; and for Eire from Mr. R. W. Marshall of Dublin. I am also greatly indebted to my wife for reading the manuscript and assisting in the preparation of the index.

H. O. MANCE

30th August, 1939

THIS book was in the hands of the publishers on 30th August, 1939. Publication was suspended on the outbreak of the War. After four and a half months of war there is nothing in the book I should wish to alter. It is possible that war conditions may help to bring about some of the developments I have envisaged, thus rendering some of the arguments used superfluous, or may bring about quite unexpected situations. On the other hand, the outbreak of the War marked the end of a definite stage in the road and rail problem and, therefore, a convenient point for breaking off a study of this nature. The work is, therefore, submitted unaltered as an element of research for post-war reconstruction, and if force

of circumstances should necessitate fundamental changes of transport policy during the War, that is all the more reason for the result of this research being made available at an early date.

H. O. M.

22nd January, 1940

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PART I

THE ROAD AND RAIL TRANSPORT PROBLEM

CHAPTER I

RECENT HISTORY

PRIOR to the Great War, 1914-18, the British Railways consisted of some 120 separate undertakings, themselves the result of many amalgamations. These undertakings, while possessing between them a virtual monopoly of inland transport, were in constant competition with each other at competitive points.

On the outbreak of the Great War the whole of the Railways were taken over by the Government in virtue of the *Regulation of the Forces Act, 1871*, under an arrangement by which the payments made in compensation were based on pre-war earnings. Although the Railways continued to be operated as independent units, they were used as a single transport machine under the control of a Railway Executive Committee consisting at the outset of ten general managers of the principal Railways.

In 1919 the Ministry of Transport was created with the urgent task of considering the future position of the Railways. In order to give time for the "Consideration and formulation of the policy to be pursued" the period of Government control was extended for two years.

In 1921 it was decided "with a view to the reorganization and more efficient and economical working of the railway system" that the Railways, with certain minor exceptions, should be amalgamated into four groups. In the arrangement of these groups consideration was given to the need for linking certain less prosperous lines with those which were strong financially. The amalgamation was given effect to

by the *Railways Act of 1921*, which at the same time considerably modified previous Acts governing the control of the Railways.

A Railway Rates Tribunal was created to determine, *inter alia*, any questions brought to them in regard to alterations in the railway rates classification. A new classification was to be prepared in the first instance by a Committee appointed by the Minister of Transport. The Railways were required to submit proposed schedules of standard charges according to this classification, and these standard charges were to come into operation on an appointed day settled by the Rates Tribunal. (The appointed day was 1st January, 1928.) Standard charges which replaced the fixed maximum charges under previous legislation could be altered with the approval of the Railway Rates Tribunal. The Railways had the power to charge exceptional rates not less than 5 per cent below the standard rates. These exceptional rates had to be reported to the Minister of Transport. Any exceptional rate more than 40 per cent below the standard rate had to receive the consent of the Rates Tribunal. Any increase or cancellation of an exceptional rate could be brought before the Tribunal on the objection of traders, and any exceptional rate could be referred to the Tribunal at the discretion of the Minister. All rates were to be published. The provisions of various Acts dating back to 1845 safeguarding the principles of equality of charges and non-discrimination were not touched. The Railways continued to be bound by their obligation under the *Railway and Canal Act of 1854* to accept and carry traffic.

The Railways were permitted to earn a "standard revenue" based on their pre-war earnings and subsequent capital expenditure. The Railway Rates Tribunal were to make an annual review of the charges of each company, and could alter the rates upwards if the standard revenue was not being earned, or downwards to the extent of 80 per cent of any excess earnings over the standard revenue.

The road and rail problem first became evident after the

Great War, when numerous ex-Servicemen bought discarded military lorries and started competing for traffic. A large majority of these operators had no working capital and no commercial experience, and as at this time there were no restrictions whatever on road transport, there was nothing to limit the cut-throat competition which resulted, and which was accentuated as fresh operators entered the field on the strength of just sufficient capital to pay the first instalment on a new lorry or bus.

When in 1922 some of the Railways tried to obtain powers to run road transport themselves their Bill was turned down, partly as the result of the short-sighted instigation of organized users, and thus the Railways were forced into a spirit of opposition to road transport at a time when they might have tried to find its proper place in the transport system. When the Railways were given the necessary powers by the *Road Transport Acts of 1928* they had the wisdom to collaborate with the larger bus undertakings, with the result that road and rail passenger traffic has been co-ordinated in such a way as to safeguard the interests of both road and rail undertakings, and procure an ever-improving service to the public. This has been comparatively easy, because passenger undertakings convey a single commodity—the passenger. Services run on prescribed routes, fares and conditions of service can be easily controlled and road passenger transport had been concentrated at an early date into comparatively few hands.

The circumstances were very different in the case of goods transport with its multitude of operators, the majority of them owning only one, two, or three vehicles, its absence of fixed charges, and the complication inevitable in the transport of every kind of commodity. The chief difficulty was, however, undoubtedly the effect of road competition on the long-established rate structure, under which the Railways carried valuable commodities at high rates and low-grade commodities at low rates, a rate structure upon which the existing industrial régime has been built up.

In 1928 the *Royal Commission on Transport* was appointed. This Commission issued three Reports. The first, entitled "The Control of Traffic on Roads," dealt entirely with proposals for legislation to ensure the safe operation of road transport or what is described on page 31 as Category I of regulation. The second Report, entitled "The Licensing and Regulation of Public Service Vehicles," dealt primarily with the quantitative control of public road passenger transport by licensing, described as Category II of regulation.

Effect was given to the recommendations in these Reports in the *Road Traffic Act*, 1930, and in the statutory regulations issued in virtue of this Act. England and Scotland were divided into thirteen areas, each of which had a body of three Traffic Commissioners, including a full-time Chairman, charged with the licensing of public passenger services. Appeals against the decisions of the Commissioners could be made to the Minister of Transport. The Act introduced compulsory third party insurance and limited the period during which drivers might remain continuously on duty. A Fair Wages Clause was also introduced for persons employed on public passenger services.

The Final Report on "The Co-ordination and Development of Transport" was issued in 1931. This Report, after dealing with railways, highways, road transport, tramways, canals, harbours and coastwise shipping, devoted a chapter to co-ordination of transport. The Commission recommended that all road hauliers carrying for payment should be licensed, but that the only aspects to be considered should be the fitness of the vehicles and the wages and conditions of service of the employees: the latter to be governed by an extension of the Fair Wages Clause to goods hauliers. The object, therefore, was not to regulate the quantity of goods transport, but to bring about the regularization of the industry as an essential precedent to any attempt at general co-ordination with other forms of transport. Compulsion was, however, strongly objected to as "a great mistake, and probably quite ineffective in practice." It was thought

that the proposed Advisory Committee might be able to bring about co-ordination by suggestion and persuasion. The Commission themselves confessed to seeing no positive solution, and recommended the appointment of a permanent Advisory Council on Transport with limited numbers, and with members preferably without "particular association" with any form of transport. The Commission were unable to reach agreement on the future direction of co-ordination, owing to the divergence between the views of those who believed in the unification of transport and those who considered that such further co-ordination as might be advantageous would come about naturally through the play of economic forces. A Minority Report definitely recommended unification under a National Transport Trust free from all political influence and Governmental interference.

The *Salter Conference* was appointed in 1932 with a view to establishing what would be a fair basis of competition and division of function between rail and road transport of goods—in particular as regards the incidence of highway costs—and the nature and extent of regulation which should be applied to goods transport by road and rail, and to make further recommendations designed to assist road and rail to function under equitable conditions which adequately safeguarded trade and industry. The Conference produced an agreed Report dealing in detail with the amount of taxation which ought to be contributed by road transport as a whole for the use of the roads, the proportion of this taxation which should be contributed by commercial road vehicles and the distribution of this proportion between the different categories of such vehicles.

The terms of reference of the Conference envisaged greater equality of conditions in competition, yet the Railway representatives suggested a division of function which "would result if a single administration without divergence of financial interest were solely occupied in meeting the needs of the public by the most convenient and most

economical arrangement of transport." This, however, means monopoly and not competition.

The conclusion of the Conference was that "the best division of function will be obtained mainly through the deliberate effort of those engaged in road and rail transport to co-ordinate their services and give the public the full advantages of complementary services." The Conference did not recommend any fundamental change in the railway rate system, though in the introductory remarks and concluding passages the clash of the railway and road bases of charges was clearly envisaged. The licensing of both hauliers and ancillary users was recommended—the licensing of the hauliers to take account of the extent of existing transport facilities. The ancillary user was not to be restricted, but should be prohibited from carrying goods for reward. With the intention of discouraging further diversion of heavy goods traffic from railways to the roads it was recommended that powers should be taken to prohibit traffic unsuitable for road haulage from going by road. Records of journeys were to be kept to check observance of the regulations as regards overloading and hours of work. The Conference expressed the opinion that the Railways should be relieved of their obligation to publish rates so long as no similar obligation rested on road hauliers, but the question, in general, of publication and control of road transport rates was left to a proposed Central Advisory Committee.

The *Road and Rail Traffic Act of 1933* provided for the limitation of the quantity of public goods transport by licensing. Provision was made for three classes of licences: "A" licences for vehicles of public hauliers, without limitation as to area of operation, "B" licences, subject to conditions, issued for vehicles partly used for private business and partly for public haulage, and "C" licences for vehicles (ancillary transport) used by firms only for their own business and prohibited from carrying for hire.

The principles laid down for the issue of "A" and "B" licences were that regard should be had for the interests of

the public generally and that competition due to the provision of facilities in excess of requirements should be avoided. "C" licences were not limited in number. The Chairman of the Traffic Commissioners in each area was appointed Licensing Authority, and a special Tribunal was constituted to deal with appeals. This Appeal Tribunal has by its decisions built up a body of case law which has tended to uniformity in the decisions of the Licensing Authorities.

The same Act provides that road transport shall keep certain records intended to facilitate a check on the hours of employment of the personnel and the maximum loads carried. The Fair Wages Clause of the 1930 Act was extended to the drivers of goods vehicles operating for hire. Part II of the Act allows the Railways, subject to certain safeguards, including approval by the Rates Tribunal, to make "agreed charges" for the whole or part of the traffic carried for particular traders. No form of agreed charges is specified. They have been made on the basis of tonnage irrespective of the nature of the merchandise or the points between which it is carried, and have even been based on a percentage of the turnover of the firm concerned. Their object is to secure the whole or most of the traffic of a trader by the inducements of a simplified procedure and of a unified charge calculated as being slightly more favourable than the use of road transport for all or part of his traffic. This derogation from the ton-mile basis of charges and from the application of the statutory classification is a marked departure from previous practice.

Part III created the Transport Advisory Council.

The *Road Transport Act of 1934* tightened up the provisions of the 1930 Act as regards third party insurance, and amplified certain other regulations affecting safety. Among other features were the introduction of the 30-mile-an-hour speed limit in built-up areas, and of driving tests for beginners.

The *Road Haulage Wages Act of 1938* was passed following the recommendations of the *Baillie Committee* appointed

in July, 1936, to report on wages and conditions of service. Central and Area Wages Boards were established to regulate the wages of the employees of public hauliers. The Fair Wages Clause was extended to the drivers of ancillary goods vehicles, though the procedure in this case was different.

Thus, as time went on urgently needed measures were taken in the interests of all parties to regulate the upkeep, speed and loading of goods vehicles, hours of work, wages and conditions of service, and third party insurance—all items described hereafter as Category I of regulation.

There still remained the question of the rate structure. This was dealt with in two Reports of the *Transport Advisory Council*. The first, entitled "Service and Rates," published in 1937, proposed that there should be a rate structure for road traffic based solely on the factors affecting road transport, and irrespective of the railway rate structure. To quote their own words: "The question of the basis on which rates should be fixed whether on the principle of what the traffic can bear or on the cost of service in each case or a combination of both did not arise." It was proposed that after the road rate structure had been arrived at there should be voluntary agreements between the roads and the railways, but there was no guidance as to how this was to be effected, having in view the different rate structures envisaged for the two means of transport. The Committee "did not favour the idea of compulsory Associations embracing all road hauliers." As regards the policy for the co-ordination of transport, it was considered that "all forms of transport should be rate-controlled with publicity and non-discrimination, in order to ensure a fair basis of competition." The Committee assumed that "if the rates charged are stabilized within each form of transport and voluntary agreements are then concluded between the various forms of transport the greatest possible degree of co-ordination will be secured, since each form of transport will tend to carry those traffics to which it is best suited." These conclusions, which are

here briefly summarized as part of an historical outline, are dealt with critically in Chapter XII.

It was soon recognized, even by those who believed in it, that this solution at best would take a long time to carry out, and in November, 1938, the Railways, after successive losses in revenue which threatened their financial stability, launched their campaign for a "Square Deal." The Railways wanted urgent measures to give them a chance of saving themselves from bankruptcy. Their proposal was a reversal of the policy they had previously recommended. The Railways now applied for freedom to fix rates as they liked. They demanded the repeal of all statutory regulations regarding tariffs, classification, publication and the prohibition of undue preference. This freedom was claimed in order to obtain an equality with road transport which the Railways felt "would contribute substantially towards the achievement of co-ordination and regulation in the industry." No policy for the future was suggested, either as regards co-ordination of road and rail, or as to the rate structure, nor did the Railways explain how they would use their proposed freedom. It was not surprising, therefore, that the users, who had enjoyed the best of both worlds under the régime of controlled railway rates and uncontrolled road rates, were alarmed at the prospect of unknown alterations in the railway rate structure. As a result of their opposition the Railways had to whittle away their demands in the course of negotiations with interested parties.

The T.A.C. Report¹ on the "Square Deal" published in May, 1939, for the most part confirmed the agreements already arrived at between the Railways and other interests. In addition to freedom to reduce rates without notice, it recommended that the Railways should have power to propose general or specific increases in goods rates without regard to the previous classification, and with a considerable loosening of the interpretation of unfair preference. These

¹ "Report on the Proposals of the Main Line Railway Companies as to the Conveyance of Merchandise by Rail."

increases require a month's notice as compared with the day-to-day powers originally envisaged by the Railways.¹

There was still no recommendation as to the nature of the future railway tariff structure, but the railway rates were to be reasonable, and in case of dispute there was to be the right of appeal to the Railway Rates Tribunal who were to be given guidance in determining the reasonableness of a charge.

There were no suggestions as regards the organization of road hauliers, other than a reference to "organizations representing road hauliers which will sign agreements with the Railways," and a stipulation that the "body or bodies" which have made such agreements should adequately represent the road carriers engaged on the carriage by road of merchandise to which the agreement relates.

If and when sufficient of the road operators can be persuaded to come to an agreement with the Railways, and the traders have been consulted and the agreement has been approved by the proposed Tribunal, then it is recommended to make the agreement legally enforceable.

No recommendation was made as regards future publication of tariffs concerning which the T.A.C. were unable to record any agreement as between the interested parties. The Railways would only agree to publish rates if the road operators also had to publish rates. The abandonment of the statutory rates classification means that there would no longer be standard rates. These standard rates have virtually been maximum rates and were generalized in the sense of applying to any journey regardless of the cost of working.

The T.A.C. recommend that the new arrangement should last for five years or for a lesser period, if a sufficient degree of co-ordination should have been reached to avoid overlapping of services and uneconomic competition.

These proposals are analysed critically in Chapter XIII.

¹ Sir R. Wedgwood as reported in the *Daily Herald* on 28th November, 1938.

Nature of Previous Inquiries

Reference has been made to the *Royal Commission on Transport* which was an independent non-technical body having to base its conclusions on the evidence given before it. Its First and Second Reports referred to above were unanimous. In its Final Report, "The Co-ordination and Development of Transport," the Commission was not able to reach agreement on the larger question of co-ordination. General considerations, such as State control versus private initiative, and the mechanism of co-ordination, led to difficulties which might have been lessened if the Commission had been assisted by an objective analysis of the complex technical issues which must govern any solution.

The *Salter Conference* of 1932 was composed of four representatives of Railways and four representatives of road transport, all experts, with an eminent economist as independent Chairman. It produced an agreed Report which, as might be expected, was more technical than those of the Royal Commission. Whatever the reason, it is a pity that the Conference with the practical knowledge of road and rail at its disposal did not follow up objectively the implications of the observations on road and rail tariffs and on division of function which appeared in their Report.

The *Transport Advisory Council*, owing to the accident of its having superseded the old Statutory Roads Advisory Committee on which Highway Authorities were heavily represented, was not formed on the model recommended by the Royal Commission, but consists of a mixed body representative of all forms of inland transport and of users, from which no objective recommendations on main principles have yet emanated or can well be expected.

In 1932 the *International Chamber of Commerce* appointed a *Committee of Independent Experts* to investigate the road and rail problem. The experts being untrammelled by vested interests produced unanimously in October, 1933, an Introductory Report based on a study of road and rail in forty countries. This Report, besides making specific

recommendations, contained the first exposé of the principles underlying the problem, and laid down the bases of four alternative forms of solution, with an analysis of their advantages and disadvantages. The conclusions arrived at are still valid.

In 1935 the International Chamber published a brochure containing an objective summary of discussions on the previous Report which took place at Paris between representatives of the conflicting interests, and which incidentally showed how impossible it was for these conflicting interests to produce any agreed report.

These two Reports formed the background for a Resolution at the Paris Congress of the International Chamber of Commerce in June, 1935, which was to some extent a compromise between the Experts' Report and the views of interested parties.

From the experience gained it would seem that a similar Committee of Independent Experts is the most suitable body for dealing with large questions of principle. When, however, it comes to the application of these principles it is necessary also to have available inside knowledge which can only be obtained from those directly concerned in the operative and commercial sides of transport undertakings. The particular method adopted eventually for making available this practical information may have a material bearing on the success of future planning of transport co-ordination.

CHAPTER II

THE OBJECTIVES OF ROAD AND RAIL CO-ORDINATION

THE objective of road and rail co-ordination was referred to by the Royal Commission on Transport as "a state of affairs . . . whereby every passenger who travelled and every ounce of goods was consigned by the most economic route and form of transport." The criterion was to be the public interest.

The Report of the Committee of Independent Experts of the International Chamber of Commerce states that the principal aims should be "to co-ordinate all means of transport in such a way as to secure for each of them the traffic for which it is best suited, and to avoid overlapping, the financial consequence of which the community would ultimately have to bear." The Committee further adds that "the function of the State is not to maintain the *status quo* or to favour one means of transport at the expense of the other, but to create the requisite conditions for securing the maximum efficiency of all means of transport and to further their evolution in the interests of the general welfare of the community and of technical progress." Here, again, we have the idea that the primary consideration is the public interest, to which the individual interests of the providers of transport and of the user must be subordinated.

The public interest is tremendously concerned with assuring the most efficient transport system, not only for official purposes—administration and defence—but for economic development and the amenities. It is also concerned with the protection of the individual from injury and exploitation and with the effect of the national transport policy on national taxation.

THE APPROACH TO THE PROBLEM

A striking feature of the road-rail controversy has been the paucity of attempts to deal with the subject objectively. In the din of conflict between interested parties it appears to have been overlooked that the starting point for a consideration of the future relations between road and rail transport is the answer to the question: What is the correct economic distribution of traffic between road and rail? If an answer can be found to this question we shall be less in the dark in dealing with regulation and control of the two means of transport, we shall have a clearer idea of the future régime of tariffs under the new conditions, and finally we shall discern more clearly what are the alternatives for the future organization of road and rail transport.

Lord Stamp observed in 1936 that "the problem of finding a new equilibrium with all the variables involved is almost insoluble." The principles underlying the economic relations between road and rail transport are, however, not unknown. Serious students of transport would do well to read the classic work by Monsieur C. Colson, *Transports et Tarifs*, originally published in 1908 and issued in 1929 in revised form as Vol. VI, "Cours d'Economie Politique" (*Professé à l'École Polytechnique et à l'École Nationale des Ponts et Chaussées*).¹

Because a consideration of the tariff question leads directly to the heart of the problem, it will be simplest to deal first with this aspect.

THE QUESTION OF TARIFFS

Analysis of Railway and Road Costs

The costs to be met by the gross revenue of a commercially run railway may be roughly divided as follows—

(1) Running costs, which vary directly with the traffic, e.g. fuel, upkeep of locos and rolling stock, loco and train staff.

(2) Fixed operating charges, which are independent of

¹ Published by Gauthier Villars et Cie., Paris.

the quantity of traffic, e.g. (a) general management, (b) upkeep of track, station buildings and other fixed installations, (c) traffic staff at stations.

(3) Interest or profit on capital at such a rate as will attract further capital for extensions and improvements.

Expenditure cannot be rigidly classified in these items, and the classification will vary in each particular case, depending on the conditions of the moment. The cost of taking an additional passenger or an additional package will be negligible in a train in which there is room and which is running in any case, but to carry additional traffic involving extra trains would obviously cost much more.

Taking a broad average, in Great Britain in the case of Railways the proportion of the items (1), (2), and (3), assuming the "standard revenue" to have been earned, would have been roughly—

(1) 35 per cent; (2) 40 per cent; (3) 25 per cent.

In the case of road transport regarded on a large scale, item (1) is a much higher proportion of the total, chiefly because the cost of maintaining, improving, and extending the roads does not constitute a fixed charge, but is levied in taxation, and is therefore a running cost. In view of the comparatively small units and of the possibility of transferring services to where they are most required for the moment, or of avoiding taxation charges by withdrawing vehicles from use during slack periods, the fixed charges under (2) and (3) are reduced to a minimum. Speaking roughly, the percentages of (1), (2), and (3) for motor traffic while varying greatly, depending on whether the undertaking is a one man show with practically no overheads or a large and properly equipped organization, would be more in the order of—

(1) 60 per cent; (2) 30 per cent; (3) 10 per cent.

When a transport undertaking, whether rail or road, is started, it is in the expectation that the traffic as a whole can afford to pay rates sufficiently in excess of (1) to cover (2) and (3).

The Railway Tariff System

Arising out of every transport, there is a difference in value to the consignor or to the passenger which represents the maximum rate which he would be prepared to pay rather than forgo the transport. In the case of a monopoly, the rates charged can be based on this amount, which is known as what the traffic can bear. No rate is too high for the user which permits any class of traffic to pass. On the other hand, no rate is too low to be accepted by a railway for additional traffic, provided it leaves a margin over variable costs (1) and thus helps to carry the fixed charges (2) and interest on capital (3). Obviously it will not pay to take all traffic at just over (1), as in that case even the fixed operating charges might not be met and there would be no remuneration for the capital.

Theoretically, therefore, *with a monopoly*, each item of traffic bears its maximum burden of railway rates, and none but the minimum rates have any relation to the cost of operation. This may be called the "value rate structure."

A good deal is said about the high-class traffic subsidizing the low-class traffic. The lower rates are made possible by the higher rates only in the sense that a railway could not live on the low-class traffic only. The low-class rates would be introduced in the interests of the railway even if there was no control of rates. The existing railway classification merely gives legal sanction to a natural development. As part of a rate system, therefore, the lower classes of rates are not the result of Government intervention, and neither class of rates subsidizes the other.

Effect of Competition on the Railway Tariff System

The value rate structure is only possible under conditions of monopoly. Where there is unrestricted competition between two means of transport, the rate between competitive points, assuming equal facilities,¹ would tend to be forced

¹ Competition between road undertakings would prevent the road rate from benefiting in cases where road transport offers more

down to an amount equal to the variable costs of the more expensive form of transport, and even lower, since some of the items, such as depreciation, do not make themselves evident at the first. It is clear that this could not continue without financial disaster. Ultimately, as a result of *ententes* between the surviving undertakings, competition would be based on rates sufficient to cover (1), (2), and (3) for the least expensive means of transport. This may be called the "cost rate structure." Evidently the value and cost rate structures cannot continue to exist side by side.¹

Adaptation of Railway Tariffs to Non-monopoly Conditions

It has often been declared that the loss of monopoly conditions will oblige the Railways to raise the rates on the lower classes of traffic, for which motor transport cannot compete. As explained above, however, these rates are already in theory as high as the traffic will bear, or as high as they could be fixed in relation to previous competing forms of transport. Conditions have, however, greatly changed since the original rates were fixed, and there is no doubt room for research as to the changes in rates which it would be possible to bring about on a future competitive basis. It is frequently stated that any increase in the lower rates would lead to disorganization in industry. Under the free play of competition the changes which are taking place in the régime of transport are bound to result in changes in the relative price structure of commodities, for which the Railways are in no way responsible. Inquiry may show that the effect of possible changes in railway rates would be negligible compared with the changes already brought about through more general economic causes. It may be, therefore, that in this country, with its short distances, increases in the lower rates would be possible to a greater extent than previously realized, the criterion being that the traffic continues

valuable facilities than rail, but the more valuable facilities would favour road against rail.

¹ Pages 33, 57, 101, 121.

to pass. On the other hand several countries, including Germany, have definitely decided that the existing railway rate structure is essential for the maintenance of the present distribution of industry, and must be substantially maintained.

Various expedients have been tried in different countries to retain the high-class traffic on the Railways, in spite of competitive conditions: among such expedients are increased rates on raw materials for users who do not employ the railway for their higher class traffic; rebates on the usual rates for users who send all their traffic by rail, and "agreed charges," already referred to, under which all the traffic of a user is carried at a flat rate measured by ton-mile, by ton, or even by a percentage of turnover. All these measures virtually reconstitute a little monopoly with each client safeguarding an average revenue for all classes of traffic comparable with that which would be received under the previous railway rate structure.

It should be noted that even if it is decided to abandon the monopoly system with its value rate structure, thereby reducing rates to a cost basis, there will have to be a classification based on the cost of conveying the different kinds of merchandise. Moreover, there will be certain traffic which the Railways can carry cheaper than the road and can therefore charge for at a rate higher than cost if the traffic will bear it; and there will be certain traffic which cannot afford to pay the full cost of working—including contribution to fixed costs—and which will therefore be carried at a lower charge than full cost. In this way there would still remain some elements of a value rate structure within the limits in which the Railways can retain a monopoly through cheaper cost of working.

CHAPTER III

THE ALTERNATIVE SOLUTIONS

LET us now examine the possible systems which may be applied to the relationship between road and rail transport. These are as follows—

- (1) Unrestricted competition.
- (2) Combined monopoly of road and rail transport.
- (3) Co-ordination of competing monopolies.
- (4) Controlled competition between road and rail.
- (5) A combination of some of the above.

UNRESTRICTED COMPETITION (1)

With a monopoly, the rates, except the lowest, are not based on cost of working, and are thus not affected by variable cost in each particular case. With unrestricted competition, it would be necessary to allow rates to be varied from day to day, depending on the actual variable costs, e.g. whether a motor or a train is in need of a return load. The competing Railways would in each case have to decide whether they could afford to come down to the current rates charged by motor transport and vice versa. Other means of transport such as canals and the coasting trade would be similarly affected. Thus free prices dependent on supply and demand would be substituted for a tariff system, and there would be complete lack of stability in the cost of public transport, both for individual traders and as regards charges to their competitors.

With unrestricted competition, the Railways must evidently be given freedom to adapt themselves to the new conditions. We have seen, however,¹ that unregulated competition involving complete freedom to both rail and unrestricted road transport as regards fixing rates would weaken

¹ Page 19.

the financial stability of transport undertakings. Sooner or later a less efficient service must result with heavier general taxation in order to subsidize those transport services which are indispensable in the national interest. This is the system originally advocated by road transport interests until they realized the disastrous possibilities of unrestricted competition between themselves. It is the policy which was implied by the original Railway proposals for a "Square Deal," assuming that road transport received as a logical counterpart freedom from licensing restrictions.

COMBINED MONOPOLY OF ROAD AND RAIL (2)

Let us now consider the possibility of the opposite extreme, of re-establishing a complete monopoly of overland transport. As already explained, in the case of a Railway monopoly it is possible to graduate tariffs to correspond as closely as possible with what each traffic can bear. Colson in his analysis divides railway tariffs into—

- (1) The actual out-of-pocket cost of carrying the traffic;
- (2) A toll for the use of the railway;

and the same applies to other means of transport.

This toll represents the contribution of the traffic to fixed charges and remuneration of capital. Under the monopoly system the toll varies with what the traffic can bear.

As regards roads, when roads passable for wheeled traffic were comparatively few, it was possible to levy tolls on specific roads on the basis of a quasi monopoly. The gradual extension of the network of roads and the inconvenience of frequent toll charges led to the local authorities assuming the cost of providing and maintaining roads. The development of the motor vehicle, however, has resulted in the charges for road maintenance and extension becoming too high to be placed on the general or local taxpayer. In consequence the principal road users—i.e. motor vehicles—have been increasingly called upon to contribute to the cost of maintaining and extending the roads by means of registration and petrol taxes. *In this way the Government have*

revived the possibility of monopoly conditions for the levying of road tolls.

On practical grounds, these motor tolls have been levied on the vehicles and have no reference to the nature of the traffic carried. The effect on rates is the same as if the Railways levied an equal toll over and above their variable costs of working on every class of traffic to cover their fixed charges and remuneration of capital. With uncontrolled individual ownership and operation of motor vehicles no other system would be practicable.

Supposing, however, that the whole of the road traffic operation could be constituted into a monopoly, it would be possible to charge varying amounts to different traffics for the use of the roads, depending on the maximum rate which each such traffic could bear whilst still continuing to pass. That is to say, the present structure of railway rates could be maintained in its entirety and applied to motor transport down to the lowest rate which would cover the variable cost of motor transport operation, plus a minimum contribution to the upkeep of the roads.

Thus a completely co-ordinated road and rail monopoly, which had to pay for the upkeep of the roads as well as maintain the railway, would fix rates based on the value and not on the cost of each service. *It would automatically use whichever form of transport yielded the greatest contribution towards the combined general and capital expenses of roads and railways, i.e. the form of transport for which the out-of-pocket costs of carrying the traffic are least.* Where one or other form of transport offers a better service and the choice lies with the user, the rates for conveyance by each of the two forms of transport would tend to be fixed so that it paid the transport organization equally well whichever means was used. That is to say, the theoretical difference between the two rates would be the difference between the out-of-pocket costs of working the traffic.¹ The traffic would thus be free

¹ This assumes the same toll for both means of transport. With an absolute monopoly of transport, including ancillary transport, it

to choose the most economic route in accordance with the principle that *a more expensive service is justified only if the increased value of the services to the user is at least equal to the increased cost*. Rates could continue to be controlled, and publicity and non-discrimination, together with the obligation to carry, could apply to the whole organization. Less paying railway or road services in outlying areas could be systematically provided for. Surplus revenues, after providing for approved capital charges and reserves, could be used in the reduction of rates or absorbed by national taxation. The questions of conditions of employment and of statistics and accounts would solve themselves through unified control. There would be no need of elaborate calculation and empirical assumptions to determine the allocation of road costs between the various sizes and categories of motor vehicles. The monopoly organization would pay a lump sum annually representing the agreed cost of road maintenance and improvement, less any portion paid out of general taxation and representing the contribution of other users. There would be no need to limit road vehicles by licensing as the monopoly would decide what vehicles they required. If the "legacy of the past" in the form of the pre-motor road system is worth anything, it would be realized in the Government's share of surplus revenues from the combined monopoly.

It is evidently quite impossible to compare the weight of road "taxation" under this system with the present taxation. The effect on charges for road transport would be that some charges would be higher and some lower than at present, but all would be economic.

With a combined monopoly natural forces operate to achieve the scientifically correct division of function between road and rail on the basis of cost and service. Whatever system of road and rail co-ordination is adopted it will be would be at least theoretically possible to have different tolls for road and rail when the value of the facilities is not the same. This would, however, deprive the user of the benefit which he now enjoys of the more useful form of transport. See footnote, page 18.

judged in the long run by the extent to which it brings about a division of function on this basis.

A monopoly on the above lines need not affect the present relations between the Railways and the State.

As regards road or rail extensions and improvements, the monopoly would authorize these on the same commercial principles as railway extensions and improvements, i.e. as services likely to bring in a direct financial return, or services to keep abreast with technical improvements and yielding a financial return indirectly. Non-commercial improvements would have to be subsidized by the Government. Thus, under a monopoly, new capital expenditure would be directed where it would best improve the combined transport system, and wasteful duplication would be automatically avoided. There would be a gradual displacement of capital in the direction of the more efficient form of transport.

There are, however, certain weighty factors which might be brought forward against the complete adoption of the above solution, such as the following—

The Private Car. There will, however, be no difficulty in excepting this from the monopoly of operation. The exact form of taxation of private cars is not very material to the question of road-rail co-ordination once agreement is reached as to their total contribution towards highway expenditure.

The Private Goods Vehicle. Ancillary transport is said to constitute about 70 per cent of the goods motor vehicles. As regards the traffic conveyed by such vehicles, a monopoly would constitute an undoubted interference with the freedom of commerce. It might hamper the transport arrangements necessary for the internal working of a business. It would be less likely to be sufficiently flexible to meet the rapidly changing requirements of transport by businesses which at present have complete control of their means of transport. It is true that in some cases it might suit the traders to hire motor transport from the monopoly for their exclusive use with their own advertisements on the vehicle and with

drivers in their own uniforms, and it would be up to the monopoly to cater for this as an alternative to winning back this traffic to public transport. The trader should, however, be perfectly free to use his own transport if he wishes. This transport would, however, have to pay for the use of the roads on the same basis as public transport, i.e. by a toll to the monopoly for the traffic carried based on the general principle of what the traffic can bear.¹

There will, however, be a large number of cases, such as transport used for agricultural purposes and local tradesmen's delivery services, which it would be undesirable and impossible to bring within the orbit of a monopoly, and which in fact co-existed with the railway monopoly before the advent of the motor vehicle. These classes would have to be dealt with specially, subject always to the guiding principle that the exceptional treatment accorded to them should not undermine the general tariff basis.

The Unwieldiness of Too Large an Undertaking and Possible Difficulties of Control. This is a question of administration. There is no reason why there should not be a considerable decentralization or even delegation of operation. Control should be simpler than under any system with large numbers of independent road operators.

Loss of Incentive to Progress. A serious objection against a full monopoly is the loss of incentive to progress. The history of the Railways has shown that a long period of monopoly, even if qualified by competition with other Railways, does in fact result in an accumulation of opportunities for improvement which have only been realized under the stress of dangerous motor competition. It is true that coastwise and internal navigation, the development of air services, of pipe-lines for the transport of liquids and gases and of electric power transmission, presage continuance of competition. There is still the danger, however, that in spite of this competition the monopoly will not adapt itself to technical progress and try by all means to meet traffic

¹ See page 145.

requirements in the cheapest and most efficient manner. To recognize a danger is a large step towards meeting it: possibly a decentralization of operation might be so devised as to admit of a healthy competition between road and rail transport within the monopoly, but the principal check must be an instructed public opinion.

Exploitation of Users. It may be asked how the user would be safeguarded against exploitation through increased transport costs in the case of a complete road-rail monopoly. These safeguards would have to be the same as have existed for the last hundred years in the case of Railways. Additional safeguards would be necessary in framing the organization of any complete transport monopoly to ensure that the combined organization is not unduly subordinated to railway influence, or to any increase of State interference in transport.

CHAPTER IV

THE ALTERNATIVE SOLUTIONS (*Continued*)

CO-ORDINATION OF COMPETING MONOPOLIES (3)

SUPPOSING that road transport itself were made into a monopoly independent of the Railways, the normal development would be a period of intense competition which would, however, be followed by agreements stabilizing tariffs and conditions of working on the basis of the competitive power of the undertakings: in fact, division of function on such competitive basis with a minimum of loss due to destructive competition. This is the logical outcome of the measures proposed by the Railway Companies in their amended "Square Deal."

There still would remain one point for decision. Should the monopoly of road transport be complete, i.e. including some control of ancillary services, or should ancillary services be allowed to operate without any restrictions? The question is vital, because it affects the future rate structure of national transport. If ancillary transport is to be free, then both Railways and public road transport undertakings must be free to adapt their tariffs to non-monopoly conditions. If ancillary transport is controlled by monopoly, then it should be possible for the present rate structure to be maintained, at least to a considerable extent, by agreement between the railway and road monopolies.

The system of competitive monopolies would be less liable than a combined monopoly to the disadvantages arising out of undue influence of the Railways or the State on the national transport system. The co-existence of two monopolies which, in spite of any rate agreement, would continue to compete would not be likely to diminish the incentive to progress to the same extent as in the case of a complete transport monopoly.

CONTROLLED COMPETITION BETWEEN ROAD AND RAIL (4)

Let us now consider the alternative of controlled competition into which most countries have been gradually forced by the process of patchwork legislation, in spite of the contradictions inherent in such a solution.

Any transport policy involving competition, whether unrestricted or controlled, must in the present conditions at least implicitly take account of the competitive power of the different means of transport under equal conditions, and it is a vital matter, therefore, to decide what constitutes equal conditions.

Equality of conditions may usefully be considered under two main heads, *taxation* and *regulation*.

Equality of Taxation

There is no doubt that in the earlier days of motor transport road transport was paying in taxes considerably less than its cost to the Government in road maintenance and improvement. It is evident that this constituted a subsidy which, while justified in the early days of a new industry, could not be allowed to continue when the industry became more than able to hold its own against other means of transport.

The Royal Commission on Transport had recommended that two-thirds of the cost of the highways should be contributed by motorists. It will be remembered, however, that the Salter Conference agreed that the use of roads for other purposes than motor transport (i.e. cyclists, pedestrians, telegraphs, drainage, etc.) might be set off against the benefits of the "legacy of the past" represented by the free use of the pre-motor road system. In Great Britain the Railways receive no subsidy, and equality of taxation was, therefore, assumed by the Salter Conference to be obtained if motor transport as a whole contributed in registration and petrol taxation the full annual expenditure on the

construction, improvement, extension, maintenance, and policing of the roads. Further, it was agreed that the above taxation should be allocated in such proportions as to ensure that each kind of motor transport bears a proportion of the cost corresponding to its use of the roads. It is evident that, both in the determination of what in principle constitutes equality, and in arriving at definite figures, more or less arbitrary decisions on a number of points are involved.

This raises the more general question of the taxation of transport for the purposes of the Budget. Transport is of such vital importance to trade and industry that there is a strong case for claiming that it should not be subject specifically to general taxation.

Before the advent of the motor a passenger tax had been imposed on the Railways and a sumptuary tax on private carriages, both presumably on the grounds of ability to pay. These taxes did not interfere with trade and industry. The railway tax was compounded a few years ago by expenditure to create employment.

At present it is beyond dispute that on the Salter basis road transport is now contributing to the Exchequer in motor tax and petrol tax far more than the current annual expenditure on roads, and that the proportion of payments from commercial goods transport exceeds the contribution assessed by the Salter Conference by several million pounds. If transport is co-ordinated on a basis of real equality between road and rail, it would be reasonable for any contribution from transport to general taxation to be levied on transport as a whole. The argument has been advanced that the petrol tax, being a customs duty, is not specifically a tax on transport. On the other hand, it is claimed that equality should preclude the fuel of one form of transport only being taxed for general revenue. The Government might claim that it should be able by taxation to encourage or discourage a particular form of transport on national grounds, e.g. defence, foreign exchange. In the absence of the Utopia of transport free from general taxation, the Chancellor of the Exchequer

is not likely to give up existing revenue from one form of transport, unless it is apparent how he can equitably spread the burden over a wider field.

In the early days of road and rail competition the policy of the Railways appeared to have been to press for increased motor taxation as the means of solving the problem of road and rail co-ordination. In the circumstances of to-day it is evident that adequate taxation of road transport, however important, leaves the fundamental issues untouched.¹

Equality of Regulation

The furtherance of the public interest has led to State control of transport in the past, involving restraints not only on transport undertakings but on the users and the public. It is now generally agreed that some form of State control of the new means of transport—road and air—is equally essential.

In considering the references in this work to the control of transport, it is necessary to keep in mind the differences between *two categories of regulation*. The first category relates to matters such as the safety and convenience of the public, as exemplified in the case of road transport by regulations governing the dimensions, weight, upkeep, speed, and loading of vehicles, insurance against third party risks, wages and conditions of labour and qualifications of drivers. This type of regulation applies equally to private and commercial transport, though the rules are frequently tightened up in the case of public transport for payment. Category I of regulation would be essential even if there were no competing form of transport. As far back as 1932 the Salter Conference warned the Railways that extravagant expectations must not be entertained by them as to the effect which increased road taxation or regulation necessary in the public interest might have on the return of traffic to the Railways.

The second category relates to the regulation of the

¹ Page 105.

exercise of transport, for example by licensing with or without specific obligations. It is this second category of regulation which is of primary importance in transport co-ordination. Regulation of rates and conditions of carriage (not to be confused with the fundamental question of the rate structure which comes in a class by itself) fall generally in Category I.

Inequality of Category I of regulation as between road and rail was bound to arise at the outset. The present regulation of Railways arises out of a hundred years of experience, and has been influenced by the possibility of securing advantages to the public in conditions of a monopoly of transport which no longer exists.

The comparative absence of regulation of motor transport at the outset was inherent in a new industry which had been allowed to grow up haphazard. It was harmful to the industry itself. Under a competitive régime Railways will have to receive greater freedom, and road transport will have to be submitted to such regulations as still bind the Railways, allowing for the difference in conditions. At the present time we have seen that in this country road transport has been brought under equal regulation with Railways in most matters coming under Category I. An important difference between road and rail lies, however, in the obligation of the Railways to accept and carry goods, and in the control of rates. Up to now Railways have been obliged to publish their rates and to carry without discrimination between users. "Standard" rates are generalized in that they are independent of whether any particular traffic is paying or not. They are in effect maximum rates prescribed by the State. These rates are fixed on the value system described above¹ which is imposed on the Railways. On the other hand, goods operators by road carrying for payment can carry what traffic they like, when they like, and can charge what rates they like, without publishing them or giving the same treatment to all. Consequently road transport can base its charges on the actual cost of carrying traffic in each case,

and by competing only for the goods on which rail charges are high they can afford to charge less than the Railways, although it may actually cost the lorry owner more than it would cost the Railways. Thus, on account of the difference in the system of charging resulting from the regulation of the Railways and the non-regulation of road transport, road transporters can deprive the Railways of their more paying traffic, while leaving the Railways the great bulk of the traffic now carried at cheap rates. For this bulk traffic the Railways are essential. The present system by which Railways are regulated and road transport is not regulated as regards rates and services is evidently not fair to the Railways.

It is hardly compatible with the idea of progress in transport that users should be deprived of the benefits of generalized maximum rates, publication, non-discrimination, and the obligation to carry which they have enjoyed for so long, the more so as most of these privileges are embodied in long-standing International Conventions. The alternative under any régime of controlled competition is that these obligations will ultimately be imposed on road transport also.

A little reflection will show that transport undertakings cannot fulfil these obligations unless they are afforded some protection from unregulated competition. On the other hand, it would also be a retrograde step to force passengers or goods to travel by a route or form of transport which is arbitrarily decided for them in each case. Whatever scheme of co-ordination is adopted, the aim should be to establish a condition under which the user by his own free choice will tend to utilize that form of transport which, from the point of view of the community, is most economic.

Control of Transport

Under a competitive régime the measures described above to attain equality of taxation and regulation are essential as a matter of justice to those who have invested private capital in either undertaking. Given equality, if one could

be certain that both undertakings would be able to continue in operation, it might be expected that a natural division of function would be arrived at between the two means of transport on the basis of a cost rate structure.

Measures of equality as regards Category I alone, however, will not prevent mutually destructive competition. It is, therefore, necessary to examine whether, and to what extent, some control is necessary to limit the unrestricted freedom of competition of both means of transport in the general interest, as part of a national transport policy. Control may be necessary to prevent unfair competition between road transport operators, which experience has shown damages the better organized operators without in the long run preventing the ruin of unorganized competitors; to secure to the Railways some protection in compensation for retaining regulations in the interest of third parties (e.g. unlimited obligation to carry); to assure such distribution of traffic as may be considered desirable in the general interest, and it may even be to preserve arbitrarily to the Railways a field of action essential for their continued existence.

Licences

The method of control most generally adopted is the licensing of public carriers, both passenger and goods. In so far as these licences take account of the existing means of transport, their effect is to bring about a controlled monopoly by arbitrarily limiting the amount of facilities available. Any possible abuse of the above monopolies would be checked by the diversion of traffic to private cars and to ancillary transport services. Under a purely competitive régime with tariffs on a cost basis, both private cars and ancillary goods vehicles (subject to a rigid definition of the latter) would remain free from conditions other than those applicable to all motor transport on general grounds. One might, however, expect them to be prohibited, as is the case in this country, from carrying for payment unless a public carrier's licence is held and the conditions for such licence fulfilled.

Prohibitions

Various kinds of prohibition have been suggested in different countries to regulate motor competition, such as prohibition to use certain types of vehicles or certain routes, or to operate beyond certain distances, or to carry certain traffics. The desirability and practicability of such prohibitions will vary in different countries. They are derogations from the principle of equality and imply the creation of monopoly conditions where adopted. They have not been used in this country, though the Salter Conference recommended that the necessary powers should be given to the Minister of Transport, and these powers, except as regards distances, are in fact held under the Road and Rail Traffic Act of 1933.

Limitations of the Competitive System

We have seen that in the long run the competitive power of railways and road transport will depend on the total cost of operation of each service, including fixed operating and capital charges, but with unrestricted competition stability, if ever possible, would not be reached for a long time. Under a competitive régime, destructive competition can only be mitigated by measures of control indicated above. *These measures will only be effective to the extent that they bring about conditions of absolute monopoly or of competition between monopolies.*

Thus the system of controlled competition involves a division of function between road and rail transport governed simultaneously by the conflicting principles of competition and monopoly. The need for arbitrary decisions must, therefore, be expected in order to adjust the contradictions inherent in this system.

A COMBINATION OF SOME OF THE PRECEDING SCHEMES (5)

Consideration of this alternative is postponed till Chapter XV.

CHAPTER V

FINANCIAL POLICY FOR TRANSPORT

IN the past it has been a principle in Anglo-Saxon countries that the cost of each form of transport should be borne by the users without assistance from the general taxpayer, except in special cases during the development stage, such as the early life of a colonial railway or of air services. This principle does not depend on whether the means of transport are owned privately, as in this country and the U.S.A., or by the State as in certain Dominions and Colonies. The advent of motor transport introduces an alternative principle. Instead of each form of transport being self-supporting, should transport collectively be self-supporting through the operation of pools, amalgamations or even nationalization, any of which would bring about a common financial interest between transport undertakings?

A definite reaffirmation by the Government that the cost of transport should fall on the user, and not on the taxpayer, is essential as a guide to those planning the future of our national transport. A contrary policy is not likely to be announced, though it might easily be forced on the country if a false policy is adopted or matters are allowed to drift too long.

The principle just enunciated does not imply that measures are justified solely to protect any particular means of transport which has outlived or failed to justify its usefulness; but where a means of transport is essential in the public interest, the national transport policy should be such that it will be capable of being operated on a commercial basis. By commercial basis is meant the earning of a sufficient return to attract fresh capital, or, in the case of a State organization, to meet the charges on fresh capital which is constantly necessary for healthy development.¹

¹ See footnote, page 53.

In this connection the question arises as to whether the community as a whole or the users of transport as a whole should bear the cost of non-paying transport services maintained, other than on commercial grounds, because they are essential for the economic life of the community or required for outside aims such as defence. It is not easy to draw a hard and fast line, but, in principle, with non-subsidized transport it would seem that the community and not the users of transport as a whole should pay for services which are not intended to serve the commercial requirements of the country, e.g. non-paying lines and services primarily maintained for national defence or to serve Government establishments. On the other hand, the provision of transport for outlying and thinly populated areas might well be a charge on transport users as a whole. A further point is that the public authorities should pay a fair rate for all official traffic. Both these conditions may be said to exist in this country.

SUBSIDIES

Reference has been made to subsidies under the heading of Taxation. However much it may be the intention that the Railways should pay their way and not be a charge on the taxpayer, in the last resort, unless the trade of a country can be looked after by other means of transport, Governments will have to subsidize Railways, whether State or private, rather than let them go out of business. In this connection it is interesting to note that, with State Railways directly operated by the Government, any deficiency in the net receipts will immediately influence national taxation, whereas in a country with private Railways the general budget would not be called upon to assist until the shareholders, and possibly the bondholders, have forgone their dividends and interest. Whether the Railways are State owned or privately owned it is clearly important in the national interest that they should be allowed to make fair profits and accumulate reserves in favourable times.

It has yet to be seen how far Railways by reorganization and adaptation under conditions of equality and freedom could retain a place in the sun under a competitive régime. This will depend to some extent on the possible increases of traffic requirements. In the changing conditions of the present day it is impossible to forecast what will be the alterations in volume and direction of the currents of traffic due to progress in invention, to economic developments or to political causes. Are we likely to master and apply to normal times the technique of full employment which, in Germany, has led to a shortage of transport facilities? The effect has yet to be seen of the development of national electricity and gas distribution systems, both on the transport of fuel and on the location of industries. The present tendency of agricultural countries to develop local industries, and of industrial countries to develop agricultural industries, is bound to influence the nature and quantity of international trade.

All these are among the unknown factors which will affect national transport systems. Prior to the Great War the development of civilization led to or possibly resulted from an increase in transportation. Who can say for certain how far this tendency will continue, and thus provide both road and rail with opportunities for continued development on a commercial basis in the spheres for which experience will show them to be the most adapted?

If traffic falls and the means of transport increase, the financial stability of transport undertakings may well be weakened to the point of bankruptcy. Experience has confirmed that this is particularly likely to happen in the case of unregulated competition. If a vital public service was not involved, the survival of the fittest with any resulting co-ordination, or the disappearance of one or other form of transport, might be left "to come about naturally through the play of economic forces." On the other hand, one can imagine a national transport policy designed to bring about that any losses due to adjustments following the advent of road transport should be limited to the inevitable writing

off of assets which have become obsolete. Without a policy or with a wrong policy all forms of transport will be weakened financially until major decisions and drastic action have to be taken. Once, however, revenue has been lost by competitive rate reductions it is very difficult to recover it, however uneconomic the charges may have been. Ultimately, therefore, the only action remaining possible is subsidy from the Government. This may begin in veiled ways through Government guarantees of new issues during the early stages of financial decline, but sooner or later after heavy losses to all transport undertakings, and in the face of imminent deterioration of services, subsidies to transport appear uncovered and unashamed in the National Budget. Consequently the risk of subsidies is a material factor in deciding on a national transport policy.

ADMINISTRATION

In considering the future national transport régime it is important to bear in mind the special qualities of flexibility and individuality which characterize road transport. The public haulier owning often only one or two vehicles without any overhead organization or necessity for uniformity in practice can adapt himself to the individual requirements of his clients; and the private car owner and ancillary user have attained a degree of independence which has clearly increased the amenities and enlarged the scope of individual business organization. Everything should be done to retain these advantages to the greatest possible extent compatible with an efficient national transport system.

But herein is a difficulty. Assuming a *competitive régime*: the compliance with Category I regulations¹ now required of the public road transport undertakings, and the future requirements as regards the observance of rate agreements, are such as will inevitably tend to restrict such undertakings to larger concerns which are capable of fulfilling the necessary conditions. In this way some advantages of flexibility and

¹ See page 31.

individuality may be lost. It will, however, evidently be against the general interest to forgo measures for the essential organization of national transport, which offer no difficulties in the case of these larger commercial undertakings, solely for the sake of maintaining in being large numbers of road transport operators, some of whom may be rendering service of an inferior quality and whose regulation and control would present insuperable difficulties.

One of the most significant evidences of the political difficulties underlying the problem of road and rail co-ordination is the omission by successive Commissions, in this and other countries, of recommendations for compulsory action directed to the closer association of road operators which will be necessary as a preliminary to any orderly solution.

Under a *monopoly régime* the whole operation of road and rail transport, except private cars, and, subject to some control, ancillary users' services, would be entrusted nationally or by regions to transport companies or corporations or State transport undertakings as the case may be. The principal functions of these central organizations would be to regulate tariffs and commercial policy and to organize development. The actual operation would be delegated in the manner calculated to further the best use of each form of transport. The financial structure of any such monopoly would evidently depend on the situation in each country, and in particular on the capitalization and earning power of the Railways, roads and road transport. The relations of the transport monopoly to the highway organizations would have to be worked out.

HIGHWAY POLICY

Reference has been made to the policy of road and rail extension and improvements under a combined monopoly. The priorities of such construction will fall naturally into their proper place, if and when a national transport policy embracing all means of transport is brought into effect. Under a competitive régime it will be much harder to arrive at a

co-ordinated programme, and without this there may well be greater hesitation in carrying out necessary work and more wasteful utilization of the funds available. In this connection it has been advocated that the road construction policy should aim at avoiding roads parallel with the railway and should concentrate on feeder roads. In practice, for general reasons, roads will in any case be constructed joining important centres and thus parallel with the railways. It must not be forgotten that the private car owner, who contributes an important percentage of the revenue from road users, is entitled to consideration in the future plans for the improvement of roads. It is doubtful whether the extent of the national saving in petrol, repairs and time resulting from improved road surfaces, width and alignment is generally realized.

COMBINED SERVICES

Railways have now been given powers to operate road and air services. This should help in developing a technique of co-ordination which was quite neglected as long as these services were invariably in opposition. It has been suggested that enormous progress can still be made in this field. On the face of it the Railways, with their existing installations, their widespread commercial organization and their large-scale buying powers, ought to be able to organize, possibly in collaboration with road hauliers, a combined road and rail service, with direct road services where these are cheaper, to compete with independent road hauliers in the same conditions. It may be found, however, that a moderate-size road undertaking has advantages owing to greater flexibility of operation. Time will show. If one party has the obligation to carry, and the other has not, this will tend to influence costs in favour of the latter, on account of the more favourable load factor which may be expected. In any case it will be borne in mind that differences in the tariff structures, if allowed to exist, may well have a more important effect on the distribution of traffic than competitive costs of working.

It is hoped that the lesson learnt from past experience¹ will not be forgotten, and that the Railways will not be obstructed if in the future they find it expedient to develop pipe-lines or even power lines, should these become of sufficient importance to influence the transport situation.

INTERNATIONAL ASPECTS

However much geographical, economic, and social conditions may affect the road and rail policy of individual countries, there are underlying principles applying to all countries which will have to be taken into account in every solution. Consequently, valuable lessons can be learnt from experience in other countries, and serious mistakes might be avoided if such experience is pooled, as has been done under the auspices of the International Chamber of Commerce.

The solution of the problem of road and rail co-ordination adopted in any country is moreover of international importance, as, unless the same policy is adopted in all the principal countries, rates for international traffic will be thrown into confusion and new barriers set up to international trade. For instance, supposing there are two countries, one of which (A) established a complete monopoly for rail and road transport and thus retained its present value rate structure, and the other (B) adopted complete freedom of competition involving a rate structure based chiefly on cost, and supposing these countries had internationally competitive lines of railway crossing their territories, possibly leading to competitive ports, how would they fix up their competitive rates? Evidently the tendency would be for A's internal high-grade rates to be higher and his low-grade rates lower than those of B. For export and import trade A would be forced to lower his high-class tariffs to B's level, and B would be forced to lower his low-class tariffs to A's level, with the result that the transport of foreign trade would be subsidized by the home trade even more than is the case at the present

time. The situation would be further complicated if a third country (C) adopted an extended policy of agreed rates.

It is clearly desirable for the convenience of growing international road transport that there should be uniformity in Category I type of regulations governing such matters as the dimensions and weights of vehicles, maximum axle loads, size of tyres, signalling apparatus, conditions of insurance, documents to be kept by road transport, liability of operators, transport statistics, and also as regards the system of motor taxation. Various international organizations are dealing with these questions. Uniformity as regards similar matters affecting Railways already exists—especially on the Continent—to a very large extent.

CHAPTER VI

THE ROAD AND RAIL ISSUE

ONE reason why the problem of road-rail co-ordination is such a complex one is because there are mixed up in it diverse factors with different economic bearing. Practically all controversy has ignored one or more of the essential elements of the problem. It will be useful, therefore, to try and subdivide the problem as far as possible into these elements, approaching the problem with the assumption that the solution must be based on the interest of the community to which the interests of individual transporters and users must, if necessary, be subordinated.

THE QUESTION OF RAILWAY OBSOLESCENCE

In their Final Report the Royal Commission on Transport made no recommendations for the improvement and development of tramways, which they regarded as an obsolescent form of transport, and one which should be gradually eliminated. It may be well, therefore, to inquire at this stage whether the Railways also are or are not obsolescent. In many countries the answer would at once be "Of course not. We could never wage war without them." Now a fundamental element in a road and rail policy is a decision whether or not the Railways *must* be maintained. If they are to be maintained it does not matter much on what grounds the decision is arrived at. Doubtless, however, my readers would be happier if they could in this matter base their studies on economic rather than on military considerations.

The main point then is whether rail or road transport is cheaper to the community. In the case of goods traffic, if the total cost per ton mile for the Railways, including renewals and interest or a reasonable dividend on capital, is less than the total cost per ton mile of road transport,

including taxes and interest, then *prima facie* the Railways must be maintained in the public interest.

In making such a comparison one must remember that on a railway the fixed charges such as interest, general management, maintenance, and renewal of fixed assets, station staffs, etc., are a large proportion of the total costs, so that the average total cost per ton mile will depend largely on the total ton miles. Therefore, for the purpose of comparing costs it is necessary to assume for the Railways a volume of traffic in the future commensurate with probable developments. On the other hand the cost of road transport will depend on the state of the roads, so that in the long view the comparison of costs should take into account such improvements in roads as are likely to be covered by future motor taxation.

The question of which means of transport is cheapest to the community can only be answered after close investigation in each country. It is notoriously difficult to calculate the total railway cost of working per passenger and ton mile, on account of the large proportion of the expenditure which is common to both passengers and goods, but in dealing with railways as a whole only general averages are needed. The cost of motor transport could similarly be sufficiently accurately estimated from commercial statistics kept by representative haulage firms.

In East Africa and in Germany, where the writer studied the matter, there is no doubt that rail transport is cheaper than the road on the above basis. Consequently, in those countries, even on commercial grounds, it is clear that in the absence of railways the cost of transport to the community would be heavily increased and, therefore, that railways must be maintained. It is less easy to generalize as regards this country, with its short distances and relatively high collection and delivery costs, but an objective analysis would doubtless produce figures sufficiently near the mark for this broad comparison. Whether on the grounds of cheapness or from other considerations, however, there is

no doubt that the answer to this first question will be that in planning national transport it must be assumed that railways will continue to be an essential factor.

It is possible, however, that certain sections of the railway are in fact obsolete and their elimination would be justified, and would reduce the average cost of railway working on the remaining lines.

In order to calculate whether any particular section, say a branch line of a railway system, is commercially obsolete or not, it is necessary to compare the total gross revenue for the whole journey of all traffic passing over that section, and which would be lost if the branch line did not exist, with the costs which would be saved were the line to be closed. The costs may be considered under the following headings—

1. (a) Train operating costs for the whole journey including maintenance and renewal of locomotives and rolling stock.

2. (b) The maintenance of the track and other fixed installations of the branch line.

(c) Station staff of the branch line.

(d) Renewals of the fixed installations of the branch line as they wear out.

(e) A contribution to the overheads of the railway system.

3. (f) A normal rate of interest on the capital cost of the branch line.

As regards (a) neither the receipts from nor the cost of carrying the traffic on the portion of the railway outside the branch lines (the difference between which is known as the "main line contribution") should be taken into account, if the traffic would still pass over the main line, even if the branch line were abandoned.

It is important to note the difference in the treatment of the problem, depending on whether the branch line is to be regarded as part of a competitive undertaking or part of a combined transport monopoly. From the point of view of a competitive undertaking neither party will give up traffic simply because it can be worked cheaper by the other form

of transport. It would pay the Railway to keep the branch line in existence so long as it earned enough to cover $(a) + (b) + (c) + (d)$ and yielded the slightest contribution towards (e) . The quantity of traffic needed to earn $(a) + (b) + (c) + (d)$ is much lower than is generally realized, so that while there may be branch lines which do not contribute towards (e) and (f) , it is unlikely that any very substantial mileage will fall due for abandonment.

In the case of a combined monopoly the traffic would be sent normally by the route which costs least, so that for example there would be no allowance for "main line contribution" in calculating whether any branch line is obsolete. This would depend on whether the cost of $(a) + (b) + (c) + (d)$ is greater or less than the additional cost of carrying the traffic by road transport. Naturally other considerations would come into play in the case of a combined monopoly, such as the desirability of providing alternative services in the wider interests of transport.

The continuance of a branch line for uncommercial purposes, e.g. national defence, comes under the heading of special services, for which a commercially operated concern would be justified in levying an appropriate charge.

CAPITALIZATION OF TRANSPORT UNDERTAKINGS

In considering this subject we must be clear what we mean by capitalization. It might imply the amount actually spent in creating the enterprise with or without an allowance for preliminary costs. Such a valuation would, of course, be easy at the outset. It can be used, in the case of a concession for a monopoly undertaking, as a basis for prescribing the minimum profits to which it is considered the undertaking is reasonably entitled, and the maximum profits having in view the interests of the public. Such a system may provide for the amortization of the capital by the end of the concession when the undertaking reverts to the Government. The minimum interest is sometimes guaranteed by the Government as in the case of the French Railways. In the

U.S.A., with a view to obtaining a basis for determining a fair remuneration for invested capital, it was decided¹ to make a valuation of the physical assets of the Railways. By a subsequent decision of the Supreme Court² this valuation had to take account of replacement cost. Such a valuation might be considerably above or below the original cost, and might vary greatly, depending on whether it is made at a time of high or low prices. It is no measure either of the original circumstances in which the investor was induced to provide the capital, or of the cost of providing the physical assets which would be considered necessary, at the time of revaluation, to carry out the current service to the public.

A current valuation of physical assets would take account of depreciation. In industrial undertakings the usual practice is to show the present value of the fixed assets at cost less depreciation. This does not necessarily imply that the amounts shown could be realized if the assets were disposed of, as in most cases the assets only retain their values as part of a going concern. Their break-up values would depend on circumstances. As against the loss of value of the original assets, the accounts should show additional assets (including replacements) sufficient to maintain intact the capital value of the undertaking. These replacements are treated as new assets, and therefore appear in the accounts at their actual cost, which may be greater or less than the cost of the written-off original asset.

In the case of Railways a large proportion of the capital on preliminary (e.g. parliamentary) expenses, land, earth-works, tunnels, etc., is not of a "wasting" nature; but on the other hand has very little or no value except as part of a going concern. In this country the practice is for both these non-wasting assets and the wasting assets, such as rails, bridges, locomotives, rolling stock, machinery, to be carried in the accounts at the full original cost. Provision is made for the renewal of the wasting assets from time to time

¹ La Follette Valuation Act of 1913.

² O'Fallon case, 1929.

out of current operating expenses, or through a renewals fund to which contributions out of operating revenue are made on the basis of an assumed rate of depreciation of the various classes of wasting assets valued for this purpose at replacement cost. The life of the different wasting assets is not the same, but if the lives have been correctly estimated, in the long run it will come about that the average age of these assets will be half their life, so that, for example, assuming the average scrap value of the assets is 10 per cent and a flat rate of depreciation during life, the average value of the original wasting assets as they would appear in the balance sheet of an industrial undertaking would have been written down to 55 per cent of cost. If a Railway had started a renewals fund from the beginning, taking the simplest case of no variation in prices, it would have in hand the 45 per cent necessary to maintain the original value of the assets. No Railway has, however, yet achieved this distinction. For practical purposes the liquid renewals fund need only be sufficient to level out the fluctuation of renewals expenditure from year to year. In some Railways abroad there is no renewals fund, and renewals are included in the cost of maintenance.

Thus it might be said that a Railway consumes up to 45 per cent of its wasting capital assets without definite provision of a counterpart in full either out of revenue or by writing down of capital or by writing up goodwill.

In the French Railways and certain State-owned Colonial Railways the debt of the railway is being gradually amortized, and to the extent that this is done the theoretical need for a renewals fund over and above what is necessary to even out replacement costs is diminished.

The circumstances of a Railway are, however, very different from those of an industrial undertaking. A valuation of the physical assets of a Railway has very little meaning, seeing that as already observed, these assets, which for the most part have long lives, would have little value except as part of a going concern. The break-up value would be much

less in proportion to cost than in the case of the average industrial undertaking with plant of comparatively short life and buildings which can be used for other purposes. The valuation of the railway assets depends much more on the assumption of a goodwill. If this goodwill is permanent, as has been assumed to be the case with the British Railways, it may be claimed that the financial provision made for maintaining assets in good working order is all that is necessary. Provided that this provision is sufficient to look after obsolescence as well as depreciation, this claim is doubtless sound.

The above considerations relating to a physical valuation are, however, largely academic. The object of the above valuations on the basis of original expenditure, or, as in U.S.A. of cost of replacement, was to provide a basis for regulating the profits of a monopoly in the interests of the users. For this purpose the half-used values of wasting assets are not of practical importance. It is the subscribed capital which counts.

A second definition of capitalization might be the capital structure of an undertaking. For example, it has been claimed that the capital structure of transport undertakings, and in particular of Railways, should be altered to conform with altered circumstances; that "dead wood" should be cut away and so forth. It is necessary here to distinguish between the value of an undertaking and its capital structure. So long as the Railways remain independent private undertakings, their capital structure has nothing to do with their earning power, and is the concern solely of the shareholders. The usual reasons for altering the capital structure of an undertaking are to enable fresh capital to be raised, and to facilitate the resumption of dividends. The effect of writing down is to bring the nominal and market values of the stock into line, and thus enable fresh capital to be issued. It is no good doing this unless the outlook is stabilized with the prospect of increased profits as a result of the new capital expenditure. Various other reasons have been advanced

for cutting down capital. It is claimed that owing to the higher rates of dividend paid on the reduced capital, there would not be the same excuse for depressing wages which could then be raised. It is claimed that transport charges could be reduced for the same reason. Generalizing these claims it would appear that as soon as an undertaking ceases to earn profits the capital should be written down in order that wages may be raised and charges reduced! Such a prospect hardly points to the resumption of dividends or to the raising of fresh capital. Wages and charges may be among the causes leading to a situation in which capital reconstruction becomes advisable. They will in no way be influenced solely as a result of such reconstruction.

These observations apply equally to the case of State-owned Railways, when, as a result of insufficient net revenue, the interest on railway capital cannot be fully met. The transfer of a portion of the capital charge to the general budget in such a case is merely a book-keeping item, as the loss falls on the taxpayer either way. In the event of renewed prosperity any accruing surplus is more likely to be dissipated instead of being used to service the original debt.

It will be noted that in the case of State Railways the whole capital is virtually in the form of debentures. A better form of capital adjustment might be for the State to acquire ordinary shares of the Railway in return for part of the Railway debt. Such a suggestion was made in 1936 in a scheme for the Swiss Railways and by the McLintock Committee in 1938.¹ If transport undertakings whose capital is entirely represented by fixed charges are to be self-supporting, it is essential that a substantial reserve should be built up in prosperous times to avoid the need for budgetary assistance in bad times, when State finances will already be strained. As already observed, the taxpayer benefits in cases where transport undertakings are privately owned, in that the shock of depressions is taken by the ordinary shareholders and not by the State Budget.

¹ Page 91.

A third definition of capitalization might be the capital valuation of an existing undertaking for the purpose of expropriation. Here other considerations come into play. The chief of these is present and prospective earning power. An undertaking which has a minimum income guaranteed by the Government will still have earning power, though it might be worked at a loss. Without such a guarantee it might simply be kept in existence because its prospective earning power is more valuable than its break-up value. On the other hand, a successful undertaking might have a valuation over and above its original cost plus accumulated savings on account of earnings established at a higher level than could be relied on at the time the original capital was raised. The actual capital valuation expressed in cash would depend on current rates of interest and dividends on other undertakings with comparable security.

It may be that part of an undertaking has little or no earning power while the rest is earning high profits. This may even be the result of deliberate intention in the case of a public utility such as transport which, in return for protection, has to provide for non-paying as well as paying services. In such cases a valuation for expropriation would take account of the undertaking as a whole. The cases in which such valuation might be improved by previous abandonment of parts of undertakings could be determined by the considerations already noted with reference to obsolescence.

It is when we consider the case of a railway or transport undertaking coming into a pool,¹ or being unified with common financial interest with other transport undertakings, that the valuation of each undertaking at once becomes of importance as determining the share of the owners in the future revenues of the combined undertaking. The valuation of the various component undertakings of a proposed amalgamation is nothing to do with their capital structure. The whole of the fixed interest stock of a private company or of the Railway Debt of a State Railway might have been wiped

¹ Page 102.

out by inflation without affecting the value of an undertaking on an amalgamation. Ultimately this value must be based primarily on actual or potential earning power after making allowances for the proper upkeep of the undertaking. Here there is a difficulty. Is the basis of valuation to be the earning power at the moment of unification, or is the earning power to be assessed on the distribution of traffic which is expected to result from whatever scheme of co-ordination is adopted? Suppose that the future régime is to be one of combined road and rail monopoly, is the valuation of road and rail undertakings to be based on their present earning power in competition, or on their future contribution to the combined monopoly undertaking? If the latter, how is the future division of traffic on the new basis to be estimated? These problems must be faced in any scheme of pooling or unification. They have been faced with varying success in the cases of the London Passenger Transport Board and the Northern Ireland Road Transport Board. We may improve with practice.

It is vital for any scheme of unification that the total capital should not exceed what can be serviced by the combined net revenue of the new undertaking with a margin for reserves and as security to facilitate the provision of future capital,¹ remembering that no commercial undertaking can be considered as financially healthy unless it can at times raise further capital on ordinary shares. Consequently it is necessary to exclude elements of valuation not based on anticipated earning power. The amalgamation of a number of dud concerns will not in itself produce revenue to pay for compensation on other grounds than earning power. The payment of compensation based on profits earned under conditions of operation which would in no case be allowed to continue is inviting financial trouble for the new undertaking.

¹ The need for such further capital is evident from the fact that the British Railways alone spent over 75 million pounds on capital account during the past eleven years.

In these circumstances it would be to the interest of the Railways freely to abandon lines or services which at present result in a loss of net revenue, or in cases where an alternative service resulting in an increase of net revenue could be substituted by them. In either case the Railways would stand to gain in a valuation based on earning power. The maintenance of services at a loss solely on grounds of public interest can be envisaged to a certain extent as the price of a monopoly, but should be separately paid for by the State under a competitive régime. We have seen that the abandonment of certain railway (or road) services on commercial grounds will be viewed in a different light, depending on whether they are independent competing interests or part of a combined monopoly.¹

The form in which the purchase price of the constituent undertakings is paid depends on the financial structure of the new undertaking, and on the ruling rates of interest at the time, and may be arranged to assist in preserving the nature of the security previously held by shareholders of the constituent undertakings, e.g. by the allocation of debentures, preference and ordinary shares in certain proportions. In view of the difficulty of estimating the future earning power, the consideration paid for goodwill should be in the form of an equity stock. The total amount of such equity stock will not be of critical importance, provided it is fairly divided between the constituent undertakings. It is important that the ordinary shares should not be too highly geared, as in the case of the "C" Stock of the London Passenger Transport Board which is only 21 per cent of the whole.

Once a unification is carried out the future both of capital developments and of abandonments lies with the new combined undertaking, which will decide where transport requirements do not justify the maintenance of alternative means of transport, and which means of transport is best adapted in such cases to meeting the public needs.

¹ Page 46.

CHAPTER VII

DIVISION OF FUNCTION

ON page 16 attention was drawn to the importance of deciding, as a basis for a national transport policy, what is the correct economic division of traffic between road and rail.

The Royal Commission on Transport in considering this question asked: "*Who* is to decide what goods should in the national interest be sent by rail, road, canal or ship?" Had they asked themselves: "*What* is to decide?" it is possible that even at that early stage they might have gone a long way further towards a solution of the problem, and would probably not have limited themselves to reporting that on the whole "the present system of railway rates appeared to be working satisfactorily and need not be disturbed."

When considering the possibility of a *monopoly* organization¹ of transport we have shown that the scientifically correct division of function in the national interest—once it has been decided what means of transport are to be kept in existence—should depend on the out-of-pocket cost of working the traffic by the different means of transport. *It is important to note that this economic division of function does not depend on the form of rate structure adopted for both forms of transport.*

The user in making his choice of means of transport is chiefly influenced by the charges he has to pay. Under a monopoly, whatever the form of rate structure, alternative road and rail rates will, in general, differ by the difference between road and rail out-of-pocket costs, thus bringing about the economic division of function.

The existence of a monopoly will tend to the preservation of the value rate structure, but a cost rate structure involving a more uniform contribution to fixed charges, i.e. a simpler

¹ Page 23.

classification, can equally be adopted if suitable for trade and industry, and if found practically preferable. What has been happening up to now is that unco-ordinated rate structures have been bringing about an uneconomic division of function. Traffic is passing by road which could be conveyed cheaper by rail and vice versa.

We have referred above to the difficulty of calculating the total cost of railway working per ton mile. This difficulty does not exist to the same extent as regards the out-of-pocket cost of working, more particularly in the case of specific traffics; in fact, the Commercial Manager of a railway undertaking owning also road transport has constantly to decide between the cost of conveying particular traffic by the two means of transport. Speaking generally, one might expect that whereas the total cost of rail and road transport may not on an average differ much in this country, the out-of-pocket cost by rail will tend to be much less than by road in view of the higher percentage of road costs which come in this category. Against this, however, in this country with its short distances the cost of transshipment and delivery plays an important part in favour of road transport. Moreover, under a monopoly the contribution to fixed charges, now represented by vehicle licences and petrol tax, would not be an item of out-of-pocket cost.

In the event of a decision to maintain a *competitive* system, the division of function will be governed not directly by cost to the national economy, but by the result of the competitive rate structure of road and rail undertakings. We have seen that at the outset under the stress of competition both undertakings would tend to reduce charges to the out-of-pocket cost of transport, so that the division of function would at this stage tend to be the same as in the case of a monopoly, while the user would pay an inadequate contribution towards the fixed charges of either undertaking.

Ultimately, assuming stabilization by agreement is reached before one or other form of transport is driven out of business, the division of function would result from rates based

on the total and not the out-of-pocket cost of working transport. While this is true as a whole, the application of such a basis to individual cases is, of course, impossible, and free prices dependent on supply and demand or on agreement between competing forms of transport would prevail.

Since traffic would not necessarily pass by that route which involves the least additional national expenditure, and since the total expenditure on overheads for the purposes of this comparison may be assumed to remain constant, it follows that the total cost of national transport will be larger than under the monopoly régime, and this extra cost will have to be borne by the traffic as a whole, however different the incidence of cost may be on individual classes of traffic under the two systems.

THE FUTURE TARIFF POLICY

What then should be the future policy as regards the railway and road rate structure?

It has, I hope, been made clear that "value" and "cost" rate structures cannot exist side by side.¹ Many of the troubles of the transport world have been due to the delay in recognizing this. The problem, therefore, is should *value* or *cost* be the basis of the future rate structure? The answer to this question should depend primarily on what will be best for trade and industry. On this no agreement is likely between the different sections of trade and industry. The heavy industries will want the value system so as to be sure of preserving their present low rates, and the finished goods industries will hope for reductions in tariffs if rates are based on cost. We have seen, however, that the value rate structure can only be maintained under monopoly conditions. The issue has been confused by the opposition of both sections of industry to the reconstitution of a monopoly in inland transport. As a result there has been no decision in this country on the basic question of what rating system is required. Whether based on the deliberate choice of a rating

¹ Pages 19, 33.

system which is best for the national economy, or whether resulting from measures taken to re-establish monopoly or bring about competitive conditions, the future rate structure of transport can only be the result of a Government decision.

Under the present system of partial protection of the Railways by licensing road transport, every licence for competitive traffic has been a leakage from the implied policy of the Government up to now to maintain the railway value rate structure.

A definite decision as to the rate structure desired should, therefore, precede the formulation of a national scheme for transport. In considering the measures taken in this country up to now towards such a decision we enter a contentious field which is explored in detail in Part II of this book.

CHAPTER VIII

EXPERIENCE OF OTHER COUNTRIES—U.S.A., FRANCE

HAVING now analysed the principles underlying the road and rail problem, let us turn to the experience of other countries and, in the light of these principles, examine the solutions that have been tried and the results which have been achieved, bearing in mind always the effect of local conditions. It will suffice for our purpose if we take the cases of U.S.A., France, Germany, Northern Ireland, and Eire.

U.S.A.

The Railways of the U.S.A. have passed through several financial crises. This situation is primarily due to other circumstances than road competition. At the end of 1937 over 30 per cent of the total railway mileage was in trusteeship or receivership. Under the Emergency Railroad Transportation Act of 1933 a Federal Co-ordinator of Transportation was appointed, one of whose duties was to submit to the Interstate Commerce Commission recommendations for further legislation. His appointment mostly concerned co-ordination between different Railways. In his principal Report dated January, 1934, Mr. Eastman, the Co-ordinator, expressed the opinion that public ownership and operation would be the ultimate solution of the American railroad problem, and that "it was at least questionable whether the railroads alone would well be nationalized without including other forms of transport to some considerable extent."

Transport co-ordination is affected in the U.S.A. by the limitations of federal legislation which can only apply to interstate and international traffic. The difficulties of the problem are increased owing to the different regulations in the various States. The principal Federal Act governing

transport co-ordination is the Motor Carriers Act of 9th August, 1935, which applies to transport by road of both passengers and goods, and is based largely on the reports made by the Co-ordinator. Under this Act "common carriers" must have a "Certificate of public convenience and necessity" and "contract carriers" must hold a permit. These certificates and permits are delivered by or on behalf of the Interstate Commerce Commission. The only conditions for the issue of certificates are proof of capacity to assure the service, and that the service is "required by the present or future public convenience or necessity." No other principles appear to be laid down for the licensing of road transport, each case being treated on its merits. The certificates specify the service to be rendered, routes or areas in which the carrier is authorized to operate, and are issued subject to "such reasonable terms, conditions and limitations as the public convenience and necessity may from time to time require." There is no restriction on the number of vehicles which a carrier can employ over the routes or territory specified in the certificate.

Permits for "contract carriers" are subject to proof of capacity and that the service is consistent with the public interest. The permit specifies the business of the "contract carrier" covered thereby and its scope, with any conditions and limitations; but subject to this there is no restriction on the number of vehicles employed.

"Common carriers" must publish tariffs for the alteration of which thirty days' notice is necessary; they must not discriminate. The Interstate Commerce Commission has powers to modify unreasonable tariffs and to fix maximum and minimum tariffs. The bases of reasonable tariffs are that the cost should be as low as possible and the receipts sufficient for economic working. The Interstate Commerce Commission has powers over the *minimum* tariffs of a "contract carrier" which must be published. No reduction is allowed on any minimum tariff till after thirty days' notice.

Compulsory third party insurance is provided for as a

condition for the issue of a certificate or permit. Ancillary transport is in principle exempt from limitation, subject to reasonable requirements to promote safety of operation as regards hours of working and standards of equipment. The Interstate Commerce Commission may prescribe the forms of any or all accounts and records to be kept by motor carriers, including memoranda of traffic and receipts and expenditures of money.

In general, the Interstate Commerce Commission in administering the provisions of the Motor Carriers' Act tries to make impossible too much competition between rail and road carriers doing the same sort of business in the same area.

The office of the Co-ordinator of Transportation was allowed to expire in June, 1936, as a result of opposition from both Railroads and Labour.

There has been no important road-rail legislation since 1935. In 1938 the President of the United States appointed a Committee, consisting of three representatives of railway employers and three representatives of railway employees, to consider the transportation problem with a view to alleviating the plight of the Railways. They reported that the absence of a clearly defined policy had intensified the unequal and economically wasteful competition between the different modes of transport. They recommended the equalization of regulation, taxation and subsidies as regards the different means of transport, and that the control of rates of all means of transport should be vested in the Interstate Commerce Commission. They further recommended the appointment of a Transportation Board to investigate and report on the relative economy and fitness of the different means of transport and the extent to which any of them was being subsidized, and to recommend further legislation which the Board would thereafter be charged with the responsibility for administering.

Partly as a result of the above recommendations legislation is pending on various measures designed to give financial

relief to the Railways. A proposal to regulate water carriers is also under consideration in spite of heavy opposition. A new Government agency in the form of a Transportation Board may be formed to investigate the problem of subsidies to the different modes of transportation, and to study a new national transport policy and make suggestions for the necessary legislation.

In 1939 the Interstate Commerce Commission in its Annual Report stated that the time had come for the Government to assume active leadership of the campaign to solve the transportation problem, and that this should be done on the basis of comparatively equal competitive terms. They also recommended the creation of a Transportation Board to encourage the proper use of existing facilities. They considered that the conditions now requiring a drastic shrinkage in rail capitalization will sooner or later require a shrinkage in properties operated.

A Transportation Conference, convened by the Chamber of Commerce of the U.S.A. as an autonomous body of some seventy members nominated by national associations interested in transportation but acting individually, strongly recommended the preservation of private ownership and operation of railroads. They opposed a monopoly of all types of transportation. They recommended the Interstate Commerce Commission to give consideration to the need of the carriers for revenue sufficient to assure their credit position. To this end the return on the capital invested in the useful facilities of the carrier systems of the country should be sufficient to attract the necessary new capital.

An Advisory Committee of the Conference considered, but did not place on the Agenda of the Conference, the declaration of general principles of a national transportation policy affecting all forms of transportation aiming primarily to secure to the public the benefit of each kind of transportation.

From the above it would not appear that any definite co-ordination plan is immediately in sight, but, in the Interstate Commerce Commission, a recent reorganization placing

the regulation of rail and road rates under the same Division, and the appointment of the former Co-ordinator of Transportation, Mr. Eastman, as Chairman for three years from 1st July, 1939, presage more positive action on the subject of road and rail co-ordination. One wonders whether in U.S.A. constitutional difficulties will have to be added to the obstacles which have impeded road-rail co-ordination in other countries.

FRANCE

The French Railways while originally private undertakings differ from British and American Railways in that they were created in virtue of concessions for specified periods expiring between 1950 and 1960, at the end of which the ownership of the Railways was to revert to the State on payment for the rolling stock and stocks of materials and stores. The State received two-thirds of any profits in excess of a prescribed figure.

Owing to financial difficulties several of the smaller lines were taken over by the State, and in 1878 the Etat Railway was formed by the fusion of most of these lines. In 1908 the Réseau de l'Ouest was acquired by the State and added to the Etat System. The Alsace-Lorraine Railways became French State Railways when these territories were included in France after the Great War. In 1921 the net revenues, or more often the deficits, of the French Railways after meeting the minimum interest guaranteed by the Government on the ordinary shares, were pooled in a common fund, any deficits of which were to be temporarily met by the Government. After 1929 there was an increasing deficit in the common fund due largely to the fall in traffic, and to the railway charges not having been allowed to keep in line with the extra costs resulting from the devaluation of the franc. The financial condition of the Railways continued to deteriorate, partly owing to economic crises, but to a growing degree owing to the absence of measures to regulate the competition of road transport. For 1933 the total deficit,

after allowing for capital charges including the guaranteed interest on the ordinary shares, was 4395 million francs.

On 1st January, 1938, the Railways were unified as a single system and handed over to a National Railway Company of which the State holds the majority of the shares. The whole system passes automatically to the State in 1982 without any payment. For the year 1938 the railway deficit, after allowing for capital charges totalling four milliard francs, amounted to six milliard francs. The intention is that the revenues of the Railways should be sufficient to cover all their capital charges. This result is to be gradually attained within five years.

As regards road and rail co-ordination, the first serious step was a Decree Law of the 19th April, 1934, which was inspired by the principle that the division of traffic between road and rail should take place according to aptitude. It was laid down that in general the Railways should carry bulk and long-distance traffic, and that they should abandon to road transport lines or services working at a loss. No new public road services were to be established. Regional *ententes* were to effect the above division of function with arbitration failing agreement. A Central Committee of Co-ordination (*Comité de Co-ordination*) was created consisting of five experts: four representing different forms of transport and an arbitrator. The first arrangement under this Decree Law, known as the Rouen Agreement, was exceptional in that it applied to goods as well as passengers. The general basis of the Agreement was the exchange of passenger kilometres on unremunerative railway branch lines for passenger kilometres on services running parallel and competitive with long-distance rail traffic. The independence of the smallest class of operator was protected by allotting to them the exclusive right to operate certain routes. The Railway renounced all direct and indirect interest in road services, and transferred to road hauliers part of their collection and delivery work. Passenger traffic was to be discontinued on a number of branch lines and reduced on others. Long-distance

traffic, subject to certain temporary arrangements, was to be preserved to the Railways. The road hauliers expressed the intention to publish their fares and rates and not to discriminate, and undertook to keep their vehicles in good order and to insure against third party risks. Owing, however, to the subsequent change of policy described below this Rouen Agreement was never put into force.

The Decree of 25th February, 1935, applied the Decree Law of 19th April, 1934, to passenger transport. Technical County Commissions of five members all representing road or rail interests were to be appointed to work out the *ententes* envisaged in the previous law, and after their approval supervise their application locally. Maximum tariffs were to be fixed and road passenger services were to have the obligation to carry including during peak periods. Provision was made for insurance, guarantee deposits, and examination of vehicles.

A Decree, dated the 13th July, 1935, applied the principles of the 1934 Decree Law to goods transport. A census of hauliers engaged in public transport showing numbers and types of vehicles and services maintained was provided for, in order that temporary licences could be issued to those services existing before the 21st April, 1934. Three categories of licences were provided for depending on distances, the first category being distances up to 50 kilometres. Regional Pacts were to be arranged by the voluntary adhesion of holders of temporary carriers' licences, and could be declared binding if approved by three-quarters of the tonnage of vehicles concerned. Tariffs were to be freely fixed between maxima and minima prescribed in the *ententes*. Provision was made for timetables, frequency of service, designation of routes, insurance, waybills, hours of duty, and annual inspection of vehicles. Tariffs were to be published and discrimination prohibited. Hauliers, other than those operating over short distances, were to pay, for the benefit of the Treasury, a tax per ton kilometre varying with the category of transport, i.e. medium or long-distance and whether parcels, goods, or live-stock.

Ancillary transport was not included in the licensing arrangements, but was definitely prohibited from carrying return loads for payment. (In the Decree Law of 16th July, 1937, ancillary transport operating beyond a certain distance was to pay the above tax.) These taxes were intended to equalize road and railway tariffs, and railway charges were to be adjusted if necessary to attain this end. The Railways were to give up all participation in road transport enterprises (it will be noted that this is the reverse of the tendency in Great Britain, U.S.A., or Germany).

Although the County Technical Committees had been formed, the measures contained in the above legislation were never put effectively into practice, as it was found necessary to abandon a policy based on *ententes* solely between railway and road transport undertakings, and to substitute for it a system in which the users and the public authorities should take part. To this end the Decree of the 14th November, 1936, provided for representation of the users and of Government authorities on the County Technical Committees and on the Co-ordination Committees.

Meanwhile it is interesting to note that in March, 1937, Monsieur Charles Pomaret in a Report to the Finance Commission of the French Chamber of Deputies expressed the opinion that the adoption of any of the reforms proposed could at best be only a palliative, and that sooner or later it would be necessary to institute a transport monopoly either as a State-owned service or subject to a large measure of State control.

A further Decree Law was issued on the 31st August, 1937, as the steps previously taken had not given the results anticipated, and further action was necessary to alleviate the financial burden to the State. Considerable freedom was promised to small operators for short-distance work. For long-distance work it was proposed to form Associations of Hauliers subject to control by the State and by the Co-ordinating Committees.

A Superior Transport Council (*Conseil Supérieur des*

Transports), somewhat resembling our Transport Advisory Council, was substituted for the Higher Railway Council which had been appointed in 1921. The Council, which was divided into committees dealing with the different aspects of transport, comprised in all over eighty members, including twenty-seven representatives of transport undertakings and their personnel, twenty-seven representatives of users of transport, and twenty-seven of public authorities, with a Chairman and the Chairmen of Committees nominated by the Minister of Public Works. The Technical County Committees, now consisting of representatives of rail, road, users, and Government authorities, were to draw up County Co-ordination Plans which were to be approved in each case by the Conseil Général (County Council) and finally by the Minister after consulting the Superior Transport Council.

It should be noted that these measures defining new principles of road and rail co-ordination and creating the Conseil Supérieur des Transports were adopted simultaneously with the reorganization of the French Railways referred to above. The intention was to bring into being a new organization of land transport in France.

Considerable progress was made and by July, 1939, eighty-six county plans had been submitted, of which the large majority had been approved; 9550 kilometres of railway had been completely and 4941 kilometres partly closed to passenger traffic; a further 600 kilometres being under consideration for complete or partial closure to passenger traffic. The economies resulting to the French Railways were expected to be about one milliard francs. In order to reduce road competition the taxes on both passenger and goods vehicles were increased by a Decree Law of 8th July, 1937.

A Decree of the 25th February, 1938, dealt with the co-ordination of passenger transport and a further Decree of 12th October, 1938, with goods transport, but these need not be considered here as they were embodied in the Decree Law of 12th November, 1938, and the Decree of 12th January,

1939, which codified, modified, and completed all previous legislation and regulations.

The present situation as regards the road and rail question is, therefore, as follows.

Road goods transport is divided into four categories—

Rural cartage.

Urban cartage.

Short-distance transport.

Long-distance transport.

The zones of rural and urban cartage are defined by the smaller administrative areas, and comprise the area in which the vehicle is domiciled and the areas immediately adjacent, except in the case of large towns where the Minister can lay down special limits. The exercise of transport is free, the only formality being a declaration sent to the Prefect the receipt for which has to accompany the vehicle. Rural cartage must not create competition with the Railways or road hauliers for bulk traffic unless such competition was effectively exercised before 21st April, 1934.

Short-distance transport applies to transport within a county or two adjacent counties. Vehicles are licensed by the Prefect on the basis of the operations carried out prior to 21st April, 1934, as confirmed by the temporary licences issued in 1935. Each licence specifies the zone and nature of the operations. Licences may be issued with validity up to 31st December, 1948. Short-distance transport is free as to itineraries, tariffs, and nature of goods carried, provided that no new competition is created with the Railways since the situation on 21st April, 1934, and that the Railways are given preference for bulk traffic. To achieve these objects the Minister may by Decree prescribe measures limiting the activity of any undertaking or fixing its tariffs. For all journeys outside the county of domicile way-bills have to be kept on forms detached from books issued by the County Technical Committees. A register of traffic must be kept in specified cases which might involve competition with the Railways. The Railways can appeal to the County Technical

Committees if any haulier takes traffic intended to be allotted to the Railway, or can demand protection for specified traffics which they carry. In the absence of agreement in the Technical County Committee the matter is decided by the Minister of Public Works.

Long-distance transport is limited by licensing. Licences valid until 31st December, 1948, are issued in replacement of the temporary licences of 1935. Licences specify the scope and nature of the operations allowed. These particulars can only be varied with the approval of the Hauliers' Associations and the Railways. Long-distance hauliers must agree to accept haulage quotas based on the carryings of the two previous years. There is to be flexibility in the use of the quotas. It is intended that unused quotas should be carried forward, and that excesses over quotas should be permitted on payment of a toll to the Railways corresponding to the extra traffic. The details of the provisions regarding quotas and tolls had not been settled by July, 1939.

The Minister of Public Works can in exceptional cases authorize the Railways to take over and suppress a road service on payment of compensation assessed by experts, if such service constitutes a wasteful duplication and if the displaced operator cannot be provided with a suitable field elsewhere.

Plans for the organization of transport are to be presented by the Superior Transport Council in time to be brought into force by 1st January, 1948, for passengers and 1st January, 1949, for goods transport. Operators whose licences are not then renewed will be compensated.

Long-distance hauliers are obliged to observe prescribed schedules of minimum rates. The minimum charges for merchandise are to be based on the road mileage multiplied by rates determined by a simple classification of four classes. A fixed charge per ton is also included. For consignments of less than one ton an amount must be added equal to the railway cartage tariffs at both ends. Any rates can be charged for consignments under 100 kilograms. Exceptional rates

are permitted subject to approval by the Minister of Public Works. These rates must be based on the actual distance by rail or road, whichever is shorter, and must not be less than the corresponding railway rates for the same distance including cartage. The intention is (as in Germany) that there should be complete parity of tariffs as between the two means of transport. Even under the above arrangements, however, the road rates are stated to be below the comparable standard railway rates for higher-class traffic. Meanwhile the Railways are authorized by their statutes to charge agreed tariffs of various types to specific clients as in England. As against this road transport has now no obligation to carry or to publish rates and no prohibition of discrimination, except that hauliers not belonging to Associations have to publish their duly approved exceptional tariffs. Long-distance hauliers have to keep way-bills and registers of all traffic carried showing the charges made.

The Railways and the Regional or National Committees referred to below may enter into rate agreements. These agreements may include a limitation of tonnage or of ton-mileage transported by road enterprises, and the payment of toll for the conveyance of tonnage in excess of these limits. Agreements have to be approved by the Minister after consulting the Superior Transport Council.

Voluntary Associations of long-distance hauliers are to be formed in each county. They are to be responsible to the Government for supervising compliance by their members with the quota and tariff rules and general regulations. They are to participate in drawing up the tariffs which are to be compulsory on all hauliers whether members or not. They have power to examine confidentially the records kept by their members and to impose fines for offences. The Ministry of Public Works can verify the sufficiency of the control exercised by the Associations, and can fine the Associations three times the penalty which they could themselves have imposed in cases where the supervision has failed to detect irregularities, or where the prescribed penalty has not been

inflicted. In serious cases the Minister can suspend the benefits of reduced taxation enjoyed by members, or withdraw his mandate to the Association. Disputes between a haulier and his local Association are referred to a Regional or National Committee (both consisting of representatives of the County Hauliers' Associations) with final reference, if necessary, to the Minister through the Superior Transport Council. Hauliers who are not members of Associations are supervised directly by the control service.

While membership of the Hauliers' Associations is voluntary, those hauliers who do not belong to Associations have to pay twice the special taxes imposed from time to time on public long-distance road transport. In the case of non-observance of tariff agreements members of Associations benefit from a less rapid procedure for the withdrawal of their licences than in the case of non-members.

By July, 1939, Associations had been formed in most counties, but many of them had not yet received the approval of the Minister. Up to 80 or 90 per cent of the hauliers in some counties had joined the Associations.

The special taxation of road vehicles used for public transport is complicated by various exceptions depending on distance and on other circumstances. There is an increase of 50 per cent on vehicles over ten years old.

Except for vehicles weighing over twelve tons, including any trailer, ancillary transport is not licensed in any way, but vehicles carry a distinctive mark. Journey records have to be kept on an approved form. Vehicles up to varying tonnages, depending on distances, employed on ancillary traffic are, however, released from the obligation to keep journey records.

The previous provisions regarding the abandonment by the Railways of participation in road transport undertakings were not repeated in the codifying legislation of 12th November, 1938, and 12th January, 1939, and no steps have been taken to give effect to them.

As regards passenger transport, the Railways are

specifically authorized to participate in certain classes of services, namely feeder services to the railway in cases where no independent transport undertaking will provide for them, non-paying services replacing railway services and services parallel with the railway. The existing contracts between the Railway and road transport subsidiaries are not disturbed, the general principle being that the Railway as regards opening new transport services is on the same footing as independent transport undertakings.

As regards goods transport the same principle applies, and as the National Railway Company were operating no long-distance goods road services before 21st April, 1934, they have no right at present to carry on any such services. An exception has, however, been made in the case of services instituted to replace abandoned railway services.

When competition has been eliminated between road and rail it will be possible to authorize new road transport undertakings. Meanwhile a small Committee has been investigating the readjustment of railway and road rates which have been lowered as a result of competition.

It is worth noting that the failure of earlier road and rail legislation was attributed to the fact that the arranging of agreements had been left to representatives of road and rail only, to the exclusion of the representatives of the users and of the Government Authorities. At the moment of writing it is too early to say how the present scheme will work, for example as regards the success or otherwise of the Hauliers' Associations, the distinction between long- and short-distance haulage, traffic quotas and tolls, and the checking of evasions of the law.

The French Government, influenced chiefly by concern for the stability of railway finances, would seem to be moving in the direction of arbitrary regulation of transport through enforced minimum road transport rates. The intention appears to be to maintain substantially the present railway rate structure, yet the authorized road rates as now fixed to some extent undermine that rate structure. Moreover, as

the higher road rates are probably in many cases over the average cost of working, there will be a tendency for illegal undercutting or secret rebates which may be very difficult to discover or check in the absence of compulsory Road Associations, the more so as there is no longer any general obligation for road hauliers to accept traffic, to publish rates, or to refrain from discrimination. Other leaks may result from the granting of exemptions to certain categories of long-distance private vehicles in the matter of documents regarding traffic carried.

The scheme does not escape the dilemma that if a value rate structure is to be arbitrarily maintained for the Railways, road rates fixed above the cost of working plus profit will not be observed by road operators, while road rates based on cost of working plus profit will undercut the higher railway rates.

How far the economies resulting from the amalgamation of the Railways and the hoped for increase of revenue resulting from higher rates will enable the Railways to meet their capital charges also remains to be seen.

CHAPTER IX

GERMANY

DURING 1936 the transport policy of the German Government was definitely made known.¹

The German transport system is governed by the doctrine that priority is to be given to German economic interests over business principles. To achieve this end there is to be no general transport monopoly, but private transport undertakings must conform with the State Plan. The various transport combinations are to be financially self-supporting without, however, earning undue profits. There is to be no deviation from the principle of non-discrimination in the form of cheaper rates to large users in return for a guarantee of traffic, nor is there to be undercutting of rates whether by the Railways or other forms of transport. Exceptional rates are only to be granted if justified by State or national considerations.

The Railways are the backbone of the German transport system and will remain so in the immediate future. The existing railway value rate structure must be preserved as well as the generalization of transport rates as between districts with heavy and light traffic. Tariffs must be published and applied without discrimination. The State would see to it that the division of function is effected on economic grounds and in the interests of defence.

Thus the German Government has had the advantage of approaching the road-rail problem with a definite policy. By building up reserves in more prosperous times prior to 1930 the German Railways have been able to surmount the subsequent crisis, and are now rapidly replacing reserves, thus assuring financial equilibrium over a period of years.

¹ Speech by State Secretary Koenigs, March, 1936. Speech by the Minister of Posts and Transport, 13th November, 1936.

Owing to road competition the Railways suffered revenue losses which continued to increase rapidly from year to year. It has, however, been impossible to arrive at agreement between the two parties as to the actual figures of such losses. Apart from diversion to haulage undertakings a continuously increasing quantity of traffic is being transferred to private transport.

As regards goods traffic, following numerous measures taken from 1925 onwards to improve the efficiency of railway working, a system of special "K" rates was introduced by the Railways to meet competition in particular traffics and between particular points, often being conditional on a minimum dispatch of traffic. It was contended by the Railways that these rates did not constitute discrimination, as the favoured situation was already brought about by motor competition, and was therefore not altered through the Railways quoting rates corresponding to road charges in order to hold the traffic.

It was calculated in 1930 that a general reduction of the high-class rates, sufficient at that time to compete with motor transport, would involve an increase of at least 25 per cent in the rates for the lowest classes, such as coal, and 15 per cent for other classes to compensate for the loss of revenue.

In October, 1931, by an Emergency Decree, licensing was introduced for motor goods transport operating over 50 kilometres, except ancillary traffic. Motor transport rates were prescribed corresponding to the higher-class rates on the Railways. As a counterpart, the Railways had to discontinue their special competitive rates. This legislation failed owing to the impossibility of controlling road charges. It is understood that in 1934 a tentative proposal was considered which would have tended to a railway monopoly of long-distance road transport, but this was not proceeded with.

In June, 1935, a law was passed under which all goods transport operators (except ancillary users) working outside a radius of 50 kilometres—long-distance hauliers—were

obliged to join a Public Corporation. Rates were to be fixed in agreement between the Railways and the Corporation, with the approval of the Minister of Transport. All payment for transport was to be made by users direct to the Corporation and not to the operator. The Corporation make some deduction for expenses and pay the balance to the operator as remuneration for the service performed. The members of the Corporation can accept a conditional obligation to the Corporation to carry traffic offered to them. Goods carried have to be insured against legal liability for damage. The Corporation, known as the "Reichs-Kraftwagen-Betriebsverband," was formed in October, 1935, and consists of a headquarters in Berlin, fourteen area representatives, and seventy-six clearing houses, associated with accounting centres, which may make advances on freight pending final checking at headquarters of the amount due to operators. Ancillary traffic remains free, but is rigidly limited to the carriage of goods belonging to the owner in his own vehicle. The development of ancillary long-distance traffic is being closely watched.

The first road transport tariffs under this Act came into force on 1st April, 1936. They were originally closely based on the four higher classes of the railway goods tariff. In course of time the whole of the standard rates of the Railways were made applicable to long-distance goods transport by road; and this was followed by the inclusion of numerous railway exceptional tariffs.

On 2nd February, 1938, practically the whole of the classification of the German Railway goods tariff was made applicable to long-distance road goods transport. Further, there are nineteen different classes of supplementary charges for special services, such as loading, weighing, invoicing, use of covered vehicles, storage, checking, and so forth. In some respects the tariffs make for greater equality between large and small shippers.

It might be thought that these regulations even if they fulfil their object do so only at the expense of destroying the

flexibility of long-distance motor transport. The total number of vehicles at present (August, 1939) authorized to carry out long-distance transport for payment is, however, not so great as might be expected, viz. about 16,000 vehicles, excluding trailers, with 13,000 owners. All these operators are members of the "Reichs-Kraftwagen-Betriebsverband" (R.K.B.).

Vehicles authorized for long-distance traffic are painted blue with a white chain round the body of the vehicle, and carry a board stating that the vehicle is authorized for long-distance traffic and giving the centre on which it is based.

The ordinance of 27th March, 1936, deals with the details of licensing of motor vehicles for long-distance traffic. Numerous officials in different parts of Germany are specified as Licensing Authorities. The German Railways, the Deutsche Arbeitsfront, the Reichs-Kraftwagen-Betriebsverband, and the local Chambers of Commerce and Industry are entitled to be heard in the course of the licensing proceedings. A licence may be refused if there is no economic need. An operator who extensively employs private (ancillary) transport may not hold a licence for long-distance goods transport. There is normally no restriction on the area of the licences which are available for the whole of Germany, provided the necessary conditions are fulfilled, though in certain cases a limited licence can be given. Long-distance operators are prohibited from carrying for payment between points in the short-distance zone. Licences are to be for a period long enough to admit of the amortization of the invested capital, and for at least eight years. The German Railways themselves undertake long- and short-distance road transport with their own vehicles, subject to the right of the Minister to impose restrictions.

The idea of the law is to maintain unlimited but fair competition while preserving unimpaired the present railway rate structure. This is to be achieved by assuring that unless justified by differences in the cost of working, e.g. exceptional

differences in the mileages by road and rail routes, the prices charged for transport by road and rail are to be the same for the same service.

The discontinuance of the special charges for cartage and delivery which originally had to be added to the railway rate to give the road rate for consignments up to $2\frac{1}{2}$ tons has, however, placed the road transport at a competitive advantage, in that the road house-to-house rates are equal to the railway station-to-station rates.

The Reichs-Kraftwagen-Betriebsverband is obliged to publish the tariffs, and the member operators must apply the tariffs without discrimination, and must keep the transport documents and records required by the Betriebsverband.

A large proportion of the vehicles in the R.K.B. work regularly between specified towns. There are, however, a number of "tramp" vehicles which are paid for on a ton mileage basis, by the R.K.B., the R.K.B. collecting the prescribed rates from the shippers. The profits are used for assisting non-paying services in the less populated areas. The significance of this system is of importance as it embodies charges to the public based on the value of the service with payment to the hauliers based on cost of service. It automatically eliminates any temptation to evade the application of rates fixed on the value basis. To a certain extent it marries paying with non-paying traffic without, however, going the full distance of a toll based on the value of the traffic and destined to cover fixed transport charges.

As regards the regular services, owing to the heavy demand for transport during the past few years arising in many cases from Government requirements, there has been ample traffic for both road and rail, and in fact all restrictions on the quantity of long-distance road transport have been suspended, so that the scheme of road and rail co-ordination has not been subjected to the strain of severe competition for a diminishing traffic.

The officials of the R.K.B. claim that the rate regulations are effectively adhered to, not more than 2 per cent of the

traffic being affected by rate irregularities. Another view, however, is that in spite of every effort the granting of illegal advantages and rebates has been such that the "idea of keeping faith in tariff matters remained a beautiful dream."¹

The strain of imposing on road transport arbitrary rates which are higher than the cost of service plus profit has led to proposals for reviewing the road tariffs. If, however, they are based more on cost than on value, competition for high-class traffic will be accentuated at the expense of the Railways. A solution may be attempted by extending the arrangements already applying to tramp hauliers. Such a step towards monopoly would still leave to be dealt with the leak of the ancillary user who takes advantage of the railway rate structure.

Since 1st October, 1936, the transport tax which had been imposed on the Railways for many years has been extended to road transport. This tax, which in the case of the Railways amounts to 7 per cent of the gross receipts from goods transport and 11 to 16 per cent from passenger transport, amounts to 7 per cent on long-distance road goods transport, including ancillary transport, and 12 per cent on long-distance passenger transport.

The necessary particulars for the assessment of this tax have to be recorded on the prescribed transport documents and records.

The Government have introduced a complete organization with a view to co-ordinating all forms of transport. This organization comes under the Minister of Transport, who is responsible for every form of transport, except the Civil Air Services which are under the Air Ministry and the road system under the Inspector General of Roads.

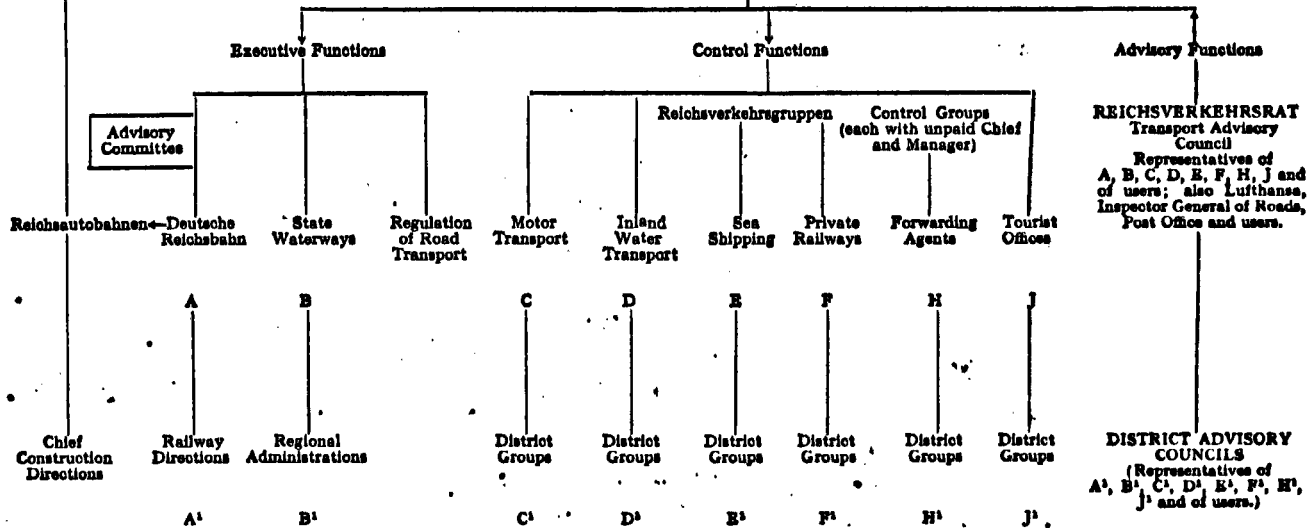
The functions of the Minister of Transport are now divided into two categories—

1. Executive management of direct State transport undertakings, viz. waterways and railways.

¹ Oberregierungsrat Dr. Trierenberg, Ministry of Transport, 22nd February, 1939.

**INSPECTOR GENERAL
OF ROADS**

MINISTER OF TRANSPORT



N.B. C to J and C¹ to J¹ each have Advisory Councils made up of the heads of the different sections in the Group.

2. Control of compulsory associations of private or semi-private branches of transport, viz. motor transport, inland water transport, sea shipping, private railways, forwarding agents including collection and delivery services and tourist organizations.

The Minister is assisted by an Advisory Council for all forms of transport.

The general interrelation of these various organizations is shown on the chart (page 80), from which it is seen that a definite machine is provided which should permit of the various transport interests being brought together for the discussion of questions of common interest. A good deal of the scheme is, however, still on paper only, especially as regards the regional organization.

Thus Germany with its easier geographical problem, a smaller number of vehicles to control, intense traffic activity, and a definite policy as regards national transport would seem to have gone further than other countries in evolving a workable system of road and rail co-ordination. The resulting division of function still does not correspond to that which has been suggested as being economically correct.¹ The question of charges has not yet reached finality. The ground has, however, been prepared for a final solution of both these points, either by moving to a combined road and rail monopoly for long-distance transport, or by some other system which will achieve the same end.

¹ Pages 24, 55.

CHAPTER X

NORTHERN IRELAND

IN 1934 Sir Felix Pole was called on to report on the co-ordination of road and rail transport in Northern Ireland as a matter of urgency, and asked to formulate a policy which would be fair to the interests concerned, and at the same time ensure an efficient transport system for Northern Ireland.

As a result of intensive competition bus services had been brought into control by licensing as early as 1926.¹ The Railways had obtained powers to run bus services in 1927, but did not exercise these powers, which lapsed in 1928 in virtue of the Motor Vehicles and Road Traffic Act (N.I.) of 1929, which protected those existing licensees who were providing efficient services, and who complied with the prescribed routes, services and timetables together with the fares fixed by a Tribunal set up for the purpose. The bus scheme was definitely successful, and it is stated that the English legislation of 1930 was modelled on it. Competition with the Railways was, however, severe and the Railways began to acquire existing concerns. By 1934 they owned about 30 per cent of the bus services in the country.

There was no system of licensing goods vehicles, and the Railways were suffering from intense competition, and were nearly all being worked at a loss. The Government decided they could not allow the Railways to go out of business, if only because of their importance to the holiday and tourist industry.

In evidence before Sir Felix Pole the Railways proposed some relaxation of railway regulation, and that road transport should be subjected to a substantial extension of regulation, taxation, and control. Alternatively the Railways wished to be empowered to be the sole providers of public

¹ Motor Vehicles (Traffic and Regulation) Act (N.I.), 1926.

transport by rail and road in their respective areas, with the right to acquire any public road undertaking. In short, the Railways asked for either equality in competition or a road-rail monopoly run by themselves. Other interests gave evidence on the usual lines. The hauliers wanted licensing and regulation to protect them from irregular competition, but otherwise to be free to compete. Competing navigation interests recommended stricter control of road transport. Labour recommended nationalization or the observance by road transport of Trade Union wages and conditions. Users, represented by Chambers of Commerce, were against monopoly, but favoured a reduction of surplus hauliers. Railway shareholders favoured the discontinuance of unprofitable railway services and the restriction of competition by licensing.

Sir Felix Pole in his Report¹ found that there was an unanswerable case for co-ordination of road and rail services to avoid serious results which would ultimately lead to an inadequate and expensive transport system. But for local circumstances connected with the ownership of the Railways he would have favoured the formation of a Transport Board to acquire all existing transport organizations, a scheme which he thought should not have offered difficulties as the area involved was a small one.

The solution recommended was a Road Transport Board to take over all public passenger and goods services worked by carriers or by the Railways, including the railway collection and delivery services: this Board and the Railway Companies were to enter into an agreement to pool their receipts, thus establishing a common financial interest. The Railway proposal for a railway-controlled monopoly was turned down in the absence of any scheme for amalgamating the Railways or for the closing down of redundant lines, and to avoid the diminished urge to efficiency which would result from such monopoly. The Board was to take over first the large road operators, then, to the extent considered necessary

¹ Transport Conditions in Northern Ireland, Cmd. 160.

by the Board, the smaller ones, the terms of purchase to be settled by arbitration if necessary. The service of new capital for development was to be a first charge on the results of the Pool. Appeals by the public or by railway or road interests as to rates and fares, services and conditions of transport were to be dealt with by a Transport Appeal Tribunal; otherwise the Board and the Railways were to have freedom to fix rates as they liked without Government approval. Compulsory classification and maximum rates were to be abolished, subject to appeal as above. All road vehicles, including ancillary users, were to be licensed and subject to appropriate regulations on technical conditions and wages. The Railways and Road Transport Board were to form a Joint Committee to work the Pool and co-ordinate services, fares and conditions with a view to avoiding wasteful and uneconomic competition and to increasing receipts by improved facilities.

The Road and Rail Transport Act (N.I.), 1935, was passed to give effect to these recommendations. So far as finance was concerned, the Act definitely placed on the Road Transport Board the duty of securing that their revenue should be sufficient to cover all charges. As a temporary measure the Government had powers to guarantee Loans raised by the new Board. The Act excepted the prosperous Belfast passenger undertaking and certain local carriers in Belfast and Londonderry. The ancillary user was left free and unlicensed, and in the case of farmers, certain transports for payment were allowed within a prescribed distance. The price of undertakings acquired by the Board was to be arrived at by arbitration failing agreement. The arbitrators were to "have regard to all the circumstances of the case," including consideration paid in similar cases to other undertakings. A fair and equitable standard of consideration as between the several owners was to be aimed at. Compensation, payable by the Board, was to be awarded to redundant employees of the undertakings taken over. The first £5000 of the purchase price of undertakings was to be paid in cash

and the balance in stock. This stock was to consist of 4 per cent "A" Stock of which the amount issued was limited to the value of the assets exclusive of goodwill; and "B" Stock with interest after two years varying from 5 to 6 per cent.

Following the precedent of the London Passenger Transport Board, stockholders of "A" and "B" Stocks of the Transport Board had the power to appoint a receiver in the event of continued default. A reserve fund was to be constituted for the purpose *inter alia* of levelling out the results of good and bad years. Contrary to the advice of Sir Felix Pole, who had recommended that the Board should be composed of representatives of the principal constituent interests with a Transport Chairman, the Road Transport Board, as appointed, consisted of business men with wide experience but not previously associated with the transport industry, the idea being that they would be free from the animosities which had resulted from the fierce warfare between road and rail interests.

A Pool of net receipts was to be formed with the Railways: net receipts being defined as the gross receipts (with the exception of railway terminal charges) less those costs of earning the receipts which vary with the mileage run. The net receipts were to be divided in proportion to the net receipts of the Railways and of the Board in a standard year. (1932 for road transport; the mean of 1924 and 1932 for the Railways.)

On the formation of the Board no one else was to be permitted to use passenger or goods motor vehicles for hire or reward, except with the consent of the Board in writing and approval of the Ministry of Home Affairs. A reasonable obligation to carry was placed on the Board. The Railways and the Board were free to fix reasonable rates and fares which were to be published. Discrimination was prohibited. These matters were subject to appeal before an Appeal Tribunal which could reduce or increase charges, and could order the restoration of services which had been withdrawn or the provision of new or improved services or facilities.

The Board were enjoined so to co-ordinate their own services as to prevent unnecessary or wasteful services, and to co-ordinate their services with the Railways having regard to the interests of the public. For this purpose a Joint Committee was established as proposed by Sir Felix Pole.

Thus the Northern Ireland scheme amounted to independent road and rail monopolies of public transport with a pooling arrangement between them intended to create a common financial interest, and thus eliminate competition and bring about a division of function corresponding to the case of a single monopoly. For this result to be obtained, it is essential that the identity of financial interest should be permanent, as otherwise there will be manœuvring for the future: in this respect the conditions of the Pool provided for an alteration in the proportionate shares of the parties on the grounds of material alteration of circumstances which would make a continuation of the original proportions inequitable to any party. For this reason the Pool was evidently not so sure an instrument as a combined monopoly would have been. No reference was made in the scheme to the effect of the proposed freedom of the ancillary user on the future rate structure of the Board and of the Railways. There was no reliable information which would enable a comprehensive view of the problem to be taken before the acquisition of the road transport undertakings.

As a result, too large a purchase consideration was paid for undertakings which could never earn the service of their assumed capital value. On the other hand, operators who had been earning a living out of haulage considered they were being underpaid, and not unnaturally objected to being paid partly in "B" Stock of the Board which in 1936 was standing at between 75 and 85 instead of 100. (In November, 1938, it was 33.) Dissatisfaction of the operators displaced was increased owing to the delay in appointing the Arbitration Tribunal for assessing the purchase consideration. There was complaint about the services, and that certain passenger fares were increased. It was stated that the goods

services, lacking their previous personal touch and adaptability to local requirements, were deteriorating, so that the traffic was being diverted to ancillary transport or back to the Railways. Unfortunately the Transport Appeal Tribunal which was intended to deal with complaints by the public was not appointed until over a year after the Act was passed, with the result that the public were antagonized—probably without justification, as there was bound to be some disorganization during the transition stage. Even so, the Board claimed to have found it possible to carry the same traffic as before with half the number of vehicles.

It may be remarked that increases in rates and fares would not necessarily constitute a retrograde step, as in the circumstances leading to the appointment of the Board it is probable that many road charges had become uneconomic under the stress of competition, and in any case did not take account of the conditions of wages and service essential to the public interest and imposed on the Board.

The ancillary user, although working often at high cost, diverted the more paying traffic from the Board and caused rates to be depressed in the effort to hold the traffic. More important still, the private owner, whose operating conditions were difficult to control, found loopholes which enabled him to carry on in effect a haulage business under the guise of trading. There was abuse of the concession given to farmers, and even open defiance of the Law in running haulage businesses.

The first year of the Board resulted in an operating loss of £47,000; by the end of the second year the accumulated operating loss amounted to £117,000. The deficit for the first three years including interest was £460,000, and likely to increase. Up to August, 1938, the Northern Ireland Government had guaranteed loans to the extent of £1,800,000 issued by the Board, which had been allowed by Parliament to pay the dividend on transport stock for five years out of capital. As a result of the failure of the scheme the need to subsidize transport became the chief financial burden of the

State, and is likely indirectly to lead to a charge on the British Budget.

The situation became so difficult that in 1938 the Government appointed a Committee under the Chairmanship of Sir William McLintock to inquire into the technical and financial working of the Board. This inquiry was to be *in camera*. In order to give everybody a chance of blowing off steam a previous public inquiry was also held on behalf of the Minister of Home Affairs, who nominated the Recorder of Belfast for the purpose.

In this public inquiry the Board blamed the Railways for obstruction which prevented them from offering effective and cheap services, and with trying to obtain a monopoly. The Board stated they were losing £600,000 of traffic yearly due to the competition of goods hauliers who, having received inflated compensation from the Board, utilized loopholes in the Act and resumed their previous haulage business under guise of ancillary users. The North of Ireland was stated to be honeycombed with one-man lorries. Lorry drivers from adjoining areas penetrated into the Board's area and secured the traffic by undercutting the Board's rates. The Board justified its refusal to give to the Railways information they had asked for because "they could not be trusted." They could not agree with the Railways on a commercial policy, and the rivalry and bitterness between road and rail had prevented the complete co-ordination which would have increased profits. The Board complained that the Railways had been slow in closing branch lines: the Railways that the Board had not given them the necessary information. The Board estimated that the amount paid for concerns taken over was some £1,000,000 too much in the case of goods undertakings. On the other hand, two-thirds of the freight was being lost because the Act was not being implemented, and no attempt had been made to close the numerous loopholes. The actual amount of dead capital would depend on how much of this traffic was regained. In any case a large amount of traffic had been lost to ancillary users.

The Railways stated that the return of traffic to rail, which had been part of the idea behind the Act, had not been carried out. (This seems to show a misunderstanding of the meaning of a pool.) They admitted that the partnership with the Road Transport Board was never a very happy one, and its continuance had become extremely difficult. The Administration of the Board was attacked, including its personnel and management. In order to save compensation, which was only payable to employees, too few of the previous owners had been employed to maintain personal contact with clients. Fares had been unnecessarily reduced below the prescribed levels, and the Board had failed to maintain the profits which were being made before its formation. The Board was still working at some 20 per cent below economic goods rates. There was much more from both sides in the same strain which shows how difficult it will be for road and rail pools to work without common direction of policy.

In the Report of Sir William McLintock's Committee¹ the causes of the failure of the North of Ireland scheme were stated to be—

Gross overpayment for the goodwill of undertakings taken over; difficulties in valuing small undertakings in the absence of figures regarding past working; vagueness in the Act in this respect; attempt to use a uniform valuation formula.

Road transport undertakings should have been organized first into large units before being taken over. As it was, the Board were given no latitude in the method and time of taking over some 1120 freight undertakings.

The Belfast undertaking should have been included with a view to its participation in the provision of less remunerative transport services.

Loss of traffic through widespread evasion of the law and unfair competition from illegal carriers operating regardless of wages and service standards, which the Board must observe, and concentrating on the more lucrative

¹ Cmd. 198.

traffic. Refusal of Government assistance in dealing with these evasions.¹

The Board had no opportunity for gradually forming their goods rate structure, but had to take a leap in the dark which they did without consulting the Railways, who alone had the necessary experience on the subject.

Difficulty of agreement over the standard proportions for the division of pooled revenue owing to the Pool coming into operation before the road undertakings were fully taken over by the Board.

The Railways were unduly favoured by counting as their standard year the average of 1924 and 1932 and this made the pooling scheme technically unsound.

The failure of the Pool was due to "a fundamental divergence of views; a divergence of aim and a divergence of method" resulting from a combination of circumstances.

The Board's policy was to build up an efficient and self-contained road transport organization, whereas a pool implies the working of traffic by the most economical route.

The Board ignored their paramount duty of securing sufficient revenue to meet their charges.

They did not collaborate with the Railways; and the Board and the Railways did not know enough about relative costs to determine the best means of transport for traffic.

The Board had been obliged to take over existing road transport assets, and had incurred a corresponding capital liability: they were, therefore, loath to scrap possible earning power by transferring traffic to rail, however justifiable from the point of view of the Pool.

The exclusion of railway terminal charges from the Pool had the effect of making it advantageous for the Railways to retain traffic: hence the Board's suspicion of the Railways and disinclination to use their staff and

¹ Since partly dealt with by Section 2 of the short "Road Transport Act, 1938."

facilities. The general conditions in Northern Ireland were such that, even if properly organized, a pooling scheme would not have bridged the gap between the rail outlook and road outlook.

The only chance of co-ordination in Northern Ireland was to bring the fixing and quoting of rates, canvassing, collecting accounts and dealing with claims within the scope of a single organization under unified management. This was not possible so long as the operating assets were in separate ownership.

The financial basis of the Act was unsound. The financial structure of the Board should have included some form of equity stock representing at least part of the consideration for goodwill. There was no chance of the Board earning enough profits to support the capital expenditure of £3,500,000, of which £2,420,000 was for goodwill and other intangible assets. The future capital of the Board is likely to reach £4,000,000, of which the Government will have contributed £3,150,000, and the Government must, therefore, in future have a preponderant influence in ownership of the Board's undertaking. Taking the present railway capital at about £11,000,000, earnings from public transport in Ireland will never be likely to support the combined capital of the Transport Board and the Railways.

Briefly summarized, "the 1935 Act had failed to secure on a sound economic basis an adequate and efficient transport system, and the problem awaiting solution was in some respects the same as it was before the Act was passed. Little had been done in the way of co-ordination of road and rail services; uneconomic competition still persisted; and the revenues of the Railways were still such that they needed to be improved if the essential rail services were to be continued. In other respects the position had changed. The formation of the Board had reduced the number of road operators; the Railways had lost the right to operate road services, and as regards freight traffic were faced with what almost

amounted to organized competition by the Board in place of unorganized competition by numerous small operators; and the problem had been complicated by the need for dealing with illegal road operations and evasions of the restrictive provisions of the Act."

Among the recommendations, the Committee advised that, while there should be no interference with genuine private traders, private goods vehicles should be placed on the same basis as the Board as regards wages and conditions of service. These new conditions and the existing regulations should be enforced. A comprehensive system of licensing of goods vehicles was proposed. Licences were to be issued by the Ministry of Home Affairs with right of appeal to a Transport Appeal Tribunal against the grant, refusal, suspension or withdrawal of licences. The withdrawal of the concession to farmers which had been abused was also recommended, the Board being allowed to issue permits in respect of individual vehicles for certain areas or periods. Substantial penalties were proposed for illegal operation of vehicles, the Ministry of Home Affairs being responsible for enforcement in which the police should co-operate. The new transport undertaking should be allowed to fix rates which would prevent loss on awkward traffic handed to the Railways by traders who normally carried their own less awkward traffic. An amalgamation was recommended of the Road Transport Board with the railway system, except the part of the Great Northern Railway situated in Northern Ireland, but the latter should be included in a Pool which it was thought would not be difficult to work. Ultimately, when financial stability was achieved, the Belfast undertaking should be included. The existing Pool was to be treated as having become inoperative since its commencement. Referring to the need envisaged in the Act of 1935 for giving effect to the principle of assisting the Railways at the expense of road transport, any such assistance should be secured by the allotment of equity stock in the new body.

Transport facilities, the Report continued, were greatly

in excess of requirements, and the future capital of the new combined undertaking should bear some relation to the services rendered. No suggestion was made as to the amount of the future capital of the new undertaking, but principles were suggested for guidance as to the financial constitution of the new body, having reference to the special conditions in Northern Ireland. The provisions with reference to the publication of fares and rates and to undue preference were to be suspended for five years to enable the new body to build up a rate structure based on experience.

In order to obtain political unity for the necessary measures the Government appointed a Joint Select Committee to consider the above two Reports. This Committee met in February, 1939. It received the most contradictory advice from a vociferous public largely prompted by vested interest.

To add to the confusion at this stage the validity of the Road and Rail Transport Act, 1935, has been challenged on constitutional grounds by a haulier operating without the consent of the Board!

The Report of the Joint Select Committee was published at the end of August, 1939. In their opinion, one reason for the failure of the Board was the breaking of personal contacts on which a road freight service depends. It was stated that the ancillary user does more haulage work than the Railways and Board put together. The real issue, therefore, is between public and private transport. The economic existence of public transport is in peril. It is doubtful if the charging of higher rates by the Board would have saved the situation. The Board's costs are too high. The real need is for a volume of traffic sufficient to pay for the minimum cost for providing a public service. As at present organized the Board's freight undertaking has no value beyond the market value of its tangible assets. The smallness of the area, the distribution of population and production and other local conditions increase the difficulty of the problem which must be solved—not in the interests of a particular industry, trade, or locality,

but in the general interest of the community as a whole, including the public purse, the public safety, and the convenience of those who cannot, as well as those who can, provide their own transport. The following are among the specific views expressed—

Co-ordination should have been between “a rationalized railway system and a rationalized road system.” “There is between the road and the Railways much competition for freight aggravated by the different rates for similar journeys, and there is no system of general application to ensure that, subject to customers’ requirements, consignments will travel by the most economic means of transport.” The determination of what is the most economic means of transport is a very complex problem which is getting no nearer solution. The Railways claim that unless a common interest is to be secured they cannot be expected to close a branch line if this means a diminution of net receipts.

A railway system should for the present be continued for Northern Ireland. The Commission disagree with the proposals of the McLintock Committee for the unification of transport. They consider the proposed new body would be a creation of the Government which would not fail to be responsible for such losses as it might incur. The financial results must be computed before the Government is asked to become responsible for the reorganization of transport. The Railways must retrieve the situation before merger in a new body, which will prove more easy if they have been stimulated to work out a system of real co-ordination.

The theory of co-ordination should be “progressively put into practice before rather than after the unification of road and rail is attempted,” otherwise all public transport would become railway controlled.

If this first step fails, hope of an economic system of public transport by road and rail will have to be abandoned.

The solution proposed is to appoint a responsible Minister with wide powers of making orders, schemes, and regulations in order to "impel (where necessary) the carrying bodies to discharge the duties already imposed on them, and to restore public transport to a sound and economic basis." Such power must not be exercised so as to involve the State in any further substantial financial obligations. The Minister would be assisted by an Adviser with wide administrative powers and by a Consultative Committee. The pooling scheme and standing Joint Committee should be abolished. Voluntary co-ordination is not considered impossible.

Numerous other points are dealt with, but the general result of the recommendations would seem to be that the motive of common financial interest which was the keystone of the McLintock scheme of co-ordination is discarded, and the Railways deprived of their road transport are expected to arrange for road and rail co-ordination in the face of unrestricted competition from public and private road transport. In this they are to be impelled by a Government Department acting without financial responsibility.

In conclusion the Committee state that the present position demands energetic action and a definite policy must be decided upon by the Government in the near future. "The present state of drift and uncertainty is doing damage . . . measures necessary for the protection of public transport should be put in hand forthwith."

These conclusions, which are stated not to have been the subject of negotiations with any of the interested parties, would not seem to make any definite contribution to the solution of the road and rail problem. The main preoccupation of the Committee would seem to have been to avoid further Government financial commitments. Incidentally the present situation is the unusual one of virtually Government-owned public motor transport competing with private Railways.

The case of Northern Ireland was the first in which a pooling scheme embracing both passengers and goods transport had been attempted. The conception of separate road

and rail monopolies with common financial interest through a Pool fulfils the theoretical requisites of a sound scheme of co-ordination. Valuable lessons can be learnt from the experience gained, both in framing such a scheme and in its execution.

One important question, which seems to have been overlooked in the press of more immediate difficulties, is the absence of all reference to the effect which leaving the ancillary user entirely free would have on the future rate structure of the new undertaking. We have shown¹ that the "value" and "cost" rate structures cannot exist side by side. The future rate structure must be of the same kind for both means of transport. If the ancillary user is to be free to undercut the higher railway rates, it must be faced that the future combined rate structure must be on a cost basis. No reference seems to have been made to this important point, and the question whether a cost rate structure would meet the needs of trade and industry on the one hand, and provide the necessary revenue to cover fixed costs on the other hand, does not appear to have received any consideration. More immediate causes prevented the question of the future rate structure from contributing openly to the failure of the 1935 scheme. It is perhaps disquieting that no reference has been made to it in the new proposals either by the McLintock Committee or by the Joint Select Committee.

The possibility of alteration in the basis of the Pool must have contributed to the mutual suspicion which did so much to wreck it. It may be, however, that any pooling scheme on such a scale will be found difficult to implement, and that common financial interest must sooner or later, as proposed by the McLintock Committee, mean common ownership with common commercial management.

The vital importance becomes evident of amalgamating a large number of small road operators into larger units, and of establishing stable conditions before attempting to co-ordinate these small operators with bigger undertakings. The

¹ Page 57.

result of the failure to do this and to prevent the breaking of the law should be taken to heart.

It remains to be seen whether political differences and the fear of the voter—those ultimate snags which are not peculiar to Northern Ireland, though possibly exaggerated in the temperamental atmosphere of that country—will allow of any solution in time to avert a breakdown.

CHAPTER XI

I. EIRE

II. LESSONS FROM OTHER PEOPLE'S EXPERIENCE

I

THE measures adopted in Eire to effect road and rail co-ordination are of particular interest, as the Minister of Industry and Commerce was reported to have stated, in 1933, that the ultimate objective of the Government was the nationalization of transport. As early as 1924 all the Railways wholly situated within the Irish Free State were amalgamated into one system—the Great Southern Railways Company. By 1932 fierce and unrestricted road competition, both for passengers and goods, led to the Government passing the Road Transport Act of that year, under which public passenger services had to be licensed, existing services being taken into account in the granting of licences, which were for one year. Licences were subject to conditions regarding services, fitness of vehicles, wages and conditions of employees and accounts and statistics. The Railways were authorized to engage in passenger and goods road transport and to acquire road transport undertakings.

This was followed by the Road Transport Act of 1933 under which all goods road transport operating outside a radius of fifteen miles from Dublin and Cork, and ten miles from other principal towns, had to be licensed; such licences were to be for specified areas, and were to state the class of merchandise which might be carried and total tonnage of vehicles authorized. There was no restriction on licences granted to the Railway Companies and, in fact, the G.S.R. has an unlimited licence for the conveyance by road of general merchandise anywhere within the twenty-six counties of Eire. The Railways had the prior right to provide any new service proposed by other hauliers.

The licensee was obliged to accept traffic for a reasonable reward, and prohibited from giving undue preference to any person, trade, district, or port. He had to fulfil the conditions laid down as to wages and conditions of employment, to keep the returns and accounts prescribed by the Minister for Industry and Commerce, and his vehicles had to carry the prescribed identification plate. The railway-owned road services had to submit a proposed classification of merchandise for approval by a Railway Tribunal; such classification being simple and including the element of value. On the classification being approved, a schedule of charges had to be submitted which, on approval, became the schedule of charges for the licensee. The schedule was to be framed to yield a revenue sufficient to carry out the business efficiently and give a reasonable return on the capital; it was to be published and to constitute a list of maximum charges.

The Railways were given the power to take over any passenger or goods licences on payment of compensation measured by the "pecuniary loss and expense (if any)" sustained by reason of the transfer. Failing agreement there was to be arbitration. Compensation had also to be paid to employees of five years' standing. On the other hand, existing licence holders were entitled to ask that their licences be transferred to the Railways.

Ancillary transport, which comprises over 85 per cent of the total vehicles, remained free and unlicensed, as also was the case with vehicles operating within the prescribed distances from certain towns. The Road Transport Act of 1934 amended and clarified the 1933 measure.

As a result of these Acts the Railways have acquired almost a complete monopoly of passenger transport in their respective areas. Some 400 goods licences have been bought up, leaving still over 800 unacquired—mainly one-lorry concerns. As regards the goods-carrying business, there have been extensive evasions of the Act by people who have sold their businesses to the Railways, and then carried on the same business in the guise of a trader in partnership with

former clients, it being very difficult to obtain sufficient proof to justify prosecution. Thus, though the amounts paid for road licences may not have been excessive at the time of valuation, the subsequent evasions have deprived the Railways of the value paid for. A further defect lay in the exclusion from licensing of the bulk of freight vehicles owing to their being ancillary or local transport.

An important, if not the principal, weakness of the scheme is the absence of measures essential to preserve the value rate structure which it was presumably the object of Government policy to maintain. The road classification—which only applies to railway-owned road services—consists of four classes, but the schedule of charges had not been settled up to the time of writing, while there were still many independent hauliers free and uncontrolled as regards rates.

Apart from irregular hauliers, this value rate structure was bound to be undercut by free hauliers until such time as they were brought under railway control in the proposed monopoly, but even then the value rate structure could not be maintained in the presence of uncontrolled ancillary transport, which far outnumbers public hauliers' vehicles, and which would naturally be employed to carry the higher-class goods.

In the circumstances the railway situation gradually became worse till the Great Southern Railways Company found great difficulty in finding even day-to-day finance. On 7th December, 1938, the Parliament of Eire approved the establishment of a "Tribunal of Inquiry on Public Transport" to inquire into—

The position of public transport ;

The circumstances which had caused the present unfavourable financial position of the Railways ;

The measures necessary to secure efficient and progressive public transport ; and

Whether any further legislation or changes in the ownership or methods of administration of existing transport undertakings were necessary or desirable.

The Minister for Industry and Commerce, after describ-

ing the financial position of the Railways, stated that the Government were satisfied that "major decisions on transport policy must now be taken." The most dangerous form of competition was stated to be the private lorry, and competition from this source would have to be regulated.

With reference to an application from the Railways to close down forty-one sections, or branch lines, the Minister considered that main lines were the only ones which could be preserved. The Tribunal has not yet reported.

II

LESSONS FROM OTHER PEOPLE'S EXPERIENCE

Control of Road Transport

If we examine the experience in other countries in the light of the preceding analyses, we find that in every case co-ordination has involved putting an end to unregulated competition by the introduction of some form of control of road transport.

Rate Structure

Both in countries which have definite policies based on the public interest, and in those which are still searching for policies, it will be noted that either there is no definite objective in regard to the future rate structure for transport, or, if there is a declared objective, the practical measures taken do not in any case fully satisfy the conditions necessary for success, the nearest approach being the German system for long-distance tramp services. Except in the latest proposals in this country, the implied intention of the countries which have been referred to has been the maintenance of a value rate structure for the Railways. Unfortunately, either it has not been realized, to the point of action, that there can only be one form of rate structure with co-ordinated transport, and that it is not possible to maintain simultaneously a value railway structure and a cost road structure; or the effort has been made arbitrarily to impose on road transport a railway rate structure which is not in accordance with commercial considerations of road operation; or again

it has been overlooked that uncontrolled ancillary transport has the same competitive effect on the railway value rate structure as the operation of a cost rate structure by competitive hauliers. These considerations cannot be ignored unless it is decided to abandon all attempts to maintain the railway rate structure. If the value rate structure is to be maintained, the ancillary user, where he is in competition with public transport, can only be left free if he is brought into line with the rate structure.¹

Enforcement of Road Regulation

A difficulty, which appears in varying degrees, is that of ensuring compliance with the law or regulations or rate agreements owing to the large number of hauliers concerned. Regulations dealing with such matters as the fitness of vehicles are a police measure, and it seems possible to exercise effective supervision as experience is gained. Wages, hours, and conditions of service are more difficult, especially in view of the large number of owner drivers. Tariff agreements offer the greatest difficulty of all and this increases the more the tariffs are artificial and arbitrary.

The supervision of all these regulations and also the detection of irregular hauliers would obviously be assisted if hauliers, instead of numbering thousands with one or two vehicles each, were grouped or amalgamated into larger organizations. Such large organizations are moreover essential as a preliminary to any scheme of co-ordination other than unrestricted competition, which is no scheme. Yet there has been a strange reluctance in making even a start with this preliminary step, especially as this is not a matter which can be rushed. The obstacle may be a political one. Sooner or later each country must decide whether it wants efficient transport or politics-with-subsidies.

Valuation for Amalgamation

Perhaps the best-known cases where schemes have been

¹ Pages 144, 145.

put into force for establishing pools or amalgamations in order to create a common financial interest between road and rail are: Northern Ireland, Eire and the London Passenger Transport Board, the last-named being a special case dealing only with passenger transport. We have seen¹ that the valuation of the constituent undertakings for the purposes of such a pool or amalgamation has, as its main object, the determination of the future shares of such undertakings in the net earnings of the combine. If the proportionate shares are correctly assessed, the accuracy of the new capitalization is not vital to the success of the scheme, provided an adequate proportion consists of equity stock which can be written down or up if necessary at some future date to conform with its market value. The occasion of such a valuation for the purposes of a common undertaking is bound to lead to a struggle between the parties concerned, consisting as they do of undertakings with increasing value and undertakings with diminishing value, whose future earning power in either case may depend on conditions materially different from those before the amalgamation. It is important, therefore, to simplify the problem by preliminary amalgamations in which the detailed problems of valuation as between numerous small units are settled, leaving a limited number of larger units sufficiently organized to avoid a complete upheaval on amalgamation.

Valuations for amalgamation are no new thing and have been successfully concluded on a large scale. There is no reason why they should not be carried out between transport undertakings, once the proper basis is recognized, and now that some experience has been gained in the technique. In view of the difference in size of rail and road undertakings, the number of road undertakings which would probably be involved, and the tendency of conflicting claims to result in mutual over-valuation, the prospects of success would seem to be greatest if an independent expert valuer is employed.

¹ Page 52.

Control of Road Transport by Distance

It has been stated that roughly only 25 per cent of the goods vehicles in most countries are employed on public haulage, the remaining 75 per cent being used for private transport. Of these latter a large percentage, sometimes quoted at 80 per cent, are employed in local delivery services—for the most part tradesmen whose transport requirements are much the same as they were before the advent of the motor.

Plans for road and rail co-ordination are hampered by the lack of statistics of road transport operation. Statistics are lacking of the extent to which ancillary transport is competitive with the Railways or with road hauliers; and also as regards hauliers whose business is non-competitive with the Railways.

It is clear, however, that subject to safeguards, a very large proportion of goods vehicles might with advantage be left out of or included in a modified form in any scheme of road-rail co-ordination, and the same might apply to municipal passenger transport services. An essential condition is that the safeguards should be effective. Endeavours have been made to effect this separation by prescribing specific areas or distances from specific points, within which any plan of co-ordination will not apply. For example, as regards goods transport in Germany, traffic up to 50 kilometres is considered to be short distance traffic: in France, the short distance zone consists of the county in which a vehicle is registered and any adjacent county. In Eire, vehicles operating within a radius of ten or fifteen miles from specified towns are excluded from the co-ordination measures. In this country the Transport Advisory Council in its Report on Service and Rates in 1937 expressed the opinion that the division of road hauliers into long-distance and short-distance hauliers would be impracticable. In cases where regulation by distance is embodied in a national scheme, the areas chosen to divide regulated from unregulated transport will vary in different countries according to geographical and

other local conditions. They may be expected to vary also with the nature of the control which it is desired to demarcate. One might expect that the denser the population the smaller would be the area of movement exempted from full measures of co-ordination in any national transport scheme, the greater the necessity for a flexible arrangement and the easier it would be to assure compliance with the law, though this will depend largely on the efficiency of the Government and the national temperament. It would be one of the few advantages of unrestricted competition that no distinction need be made between long- and short-distance hauliers and between hauliers and the ancillary user.

Restriction by Taxation

In various countries an attempt has been made to regulate competition between road and rail transport by the taxation of road vehicles. At first such taxation was imposed in order to reduce the indirect Government subsidies resulting from expenditure on road maintenance and improvement, and to this extent to place road and rail on an equality. Subsequently, additional road taxation has been imposed in some countries solely to restrict competition with the Railways, and in other countries in order also to obtain general revenue. Taxation solely for the purpose of increasing the operating cost of road transport is an arbitrary and unscientific method of road and rail co-ordination which, while preventing the full enjoyment of the advantages of motor transport in cases where it is in the national interest, is likely to fail in many cases in its object of preventing competition for traffic which should rightly go by rail. The problem of road and rail co-ordination cannot be solved by the taxation of one or other means of transport.¹

Vested Interests

Perhaps the most important difficulties in reaching a solution devised in the general interest are those arising from

¹ Page 31.

fears of individual losses. These show themselves in the reluctance to face major changes, the ultimate outcome of which cannot be foreseen. Rather than run any risks, vested interests dig their toes in and refuse to take any step in case this might mean loss of position. We have already referred to the hesitation of Governments in introducing measures which might lose votes. Political parties fear dangers of policies eventuating contrary to their tenets—nationalization on the one hand or a transport dictatorship in private hands on the other. Traders and users fear monopoly, which would interfere with their exploitation of the existing competitive situation, and might restrict their freedom of choice in the use of public transport or their present complete liberty as ancillary users. The Railways fear the ordeal of a valuation for amalgamation, and loss of control of their undertakings. Hauliers fear railway predominance with resulting discouragement of road transport, and loss of flexibility if they are absorbed in large undertakings. The motor trade fears fresh taxation on road transport. Staff and employees fear the loss of their occupation through the absorption of their undertakings. The taxpayer, whilst anxiously regarding the weakening finances of transport undertakings and the habitual or incipient demands for Government assistance, shrinks from the risk of still greater losses under any new régime, with more taxation to follow. All these fears have some foundation: no important change involving such wide issues can be made without disturbing vested interests. Any scheme of co-ordination which does not take account of these fears may contain elements of weakness: any scheme which takes too much account of them certainly will.

PART II

CHAPTER XII

CRITICAL ANALYSIS OF T.A.C. REPORTS

UP to this point we have attempted to review the past history of road and rail co-ordination in this and other countries, and to analyse the nature of the problem and its economic aspects with the objectivity of a textbook. It will now be possible to review critically the material features of the proposals which are in course of examination, or which have been suggested for road and rail co-ordination in this country.

The recent official proposals are comprised in the Report of the Transport Advisory Council on "Service and Rates" in 1937 and the Report of the T.A.C. in 1939 on the Railway proposals for a "Square Deal."

- In their 1937 Report¹ the T.A.C. considered that the "best line of approach to achieve co-ordination is to arrive at securing for traders adequate alternative facilities, care being taken that the resultant competition is on fair terms"; and further, that it should be the unfettered right on the part of the trader to select the form of transport which he approves and which is most convenient and economical for his purpose.

They expressed the view that "any attempt to dictate services and to endeavour to decide that certain goods should go by certain forms of transport would be impracticable, and would certainly not be tolerated by public opinion." All forms of transport should, when practicable, be rate controlled with publication and non-discrimination. The T.A.C. assumed that "if the rates charged are stabilized within each form of transport and voluntary agreements are then concluded between the various forms of transport the greatest possible degree of co-ordination will be secured, since each form of transport will tend to carry those traffics to which it is best suited."

¹ "Transport Advisory Council, Report on Rates and Services."

To carry out these views an organization was recommended comprising Area Rates Committees, Area Rates Officers, and a Road Rates Tribunal to supervise the creation and application of schedules of road rates. The road rate structure was to be arrived at in relation solely to factors affecting road transport. The T.A.C. considered that "the question of the basis on which rates should be fixed, whether on the principle of what the traffic can bear, or on the cost of service in each case, or on a combination of both did not arise." The observance of any approved rate was to be a condition of the haulier's licence. Voluntary road and rail agreements were to be arrived at, and the Railways were to take the prescribed legal measures for any changes in their rates to give effect to these agreements. The existing rights of railway users were, therefore, safeguarded. It was clear from the Report that the restriction of road transport by licensing was to continue. The Report stated that "the internal organization of the road transport industry must be regarded as an essential preliminary to further progress," but the only recommendation as to organization was that the T.A.C. "did not favour the idea of a compulsory association embracing all road hauliers." (When some form of local grouping was found to be essential for the case of an emergency, the Minister of Transport went out of his way to explain that even the extremely mild voluntary arrangement envisaged had nothing to do with peace-time working.) Yet there was to be suitable machinery for enforcement of agreed rates as between road operators themselves. One would have thought that a start would have been made towards tackling this "essential preliminary" to getting some sort of order in the road transport industry.

On the whole this Report was a pious opinion favouring what in effect would be a system of agreement between numerous monopolies. Nothing more definite was to be expected from a body which from its constitution can only be expected to record agreements arrived at between the conflicting interests of its constituent members.

A striking feature of the Inquiry leading to the 1937 Report was the submission of reasoned memoranda from the Railways and from the road interests which were far more objective than anything previously submitted by either party. Among the points made in the Railway Memorandum, the opinion was expressed that the majority of the trading interests of the country did not desire fundamental alterations in the railway rate structure, and regarded the general effect of its practical application as productive of trading stability. The Railways did not ask to be exempted from these obligations which they considered not inappropriate to a public service. They proposed that the road schedules of tariffs should be on a basis which would recognize, among other things, the values of the commodities conveyed. They did not object to a distinction being made between short-distance and long-distance road hauliers. They had no positive proposals to put forward about "C" licence (ancillary) vehicles, but suggested that consideration would have to be given to the position of "C" licence vehicles, other than those engaged on local distribution, in relation to any machinery governing the rates of public transport.

The British Road Federation in a statesmanlike Memorandum reviewed the whole field and analysed objectively the considerations affecting a road rate structure. They drew attention to the lack of detailed information about the road transport industry, and made suggestions as to what should be the correct basis for a division of function between road and rail. In conclusion, they proposed a short-term and a long-term policy, with practical suggestions as to the steps necessary for giving effect to them, with due regard to the difficulties of fixing and enforcing agreed rates. The Memorandum is well worth study by students of the road and rail problem. The covering letter recommended that established operators should be able to expand their fleets without undue restriction, and that at some future date, in more stabilized conditions, the present restrictions imposed on new entrants to the industry might be considerably relaxed. The danger

was strongly emphasized of attempting to force the road haulage industry into a system of planned co-ordination without the full agreement of the industry, thereby reserving the right of the industry to defend its interests as it might think fit.

The inadequacy of the machinery for determining transport policy is clearly shown by the fact that, in spite of these two Memoranda containing between them sufficient data for the formulation by an independent authority of a statesmanlike road and rail policy, the Report of the T.A.C. evaded the issue on so many important points that its application inevitably broke down. A great chance was missed. The existence of the T.A.C. with its political convenience of relieving the Minister of Transport from the responsibility of formulating policy makes it politically difficult for the Minister to lay down his own policy.

The Square Deal

In order to maintain a proper perspective it is necessary here to remember that, in spite of Railways and Road Transport now being substantially on the same footing as regards Category I¹ of State regulation, the Railways, owing to the unequal conditions of control referred to on page 32, are suffering from unfair competition from road transport to such an extent as to threaten seriously their financial stability.

It was pointed out on page 22 that the original proposals for a Square Deal amounted to the establishment of unrestricted competition for goods traffic between road and rail through the removal of restrictions on the Railways. Day-to-day fixing of charges was envisaged² and there would be no such thing as an overcharge unless a rate had been agreed beforehand. The Railway Companies stated that "equality of conditions . . . having thus been achieved it would be proper that any regulation which may in future be applied to any one form of transport should (in appropriate shape) be applied to all the others. To this the Railways would

¹ Page 31.

² Footnote, page 12.

naturally raise no objection." The Railway Companies "are not asking for preferential treatment or any form of artificial protection."

In a subsequent Memorandum the Railways claimed that they "should not be exposed to the suspicion that they would abuse the freedom for which they were asking." They submitted that the heavy industries were well enough organized to protect themselves and that no safeguards for them were necessary. They did not propose any general increases of rates, nor did they contemplate wholesale reductions or plunging into a rate war with other forms of transport. Their charges would be made known to their customers "just like the price list of any large manufacturing or retail dealer," and would be varied in the same way as circumstances might demand. Thus the Railway Companies no longer considered rail transport as being a public service as in their Memorandum of September, 1936, but placed themselves on a level with purveyors of sausages or gramophones. One wonders what would be the reactions of the Government and of the public if such a claim were to be advanced on behalf of a State railway.

The Railways envisaged co-operating with goods road transport in the same way as they had already done with passenger transport. They expressed the view that the "present system of railway rate control" could not be applied to other forms of transport, and "unified control" could hardly be realized while the existing system of "railway rate control" continued. Granted equality with road hauliers, the Railways would be more likely to conform to a general rate structure. They did not find it possible at that stage to outline the precise form which the "ultimate structure of rate control" should take.

The proposals of the Railways would mean the elimination at one stroke of certain rights or safeguards which have been enjoyed by trade and industry and individual users for nearly a century. At present the Railways are under an obligation to accept and carry traffic, to publish rates, to abstain from

discrimination between persons, to be bound by standard rates which are in effect maximum rates and which are generalized, in that they are independent of whether any particular traffic is paying or not. As explained elsewhere¹ the rates are governed by a classification which is on the basis of what the traffic will bear. The industrial system of every country has been built up on this system of tariffs.

These railway proposals, involving as they did the entire reversal of national transport policy as affecting the British Railways, were remitted to the T.A.C. with the (to say the least of it somewhat cautious) guidance from the Minister that "as at present advised, he is inclined to the view that in the existing circumstances there is a *prima facie* case for some relaxation in existing statutory regulations, provided that due regard is had to the ultimate objective of co-ordination of all forms of transport." Meanwhile the Railways entered into negotiations with all the interests which might oppose their claims, and submitted a number of joint statements indicating the arrangements come to for providing safeguards for these interests.

The *Railways* now stated that they sought no alteration as regards their obligation to carry. As regards rates, the Railways now proposed that they should be given the right to make such reasonable charges as they thought fit, and that there should be a Tribunal to which any trader or Trade Association could appeal. The desirability of establishing "as great a degree of co-ordination as possible . . . to the greatest national advantage" was generally agreed. It was, however, not considered practicable to apply the present railway rate structure to other forms of transport. The Railways' proposals would enable them to build up a new and simpler rate structure which would "facilitate agreement between all forms of transport on such matters as a uniform system of rate control" and "co-related rates structures." In return for the withdrawal of their opposition, road hauliers were promised that the Railways would not

for two years oppose the granting of additional licences to existing hauliers.

A central Consultative Committee of Road and Rail Representatives was to be set up to consider constructive measures, and to "formulate the principles on which voluntary agreements could be entered into in regard to the rates to be charged by rail and road. . . ." In the proposed legislation "provision should be made for a conference of representatives of all forms of transport to be held forthwith under the aegis of the Minister of Transport in order to reach agreement upon a uniform system of rates control, co-related rate structures, and standard conditions of carriage; such conference to continue until agreement is reached between the parties and statutory effect to be given to it, if and when it is approved by the Minister with any modifications which he may consider necessary. Failing agreement by the parties within three years from the passing of the Act, the Minister of Transport should have power to determine the matters above mentioned and his decision shall be binding."

In a *Joint Report by the Railway Companies and the Liaison Committee of Road Transport Rates* it was observed that "relief from restrictions should not be given to any form of transport however necessary in other directions, if such relief should in any way prejudice the bringing about at an early date of rate structures applicable to all forms of public transport governed by suitable Tribunals."

The Liaison Committee was convinced that owing to the large number of operating units in the road haulage industry, adherence to voluntary agreements could not be relied upon, and that some measure of statutory control was an essential preliminary to an attempt at co-ordination with other forms of transport. In order, therefore, to make joint agreements effective, it would be necessary to obtain statutory powers to secure their observance by all road hauliers between the points or in the areas affected, as well as by the Railways.

In the absence of the proposed powers the Liaison Committee saw no immediate prospect of being able to achieve

co-ordination within their own road industry. The Liaison Committee feared that the Railways might attempt to function as freight carriers entirely without classification, and the Railways, therefore, undertook that while seeking to be free of statutory control of classification, they would have a voluntary system of classification which would be necessary for their own commercial organization. It was agreed that the right of the Railways to make agreed charges, and of the road hauliers to make contract charges other than on a ton-mile basis, would have to come under review immediately any approach to the relationship of rail and road rates was attempted. The Railways were prepared to accept any obligation with regard to the publication of tariffs which was made applicable to all forms of transport.

The *Dock and Harbour* representatives were afraid the Railways would use their proposed freedom to favour their own dock undertakings, or to disturb the relativity of rates between competing ports or docks, thereby introducing an element of instability contrary to the public interest and prejudicial to particular ports or docks.

The representatives of the *Traders*¹ agreed to the proposals of the Railways, provided that one month's notice should be given of any proposed increases of rates, and that the Traders individually or through an association should be able to refer any proposed increases to a Tribunal or to appeal to the Tribunal to reduce charges. The Traders insisted on being safeguarded against undue preference, and refused to agree to any relaxation of the obligation to publish rates.

The *National Farmers' Union* stressed the need for "the unfettered right of the trader to select the form of transport he prefers and which is most convenient and economic for his purpose," and the "undiminished right of the trader to undertake, as under existing law, his own transport for long or short distances or in respect of any category of

¹ Traders' Co-ordinating Committee on Transport; Federation of British Industries; Mansion House Association on Transport.

traffic." The Railways agreed to this.¹ The Agricultural representatives further recommended the unrestricted licensing of goods vehicles which complied with the prescribed conditions of safety and wages, quoting in support the recommendations of the Royal Commission in 1931.

The *Mining interests* seemed to be most concerned at the prospect of a reduction of tariffs which might favour one district at the expense of another. They were also concerned with possible increases in charges consequent on the conversion of the railway rate structure to a cost basis. They were unable to arrive at any basis of agreement with the Railways.

The *British Road Federation* in a further Memorandum reviewed the successive measures for the equalization of road and railway regulation in all matters except rates: they drew attention to the *volte face* of the Railway Companies since the 1937 Report of the T.A.C. The acceptance by the Railways of continued obligation to carry would become largely illusory if the Railway Companies had power to make what charges they chose in respect of traffic they might not wish to handle. They claimed that if the Railways were given freedom, they should no longer have the right to object to the quantity of "A" and "B" licences, and in particular in cases where hauliers have been forced out of business by railway competition, fresh licences should be issued so as to maintain reasonable facilities outside railway control; and further that there should be greater freedom for the transfer, renewal and alteration of licences. None but road operators should have the power to object to licence applications, and many present difficulties, including the Case Law established by the Appeal Tribunal and relating to objections to licences, should be abolished. The idea of setting up a *statutory* road rate structure should be abandoned. Taxation over and above what is necessary to pay for a fair share of the roads should be levied on all forms of transport.

The *Scottish Commercial Motor Users' Association*

¹ See page 111

submitted that rather than grant the complete freedom now demanded by the Railways they preferred the gradual acceptance of reasonable regulation by both road and rail. They considered the scheme of rate control outlined in the T.A.C. Report on Service and Rates would not give useful results within a reasonable time. They did not think it "possible to contemplate a useful road rate structure which is not to a large degree subject to rail agreement," or which would be serviceable without statutory enforcement with protection against competing transport. The classification and conditions of service would generally require to be common to both services. They expressed the view that legislature had not kept pace with the modernization of transport, and referred to the desirability of suggesting some more comprehensive provisions. Meanwhile they suggested transitory provisions providing for the fixing of road and rail rates by Orders of the Minister on the application of any Railway Company or road carrier or Association of Road Carriers, with a modified Railway Rate Tribunal to deal with applications and objections and to advise the Minister on making of Orders. Penalties or suspension of licences were to be imposed by the Licensing Authorities in case of breach of Order. No Orders were to be issued after two years or to apply for longer than five years after the passing of the proposed legislation; Orders to be replaced by a comprehensive rate structure to be "imposed on Transport."

The *Traders* in a further memorandum expressed the view that a cost rate structure on the Railways would lead to repercussions, especially on the heavy industries, which would not be in the public interest. They would agree to certain relaxations, provided the interests of both industries and individual traders were not prejudiced, and, among other points, that consideration was given to some rearrangement of the railway capital structure. (This point has been dealt with in a previous chapter.¹) Some relaxation was

¹ See page 47

agreed to as regards undue preference. The railway rights to a standard revenue should be repealed; the existing provisions for through-rates based on the principle of continuous mileage should be retained.

The *Traders* were strongly averse to any combination of the various forms of transport, and considered that rates charged by the different forms of transport should not be "artificially linked"; in other words, "that the rate structure for the road shall be of quite a different nature from the rate structure on the Railways owing to the essential difference of the two types of carriage"! They envisaged in the future a scheme which would "ultimately ensure systems of rates and conditions of carriage which will apply equitably to all forms of public transport." They asked the Railways to look to the following questions—

(a) Efficient and economical management of the Railways.

(b) Consideration for any variable local conditions of trade and industry in the country.

(c) Overhauling of all redundant Railway facilities or services and, where practicable, the providing of modern methods and facilities in lieu thereof.

(d) The consideration of unremunerative ancillary businesses. (These businesses comprise steamboats, canals, docks, etc., hotels, air transport, besides road transport and the collection and delivery services.)

These references extracted from numerous Memoranda must necessarily be incomplete: they can only serve as some indication of what was passing in the minds of representatives of various interests in the hard bargaining which preceded the consideration of the "Square Deal" by the T.A.C. The outstanding impression of these negotiations seems to be that, despite some lip service to the public interest, the parties were primarily concerned with their own interests. There was no thought of the short-term subordination of the interests of individual classes of users or providers of

transport to the long-term wider interests of the community. However unimportant he may be, it is significant that no reference was made at any time to the private individual as user of public transport, who was not represented at the discussions; all the safeguards have reference to traders. Nor was any reference made to the possible repercussions on the taxpayer of whatever measures were adopted.

The whole of the discussions were concerned with short-term measures—long-term developments being dealt with in vague terms, which, however, disclosed possible objectives diametrically opposed to each other. This is what might be expected in submissions by particular interests. One cannot expect representatives of such interests to take an objective view to the extent of making sacrifices. It is for the State to decide between conflicting interests, to lay down a long-term policy and to determine what immediate steps can be taken towards implementing that policy. In this way alone is there any guarantee that the policy is really a national one, and that the intermediate steps are not in the wrong direction.

CHAPTER XIII

CRITICAL ANALYSIS OF T.A.C. REPORTS

(Continued)

ONE can imagine, therefore, that the Ministry of Transport, impressed with the necessity for major decisions, would scan the Report of the T.A.C. with particular attention. Unfortunately the T.A.C. Report¹ consists mostly of quotations of other people's opinions. When one looks for recommendations as to a future national transport policy, one finds only suggestions such as: "That as the situation develops towards a system of controlled charges it may be desirable to consider some more general machinery of liaison than at present exists between the various forms of transport." The Council refrain from including in the Report "any recommendations on certain matters relating to the general question of co-ordination," which had been brought to their notice, e.g. the relaxation of licensing regulations; unification of all forms of transport under public control—questions vital to the consideration of a future national transport policy, and the examination of which would have brought the Council face to face with the alternatives of a future régime of unrestricted competition as opposed to a future régime of monopoly.

On the subject of rates the Council reiterate and expand their previous view that the rate structures of the different means of transport should be independent of each other. We have endeavoured to show in previous chapters² that no system of transport will work smoothly unless the rate structures—not necessarily the individual rates—are substantially the same. This appears to be realized by both rail and road interests, but the Traders, while agreeing in

¹ Transport Advisory Council: Report on the Proposals of the Main Line Railway Companies as to the Conveyance of Merchandise by Rail, 1939.

² Pages 33, 57, 101

theory, persist in this impossible formula through fear of any combination of the various forms of transport. Surely the national interest, including the interests of trade and industry, should be the chief factor in determining the future type of rate structure for both means of transport? Is it to be on a value basis or on a cost basis? Is it to be on a stable basis or on a day-to-day basis? Is it to be part of the rights of the public or the outcome of a struggle or cartel between the transport interests? Will it safeguard the Treasury against the need of subsidies? Is transport a public service or a "gramophone" firm which can be allowed to go bust if it likes? Is it possible to decide on the railway half of road and rail co-ordination by itself? Will any solution be possible without energetic intervention by the Government?

As it is, the relaxations in the present statutory control of charges are stated to be necessary to assist the Railway Companies to establish conditions which, in their (the Railways) view and that of other transport interests, will provide a favourable approach to the ultimate objective of co-ordination. Instead of suggesting how this ultimate objective is to be attained, the T.A.C. state that their recommendations should be regarded as a temporary measure to meet an emergency, and limited in duration to not more than five years, or such shorter period as may be necessary to establish "such a degree of co-ordination as will avoid unnecessary overlapping of services and uneconomic competition."

One can sympathize with the representative of the agricultural interests who objected strongly to the use in a considered statement of vague expressions such as "ordered system of transport," "co-related systems of control," and "uneconomic competition"; such expressions being in his view capable of varied and conflicting interpretation—particularly in view of the fact that the Council has not seen fit to include a definition clause in its Report.

The general principles of the proposed relaxations as agreed between the different interests are stated to be—

- (i) "the setting up of conferences (between the Railways

and the Traders) to consider proposals by the Railway Companies for any general increase of existing charges;

(ii) failing agreement on any such proposal at the appropriate conference, the giving of one month's notice by the Railway Company or Companies concerned of their intention to bring the increase into force and the reference of the matter to a Tribunal for determination;

(iii) the giving of notice by the Railway Companies of increases in individual charges with a right to the trader affected to take them to the appropriate conference and, if necessary, to the Tribunal.

(iv) the right of any trader or body of traders to appear before the Tribunal to challenge any charge or to apply for reduced charges; and

(v) the basis of the Tribunal's determination in all cases to be the reasonableness of the proposed charge."

The T.A.C. recommend that effect should be given to the agreements arrived at. They turned down the contrary proposals of the Mining Association as they considered the general proposals should provide reasonable protection for the coal mining interests.

The principal detailed recommendations are as follows—

Classification and Standard Charges

The present provisions should be repealed. Two quite different things are involved. Unless there is a definite decision to preserve the present kind of rate structure for all means of transport, it is logical that the Railways must be free to adopt what classification they like. It has been pointed out¹ that in this country the value rate structure may prove to be less essential than in countries with long distances, though the effect of any modification of the rate structure on rates for competitive international trade should not be overlooked.²

It is not going to be easy for Railways to raise rates if they really want to flatten out the differences between high-

¹ Page 19.

² Page 42.

and low-grade rates. One wonders whether they might have achieved practical results quicker if they had asked for, say, a 10 per cent increase of goods rates, and allowed these increases to be automatically applied to such low-grade traffic as could stand the charge, while leaving untouched or even reducing the higher-class rates. Psychologically it might have been more agreeable to the Railways to earn the gratitude of clients whose rates were not raised, rather than incur the hostility likely to follow piecemeal increases. The Railways can be relied on in their own interests not to kill traffic by rates which are too high for it. Any increases must, however, come out of somebody else's margins. As regards the Appeal Tribunal, the Railways will benefit from the natural reluctance of associations and individuals to enter into expensive legal proceedings except on big issues. The gradual modification of the rate structure may have experimental value. In any case some relaxation of procedure was long overdue whatever scheme of co-ordination is adopted.

The abolition of the principle of standard rates means that there would be in future no generalized maximum charges. Uncertainty would be introduced in the case of occasional users and those situated off the main traffic streams who are not the kind of people to keep track of rate changes or to appeal to a Tribunal. Even with the T.A.C. proposals it should not be impossible to provide for a schedule of maximum generalized rates to be proposed by the Railways, when they have fixed up their new classification, and approved by the Tribunal. The suppression of this safeguard is in kind the same as if the Post Office were allowed to establish different charges depending on the journey, and varying at their discretion.

Exceptional Rates and Agreed Charges

The present provisions should be repealed, i.e. the Railways may do what they like in the matter. This follows logically from the abolition of compulsory classification.

It will be remembered that the Liaison Committee considered that charges other than on a ton-mile basis might have to be reviewed. With "agreed" and "contract" rates it may well be difficult to "co-relate" road and rail rate structures.

Publication

In view of the divergence of opinion expressed the T.A.C., who had in their previous Report definitely recommended publication of rates for all forms of transport, were unable to submit any recommendation on this point as regards railway rates.

Standard Revenue

The Tribunal should no longer be obliged to adjust charges so as to ensure a Standard Revenue. On the other hand the Tribunal are to "take account of the effect of any charge on the financial position of the parties concerned, either generally or individually" when rate disputes are referred to them. This new provision might protect the Railways if they are pressed to reduce rates or to refrain from increasing them. There would, however, be no check on the Railways which might save them from weakening their financial position by competitive rates.

Undue Preference

The existing statutory provisions should be replaced by safeguards referred to below. One of the most serious handicaps to the Railways in meeting road competition has been the very rigid application of the rule against undue preference. Not only was undue preference strictly forbidden in the case of traffics of different individuals or firms between the same points in the same conditions, but for example different ports claimed equal rates from competitive points. This was all right while the Railway was a monopoly. When, however, motor competition cut into the traffic to one port, and the Railways reduced the rate to compete, other ports

claimed a similar reduction. These kinds of cases often made it extremely difficult for the Railways to grant rate reductions for fear of their repercussions over large areas. A looser interpretation of what is meant by undue preference was, therefore, long overdue. The effect of the T.A.C. proposals would seem to be to maintain the principle while making its application dependent on other considerations, including the competitive position.

Reduced Rates

The right of traders to appeal to the Tribunal for these should be retained.

Accounts and Returns

It is interesting that the Railway Companies did not propose any alteration in the present law. The terms of reference apparently precluded the consideration of what accounts and returns should be called for from road transport, and one suspects that the Railway Companies had not in view the "co-relation" with road transport in the matter of statistics which will presumably be essential in an ordered national transport system.

Railway Companies' Road Powers

These should be left intact.

Protection of Trade and Industry

The T.A.C. note and approve the proposal for periodical meetings or conferences between the Railway Companies and trade and industry. They do not recommend that these conferences should be set up by statute. A voluntary system of consultation has the advantage of flexibility and of being more easily altered if some wider system of consultation between traders and transport generally should appear preferable.

The Council definitely recommend that one month's notice must be given of any proposed increase of rates. Failing

agreement with the traders or traders' associations concerned, the increase can be referred to the Railway Rates Tribunal which shall fix such charges as it considers reasonable. In determining whether or not a charge is reasonable the Tribunal is to have regard (*inter alia*) to the following considerations—

(a) whether or not the charge is detrimental to the public interest;

(b) variations in the value of currency;

(c) the cost of affording the service or services in respect of which the charge is made;

(d) the existence of any alternative or competitive transport facilities for the conveyance of the merchandise in respect of which the charge is made, and the charges made for the carriage of like merchandise by such alternative means of transport;

(e) the effect of the charge on the financial position of the parties concerned, either generally or individually;

(f) the charge made to other traders for the carriage of like merchandise if it affects the trader concerned.

Here we have in (c) a definite reference to cost as one of the elements of a reasonable rate. Is total cost or variable cost meant? Is it intended that the value rate structure should no longer be considered to be essential? Or is this implication qualified by condition (e)? It would seem that a trader demanding a reduction of high-class rates on the basis of cost might reject any increase of the low-class rates on the grounds of financial effect, and conversely the Railways, while pressing for higher low-class rates on the basis of cost, might claim payment for the value of the service for high-class goods on the grounds of financial necessity.

The T.A.C. agree with the Liaison Committee that adherence to voluntary rate agreements between road and rail cannot be relied on, and that the observance of such agreements must be legally enforceable. The Council agree with

the general lines of the legislation proposed by the Railway Companies and the Liaison Committee dealing with the procedure for arriving at rate agreements.

These rate agreements are to be between the Railways and "a body or bodies adequately representative of road carriers engaged in the carriage by road of merchandise to which the agreement relates." They are to be approved by the Tribunal and their observance is to be a condition of any licence. The T.A.C. merely record a view expressed by the representatives of agricultural interests that the body or bodies making the agreement should receive a mandate expressed by a poll of the "A" and "B" licence-holders affected. The T.A.C. express the view that provision should be made for consultation with traders before these agreements are finally settled and referred to the Tribunal for approval, and that such agreements should receive adequate publication after they have been approved.

Other proposals and dissents are recorded. In short, if and when sufficient of the interested road operators can be persuaded to come to an agreement with the Railways, and the traders have been consulted, and the agreement has been approved by the proposed Tribunal, then it is recommended to make the agreement legally enforceable. Finally the agreement has to be enforced. Seeing that these agreements are to affect thousands of independent operators concerned with hundreds of thousands of traffics at present governed by millions of exceptional rates, the difficulties of implementing the proposed agreements are obvious. The statistical information acquired and the experience gained in the process of trying will in any case be of value.

In dealing with the possible effect of the proposals on canals, the T.A.C. suggest varying the present obligation to publish charges for carriage to conform with the future position as to the publication of railway freight charges. The Council approve of the Agreement between the Railways and Dock Authorities, under which the Dock Authorities will have the right to appeal to the Railway and Canal

Commission if they consider that a railway undertaking by its rates or otherwise is prejudicing their own undertaking.

What then does the "Square Deal" mean in the form in which it has emerged from the T.A.C. with its corners rounded off? In the absence of any definite declaration of policy from any quarter it is difficult to place the new measures in any long-range plan. The original proposal of the Railways could only mean the right to *unrestricted competition*,¹ except that there is no mention of unlimited entry to the road industry. One can imagine the Railway argument to be as follows. If the Railways were to ask for no protection, the users had no right to expect any for the future. The Railways were going to put road transport in its proper place and if, unfortunately, the process resulted in the Railways not being able to pay their way—well, the Government would never let them go out of business; meanwhile the Railways would at least have their fate in their own hands, which was better than having to face unfair competition with their hands tied behind their backs.

When, however, the Railway Companies recognized that they could only get legislation by agreement, the safeguards which they were constrained to accept completely altered the nature of the "Square Deal." True, the safeguard of generalized maximum rates has gone, to the detriment of the small user, but any increase of rates requires one month's notice, and can be appealed against by those sufficiently powerful to do so. This also applies to changes in the classification which has been freed from its statutory framework. Non-discrimination is to be retained in a modified form, but its value will depend to some extent on what is decided about publication of rates. Thus, under the new proposals, the Railways can reduce the high charges as much as they like to compete with road transport, and can increase the low tariffs as much as organized industry will let them.

Meanwhile, supposing that after all the correct transport

policy is one involving substantially the maintenance of a value rate structure, the continuance of the attrition of the existing rate structure for another five years might easily make the difference between a self-supporting and a subsidized transport system.

Thus the degree of freedom proposed for the Railways and for which they are prepared to give up their claim to a standard revenue has been much curtailed. They are not free to do what they like, and the users, if they have not retained all their previous rights, have probably made it difficult for the Railways to take major steps to modify the present situation. Great stress is laid on the "co-relation" of rail and road tariffs by agreements which can be enforced. This implies a policy of rate agreements between *competing monopolies*,¹ since independent road operators always have and always will break down any rate agreement by "cream-ing" the traffic. These monopolies are to be maintained by making the rate agreements compulsory for all hauliers concerned; yet no machinery is proposed for organizing the small haulier, and supposing agreement emerged through the procedure laid down, experience (e.g. in Germany) has shown that even with the organization of independent hauliers in a single Association possessing the sole right of collecting payments for transport, the keeping of rate agreements cannot be fully enforced.

The Railways will have to face legislation (aimed at preventing railway predominance) facilitating the granting of additional "A" and "B" licences at least to existing hauliers. For example, the British Road Federation propose that the withdrawal of road facilities by agreement should not be taken into consideration as proof of excessive facilities.

It may be that groups of road hauliers will slowly acquire a virtual monopoly of the haulage business, and thus be in a position to come to terms with the Railways, but this seems a long way ahead. Meanwhile ancillary transport is apparently to remain free, though this vital matter is not

¹ See page 28.

mentioned in the T.A.C. Report. This will destroy any hope of saving much of the present value rate structure as a result of the contemplated agreements. The effect on railway finance remains to be seen.

If the future long-range policy is to be agreement between competing monopolies, there is no valid reason against securing for the user in respect of both means of transport such stability and safeguards as would result from the publication of rates, and non-discrimination, together with generalized schedules of maximum rates applicable to the Railways and to the roads within their authorized areas of operation. The only chance for the proposed policy to work is for the road hauliers to be grouped into compulsory organizations, and subjected to strict supervision as regards compliance with the prescribed regulations and with rate agreements. It is very doubtful whether anything short of joint financial interest, brought about by road transport mergers into a limited number of responsible undertakings, will achieve the desired objective.

CHAPTER XIV

LONG-RANGE POLICIES

LET us now examine some of the long-range policies for the co-ordination of road and rail transport which have been suggested for this country from various quarters.

NATIONALIZATION OR COMBINED TRANSPORT MONOPOLY

To begin with there is the proposal for establishing a combined monopoly of public transport through nationalization, i.e. with Government ownership of the means of transport and with operation either directly by the Government, or by a more or less autonomous administration dominated by the Government. In the same category, but with less risk of political interference, comes the proposal to unify road and rail public transport under a commercially worked Board with private ownership, on the lines of the London Passenger Transport Board. This solution has the further advantage to the community of having the private shareholder as a buffer to absorb any financial shocks in bad times.

Assuming reasonable police supervision, a monopoly would solve the administrative difficulties inherent in arrangements between the multitudinous small operators. The advantages and disadvantages of the monopoly régime are analysed on pages 22 to 27. The chief advantages are automatic economic division of function with stability of charges and conditions, avoidance of waste through duplicated capital expenditure or wasteful competition, and provision for non-paying services. If at the same time it is desired to maintain the value rate structure in the general interest, the possibility of which is one of the chief features of a monopoly régime, some control of the ancillary user outside

delivery radius will be essential. These advantages cannot be attained without some form of monopoly, or at least permanent common financial interest. In theory, the monopoly ought to be able to ensure that road and rail transport as a whole pays its way, and is not a charge on the taxpayer, but if the users have been able to obtain vested interests in rates which are too low, or if the undertaking is capitalized too high, or costs of working are increased from political causes, failure to balance the annual budget might take place without being a sign of inefficiency in working. The chief snags of a combined monopoly are loss of flexibility and possible lack of initiative. The former, however, is inevitable to some extent under any system of co-ordination except unrestricted competition. As regards the possible loss of initiative, the question is whether this risk is not far outweighed by the advantages of a transport monopoly, remembering that, as in the case of the Railways for the last hundred years, a monopoly implies State control in the public interest, and the public, therefore, have the remedy in their own hands in case of need.

MR. FREDERICK SMITH'S PROPOSALS

Quite a different scheme has been suggested by Mr. Frederick Smith¹ on the basis of a physical reorganization of the Railways.

Mr. Smith maintains that the transport system since 1932 has been characterized by the attempt to run two conflicting economic systems in one harness. For a road transport rate structure to work satisfactorily it would have to achieve two incompatible things at the same time. It would have to be near enough to the railway rate to avoid competition with the Railways, and it would have to be near enough to road transport costs to offer rates competitive with the cost of the private carrier. In the latter case the purpose

¹ Chief of the Transport Executive of Lever Bros. and Unilever Limited group of Companies.

of the road rate structure (namely to prevent unfair competition with the Railways) fails to be achieved. If the Railways are given their freedom, any control of the road rate structure is futile and impracticable. The alternative to monopoly is, therefore, unrestricted competition, at least as regards rates. Mr. Smith implies that his scheme would work under either system, though, to judge by his proposals, he is relying on the urge of competition to bring about the necessary changes in railway operation.

His solution is based on the claim that it will be possible for the Railways, freed from their present restrictions, to reorganize their business completely by eliminating uneconomic wagon and train loading, by cutting out small goods stations and branch lines, and by concentrating upon centres served by fully loaded fast goods trains. Road motor vehicles would feed these centres with traffic from and to limited areas of territory, the radius of distribution being determined by the density of the traffic in those areas. In this way the Railways would attain the necessary net revenue for financial stability by economies in operating costs, instead of relying on a large increase in tonnage.

Mr. Smith assumes that the average load of a loaded 10-ton wagon can be increased from 3 to 9 tons by the above system, and that allowing for better train loads, the radial system of operation would reduce the number of goods trains by about 66 per cent with an annual saving of £17,000,000. A similar reduction of coaching traffic by only 25 per cent would save a further £13,000,000, making a total saving of £30,000,000 in all—ample to pay dividends with present railway capital, to reduce rates, and increase wages.

A Central Executive Administration for the Railways, probably on a voluntary basis, would be essential, as a single plan must cover the whole of the country. Evidently this means common financial interest in some form or other for all the Railways. A Statistical and Research Department would be necessary to analyse traffic and train movements, and work out the outlines of a general plan which would

be the same, whether the basis of co-ordination is to be monopoly or competition.

The road hauliers could be brought in to work with the Railways—presumably under their control as employees or with common financial interest. Mr. Smith thinks that most ancillary users would want to use the scheme when they have seen how effectively it works, indeed he makes a strong point of the fact that traders are increasingly organizing their own operations on the principles he advocates, both in order to give service to their customers and in order to achieve economy.

Mr. Smith does not fear unrestricted competition as he is sure that the Railways will, by the method he advocates, be able to afford such an efficient service at such a low cost as to strengthen their position against competition, the public being safeguarded through freedom of competition by unlimited independent public hauliers, and in particular by the ancillary user. This means that the present railway value rate structure cannot be maintained, but Mr. Smith considers that economies which would be effected would permit a general reduction of the whole field of railway rates which, if it were so desired, would preserve the value rate structure but at a substantially lower level.¹ It may be observed in passing that the Railways would need for this scheme freedom to close down branch lines or services. This freedom has not received any mention in the T.A.C. Report, and has not been asked for by the Railways. At present the Railways have to get authority from the Railway and Canal Commission to abandon lines or stations, or to abandon passenger services on any line. Whatever system of co-ordination is adopted, greater flexibility is evidently desirable for the Railways in this respect so far as a substitution of road for rail services is concerned.

The whole of Mr. Smith's scheme rests on his claim that the Railways can effect the very large savings referred to above, if they are given a free hand, and that rates can be

¹ Page 20.

reduced so as to make it impossible even for the unrestricted small haulier to find any paying traffic on which he can earn a living through cut rates in competition with combined railway and road services—which would presumably also include direct road services where more profitable. Mr. Smith's scheme would involve the complete relief of the Railways from their restrictions and the repeal of all limitation of road transport by licensing. The threat of competition would always keep the Railways up to the scratch.

Mr. Smith's claims are so definite, and some of his figures and omissions so provocative, that one would have thought that the Railway Companies could produce the necessary statistical information to refute these figures if they are contested. The Railways have, however, so far not thought fit to do this specifically.

It may be advanced that Mr. Smith's proposals for economies could be carried out whatever system of road and rail co-ordination is adopted. In fact, the possibilities of improvement in the technical operation of rail and road transport have not been taken into account in this book for this very reason. If, however, the savings envisaged by Mr. Smith can be counted on to the extent anticipated, the problem of the future rate structure will not immediately affect trade and industry, seeing that no increases in rates will be necessary.

With this virtual railway-controlled monopoly the decision as to which services should be maintained would depend on the considerations outlined on page 47, while the division of traffic would tend to follow the theoretically sound basis of out-of-pocket cost of working.

With unrestricted entry into road transport it would not be practicable to impose any obligation to carry on road transport and consequently on the Railways. There would be no stability of rates as long as competition continued to exist and no assured maximum rates. It would, however, be possible to provide for the current rates to be

published and applied without undue preference by both road and rail.

With the maintenance of free competition it would not be reasonable to impose on the Railways or on road transport any obligation to maintain non-paying services in outlying areas, such as can be imposed in return for monopoly protection; so that such services as are considered necessary in the public interest would have to be paid for specially. This might be effected by a tax on all forms of transport, including the ancillary user, thus maintaining the principle that transport as a whole must be self-supporting, but this might call for machinery the avoidance of which may be claimed to be one of the chief advantages of Mr. Smith's scheme.

If, however, it should turn out that all these hoped for advantages do not result simply from giving the Railways freedom, and if these savings should not materialize, then there will surely arise all the disadvantages of unrestricted competition¹ between road undertakings and the Railways and between road undertakings themselves—rates cut down to the level of out-of-pocket costs leaving little or nothing for fixed costs, until the total charges for transport become less than the total cost of transport; gradual deterioration of the whole transport machine instead of simply the elimination of those elements of competitive road transport not associated with the Railways, and finally Government intervention too late to avoid the necessity for State subsidies to keep in being essential transport services and gradually restore them to efficiency.

If the Railways risk this system, the penalty for failure will be loss of capital on the ultimate valuation (based on earning power) for some scheme for a combined monopoly. Whatever the losses to individual hauliers the injury to the road transport industry would be less permanent, owing to the comparatively smaller amount and the short-term life of most of the capital assets of haulier, and to the

¹ Page 21.

Government being financially responsible for the roads. The user would suffer losses through the deterioration of transport services far in excess of any gains through cheaper rates during the period of uneconomic competition. The taxpayer would have to foot the bill.

At first sight Mr. Smith's scheme would seem to possess the political advantage of being able to let things take their course without the need for positive major action. The fate of the "Square Deal" has shown that this is not the case, and that it is going to be just as hard politically to "de-regulate" transport as to regulate it.

CHAPTER XV

COMPOSITE SCHEME

LET us now examine in the light of our theoretical analysis, and of the practical experience in this and other countries, whether it is possible to devise a scheme which would to a large extent combine the advantages of both the monopoly and competitive solutions without the disadvantages of either—the fifth of the alternative systems referred to on page 21.

Among the advantages desirable in any scheme are the following—

The scheme should ensure an automatic division of function based on cheapness of operation without the need for bureaucratic intervention;

It should leave the user absolutely free to decide by which means of public transport he will send his goods or whether he will provide his own transport;

It should be independent of the nature of the rate structure which can then be decided solely in the interests of trade and industry;

It should admit of free competition between road and rail on a basis of absolute equality, while minimizing risk of financial disaster which would necessitate Government subsidies.

It should admit of such operating and rate agreements between different hauliers, and between hauliers and the Railways, as may be considered desirable and found possible on the lines of the "Square Deal" Report;

It should lend itself to the supervision of independent road hauliers, and not be dependent on any restriction of the total number of road vehicles licensed;

It should provide for non-paying services necessary in a national transport system;

It should avoid wasteful duplication of capital expenditure;

It should enable any general taxation imposed on transport to be levied on transport as a whole;
and it should encourage technical reorganization, e.g. on the lines envisaged by Mr. Smith.

The scheme here suggested is based on the assumption that the correct division of function should depend on the out-of-pocket cost of working the different forms of transport. The difference between the variable costs would be reflected in the rates charged by the alternative means of transport; and the user, for his part, would be free to employ the more expensive means of transport if the improved service were worth the additional cost to him.

We have seen that under a combined monopoly of road and rail transport this division of function would automatically be obtained;¹ and that moreover there would be eliminated the present unfair competition arising out of the difference in the system of charging by road and rail,² whereby road transport can undercut the Railways for the carriage of high-rated goods, even though the cost of carrying by lorry may be more than the cost by rail. Further, there would no longer be any necessity for limiting motor vehicles by licence, as the amount of road transport required would be determined automatically by this combined monopoly.³

Such a system of common ownership of public transport would, however, only solve the road and rail question at the cost of bringing to a head the problem of competition between public and private means of transport. In this respect the private car, and possibly the taxi, need not be further considered, as they can be separated in practice from any scheme of transport co-ordination. As regards goods, however, the ancillary user, having no obligations, is free on the one hand to carry those goods which can be cheaply handled and for which the public transport tariffs are high, and, on the

¹ Page 23.

² Page 33.

³ Page 24.

other hand, to use public transport for peak traffic, for broken loads and for low-grade commodities, and also as a stand-by in case of need. The ancillary user could, therefore, compete unfairly with public transport—both road and rail—and some solution must be found which is fair to all parties.

It must be faced that common ownership with a combined monopoly of transport is one theoretically correct solution, and is politically possible in our time. Recent events have shown the risk of passive resistance to changes, however great. It therefore behoves the advocates of competition to meet the advocates of monopoly with counter-proposals having an equally sound theoretical basis, and offering the same advantages.

One is thus led to examine whether it is necessary to have a complete monopoly to attain the correct division of function, or whether the need for a monopoly only applies to part of the operation of transport. The aim, as just stated, is that competition should be based on variable costs: *this can only take place if the fixed costs of all approved means of public transport are pooled: if this is done, road and rail could be left to compete on the basis of their variable costs.*

Fixed Charges

Let us analyse tentatively, for the sake of illustration, what the nature of these fixed costs might be; mainly for administrative reasons they will not necessarily follow the usual division between variable and fixed costs—

(a) Maintenance and renewal of all railway lines and buildings (possibly excluding locomotive and rolling stock workshop buildings and the proportion of head office buildings attributable to operation), cost of signalling staff, level crossing keepers. A corresponding proportion of head office expenses for the above costs. All such items could be based on the actual cost as worked out by auditors, the work being carried out for the Pool by the Railway Companies.

(b) A fixed lumpsum contribution to the highway authorities

assessed from time to time as due from all motor transport for the maintenance and improvement of roads; road police, lighting and signalling. (Whether the contribution of the private car is passed through the Pool or collected separately would be a matter of administrative convenience.) Maintenance and renewal costs of public road transport termini (but not offices and garage buildings). The present organization for maintaining and improving the roads need not necessarily be affected.

(c) The assessed earning power of the above railway and road transport fixed installations in the new conditions. This item, once fixed, would not change. Some form of assessment of earning power is inevitable in any scheme of transport co-ordination involving a pool.

(d) Items (a) and (b) would vary as it might be decided to cut out or reduce expenditure on non-paying installations, or, alternatively, the Pool might incur additional expenditure involving maintenance costs, whether on the railways or through increased assessments for roads.

Running Costs

The running expenses forming the subject of competition between the railway and road operating undertakings would then be—

(1) The maintenance and renewal of railway and road vehicles, train or vehicle staff, platform staff and goods staff; shop staff; maintenance and renewal of workshops, garages, shop tools and plant; fuel, etc.; head office buildings and staff, except the proportion allocated for maintenance of fixed installations.

(2) Interest or profit on the capital expenditure not attributed to fixed installations—e.g. locomotives, rolling stock, road vehicles, workshops and garages.

Basis of Contribution to Fixed Charges

The question next arises how the income needed to support the above Pool of fixed charges would be raised. It is

generally admitted even by road transport authorities that some form of classification is necessary for the future rate structure. Such a classification might be based purely on the differences in the cost of conveying the various commodities, or it might contain also an element based on the value of the service. It is widely held that the maintenance by the Railways of some form of rate structure favouring low-grade commodities at the expense of high-grade commodities is in the national interest, if not inevitable, having in view the low-grade commodities which can only be carried at rates giving a very small margin per ton-mile over out-of-pocket cost of working.

The scheme now suggested is independent of the nature of the rate structure decided on, provided it is the same for all means of transport. The future policy as regards the rate structure can, therefore, be a matter for Government decision based on national needs. We have seen¹ how every rate is made up of two components, namely the variable cost and the toll for the use of the fixed installations and overhead organization, roughly corresponding to the above division of running costs and fixed charges. If, therefore, it is decided that the contribution towards the fixed charges of the national transport system should be levied on the different commodities on the basis of the value of the service, then the contribution from each means of goods transport to the common Pool should be based on the nature of the commodities carried and the ton-mileage in each case.² The total of the charges made to the public would be the sum of the toll and the running expenses as defined above.

It may be mentioned here that a transport tax on gross revenue would not be suitable for a toll, since the resulting toll for the same traffic would vary with the competitive rates charged, and this, apart from the difficulty of verifying the amounts payable, would vitiate the principle that the traffic should follow the lowest out-of-pocket cost of working.

¹ Page 22.

² See footnote, page 23.

The Practical Problem

The practical problem thus arises as to whether it is possible, after simplifying the classification for the purposes of such levy, to enforce the keeping of the necessary records of traffic carried and the collection of the prescribed levy for all road and rail transport, *including the ancillary user*. The initial toll would have to be assessed to provide enough revenue from the total traffic to cover the total fixed charges. It would have to take account of the differences in the cost of conveying each kind of merchandise as well as the total rate the traffic will bear. Admittedly it would involve an immense upheaval, but the Railways are already prepared to simplify their classification and this would help. They would find their task much easier if the classification has not to take account of competition on the present basis, but is to be a common one for road and rail based on a Government decision on a rate policy.

The problem of supervision will obviously require a considerable consolidation of the present 60,000 road transport undertakings, but so does any solution of the road and rail problem. It could be greatly simplified by eliminating from the scheme, so far as assessment of toll is concerned, all local delivery services of ancillary users comprising, possibly, some 80 per cent of the total ancillary users' vehicles. This 80 per cent is non-competitive with public means of transport, and its contribution to fixed charges and to national taxation might be on a basis independent of the traffic carried.

As regards the remainder, it would seem easier to collect a tax based solely on the nature and quantity of the commodity carried which can be physically verified, than to check evasions of tariff agreements not in conformity with the immediate interests of hauliers. The machinery for collection will be important. Assuming that a suitable check on records of petrol consumption can be devised, and this would not seem impossible, it may be simpler for the existing registration and petrol taxes to be collected for the Pool

and, after any agreed deduction payable to Government as a contribution to the Budget, for the balance at the disposal of the Pool to be credited to the toll account of each undertaker. It might be found that even in present conditions a number of undertakings would be interested in satisfying the Pool that they are entitled to a rebate, owing to their having paid in taxation more than is due from them as tolls. It might be necessary to adjust taxation so that the majority of road operators become entitled to such rebates. The interests of the hauliers and ancillary users subject to toll would then lie in facilitating the smooth working of its collection, and delinquents, including any users implicated, would be more easily discovered and suitably dealt with for fraud. The only effective punishment—loss of licence—is more likely to result from a conviction for fraud than from proof of an evasion of a rate agreement.

It will be appreciated that if the above principles are correct, an arrangement on the same lines for toll from *competitive* ancillary transport might solve the similar problem which would arise in the case of a monopoly of public transport with common ownership referred to at the beginning of this chapter.

The contribution from passenger traffic could be fixed on a similar principle of toll—possibly with simplified application avoiding the need for accurate passenger-mile statistics. There would be nothing to prevent the formation of regional road and rail *operating* pools for passenger transport on a monopoly basis where found desirable; or the conclusion of operating and rate agreements between different hauliers or between hauliers and the Railways.

Once agreement has been reached as to the amount of the contribution of the private car, the method of taxation is not of importance to the Pool, except in so far as some adjustments might be found desirable to facilitate the practical working of the Pool. Whether the contribution of the private car passes through the accounts of the Pool or not would be a matter of administrative convenience.

Relative Contribution of Road and Rail Transport to Fixed Charges

The interest payments (assessed earning power) for the fixed installations of the Railways and of road transport will have been based on the estimated railway and road transport revenue respectively, under the new conditions, and the initial lump sum payment on behalf of commercial transport for the upkeep of the roads would take account of estimated road user. There should therefore be no question of one form of transport subsidizing the fixed charges of the other. If there should be considerable subsequent alteration in the relative traffics by rail and road, then it may be that the contribution to fixed charges by rail and road traffic might not correspond with the cost of rail and road fixed charges respectively, and the system gaining the traffic would tend to "subsidize" the other system, but by this time the fact will not be of importance in view of the common financial interest resulting from the Pool.

Contribution to General Taxation

At the present time the revenue from road transport is not directly applied for road purposes, and road expenditure is contributed to by other users through expenditure by Local Authorities. Part of the receipts from road transport are used for the purposes of general taxation. If taxation of transport for the general Budget is considered to be unavoidable, it will be possible under this scheme for the contribution to be levied on transport as a whole in the form of a transport tax on the toll, instead of being deducted from the petrol and registration taxes, in which case the toll would have to be correspondingly increased.

Alternatively, this budgetary contribution may be regarded as payment for the use of the capital spent on roads in the past, in which case it would be one of the items of the Pool's fixed charges. Both alternatives would have the same effect in making this contribution a general charge on all transport, but the point of view adopted

might affect the initial estimate of the future earning power of railways and road transport.

Restriction by Licensing

The question then arises as to whether with such an arrangement it would be necessary to restrict by licensing the quantity of motor transport and the entry of new operators into the field. The Road Transport Conference, held in October, 1938, in Birmingham, recommended the granting of licences without restriction, subject only to the observance of all regulations as regards fitness, weight, loading and speed of vehicles, drivers' hours, keeping of records, wages and conditions of service and conformity with rate agreements!

It is precisely the impracticability of ensuring observance of these conditions which is, and will be, responsible for the failure of any scheme of co-ordination unless operators are reduced to a comparatively few large and well-organized undertakings. Moreover, even then there will still be difficult questions of undercutting, unnecessary duplication, and overcrowding which might make some control of the quantity of road transport desirable in the interests both of the community and of road transport operators, and the general principle must be borne in mind that if road transport undertakings are required to undertake services in non-paying areas, times or seasons they will need a corresponding amount of protection from competition. Thus, though limitation of road transport is not necessarily a part of this scheme, any relaxation or discontinuance of restrictions on road transport by licensing is more likely to benefit the fleets of the future consolidated undertakings than to lead to the admission of uncontrolled free-lances.

If licensing continues, the objective should not be the division of traffic on the basis of preserving existing elements as at present, but rather the choice of the best means of transport in the light of the accepted principles for division of function.¹

¹ Page 159.

Equalizing Obligations

Assuming, however, that road operators are allowed to enter into business or to increase their fleets without restriction, then there would seem to be no reason why road transport should not undertake the same obligation to carry, and the same extent of generalization of tariffs (i.e. maximum rates which for each class are the same on cheaply carried or expensively carried consignments) as the Railways for the areas or routes over which each road transport undertaking acquires authority to operate. It is assumed that, in the interest of stability of charges, the publication of tariffs and the principle of non-discrimination would apply equally to both means of transport: thus Railways and road transport would be placed on a footing of equality enabling them to compete on a fair basis in a way which has never yet been attained.

If, after all, it is still found necessary to regulate the quantity of road transport, then it would be difficult to impose on road transport the obligation to carry and the generalization of rates. In that case it would be for consideration whether tariff generalization might be relaxed in the case of the Railways by giving them greater freedom to increase rates for unremunerative traffic, though this would mean a retrograde step in public transport facilities.

Considerations Affecting Ancillary Users

Unfortunately, this equality would only be attained by placing both Railways and road transport undertakings at a disadvantage compared with ancillary transport, which has no obligations and which can fall back on the public means of transport to carry the less paying kinds of traffic. The aforementioned toll is only a contribution to fixed charges and does not cover the necessary provision of rolling stock or the increase in running expenses incurred by public transport undertakings in order to meet these obligations.

It might be a matter for study whether these residual

disadvantages which public transport would have compared with private transport could be roughly balanced by including the buildings of workshops, garages, and of head offices of public transport undertakings under the heading of fixed charges in the analysis earlier in this chapter. On the other hand, the ancillary user, if he pays tolls based on reliable records, might claim the right to convey return loads for payment. A decision on these points would require further study. Though important, they are secondary to the principle of toll payment.

Non-paying Services

Non-paying services in outlying districts could be provided for by subsidies from the Pool, possibly in the form of special reductions of toll, if it is decided that firms operating these services are not to be given a counterpart in the form of protection through licensing.

Financial Considerations

Seeing that the success of such a competitive solution of the road-rail question would be bound up with the financial stability of the Pool, it would be vital that the initial valuation of earning power of the constituent undertakings should not be excessive, and that the initial toll should give an adequate margin to cover the fixed charges and to allow for subsequent adjustments, which will be inevitable, and for the building up of a suitable reserve.

For the initiation of such a scheme the users might justifiably be called on to pay higher rates for a temporary period till the toll structure has been tested and adjusted to attain the right balance both as regards the financial stability of the Pool and the relative toll levied on the different commodities.

The Authority directing the Pool would be concerned with economy in expenditure on the upkeep of the fixed installations, and might, for example, agree with the Railways to share any savings on the cost of maintenance. There might be controversy as regards the division of responsibility for

safety between the Pool Authority and the operating undertakings. A similar division already exists on the roads. The operating undertakings must always have the ultimate responsibility for safety. They might in extreme cases cut down the speed of services—possibly in agreement with the Pool Authority—or failing this, try and enlist public opinion in favour of higher maintenance expenses. Alternatively, Government Railway Inspectors would presumably still be functioning, and might decide what was necessary in case of conflict.

As regards capital investment on rail and road; where it is a case of developing new traffic it will be to the financial advantage of the Pool to provide for capital expenditure. The Pool will also be interested indirectly, as in the case of industrial concerns, in the improvement of installations to keep them up to date. If it is a question of taking traffic away from one transport undertaking to another, the Pool Authority would decide in the general interest and avoid wasteful duplication of capital expenditure. It may be that Railways or road operators might be allowed to carry out wholly or partly at their own expense, alterations which they consider will bring them in greater profit without loss of revenue to the Pool, but this would have to be worked out. In any case the interests of competing road and rail operators would tend to counteract any lack of initiative on the part of the Pool Authority.

Rate Control

Government control over rates charged by transport operators would be theoretically unnecessary under a régime where there is effective free competition, but would in practice have to be exercised to fix maximum rates for any particular traffic which is a virtual monopoly of one means of transport or of a transport operating pool.

It will be appreciated, however, that the competitive reduction of rates under this system can only take place within the limits of operating costs of working. Any reduction

beyond this limit could only be made at the expense of and therefore on the authority of the Pool Authority. The control of rate policy could, therefore, be exercised in the national interest of favouring trade and industry, and economically wasteful reductions resulting from the free play of unrestricted competition would be avoided. The Transport Advisory Council might act as an Advisory Council on questions of rating policy, as in Germany. The Road and Rail Rates Tribunal would have to approve alterations in tolls likely to affect the prescribed toll revenue.

The Future of Rates

There remains the question of the probable relations of future rates to present rates. Assuming that some form of value classification for toll is adopted, one would expect the road rates on high-class commodities to be higher than in the past. In other countries they are trying to bring this about arbitrarily. Whether rates as a whole would tend to increase, or to remain about the present level, or to be reduced under the stress of competition, will depend on whether competition between road transport undertakings, between road and rail undertakings, and between both and the ancillary user has or has not already lowered the total charges for transport below the total cost of transport.

The above considerations point to the danger of delay in reaching a settlement of transport policy.

CHAPTER XVI

IF WE COULD START AGAIN

LET us now suppose we were able to start again from the beginning to seek a solution for the road-rail problem, but with the experience we have acquired. We might well begin by recognizing the difference between Category I and Category II of regulation, and then proceed very much as has been done with the necessary Category I legislation for bringing road transport into line with the Railways.

As regards measures of co-ordination proper, the procedure adopted might have been firstly the formation of a Research Organization—

- (a) to work out the theory and principles underlying the problem;
- (b) to ascertain the existing facts;
- (c) to determine the possible alternative solutions.

The time would then be ripe for a decision of policy. This would be followed by the working out of the application of the policy, including the practical organization necessary, and in particular the transitional measures required.

If time pressed, as it has done, it would be found necessary to introduce some provisional licensing system, on the lines actually adopted, with the definite purpose of holding the situation while gaining experience till the remaining measures of co-ordination could be brought into force. It is possible that in these circumstances the "A" licences might have been of a more restricted type.

We might have decided, probably not all at one stage, on a policy based on the following conclusions—

1. Transport as a whole must pay its way.

2. It is not possible to increase generally the rates on low-grade commodities to any substantial extent.

3. Unless, therefore, research shows that by increasing efficiency the higher railway rates can be cut to compete with motor transport without weakening the financial situation of the Railways, the present value rate structure must substantially be maintained.

4. Transport must be regarded as a public service, with the certainty that traffic will be carried, with stability of rates, including generalized maximum rates, with publication of rates and protection against undue discrimination. Provision must be made for essential non-paying services.

5. It is in the national interest that the division of traffic should take place automatically, substantially on the basis of out-of-pocket cost of working.

6. Wherever the traffic is sufficient, choice of facilities should be provided, and the user should be free to choose which means of transport he prefers, or to use his own transport.

7. The above requirements cannot be met except under some form of monopoly.

8. The arbitrary creation of monopoly conditions cannot meet the case, and in the long run common financial interest of different forms of transport is inevitable.

9. In order to preserve flexibility and to encourage initiative it is important, if possible, to retain an element of competition, and only in the last resort to introduce complete monopoly. The possibilities of pooled fixed charges with competitive operation should, therefore, be fully explored.

10. If a monopoly should be inevitable, it should be financially autonomous, both as regards capital and operation, and commercially operated without any interference from politics.

11. The ancillary user must contribute to the fixed charges of transport on the same basis as public transport.

12. Subject to control, pooling agreements between

different undertakings should be allowed in order to avoid wasteful competition which might weaken operating undertakings, or to admit of improvement in operation, or to facilitate the establishment of non-paying services.

13. The inclusion of other forms of transport should be studied.

In the meantime one might hope that the research organization, keeping in touch with the progress made in deciding policy, would have assembled a great deal of the information necessary for working out the application of the policy, the practical organization required, and such transitional measures as would probably form part of any scheme.

For this research work, access is essential to inside knowledge of the commercial and financial working of both means of transport. Here was a great opportunity for the Railways with their knowledge of both railway and road operation. With such vast interests at stake, one might have expected a co-ordinated Research Department to have been charged with every aspect of the problem. How far this was done has not been made known.

The kind of questions which might usefully have been studied at different stages are—

The comparative total and out-of-pocket costs of rail and road operation generally or for different traffics.

How would a Commercial Manager of a road and rail monopoly undertaking allocate traffic on the basis of out-of-pocket cost?

The proper basis for determining what means of transport are non-paying and should therefore be abandoned (a) under a competitive régime, (b) under a régime of a combined monopoly. Which means of transport or services *must* be maintained though coming commercially under the above category.

The best procedure for valuation of transport undertakings in the event of an amalgamation.

The possibilities of varying the railway rate structure without injury to industry.

The simplification of the railway rate classification, and the effect on trade and industry of abolishing nearly all the exceptional rates, (a) under present conditions, (b) under monopoly conditions.

The degree of rates freedom necessary to effect the desired alterations.

The possibilities, assuming increased freedom as regards rates, of effecting economies in combined road and rail operations on the lines of Mr. Smith's recommendations.

The pros and cons in practice of the system of pooling fixed road and rail costs which should be paid for by a toll on traffic.

The future ownership of railway and road transport fixed installations under the pool system.

The method of calculating the toll in relation to individual rates on the one hand, and the required total contribution on the other.

The machinery for collecting toll. Examination of the possible use of the German Tramp Haulier system¹ as a means of collecting toll in certain cases.

The machinery for excepting delivery services from the toll charges.

The machinery for fixing lump sum payments for the use of the roads by commercial transport, and for giving weight to the views of the road-rail organization—whether pool or monopoly—on the development of the road system.

The machinery necessary for ascertaining and paying the amount due to the Railways and to Road Transport under the pool system for the maintenance and use of fixed installations.

The necessity or otherwise for continuing the licensing of goods vehicles, and the policy as regards any future licensing.

The most useful form of statistics to ensure compliance

¹ Page 78.

with regulations and to provide information which may be desired regarding traffic movements.

Organization of small hauliers into larger undertakings without loss of flexibility.

The desirability or possibility of regional road organizations and their suggested boundaries.

The enforcement of regulations and the possibility and methods of enforcing rate agreements.

The nature and extent of traffic carried by road and by rail and the rates charged.

The extent to which ancillary transport is competitive with the Railways and with road hauliers. The extent to which road hauliers are not competitive with the Railways.

The possibility of demarcating delivery services from other road services.

The possibility of reserving a field for the activities of small operators.

The effect of any arrangements on other forms of transport, and the possibility of the extension of the road and rail policy to include them.

The effect of any arrangements on international trade.

The possibility of rate agreements with foreign railway administrations.

CHAPTER XVII

WHAT MIGHT NOW BE DONE

UNFORTUNATELY we cannot begin again at the beginning, and it is important to make decisions on immediate action. Here we are up against the difficulty that a considered decision can only be based on inside knowledge of the operating, commercial, and financial conditions of the two means of transport. The information already available would, however, probably justify the adoption by the Government of items 1, 2, 4, 5, 6, 9, 10, 11 and 12 of the policy outlined in the preceding chapter, while leaving 3, 7, 8, and 13 for further research.

In that case, provisionally at least, it is necessary to maintain the value rate structure, i.e. the present form of classification, pending research and tests as to the extent to which this rate structure can be modified without loss of revenue, or alternatively the extent to which part of the revenue from higher rates can be sacrificed in view of savings to be effected in operating costs. Consequently the scope of possible alterations under any new arrangement—which should be regarded as experimental—should be limited. On the other hand, the Railways should not be hampered by complicated procedure in effecting alterations within the limits laid down. With the above object, would it be possible to give to the Railways authority during a specified period to increase all rates up to, say, 10 per cent, without appeal to the Tribunal except on the grounds of undue preference? At the same time the present restrictions on reducing rates might be removed—possibly subject to annual review by the Railway Rates Tribunal with the object of satisfying themselves generally that the average rate per ton-mile has not been reduced. The introduction of the new railway rates machinery envisaged by the T.A.C. might in consequence

stand over. The definition of undue preference might, however, be such as would result from the proposals of the T.A.C.¹ The Railways should continue to publish their rates. Thus, except for the above authorized increase, the users would retain their present safeguards. As regards the standard revenue, we have seen that it would not influence the valuation of the railway undertakings on an amalgamation, but it might still be useful as a yard-stick for future maximum profits, while no longer being directly related to current rates policy.

Turning to road transport, every haulier might be obliged to join an Association which will represent him collectively *vis-à-vis* other Associations, the Railways and the Licensing Authorities. The organization of these Associations might be built up gradually as experience and research show what would be the best form of grouping. To begin with, at any rate, no common financial interest between members of the Association would be provided for, though it seems likely that the close contacts established between hauliers would lead to an increase in voluntary amalgamations. Each Association would look after the collective interests of its members, and would deal with complaints of infringements of regulations and rate agreements made by any of its members against each other or against members of other Associations. Associations would be empowered, on the one hand, to take action on behalf of any of their members before the Licensing Authorities with a view to defending their interests and, on the other hand, to take or initiate disciplinary measures against their own members. They might enter into rate agreements with other Associations or with the Railways, and should watch over the execution of such agreements.

Once the principle has been recognized that road hauliers must be grouped, and that the ultimate aim is the reduction in the number of independent undertakings, the detailed working out of the scheme will require much more knowledge

¹ Page 127.

than is commonly available regarding the position of small hauliers. The reorganization of the road haulier industry by stages should enable the necessary flexibility to be preserved to the maximum extent possible, and should avoid undue disturbance. The above Associations would be dealing with detailed questions of an executive nature, and would not be likely to clash with the larger Associations of road operators more concerned with wider questions of policy and with the national and parliamentary representation of the industry.

The obligation on road hauliers to publish their tariffs and the prohibition of undue preference, which we have assumed to be part of the national transport policy, might be made compulsory without further delay. Publicity can be introduced quite independently of the fixing of rate structures or the conclusion of rate agreements. Even if at the outset the rates actually charged are less than the rates published, the latter afford the user the protection of maximum rates, and in any case the effect of getting the hauliers accustomed to publishing their rates will be one fence out of the way, if and when rate agreements materialize.

Pending working out the application of the new policy it will be desirable not to introduce additional road transport, if its operation would conflict with this policy. It might be for inquiry whether in granting new licences, "A," "B," or even "C," the Licensing Authorities should be instructed to take account *inter alia* of whether the out-of-pocket cost of working is likely to be substantially less than is the case with the alternative means of transport available. Provisionally also the Licensing Authorities might have power to impose conditions for "A" licences solely on the above grounds.

The possibility of obtaining information on which an objective consideration of the road and rail problem can be based is complicated by the natural reluctance of the interested parties to disclose their trade secrets while they are still in a state of intense competition and mutual suspicion.

It is probable that they would be more likely to pull together for the working out of a detailed plan for road and rail once the nature of their future relations is known. It will, however, be necessary in the circumstances to appoint some independent authority to collate available information giving him right of access to such further information as may be required, subject to suitable safeguards as to the publication of individual results. Possibly someone well known in the accounting world with the mission and authority of the Co-ordinator of Transportation in U.S.A. would meet the case. This Co-ordinator should be independent of any transport interests, and might have attached to him, as technical assessors, a railway man and a road haulier of recognized experience in this country, but no longer actively interested in transport. This organization, somewhat resembling the McLintock Committee in its composition, might be charged with presenting suggestions for transport policy to the Minister of Transport, who would alone be responsible for making a decision.

In studying the different aspects of the problem, and in formulating conclusions, it is important to avoid the mistake of failing to consider measures because they are contrary to existing legislation, or because it is thought that the interested parties or the country would never stand them. The advent of motor transport inevitably involves a big upheaval in the transport régime of any country, and the changes required to meet the situation may well be of a magnitude which is not easily recognizable, and which will not be generally accepted without some leadership. In some countries it may well be that the ever-widening areas over which unity of transport policy is essential will lead to constitutional modifications with a view to centralizing the determination and administration of such policy. In the working out of a policy, therefore, it would be wrong to be deterred from following up a promising line of inquiry because of breaking new ground. The first aim should be to decide exactly what is wanted without taking into account what is immediately

practical. Once the final objective is clear the means of attaining it, possibly by stages, may well prove easier than appeared at the outset.

Thus we complete this work on a note which shows that the subject is by no means a closed one. The working out of the new relations of road and rail, and the extension of these relations to other forms of inland transport offer a wonderful field for the coming generation of transport men, if they can only break themselves free from the meshes of sectional interests and adopt a wider view of national and even of international transport requirements.

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