

COORDINATION AND INTEGRATION OF ALL TYPES OF TRANSPORTATION

4 February 1949

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4 February 1949

DR. ASHTON: General Holman and gentlemen: In our study of transportation as one of the contributory factors in economic mobilization, we have been dividing our time between the different types or modes of transport. It is important, therefore, that we give some attention also to the consideration of certain aspects of our transportation system taken as a whole.

I take for my subject this morning the statement of General Heileman, Chief of Transportation, who said recently: "Our primary job is one of Coordination." General Heileman went on to say that: "At present there is...much military planning along the line of transportation coordination. I believe the transportation industry should follow suit."

Let me make an observation at this point before I continue. In selecting any subject for discussion, there are usually several alternatives presented in the manner of treatment. The point of view which is chosen automatically eliminates the others that might have been chosen. I have chosen this morning to consider coordination within the transportation industry, partly because I believe this is what General Heileman was talking about; however, I am not going to present a mobilization plan for transportation. This would be an encroachment on the work of another unit of the course which is to follow. Moreover, I believe that in order to formulate a good mobilization plan, it is essential to examine first certain aspects of the industry that we are dealing with in its normal peacetime setting. We need to know as accurately as possible what we have to work with before we start to formulate any specific plan.

What I propose to do, therefore, is to present what may be termed some of the less well-known facts with regard to transportation with specific reference to this problem of coordination. The discussion will also be restricted to the domestic phase of the problem. This means that the relationship or coordination between inland transportation and overseas operation, for example, will not be considered.

With these limitations in mind, then, what is the situation within the industry today?

I will approach the problem from three angles. In the first place, I will try to indicate what is the nature of the problem. Why did General Heileman make the statement he did? Secondly, what

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is behind the demand for fuller coordination of our transportation services? Where does this demand come from? For it is not restricted to the Military Establishment. And, thirdly, why is there this apparent failure to provide fully coordinated services? What are the obstacles in the way of achieving what is obviously a desirable end?

Considering first the nature of the problem, it may appear to many of you as a waste of time to give an hour to the discussion of a matter which does not seem to offer any important complexities. It is obvious to even the most casual observer that there is a very considerable degree of coordination today of transport services. But why then did General Heileman say that it is "our primary job"? And why did he express the wish that the industry would do some planning such as the Transportation Corps is doing? Evidently the degree of coordination that exists today leaves something to be desired. Why is this so? It is because actually this matter of coordinated services directly affects some of the most vital interests of the individual carrier agencies.

Most of us have been taught to think of the transportation industry as essentially monopolistic. It is supposed to be because of this characteristic that it was one of the first industries to be brought under regulation as a public utility—to protect the public interest. But some of you may have read that, even before the enactment of the Transportation Act of 1875, there had been competition between the various agencies of transportation, so severe as to warrant the title of rate "wars." And it was partly to protect the public and the carriers themselves against the ill effects of this sort of throat-cutting competition that regulation was initiated. Today, competition between carriers of like types is more restrained, but it still exists.

Meanwhile, the advent and growth of the newer types of transport have resulted in the development of a new and very intense competition between them and the older forms of transportation. This industry, which is generally looked upon as a carefully regulated monopoly, or group of near-monopolies, actually is composed of a large number of individual enterprises engaged in a very real and intense competition, both among the separate units of like type and between the different types of transportation agencies.

The matter of coordinated services affects these competitive relationships very directly. At the same time, coordination of these separate services is essential if we are to secure the maximum efficiency in the functioning of the Nation's transportation system as a whole, which is, in turn, necessary in order to reach our maximum economic potential. It is for this reason that General Heileman called attention to the problem. From the standpoint of national security as well as peacetime prosperity, it is essential that the country's transportation system, including all agencies involved, be maintained

in a state of high efficiency at all times with due regard for whatever technological improvements will increase its over-all capacity. A sound governmental policy, therefore, is needed in achieving this end. This is the problem.

Coming now to the second point in our discussion, the origin of the demand for fuller coordination of the various transportation agencies is obviously partly military, but it is also in part industrial, and it is bound up in these competitive relationships between the individual carriers.

Recently, in the case of practically all forms of transportation, the demand for services has been running ahead of supply. But this has not always been the case. It was not the case just prior to the past war, and it may not be the case in the very near future. In fact, we are already getting signs that the demand is falling off with respect to the postwar situation.

As long as business is good, one agency can often get traffic that some other agency is unable to handle. This looks like coordination of service, and in instances may actually be so. During the past war, this sort of coordination of truck services was accomplished through the establishment of "Joint Action Plans" by the Office of Defense Transportation, with centralized information offices which attempted to provide maximum utilization of equipment by notifying operators of available cargoes. But in times of poor business, when excess capacity begins to appear, some of the traffic secured by one carrier may be at the expense of another carrier. Envious eyes are then cast on the other fellow's movements and arguments spring up for some sort of readjustment of the situation.

A declining trend in the proportion of the total transportation service performed by the railroads was evident before the past war. This decline was in part the natural result of the growth of the newer agencies, and may have been accelerated by government policies which fostered the expansion and improvement of public rights-of-way and other aids. But changes in commercial practices were also a factor, as well as certain limitations inherent in the older forms of transport; namely, the incompleteness of the service afforded those customers not having private rail sidings or dock facilities, and the time consumed on relatively short hauls. In addition to the limitations of the service performed by the railroads and the waterways, commercial policies involving the practice of what has been called "hand-to-mouth" buying also has tended to reduce the relative volume of rail and water movement of goods compared to the other agencies. Smaller shipments, for example, lend themselves to motor transport, and hand-to-mouth policies of the industries called for a reduction in the stocks carried by merchants and also a

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reduction in the average size of shipments. Transfer of stock between individual merchandising establishments which are not too widely separate can be performed overnight by trucks, including store-door pickup and delivery services, without a transfer of lading, whereas railroad service would require additional truck hauls at each end of the run with consequent delay in the delivery of the shipments. This would be true also for water transport and air transport. This is simply saying that certain types of services can be performed more effectively by motor truck than by other transport media. But the length of haul by motor truck has been constant increasing, and the variety of goods carried has also been steadily growing, so that now the motor trucks handle about the same list of commodities that are moved by railroad or waterway.

Rail and water carriers, as well as air carriers, use motor trucks to perform the initial pickup and final delivery services for considerable proportions of their traffic. This is the kind of coordinated service which they like. In these instances the motor carriers perform certain terminal services, and act as "feeders" for the other transport agencies. As the services performed by the individual agencies become more competitive, there is fostered a change in the attitudes of the different agency types vis-a-vis each other. An attitude of rivalry is engendered in place of the earlier cooperative relationship which tends to obstruct the further development of coordinated services. This is essentially the situation today.

Now, with respect to the obstacles in the way of performing the fuller coordination desired: Transportation is a partially regulated industry—please note that word "partially"—but the preservation of competition as a bulwark against monopoly has largely dominated regulative policy down through the years. This was important during the era when the railroads and waterways were the principal agencies to be regulated. The monopolistic character of the railroads at that time was recognized, and properly so. Regulative policy in those days involved efforts to protect the competitive position of the inland waterways. These efforts were not completely successful, however, because the services provided by the railroads in many instances were superior.

After the First World War, with the advent of motor transport and the revival of inland waterways operations, the intercarrier relationships began to change rapidly and drastically—fostered in the first instance by the inability of the railroads to meet the demands placed upon them by the war, and, secondly, by a new era of road building and waterways development by the Government.

Both the railroads and the Government were slow in recognizing the significance of these changing relationships. But the rapid invasion of the railroads' interests by the motor carriers forced the rail carriers to recognize the new competition. Regulative policy did not take cognizance of this changed situation, however, until 1935

when Part II of the Transportation Act was instituted, providing regulation by the Interstate Commerce Commission of "For-Hire" motor carriers. This is where the word "partially" comes in that I used a moment ago. For the "For-Hire" carriers represent only about 30 percent of the total volume of business conducted over the highways. The other 70 percent of highway carriage is entirely outside the jurisdiction of the Commission except for matters of safety. Moreover, the same situation obtains with respect to the carriers by inland waterways. The Commission's authority reaches public carriers only, and then with important exemptions involving bulk carriers. So that between 70 and 90 percent of inland-waterway traffic is beyond the scope of the Commission's regulatory powers. This obviously has considerable importance in connection with any attempt to coordinate services.

In its investigation of the coordination of motor transport, the Interstate Commerce Commission has this to say: "That transportation by motor vehicles, busses and trucks over the public highways is within certain distances and in certain respects a superior service and that rail and water lines be specifically authorized to engage in the transportation of both persons and property by motor vehicles and...encouraged in the use of this instrumentality of commerce whenever such use will promote more efficient operation or improve the public service." This statement suggests a rather liberal point of view on the part of the Commission with respect to railroad entry into the motor carrier field.

In the Kansas City Southern case, however, the Commission, in granting permission to the railroad to engage in motor vehicle operations in the transportation of general commodities in line haul, placed certain limitations on the operations that were approved. They were restricted to certain key points on the applicant's lines, and it was further stipulated that the services were to be auxiliary to or supplemental of rail service. In the Illinois Central case and in the Seaboard Case also, decided in 1939, these same limitations were placed on the motor-carrier operations of the railroads.

There are a number of different kinds or types of coordination. Services may be coordinated among individual carriers within a given type. Individual railroads and trucking companies coordinate their schedules so as to provide through-long-distance service. Railroad rolling stock has long been, and trucking equipment is now being, standardized so as to permit easy interchange for this purpose. There are instances also of the joint use of terminals by railroads and by motor carriers. I have already given instances of coordination between different types of carriers in truck pickup and delivery services for the railroads. Elaborate equipment is provided by the railroads at the big ports on the Great Lakes to facilitate coordination of services

between the lake carriers and the railroads. Similar facilities are provided at some of the coastal ports also.

These instances represent the coordination of services provided by independent agencies to a large degree, dealing with each other at arm's length and with adjustment of charges carefully supervised by the regulative authority, primarily the Interstate Commerce Commission. It has been effected within the general competitive framework upon which our regulative policy has been based. It has been accomplished to a considerable degree to meet changing business methods and as a result of pressure applied by shippers. It has not been developed so extensively as it could be because of the spirit of rivalry between the different agencies--which I mentioned earlier--that has grown with the growth in the competitive character of the services rendered by the individual carriers.

In the Kansas City Southern case already mentioned, the independent truckers urged that, if the railroads would cooperate with them, the desired coordinated service could be performed adequately with the existing facilities and without the grant of any new operating authority to the railroad. In response to this, the railroad stated that if it turned over traffic to the independent truckers, it would be short hauling itself for the benefit of competitive agencies and would lose a very valuable portion of its revenue. In reply to the trucking companies the Commission stated that it was without power to compel coordinated services between carriers by rail and carriers by motor vehicle. This, it said, could be accomplished only by the medium of through routes and joint rates, and it had not the authority to require their establishment.

What is the situation today? With respect to the relationship between the railroads and the motor carriers, it is substantially the same. The Commission is still without power to provide or require through routes or joint rates, and with respect to relationships between motor carriers and water carriers, the Commission still has no power to require this kind of coordinated services. It does, however, have this power as between railroads and water carriers. This is an anomalous situation which obviously needs correction.

We are faced here with a mixture of coordinated services performed largely as a result of economic pressures by agencies which are, for the most part, independent of each other, combined with intense competition, a substantial proportion of which is under regulation largely with respect to only one set of competitors, namely, the railroads. This situation, combined with the feeling which had become quite general before the past war--that current regulative policy involved serious inequities with respect to the treatment accorded the different methods of transportation--fostered the demand for a different type of coordination; namely, that which goes under the term "integration."

Applied to a service industry such as transportation, integration may proceed along either of two lines or both together. It may take the form of unified control by a carrier of its sources of materials and equipment, such as coal mines, water supply, oil wells, refineries, car and locomotive plants, or beyond to the producers of steel and other industries which provide the raw materials that go into the production of transportation. Railroads have, from time to time, controlled their own sources of fuel, and rather intimate relations have grown up in some instances between some steel companies and railroads, though in these cases it was sometimes difficult to determine who was doing the integrating. In general, however, integration in this direction has not proceeded far in transportation, although some of the bigger systems, as you know, do build equipment in their own shops to satisfy a portion of their requirements. This sort of relationship also exists today between certain air lines and steamship companies and builders in their respective fields.

Integration may also involve the various transportation services performed. Coordination of services may be secured either through the cooperation of independent carriers, about which I have been speaking, or through integration under a single management. This is a form of unification.

The advocates of integrated transport services start from the premise that without unification a national transportation policy is impossible. As to the form unification should take, there should be centralized private ownership of competing transportation companies, regulated by a single governmental agency. Under the present system of multiple control, promotional activities carried on by Government in behalf of one or more carriers may be carried to the extent of reducing or seriously damaging the capacity of another form of transport to perform its legitimate role in the performance of essential services.

We have today the Interstate Commerce Commission controlling in some measure practically all forms of surface transport. At the same time, the Maritime Commission is charged with certain promotional activities regarding shipping, and a third agency, the Civil Aeronautics Board, is authorized to promote and control ("encourage and develop" are the words used in the Civil Aeronautics Act) air transportation. Since air transportation is in direct competition with surface transportation, particularly with respect to passenger movements, obviously the activities of the Civil Aeronautics Board in promoting air transport may be indirectly or directly in conflict with the activities of the Interstate Commerce Commission in the exercise of its control over the surface carriers. And, as a matter of fact, we have today complaints received by the Maritime Commission that the Interstate Commerce

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Commission is allowing railroads to charge rates on competitive traffic so low as to keep the coastal shipping interests out of the service. In addition to these Federal agencies, there are 48 state public service commissions of one sort or another, many of them attempting to get all they can out of the carriers operating within their boundaries. Their policies sometimes conflict with those of the Federal agencies.

The charge is made that the present basis of competition is unfair and damaging to the national interests by causing an unnatural distribution of traffic and thereby preventing the full effectiveness of certain agencies. If promotional activities by the Government (conducted at public expense) in behalf of other agencies result in reducing the demand for railroad service, for example, the effect may be to make less attractive the remaining services, and also to make the cost of performing them higher. This process tends to be cumulative in its effect and might eventually result in serious deterioration of railroad capacity. The railroads have constituted the backbone of wartime transport. Their importance is such that the national security would be jeopardized if any important deterioration developed in their ability to perform the long-range, mass movement of heavy goods which is their special province.

In his report to the Seventy-third Congress on the regulation of transportation agencies (See Senate Document 152 of the Second Session), the Federal Coordinator said: "It is clear that no regulation or restrictions should be imposed upon any form of transportation merely for the purpose of benefiting some other form of transportation. The test must be the public interest. On the other hand, whatever the public interest may require ought to be done no matter how it may affect private interests."

The railroads accepted this declaration of Mr. Eastman's as supporting their demand that they be relieved of the unequal basis of competition today resulting from promotional activities of the Government in behalf of other transportation agencies through public road building, waterways and airways improvements, and the like, carried on at public expense, whereas they must finance their own improvements themselves. They insist that the present system of regulation fosters an unhealthy overlapping of services with consequent unnecessary duplication of facilities which could be avoided if regulation were concentrated in one Federal agency, and all units in the industry were given the same treatment. This could be accomplished if the present various individual carriers were combined into a few integrated transportation companies offering substantially all types of transportation service as conditions might require. In these instances individual services could be performed by the agency best suited to perform them.

Those in opposition to this scheme say: "We like your general aim, but we don't like your method of achieving it." The coordinated operations which may be required to effect both the complete service essential to the water carriers, the air carriers, or the railroads as well as the desired horizontal expansion of services can be attained without integration simply by cooperation with the motor transport agencies involved. They point out that in many instances now terminal pickup and delivery services are performed by independent carriers through contractual arrangements; and with respect to line hauls, the institution of through routes and joint rates would be all that is required to provide the shipper with the ability to shift from one agency to another as he may desire. In fact, they say further that instead of freeing the shipper to choose the mode of transport which he felt best suited his particular circumstances, transportation by integrated companies would tend to restrict his freedom of choice by reducing the present intercarrier competition.

There is also a financial argument advanced by advocates of coordination through integrated companies: It is argued that "In the foreseeable future, there may not be enough peacetime traffic to go around and assure security for private investment for even a majority of these thousands of separately incorporated agencies. In such a situation all segments of the industry are likely to suffer." A solution through government ownership is rejected as impracticable and contrary to our traditional economic policy.

On the other hand, reliance on competition among privately owned enterprises, with each restricted to its particular field as at present, will continue to foster unhealthy duplication of services with a growing proportion of marginal enterprises calling for some kind of assistance. The way out of this dilemma, they say, is through the establishment of a few competing transportation companies. Competition between these transportation companies would be on a fair and equal basis, as each competitor would be able to avail itself of the government aids accorded the different means of transport. It would improve the financial strength of the industry by providing a broader base for earnings. It would foster standardization of rolling stock and the centralization of shops and other maintenance operations with considerable resultant economies.

In reply to this financial argument, the opponents of integration point out that the greatest proportion of the funds represented in these integrated transportation companies would be provided by the railroads. Since they would represent the bulk of the capital that would enter such combinations, they would dominate the policies. These policies, it is argued, would be based on the desire to protect these vested interests and would, therefore, probably be such as to prevent the freest development of newer agencies of transport. Progress would be retarded in the effort to protect the dominant interest.

This appears to be the present attitude of the Federal Government. In a report submitted to the Congress by the Attorney General just before the close of the war, he said: "In international as well as the domestic arena surface carriers are seeking to enter air transportation. In the domestic field the railroads are seeking to establish air operations. Moreover, the railroads are urging the adoption of legislation to permit or require the creation of 'integrated transportation systems' which would bring under common control rail, highway and air transportation. Such systems would, of course, be dominated by the railroads. Thus far, the Nation's transportation policy has decreed the independence of competing forms of transportation on the principle that any form of common control would obstruct the realization of the full potentialities of each mode of transportation."

The answer to this statement advanced by the advocates of integration is twofold. First, they point out that the proposed formation of integrated companies is limited to common carriers, and, therefore, would in no way prevent the operation of independent private or contract air lines, waterlines, or motor lines. The field would still be free under the rule set down by the agencies charged with regulative responsibility. Secondly, by controlling the nature and scope of integration, a healthy competition between these integrated systems could be maintained which would provide a very satisfactory safeguard against domination by any specific interest.

The position of the Government, however, does appear to stand pretty definitely in the way of the formation of integrated transportation companies. Not only do we have the statement of the Attorney General just quoted, but the attacks by the Department of Justice on the railroad rate bureaus and the Association of American Railroads under the Sherman Act indicate an antagonistic position toward attempts of the carriers to act collectively even in matters which are subject to regulation by the Interstate Commerce Commission. The Association of American Railroads as a kind of clearing house for the industry, was of great service to our Military Establishment during the past war, and the job done by its Car Service Division was invaluable. This service would have to be done by some central agency whether or not the Association of American Railroads continued to exist.

With respect to air transport, the Civil Aeronautics Board has consistently pursued a policy of refusing entrance into the air transport field by surface carriers. Restrictions of one kind or another imposed by the Board forced the Santa Fe Railroad to abandon its attempt to operate air services as unprofitable, and the shipping interests have never been able to get the Board's sanction to operate air services in the international field.

There is no specific provision in the Civil Aeronautics Act prohibiting surface carriers from operating air services, but Title I of the act contains clauses relating to regulation of air transportation which require the Board to "preserve its inherent advantages"--and-- "foster sound economic conditions." These clauses open the way for the Board to deny entry to surface carriers. The requirement of a certificate of public convenience and necessity, covered in Title IV of the act, also provides the Board with a means of restricting entry as it sees fit.

Now, what is the attitude within the transportation industry itself to coordination through integration? There is actually a considerable degree of inconsistency indicated. The railroads want the integrated transportation companies. They look with much less favor on coordination through the cooperation of independent agencies as merely a means of broadening the field of operation of the motor carriers and inland waterways, thus further intensifying competition and duplication of services. The motor carriers, on the other hand, will have none of the so-called "transportation companies," and they say so with considerable vigor.

The trucking industry is quite ready to extend the coordination of services through cooperation as independent agencies. As I have already indicated, they have offered to establish through routes and joint rates in instances when the railroads were unwilling to go along. Some of the truckers have gone even further and offered to assist the railroads in the solicitation of traffic in connection with their pickup and delivery services. The railroads' answer to this suggestion obviously is an emphatic "NO." They say, "Just as soon as we turned over the soliciting to you fellows, we would lose control of the traffic. That control would pass into your hands and we would soon be hauling freight for you on your terms. All you would be doing would be to collect the freight, and we would be undertaking the main burden of transporting it without having anything to say about it."

Certain motor transport operators and water carriers have meanwhile been trying to obtain permission from the Civil Aeronautics Board to operate certain local air services as complementary services or feeders, ostensibly. This suggests the desire for a certain degree of integration in spite of the declaration of their official spokesman, though this has not progressed very far. In considering this problem, it is necessary to beware of special pleaders.

What is the attitude of the shipping public to coordination through integration? Available information is only fragmentary. In the field of rail-water coordination testimony adduced from shippers by the Federal coordinator of transportation indicated that certain railroad operation of steamship lines was being performed in the interest of the public.

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In answer to an inquiry by the Federal coordinator addressed to 536 traffic managers of industries and chambers of commerce, 46 percent favored repeal of the laws restricting the railroads in furnishing water transportation service; 33 percent were opposed; and 20 percent did not answer. With respect to integration, 58 percent favored coordination of all agencies engaged in domestic transportation; 14 percent were opposed; and 28 percent did not reply. These figures indicate that the shippers, as a group, favor coordination of transport services, as was to be expected. As to coordination through integration, the evidence is inconclusive.

There is one other group whose opinions on transportation problems should carry considerable weight, and who, therefore, should be consulted in reaching any conclusions that might be arrived at regarding the question of coordination through integration. This is the group of economists who are presumably devoting a major portion of their time to the analysis of transportation problems and whose approach should have a certain desirable objectivity. The guidance which we might hope to secure from this source, however, is vitiated to some extent by the lack of agreement that we have found among the representatives of the shippers, the Government and of the industry itself.

Professor Sorrell of the University of Chicago, who is also director of research for the Air Transport Association, is opposed to integrated transportation companies. He says, "Our transport system has been built and operated and continues to be maintained upon the principle of coordination...through competition." The balance of power resides in the patron and not in the vendor...Serious consideration should be given to the question whether dependence upon free competition should be abandoned at this juncture..."

On the other hand, Mr. L. K. Sillcox, in an address at the Harvard Business School just before the war said: "I would incline to the belief that no entirely satisfactory recovery of inland transport stabilization will be realized until the major highway traffic services are fully coordinated with railway operations under identical management. So clearly are their interests related, one with another, that their identities should merge for the national objective of true transport coordination."

Professor Emory Johnson, University of Pennsylvania, has this to say: "...What the public is interested in, and what the government policy should seek to bring about, is the development of a national transport system in which each mode of transportation can function with maximum efficiency and economy. Such a transportation system can be developed only by a close coordination and integration of its several component parts."

Professor Sidney Miller of the University of Pittsburgh points out that "Coordination does not require the entire elimination of competition between the various agencies of transport...Yet, to the extent that competition remains, complete coordination has not been attained, and the social wastes that follow from duplication persist."

There is no point in quoting from these various sources unless what they have to say will be of some assistance to us in reaching a conclusion which is sound. The statements read here have been presented because of the belief that they do make a contribution to the thinking on the subject. The evidence seems to suggest that among this last group of generally disinterested students in the field of transportation, the majority opinion is that the wastes of competition are probably as much to be feared as the loss of it under the conditions which obtain today.

Now, let me summarize what I have been saying. In support of General Heileman's statement that the coordination of transportation services is a problem, we have pointed to the complexity of the relationships between the individual transport agencies which have resulted from the growth of the newer agencies and the steady expansion of the services which they offer, many of which services are coordinate with and supplementary to the services performed by the older agencies, but many of which are at the same time competitive among themselves and with the older forms of transport. The objective of providing completely unified and coordinated services under these circumstances obviously presents a real problem.

The demand for more fully coordinated services is derived from both the necessities of national defense and from changing patterns of business conduct, as well as from the desire within the transportation industry itself to lessen the ill effect of what is considered by many to be inequities in the present system of regulation.

The obstacles in the way of achieving the degree of coordination desired derive primarily from two sources: First, traditional regulative policy which has given great weight to the preservation of competition within the industry, coupled with a lack of complete coverage by the regulative authorities as well as an overlapping of authority in certain instances from the functional standpoint with its inherent danger of conflict between the government agencies involved. Secondly, the rivalry between the individual carriers which the competitive situation has engendered and which stands in the way of any whole-hearted cooperative effort. What is the way out of this difficulty?

I believe that there is sufficient evidence of the beneficial effect of a certain degree of competition to warrant what measures may be necessary to prevent its complete elimination. I believe, in this

connection, however, that it is essential that we abandon the present support of multiple controlling agencies and center the responsibility for control of all transportation in one regulative body with sufficient powers to cover the field. Any such body will need to be manned by economic statesmen, however, whose actions proceed from fact rather than political bias or preconceptions.

There has in the past been an almost fanatical adherence to the principle of competition as the foundation of regulative policy in transportation. While this is understandable in the light of the history in this field, is it still justified under present-day conditions? It has been characterized as an adherence to eighteenth century economic theory. Our experience with the regulation of a practically complete monopoly in the communications industry does not seem to justify it. Bigness, while it may constitute a potential source of danger in a democracy, is not inherently or of itself wrong.

General Heileman has mentioned the necessity for planning by the industry in this matter of coordination of transportation. Planning must also be done by Government. In the allocation of facilities through government planning, the relative cost of performing the specific services involved by the several agencies of transport must be a dominant consideration. The Interstate Commerce Commission today has a large section of its accounting division given over to the determination of the costs of providing specific services. But the term must receive a broader construction. The final test of the propriety of rendering a particular service by rail, by water, or by other means, as Professor Miller says, "is not entirely relative cost in this narrow sense. It is rather the minimum cost of all services rendered the public taken as a whole. The public is entitled to the benefit of the services of each agency of transport to the extent that those services, coordinated with the services of other agencies...will provide for the complete transportation needs."

If we are to retain competition in transportation, it must be controlled. In relation to this problem of coordinated services, we are confronted with two theories of control: (1) That which supports what has been called "compartmentalized" transportation and control or the "separation theory" as it is sometimes called and which rests largely on the conviction that competition fosters the freest development of each type of transportation which is essential to the continued expansion of our economy; and (2) the unification theory which rests on the conviction that development of an efficient, national transportation system with the resources necessary to meet a possible future emergency cannot be achieved except through unified operation and control. The time is at hand when we will have to make a choice between these two theories of

control if we are to secure our maximum economic potential. We are faced here with a problem which is sufficiently important to call for our most serious consideration, and I am going to leave it with you at this point to give you the opportunity to weigh the evidence before reaching your own conclusion.

Thank you.

COLONEL HORNOR: I am sure this lecture stirred up some problems among the transportation people here.

QUESTION: Colonel Johnson said that transportation is difficult only in its immensity. I think that was a gross understatement. I think that we only have to view the problem of coordination to see the complex difficulties facing the industry and the Government in trying to regulate transportation. During the last war the accusation of lack of coordination was leveled between the motor transport and the rail carrier, and it stemmed mostly from the objections to regulation by the motor carrier. The motor carrier was being required by regulation to give up some of its fields of operation which, if the war continued over a long period of years, could never be recaptured. I think that principle is wrong if we are going to foster free ownership and competition. It seems to me that those who regulate transport, and all the government agencies, during peacetime, are not cognizant of the fact that they may have to change their policies in wartime. They should be sure that they are not regulating traffic to the detriment of any mode of transport, which, during that war period, may suffer losses that cannot be recaptured. How would you recommend that this situation be corrected?

DR. ASHTON: I think your question is a very interesting one. I thought I had already indicated my viewpoint there; namely, the centering of responsibility for regulation in a single government agency so that you don't have competing promotional activities on behalf of one carrier as opposed to another, with the danger and the actuality of conflict between the government agencies involved. A single government agency could point its policy directly in line with what you have suggested.

QUESTION: You have indicated that the people in a single government regulatory board, which you want to set up, would be transport economists.

DR. ASHTON: I called them economic statesmen.

QUESTION: Would the people who presently have invested their money in a transportation system have any way to put pressure on those people at all, through elective powers or appointive powers, or anything like that?

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DR. ASHTON: You mean how would the members of this government agency be selected?

QUESTIONER: Yes, and how would the people who have actually put their money into the transportation system bring pressure to bear on these people in the regulatory commission to keep them in line?

DR. ASHTON: I think that the only way of setting up such a regulative agency would be on very much the same basis that the regulative agencies have been set up in the past. They would have to be appointed and reappointed--with the consent of Congress--by the President, with a renewable tour of duty, so that a man could be removed if it was found that his activities on the regulative body were inimical to the public interest. As to the case of the individual investor, I think it would be very unfortunate if individual investors could bring pressure directly to bear on any members of such a regulative body. I don't know whether or not that answers your question.

QUESTIONER: Isn't it a fact, however, that in the past they have done so in such regulatory bodies?

DR. ASHTON: I can't cite you any instance of that sort of thing. There are rumors, of course, that that has happened--more often, I think with state bodies than with Federal bodies. I think the Commission's record in that connection is extremely good.

QUESTIONER: In that connection would you care to discuss this current battle between the so-called unscheduled air transport people and the Civil Aeronautics Board? It seems they are cutting prices and making money without subsidy, whereas the scheduled lines are going in the hole.

DR. ASHTON: I will give you my opinion for whatever it may be worth. I think the air transport industry today is suffering from too much competition. I think whatever shortcomings you may charge against the Civil Aeronautics Board, certainly so far, it could not be charged with a refusal to allow entry into the field to any air carrier pretty much as requests have arisen. As a result duplicate and triplicate services have piled up over routes so that nobody in the business is able to make any money, and there are complaints, as you probably know, from various sources in the industry that nobody can make money. There is an indication now that the Board's policy will go through a very drastic change in the near future, and, not only will it become very much more difficult for new operators to get into the field, but the indications are pretty plain that some of those now operating may not have their certificates renewed.

QUESTION: They say out in the Missouri Valley area that there is a great detriment to progress by the use of discriminatory rail rates. If they truck them beyond the lot, it becomes interstate commerce and shipments must be handled on "through rates."

DR. ASHTON: The Commission has recently in the class rate case prescribed a uniform rate base in commercial rates for the country as a whole. Now, if what you speak of has reference to local rates on traffic moving specifically within state boundaries, the Commission may not enter that field. That is something else.

QUESTION: What I was thinking of, sir, is the fact that you can ship a whole pig from Omaha to the Pacific Coast cheaper than you can--after whatever they do to them in the rendering plant--ship the meat. The railroads charge more for the meat than for the whole animal. Likewise, shipments of fruits from the Pacific Coast to Kansas City, and so on, have exactly the same rate as from the Pacific Coast to Boston, despite the disparity in rail distance. That is what those people are complaining about.

DR. ASHTON: I don't think that is true any more. I think there were disparities on shipments which were traditional, based on density of traffic cost of performing the services in heavy density areas as opposed to low density areas, which did affect the situation. I don't think you can cross the continent and back again, as you could, for the same cost.

QUESTION: You have used the term "integrated" companies. I wonder if you could be a little more specific in discussing that? In making an integrated transportation company, what would you do? Would you permit the Pennsylvania Railroad to take over Capitol Air Lines and join with a water shipping outfit, and also take control of all trucking services, we will say, operating between here and Chicago?

DR. ASHTON: That is essentially what would be involved. We have instances of that now. The Canadian Pacific Railroad operates its own steamships, air lines, and trucking services that go along with it. That is what you would have.

QUESTION: What would you do about the other services? Would you consolidate the Baltimore and Ohio and the Southwestern Air Line into a combined system in that area?

DR. ASHTON: That's right.

QUESTION: What would you do, then, with the man with \$100,000 who wants to invest it in trucks and haul freight between here and Pittsburgh or between Philadelphia and Pittsburgh?

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DR. ASHTON: He could still do it if he wanted to, provided he could secure a certificate of convenience and necessity from the ICC.

QUESTION: You wouldn't let them do business unless the ICC thinks you need more trucks?

DR. ASHTON: That is the situation today. He can't do it as a common carrier, but he could do it as a private carrier. That is a different proposition.

QUESTION: Could the Atlantic and Pacific stores buy themselves trucks for little or nothing without regulation and haul produce from one store to another?

DR. ASHTON: Yes. A good many of them do.

QUESTION: Would you have these integrated systems operating as competing systems in the same areas?

DR. ASHTON: Yes, I think they should be to a certain degree.. If they operate within the same areas, it would provide a safeguard against monopolistic tendencies that might develop otherwise.

QUESTION: To clarify that, sir, don't you mean where the traffic would bear having two systems operate? You wouldn't want two systems operating where traffic there was so low it wouldn't support one? You would have a marginal operator.

DR. ASHTON: That is what would be contemplated in the Commission' issuing a certificate of convenience and necessity.

QUESTION: As a practical proposition, I don't see the advantage of that integration of which you speak. Looking at the thing from the point of view of a large shipper, one of the Services, or the Services together, they don't put their freight in the hands of a transportation company and say, "Here, this item is in New York City. I want it to be delivered in San Francisco at the best possible speed." They decide how they want it to go, whether by air, by truck, or by rail, to meet their particular requirements. The integration of which you speak is actually achieved by any shipper in his selection of the method. All he wants from the carrier is the actual lift from terminal to terminal, and in many cases he wants to specify his own terminal even if it be only a store where he leaves his package. I can't see any advantage to the shipper to transfer the management function, which is where it is, over to the transportation company, which is only transporting for you. If I want to go from here to Hawaii on a pleasure trip, I am not going to put myself in the hands of a transportation company and say, "Plan my cruise for me." If I want to go a place, I do my own traffic managing.

DR. ASHTON: I think you have a point there. Up to a certain degree the shipper could still stipulate his own routing under these integrated transportation companies if he wanted to, but you may recall—I do at any rate—there were instances during the past war when the shippers were not permitted to state their own routings; that was taken over in some cases and autocratically handled by the Office of Defense Transportation. The shipper is not cognizant of the problems involved in handling transportation. In time of emergency there has to be some central direction to provide that information.

Now there is, I think, a point on which I would go along with you. There is a tendency to take out of the traffic manager's hands certain freedom in the case of some of these companies. I think most traffic managers, as indicated by testimony recited to you here this morning, are in favor of getting transportation as cheaply as possible and as speedily as possible for one thing. For another thing, if by leaving it up to the responsible transportation agencies themselves, they can get an added improvement, they would be willing to do it.

QUESTION: I believe that the first breach that was made in the control of the Hawaiian Islands by the Madison Steamship Company was the refusal to grant them an air charter. It broke into their grip in the transportation system. Under the integration which you are offering, does that not open the same opportunity for the control of the industry and the enterprise by the transportation system attainable under the conditions that existed for the Hawaiian Islands?

DR. ASHTON: Understand that this proposition of integrated systems is merely a permissible suggestion. It is simply a suggestion that the laws of the country be amended so as to permit the formation of integrated companies if it is desired. But, as I pointed out, that doesn't attempt to prevent independent operation of separate agencies or the competition between different types of agency, either through the operation of private operators, or even public operators in instances, if it is so desired. If any single railroad system wanted to try to operate a railroad system only, there is no reason why it couldn't do so under those circumstances.

QUESTION: What do you think about subjecting private transportation to practically the same regulations or the same amendments to regulations that you propose for common carriers?

DR. ASHTON: Frankly, I think that something along that line may have to be done. At present, as you probably know, there are private operators, some of the steamship companies, shipping, for example, over the inland waterways systems that pay no toll of any kind and no special taxes of any kind in competition with public carriers, which are required at the same time to provide adequate services to

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meet peak demands. I wouldn't presume to offer any kind of plan at this moment. I haven't thought enough on it and it would take some pretty careful thinking, but I should think we might start perhaps with some regulation to make people operating private transportation show their cost of operation accurately. That is just to begin with. I don't know how much further we could go.

COLONEL HORNOR: Thank you very much, Dr. Ashton, for a very illuminating talk and question period.

(24 February 1949--750) S/mmg.