

THE RESTRICTION OF COMPETITION
BETWEEN ROAD MOTOR TRANSPORT AND THE RAILWAYS
IN THE UNION OF SOUTH AFRICA.

Thesis for the degree of M.A. (Economics)

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Bottom p. 25 and top p.26. Is it true that this Section "prevents the use of discriminating monopoly power as between different purchasers"? Cannot the "published tariff of charges" be discriminating? (Cf. p.36 (middle) where he says "the tariff was so fixed as to eliminate the "undercutting of railway rates classified in the higher classes".) And would not the phrase "ordinarily makes under similar circumstances" probably allow different charges for different commodities - a distinction which might not be on the basis of cost?

p.26: Qy. impartiality.

Minister of Rlys & Harbours appoints members of local boards (I believe) - on the nomination of the Motor Transport Bd. & Prov. Administrators

p.47. Does this criticism of depreciation tally with the modern theory (Fowler) which, if I interpret it correctly, suggests that plant of a huge organisation of this kind is likely to assume a condition in which plant is (permanently) on the average half worn out though fully efficient; that, therefore, a surplus would arise on depreciation account equal to approx. 50% of the amount originally invested by owners of capital; and that this 50% (which represents surplus capital) should be returned to the owners of capital as a return of capital. If this view is correct, may it not be wrong to call the surplus on depreciation account "unnecessarily high and illegitimate contributions". (N.B. Horwitz includes Fowler's book in his bibliography)

development
p.50 (top). But is not the General Manager comparing the cost of the Administration's road motor transport with the cost of rail transport? Qy. the phrase "this brings out clearly that road transport is not more economical than rail transport".

pp. 70 et seq. What is the special sanctity about getting an "output"? I can imagine the possibility of millions of potential commodities which do not exist under competition, but each of which might come into being under discrimination. Must we then divert resources in order to produce all these things (to the exclusion of other things)? Or what is the criterion by which we choose one or the other?

Neither have I ever been able to understand the argument that discriminating monopoly is socially advantageous when decreasing cost operates. (And Horwitz does not explain this.) To bring a large capital unit into being in this way may possibly delay the invention of a smaller capital unit for producing a similar service.

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CONTENTS.

Bibliography:	Page. No.
INTRODUCTION -----:	1 - 7
CHAPTER I: Road Motor Transport Competition with the Railways Prior to 1930: ---	8 - 17
CHAPTER II: The Measures taken to meet Compe- tition -----	18 - 43
CHAPTER III: Railway Management & Railway Rates in South Africa-----	44 - 61
CHAPTER IV: Theory of Railway Rates -----	62 - 74
CHAPTER V: "Wasteful Competition" -----	75 - 83
CHAPTER VI: "In Excess of Public Needs" -----	84 - 89
CHAPTER VII: Some General Considerations. -----	90 - 99
CHAPTER VIII: Conclusion -----	100 - 103
APPENDIX I: -----	104
Note.	

INTRODUCTION.

The present phase in that long story of the provision of the essential social service of transportation is one which is of particular interest to the economic theorist as well as to the economic historian. Over a period of less than half-a-century the automobile industry has made enormous progress. It has, however, been only in the last twenty years that the omnibus and the lorry have stemmed the trend of a century and once again asserted the power of the road as opposed to the rail.

During the eighteenth century the canal began to draw traffic from the road; in its turn the canal was superseded by the railway and to-day it is the railway which has to fight against the competition of the road — the wheel has turned full cycle.

"The rapid succession of cost-reducing developments, which have characterised the growth of road transport since the War, has been accompanied by a general apprehension that the rate and degree of obsolescence thereby sustained by already existing forms of transport involve some degree of 'waste', the avoidance of which is only possible by some form of legally enforced protection; and that the more millions of pounds that are known to have been invested in the older forms of transport, the more deserving are they of some special dispensation from the otherwise inevitable consequences of such developments." ¹.

This problem, then, of the competition of road motor carrier with the older established transportation service/..

¹. "An Aspect of Competition in Transport" by G.J. Ponsoby in *Economica* Nov. 1935 p. 448.

service has become the dominant feature of the transport industry in almost every civilised country. Progress seemed suddenly to have become wasteful and legislatures deemed it necessary to check this 'wasteful progress' by the enforcement of restrictive measures on the advance of road motor transport. This essay is an attempt to survey the position in South Africa to-day and as an introduction to this study, it is interesting to note briefly the various attempts made in other countries to deal with the same problem.

The following table, taken from an article by Prof. H. M. Hallsworth on "The Future of Rail Transport", shows the decline in receipts and expenditure on certain European railways.

TABLE I.

SUMMARY OF RECEIPTS AND EXPENDITURE — SELECTED EUROPEAN RAILWAYS 1929-33¹

RAILWAY OR COUNTRY	CURRENCY	1929 Thousands	1930 Thousands	1931 Thousands	1932 Thousands	1933 Thousands
BELGIAN NATIONAL RLY.	BELGIAN FRANCS	REC. 3,546,695	3,528,540	3,090,730	2,451,978	2,329,917
		EXP. 3,066,823	3,208,358	3,023,944	2,620,480	2,342,960
CZECHO-SLOVAK STATE RLY.	CZECHO-SLOVAK CROWNS	REC. 4,888,543	4,628,512	4,362,974	3,490,352	3,135,516
		EXP. 4,447,197	4,521,131	4,183,938	4,043,031	x
FRANCE MAIN LINE RLYS.	FRENCH FRANCS	REC. 16,110,142	16,032,070	14,584,578	12,428,809	11,707,912
		EXP. 12,669,028	14,159,737	13,902,798	12,797,349	12,197,912
GERMAN RLY.	GERMAN MARKS	REC. 5,353,834	4,570,317	3,848,667	2,934,318	2,915,100
		EXP. 4,493,496	4,090,353	3,622,471	3,001,084	3,063,000
GT. BRITAIN MAIN LINE RLY.	STERLING	REC. 182,777	172,618	158,496	145,342	145,281
		EXP. 143,698	139,483	128,541	121,336	119,355
ITALIAN STATE RLY.	LIRE	REC. 4,980,704	4,600,066	3,853,470	3,345,822	3,055,854
		EXP. 4,379,832	4,124,370	3,573,490	3,218,465	3,190,138
JUGO-SLAV. STATE RLYS.	DINAR	REC. 2,680,313	2,655,290	2,382,009	1,975,811	1,907,456
		EXP. 2,688,422	2,732,332	2,542,506	2,069,390	1,922,236
POLISH STATE RLYS.	ZLOTY	REC. 1,596,906	1,458,874	1,293,998	1,009,126	868,000
		EXP. 1,413,894	1,331,520	1,187,306	936,014	810,700
SWEDISH STATE RLYS.	SWEDISH CROWNS	REC. 208,130	201,580	181,230	166,140	166,140
		EXP. 158,870	157,370	156,640	153,290	150,170
SWISS FEDERAL RLYS.	SWISS FRANCS	REC. 431,357	420,546	389,450	342,953	335,844
		EXP. 280,382	291,420	283,282	273,301	262,566

The/..

1. The Economic Journal Dec. 1934 p.540 Table III.

The cause of this fall in receipts has not, of course, been solely that of the competition of the roads; the industrial depression and the shrinkage in international trade have been perhaps more important factors, yet it cannot be gainsaid that the inroads which the motor carrier has been making into the traffic of the railway has had serious effects on the revenues of almost every railway system in the world.

In England the first legislative step taken to meet the position created by this diversion of traffic was the passing of the Road Act in 1930. It provided, amongst other things, for the fixing of maximum weight and dimensions for vehicles and for compulsory insurance against third party risks. In regard to passenger transport, the Area Traffic Commissioners were empowered to determine whether a service shall operate or not considering the requirements of the area served. As a result of the Salter Report — the Report of the Conference on Road and Rail Transport — the Road and Rail Traffic Bill was enacted in 1933. Under this Act a licence to operate must be obtained before a motor transport service can be operated. There are three types of licence designated by the letters A, B and C. The first, or Public Carrier's Licence, must be obtained by carriers transporting goods for third parties; the second, or Limited Carrier's Licence applies to vehicles carrying goods either in connection with the owner's business or for hire or reward (it is valid for only one year); the third applies to manufacturers or enterprises using their own vehicles for their own purposes. Part II of the Act entitled the railways to grant special 'agreed' rates to any trader after approval by the Rates Tribunal. A Transport Advisory Council to advise the Minister on questions of transport

co-ordination has been established.

In England the avowed purpose of legislative interference has been to make the conditions, under which the two forms of transport operate, more equitable. The progress of road transport is not to be hampered but competition is to take place on a 'fair basis'. The railways, however, seem to have found the 'solution' by themselves acquiring large interests in the road transport industry. An agitation is still proceeding for further protection of the railways and for some restriction to be placed on the use of their own transport by traders.

In the United States of America no control is exercised through Federal legislation though in individual states restrictive measures of varying effectiveness have been introduced. Certainly it seems that in the United States, which is the home of the motor industry, laws designed to curtail the sphere of usefulness of the motor car would be impolitic. Both the Inter-State Commerce Commission (1932) and the Joint Committee of Railroad and Highways Users, however, came to the same general conclusions — that there is an excess of carrying capacity of existing transport facilities due to competition of road transport under unequal conditions and that Federal regulations should provide for special authorisation of motor transport companies and that freight forwarding companies and express freight companies should be made subject to the Inter-State Commerce Act. (I have been unable to ascertain whether any legislation has been passed to implement these recommendations.)

In France conditions of road and rail transport co-ordination are governed by legislation aimed at a suitable apportionment of traffic between the railways and motor transport respectively. This is achieved mainly by voluntary regional agreements between representatives

of the two forms of transport. The public authorities act as arbitrators when differences arise and when no agreement is reached the arbitrator submits proposals to the Minister for the modification or suppression of existing services or, in some cases, for the establishment of new services.

In Germany the sharp decline in railway revenue during the five years before 1931 resulted in an emergency decree being brought into operation on November 1, 1931, designed to regulate both passenger and goods transportation. Passenger transport undertakings have to be sanctioned by provincial authorities, who must consider the views of other transport suppliers and of the Chambers of Commerce. Goods traffic up to a distance of 50 kilos. can be conveyed without any restrictions, but all goods services over greater distances have to be licensed. The operator is required to adhere to a fixed uniform tariff which applies throughout the country and is framed so as to eliminate those concerns who had previously succeeded in capturing traffic from the railways by systematic undercutting. It seems most likely that under the present regime in Germany this restriction would have been extended further rather than relaxed.

In Czechoslovakia all road transport undertakings, passenger or goods, have to obtain concessions to operate. No concessions are granted which authorise competition with the State-owned railways or postal services. In Austria, also, application to engage in the business of transport must be made to the State authorities and such applications must be first referred to the railways, the postal authorities and the municipal authorities for their consideration. The first two have the right to institute the proposed service themselves, in which case the application is, of course, refused.

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In Japan even more stringent control of the motor transport industry is practised. Commercial transport services are placed under the control of the Railway Department, a State Department, and all applications to open a new service must be made to it. In fact the State railway authorities regard motor transport as purely an auxiliary service of the railways.

In Australia the position can be illustrated by reference to Victoria. The Transport Regulation Act of 1933 established a Transport Board with regulative powers. Commercial goods vehicles had to be licensed by this authority. Such licences were to be issued 'as of right' to goods vehicles operating within a 25 miles' radius of certain of the bigger cities such as Melbourne or Ballarat district; operating within a 20 miles' radius from the owner's place of business; owned by a primary producer under certain conditions, etc. In issuing or refusing a licence the Board is to have regard 'to the interest of the public generally, including those of persons requiring as well as those of persons providing transport facilities'.

This brief survey of the measures taken in various countries to restrict the effectiveness of competition seems very strong evidence in justification of the policy adopted in South Africa. It is indicative, however, merely of the wide-spread nature of fallacious reasoning on this question.

In South Africa, as in other countries where the railways are State-owned, the issue of the road versus rail question is somewhat simplified. In such circumstances where the railways are the property of the people it is proper to judge the protection given to the railways solely by the criteria of the public interest. In this country there are no vested interests of ownership which might be justification for placing restrictions on the operation of

private/..

private transport agencies.

In Chapter 1 some indication will be given of the extent of road motor competition with the railways prior to the enactment of the Motor Carrier Regulation Acts. The provisions of the principal Act and the amending Acts will be given in some detail and an investigation made into how far competition has been eliminated. The remaining part of the essay will deal with the theory of the problem. In this section some consideration will be given to the management of the South African Railways and to its rating policy. In conclusion certain suggestions will be put forward to secure a cheap, efficient service of transportation.

It must be noted that this thesis deals with the elimination of competitive private road operators i.e. it will not discuss the substitution of road motor service for railway branch lines by the S.A.R. itself.

CHAPTER 1.

ROAD MOTOR TRANSPORT COMPETITION
WITH THE RAILWAYS PRIOR TO 1930:-

Unfortunately there are no detailed statistics available to illustrate exactly to what extent the South African Railways were affected by the competition of private road motor carriers. Data regarding the tonnage of goods conveyed and number of passengers carried by road transport before 1930 are not ascertainable. A consideration of the annual reports of the General Manager of the S.A.R. and the references to the competition of private road operators therein is, however, enlightening.

In his report for the year ended 31st March, 1926, there appears a general statement that the Railway Administration has to contend with competition from road transport agencies. In his report for the following year, the General Manager announced that competition 'may be considered as having reached the stage where it threatens vitally to jeopardise State interests. My view is that the problem of road motor competition in its relationship to our railways should be attacked wholeheartedly and without delay. Otherwise there is considerable danger that the Administration's financial position may be very seriously impaired.'¹

From the report for 1928 it seems as if the revenues of the Administration were being markedly affected.

"The situation created by the growth of road motor competition is becoming more and more acute as time goes on, and has given rise to much concern as there is no doubt/.....

¹. U.G. 34, 1927, pp. 14 - 16.

doubt that the railways are being deprived of an appreciable amount of their legitimate traffic.

"Passenger transport has been most seriously affected. On the Capetown-Wynberg section, the number of passengers travelling is now about 270,000 fewer per month than was the case a few years ago, and the loss of traffic on the Sea Point line is also serious. Road traffic has increased considerably between Capetown and Bellville, and Somerset West and the Strand. Competition with the Administration's rail passenger services is also taking place on other systems, for instance, between Durban and Pietermaritzburg, on the North and South coast lines of Natal, as well as on many of the branch lines; and in the suburban areas of Pretoria East London and Port Elizabeth.

"As far as goods services are concerned, the principal points of competition are in areas in which there are large distributing centres. From Capetown, for instance, private road services radiate to Simonstown, Stellenbosch, Piquetberg, Worcester, Robertson and even to Bredasdorp. Some are regular services, others are occasional. In the Cape Midlands there is competition between Port Elizabeth and Uitenhage, and Mossel Bay and Oudtshoorn. The Natal system has to contend with competition between Durban and Pietermaritzburg, Riversdale and Harrismith, and many local services such as to Verulam and Stanger. In the Transvaal road services are chiefly in evidence in the Johannesburg and Pretoria areas." 1.

Next year the taking-up of the Sea Point line is noted. "All efforts to increase the popularity of the Sea Point line proved unavailing By the end of the year 1928 the rate of loss of working had increased to approximately £47,000 p.a." 2.

The/..

1. U.G. 54, 1928, pp. 13, 14.

2. U.G. 50, 1929, p. 21.

The General Manager also points out that the introduction of a fast, frequent and efficient electric train service from Capetown to Simonstown has still failed to check the diversion of passengers. (One would like to know why the suburban residents were so obtuse as not to take advantage of these facilities.)

"During the eight months before electrification the loss on the Simonstown line was at the rate of ~~£225,000~~^{£96,000} p.a., the loss under electric working for eight months was at the rate of £215,000 p.a., and the total loss for the twelve months ending October, 1929, was computed at £250,000." 1.

The chief competitive factors with which the Railway Administration had to contend were (i) private cars (ii) taxis (iii) omnibus services (iv) charabanc services (v) tramway services (vi) motor lorries owned by traders and firms (vii) motor transport companies (viii) farmers' motor transport (ix) ox and donkey wagons.

TABLE II.
MOTOR VEHICLES LICENSED IN THE UNION : 1923-1936. 2.

Year	MOTOR CARS & TAXIS.				Union	% Increase over previous year.
	Cape	Natal	Transvaal	O.F.S.		
1923	-	-	-	-	38,815	-
1924	-	-	-	-	50,419	29.90
1925	-	-	-	-	63,030	25.01
1926	55,800	9,827	23,812	11,508	80,347	24.47
1927	41,600	11,301	29,338	13,780	96,019	19.51
1928	48,585	13,812	34,813	15,792	113,002	17.69
1929	55,804	16,137	31,288	17,351	130,560	15.36
1930	57,207	17,521	42,713	17,736	135,177	3.70
1931	57,334	18,495	45,855	16,388	138,072	2.14
1932	56,001	18,344	52,126	16,864	143,335	3.79
1933	59,492	19,558	58,673	16,780	153,503	7.09
1934	69,288	23,341	72,054	18,672	184,555	20.23
1935	78,609	26,352	84,094	21,712	212,767	15.29

Year	BUSES, VANS & LORRIES.				Union	% Increase or Decrease
	Cape	Natal	Transvaal	O.F.S.		
1923	-	-	-	-	1,989	-
1924	-	-	-	-	3,322	67.02
1925	-	-	-	-	4,258	28.18
1926	3,185	931	1,781	195	6,092	43.07
1927	4,472	1,282	2,771	392	8,897	46.04
1928	6,235	1,695	3,198	544	11,672	31.19
1929	7,756	2,028	4,176	811	14,769	26.53
1930	8,602	2,351	5,431	1,023	17,407	17.86
1931	9,242	2,447	5,461	846	18,176	4.42
1932	8,812	2,313	5,824	945	17,894	- 1.55
1933	8,891	2,369	6,659	940	18,859	5.39
1934	11,032	2,959	9,350	1,178	24,549	30.17
1935	12,523	3,525	11,509	1,381	28,938	17.88

These/..

1. U.G. 50, 1929, p. 22.

2. Obtained from Year Books, Cape Argus.

These figures show that competition from the private car, taxi, omnibus and lorry must have been tending to increase until 1930. The fall in the rate of increase in private cars and taxis for the next four years was due almost entirely to the severe trade depression, but the fall in the rate for buses and lorries was in part due to the enactment of restrictive legislation. The rising figures for the years 1934 and 1935 are indicative of the strong revival in trade conditions in this country.

In Annexure B of the Memorandum submitted by the General Manager of the S.A.R. to the Road Motor Competition Commission (1929), a detailed statement is given showing the areas in which competition existed with the services of the Administration. ¹.

The Cape Western system suffered both from passenger and goods competition. Passenger transport companies were particularly active on the routes:- Capetown-Sea Point - Camps Bay; Capetown-Observatory-Wynberg-Mitzenberg; Capetown-Mowbray-Athlone; Capetown-Maitland-Bellville; Capetown-Milnerton; Somerset West-Strand; Graafwater-Glanwilliam-Calvinia; Worcester-Williersdorp-Elgin; Gouda-Porterville. On branch lines parties of people combined to hire cars - in particular many excursion parties of coloured people used hired lorries instead of the railways. It was predicted that competition would increase on the routes:- Capetown-False Bay resorts; Capetown-Bellville-Kuils River-Strand; Capetown-Stellenbosch-Paarl and Capetown-Malmesbury.

'As regards goods traffic, in the Cape Peninsula almost all the higher-rated traffic is now being handled by road; the districts mainly affected beyond the Peninsula area being:- Capetown-Malmesbury-Piquetberg; Capetown-Kuils River-Strand-Caledon-Bredasdorp; Capetown-Paarl-Huguenot-Wellington/..

¹. Volume III of the Evidence.

Wellington-Worcester; Capetown-Stellenbosch; Capetown-Robertson; Hutchinson-Loxton. No regular services are operated but goods are transported when traffic offers.'

In the Cape Eastern system passenger services were operated between East London-Kingwilliamstown; East London-Cambridge; Tarkastad-Gradock; East London to stations in the Transkeian Territories and to Maclear. These services were mainly for natives. A considerable amount of the petrol traffic from East London to Butterworth, Idutywe, Umtata and other places in the Transkeian Territories passed by road.

In the Cape Midland and Cape Northern systems, the competition was not serious though in Port Elizabeth suburban area passenger services were active and large quantities of petrol were conveyed from Mossel Bay to Oudtshoorn by road.

In the Natal system in the Durban area passengers and goods were conveyed between Durban-Hillcrest; Durban-Cavendish; Durban-Clairwood-Jacobs; Durban-Isipingo-Verulam-Stanger; Durban-Umgeni-Mt. Edgecombe. On the main line goods and passenger competition was strong from Durban to Maritzburg and to Harrismith (goods) and from Umlaas Road-Maritzburg (passenger).

In the Free State system passenger services operated between Philippolis Village-Springfontein; Jagersfontein-Trompsberg; Jagersfontein-Fauresmith; Reitz-Petrus Steyn; Theunissen-Winburg; Petrus Steyn-Bethlehem; Petrus Steyn-Lindley Road.

In the Western Transvaal system there were European bus passenger services between Johannesburg-Germiston; Johannesburg-Main Reef; Johannesburg-Modderfontein Dynamite Factory; Benoni-Alliance; Benoni-Geduld; Benoni-Brakpan;

Springs/..

Springs-Largo Collieries; Krugersdorp-Robinson; Germiston-Klandsfontein-Elsburg; Germiston-Edenvale. During holidays and on Sundays private bus companies arranged excursions between Johannesburg and points of interest in the Transvaal, such as Pretoria, Hartbeestpoort Dam, Vereeniging. Goods traffic was conveyed between Johannesburg and Rivonia and petrol between Sandpruit-Amerspoort.

In the Eastern Transvaal system there was strong passenger competition in the Pretoria suburban area and severe goods traffic competition between Pretoria and Johannesburg.

TABLE III.

**No. of Ordinary Passenger Bookings
on Suburban Lines, 1924-30. 1.**

	CLASS	1924-25	1925-26	1926-27	1927-28	1928-29	1929-30
CAPE TOWN SUBURBAN AREA	Total all classes	9,268,338	9,925,954	9,750,965	9,447,595	9,286,689	7,935,139
PORT ELIZABETH	"	835,145	798,232	819,302	810,248	743,218	664,189
EAST LONDON	"	283,125	306,677	323,208	336,858	276,110	275,893
JOHANNESBURG	"	5,618,196	6,022,196	5,908,373	5,934,316	6,019,377	6,073,358
PRETORIA	"	741,847	842,969	809,029	756,500	710,877	744,201
DURBAN	"	1,845,403	2,065,412	2,029,322	2,024,387	2,021,826	2,008,962
PIETERMARITZ- BURG	"	71,919	78,640	70,718	70,924	69,473	66,936
BLOEMFONTEIN	"	114,725	141,499	146,211	159,459	166,556	157,135
TOTAL	FIRST	7,524,785	7,882,176	7,679,216	7,255,329	6,722,729	5,485,048
SUBURBAN	SECOND	4,873,081	5,326,793	5,156,523	5,026,975	5,017,485	4,903,100
	THIRD	6,380,832	6,972,610	7,021,389	7,247,963	7,553,912	7,537,665
AREAS	GRAND TOTAL	18,778,698	20,181,579	19,857,128	19,530,267	19,294,126	17,925,813

This Table illustrates how passenger traffic was being diverted to the road omnibus services - it must be remembered, too, that the population of these areas was increasing over this period. In Appendix I a table is given to show the position on the Capetown-Wynberg route where the competition was most severe. These results are not unexpected because the demand for passenger service is relatively elastic compared with the demand for goods traffic. Even where the railway fares were the same or less/..

1. Figures obtained from Appendix IV, Memorandum *ibid.* p.10.

less than the fare by 'bus, the greater convenience and accessibility of the 'bus services was sufficient to cause this change over in demand. The line from Capetown to Sea Point is a good case in point. This line was electrified at huge expense and provided a cheap and frequent service but it was unable to meet the competition of 'buses which deposited and picked up passengers closer to their homes. The omnibus always possesses the big advantage of flexibility. Eventually the Sea Point line was taken up.

As regards goods traffic, competition had not yet reached the stage where it was actually diminishing the total volume of high-rated traffic of the railways. This was the view of the Departmental Railway Tariffs Inquiry Committee, 1930:-

"It is popularly supposed that the Administration has already lost a large volume of high-rated traffic for short distances and that its position in this respect is already extremely precarious. It is, therefore, of interest to note that, although traffic is being conveyed by road, the volume of high-rated traffic conveyed by rail for short distances has not diminished. On the contrary, it has increased substantially." 1.

TABLE IV.

INCREASE IN HIGH-RATED TRAFFIC, CLASSES 1 - 6,
FROM 1925 - 1929.

Zone	Increase for year ended 31st March, 1929 over year ended 31st March, 1925.	
	Tons	Percentage
1-50 miles	157,513	28.1
51-100 "	78,276	31.4
101-150 "	41,567	22.2
151-200 "	51,369	49.4
201-250 "	31,627	37.1
251-300 "	63,560	60.7
1-300 "	425,712	32.9
301-400 "	106,848	38.7
401-500 "	70,564	26.5
All distances		
1-1800 miles	756,817	35.2

It is, of course, to be expected that this increase in tonnage should have taken place with the normal increase in trade and production during these relatively prosperous years. It is however significant that the percentage increase in goods carried at rates 1 - 6 was 35.2 % (for all distances), while the increase for rates 7 and lower was only 14.7% over the same period. The assumption can be made that the competition had not yet reached very threatening proportions. The object of the Dept. Committee in compiling these figures was to disprove the accusation that the rate policy of the Administration was destroying the high-rated traffic and that therefore there was no need for the Administration to introduce panic rates. If this was true, then equally there was no need for the panic, restrictive legislation that was subsequently passed to protect the revenues of the Administration.

The Committee foresaw this objection, "It would, however, be very unwise to deduce from the foregoing facts that the position of the Administration is not seriously threatened by road motor competition. In our judgment the potential danger to the Railway Administration through road motor competition, is very grave indeed." ¹.

If then this potential danger is admitted, the fact is inescapable that the danger came from the peculiarly discriminating rating policy of the South African Railways. The most vulnerable point of attack for road motor competition was of course the high-rated traffic for short distances (the exceptionally high tariffs are in part the result of excessive 'tapering') and, more particularly, the high-rated short distance traffic to branch lines because of the principle employed of 'splitting' branch
line/..

1. p.15 para. 78.

line rates, i.e. instead of the mileage schedule rates applying for the throughout distance, the rates are charged separately over the main and branch lines (e.g. the rate for conveying 100 lb. at Class 1 over 150 miles of main line was 56d. as compared with 63d. for 100 miles of main plus 50 miles branch line.).

Again and again in reports of the General Manager, in evidence given to the Road Motor Competition Commission, in statements in the Press, in debates in Parliament there appears the accusation that the "motor lorry is taking the cream of the traffic". It is clear that to ascertain the real reasons, which led to the passing of the Motor Carrier Transportation Act, a careful examination must be made of the tariff policy of the Administration. The financial success of the Railways had come to depend on a position where a relatively small volume of high-rated traffic contributed the major part of its receipts from goods traffic. In a statement made by the Chairman of Road Motor Competition Commission during the taking of evidence, the precarious nature of the S.A.R.'s position was made clear:-

"You have this position, then, high-rated traffic carried by rail amounts to about 2½ million tons per annum and the revenue earned is £9,250,000; the low-rated traffic is approximately 18 million tons and the revenue earned £7,250,000, so that 12% of high-rated traffic produces £9,000,000 in revenue, while 88% of the traffic (the low-rated percentage) only earns £7,250,000."

The Road Motor Commission summed up the position as it was in the Union at that date, (1929):-

"We are satisfied from the evidence that there is serious competition in public transport. The competition is, naturally, most intense in, and in the neighbourhood of, the larger centres, but it is by no means confined to such areas. There is a distinct tendency for the competition

to/..

to spread further afield, the road competitors gradually extending the range of their operations

"The competition assails mainly the higher-rated goods traffic and the short-distance passenger traffic of the S.A.R." 1.

In subsequent chapters the changing nature of road competition will be indicated. When the Transport Board had brought the operators of transport agencies under control, competition from traders and merchants using their own lorries and from seven-seater taxis increased to such an extent that the Administration was again forced to seek legislative protection. Unfortunately for the General Manager of the Railways the ox- and donkey-wagons were resurrected and the Administration is now clamouring for still more protection. 2.

1. Road Motor Competition Commission (1929 [U.G.S, 1930] p.16 para. 74.

2. It would be interesting to have details of the comparative charges of the two forms of transport, i.e. of road and rail transport, but they are difficult to obtain. In 1928 the railway fare between Port Elizabeth and Walmer was 20/- for 60 tickets, and while the bus fare was 4/- for 16 tickets, the saving in time by road was nearly ten minutes. To instance the time saved by motor-transport - the railway in 1928 took 24 hours to complete the distance of 72 miles between Batterworth and East London; the normal time taken by car was 4 hours.

CHAPTER 2.

THE MEASURES TAKEN TO MEET COMPETITION.

In the early stages some attempt was made by the Administration to win back traffic by the normal business practice of improving the efficiency of the Railways. For instance, to meet the competition for suburban passenger traffic in certain cases, such as the Capetown suburbs, the train operation was electrified, more frequent services were introduced, new stations built and on the Capetown-Wynberg line cheaper fares were instituted in April, 1929. To regain goods traffic lost to the road, certain modifications in the rates were made and improvements effected in the collection, transport and delivery of goods. Complaints were received with greater attention and publicity campaigns carried out.

The first legislative step was taken when Railway Regulation No. 282 was promulgated. This regulation enforced Section 3 (b) of Act No. 22 of 1916. By this section the Minister of Railways was empowered to differentiate in the charges for wharfage dues on goods coming in through harbours as between (a) goods imported by persons and firms who contracted to have all their goods conveyed by rail between any points where, in the opinion of the Minister, there was competition between rail and wagon or other vehicle for the conveyance of such goods, and (b) goods imported by persons and firms who did not so contract. ^{1.}

The regulation was gazetted on June 27, 1930. It imposed supplementary wharfage dues of 1/- per 100 lb. on
goods...

^{1.} This Act was first introduced in the old Cape Parliament in 1908 to meet the situation that arose from ox-wagon competition. It was effectively used 22 years later to meet competition from a mechanical wagon.

goods imported into the harbours of the Union or South West Africa. The additional charge was to be levied on those who did not make contracts with the Administration. Over 7,000 such wharfage contracts were signed and the amount collected in respect of the supplementary dues up to the 31st March, 1931, was only £1,481.

"Although the system of wharfage contracts is of limited scope, it has, nevertheless, served a most useful purpose in checking the indiscriminate use of competitive road transport and in safeguarding railway revenue during a period of financial distress." 1.

Another coercive device adopted by the Railway Administration was 'The Transport Reciprocity Clause' in its tender forms. This clause provided that successful tenders must be prepared to have all their goods transported by the Administration's services - rail or road.

Considerable public opposition was aroused by these two measures and there is no doubt that they represent the worst abuses of monopoly power, particularly by a State department. They differ only in degree from the iniquitous system of secret rebates which was a common feature of the American Railroad Companies in the last quarter of the nineteenth century. 2.

In 1929 the Government appointed the Road Motor Competition Commission to investigate and report on:

'(1) the whole problem of road motor competition and its bearing upon the road motor and the railway services of the S.A.R. Administration having regard

(a) to the fact that the main transport system of

the/..

1. General Manager's Report for 1931 (U.G. 37,1931) p.20.
2. These measures were only stop-gaps and designed to stay the rapid fall in revenue which was so accentuated by the depression of 1929.

the country is state-owned, in which vast sums of public money are invested, and (b) to the country's needs for its economic development; and (2) all the measures, if any, which should be adopted for the better regulation, co-ordination and control in the public interest.' (Terms of Reference.)

Many accusations were made by various public bodies that the Commission was biased from the beginning and that it was guided solely by the interests of the Railways. It was suggested that the terms of reference were such that the recommendations of the Commission were formulated without consideration of the evidence. The Report of the Commission was, however, not completely one-sided. It is true that the Commission seems to have accepted quite uncritically the stock arguments urged in most countries for the control and co-ordination of transport and the suppression of 'wasteful' competition. On the other hand it was admitted that competition of private operators had done a good deal to increase the efficiency of the Railway Administration. While granting that the Railways suffered under certain disabilities and that the competition was not 'fair' in its incidence (e.g. motor transport did not contribute its proper share to the maintenance of the roads), the Commission expressed itself as resolutely opposed to a State monopoly of transport. "The evidence against such a proposal is, however, overwhelmingly strong - in fact, almost unanimous.... Moreover we are satisfied that a measure of competition in public transport is healthy and desirable." 1.

The Commission made the following recommendations, amongst others, to Parliament:-

- (i) There should be no monopoly of public transport on roads, a measure of competition being accepted as healthy and desirable.
- (ii) There should be reasonable control and regulation of public/..

- public road transport, and, for the purpose of exercising control, a regulatory body - a Road Transportation Board - should be created with definite functions and powers. This body should be independent in character, representative of diverse interests, and free from political control.
- (iii) 'Transportation areas' and 'transportation routes' should be prescribed by the regulatory body in and over which areas and routes it should exercise control over all public road motor transport. It is recognised that in many sparsely populated areas the need for such control may not yet exist.
- (iv) No one should be permitted to engage in any form of public transport by road in such areas and over such routes save under a 'public service licence'.....
- (v) A 'certificate of public convenience and necessity' and the compliance with conditions recommended in paragraphs 102 and 103 (provision of adequate third party insurance, compliance with published scale of fares and time-tables and with wage regulations, etc.) should be made prerequisites to the granting of a licence to engage in any form of public transport in transportation areas or over transportation routes." 1.

When the Motor Carrier Transportation Bill 'to provide for the control of certain forms of motor transportation and matters incidental thereto' was introduced into the House of Assembly, the principle of control met with practically no opposition. The recommendations of the Commission were, in general, accepted without much alteration. The Opposition Party did indeed make a strong attempt to

secure/..

1. p. 54 para. 209 (i)-(v).

secure the full political independence of the proposed Transportation Board. ¹

The Motor Carrier Transportation Act (No. 39 of 1930) was placed on the Statute Book on June 5, 1930, and came into force on January 1, 1931.

By this Act a Central Road Transportation Board with subsidiary local boards was established and empowered to investigate any matter relating to motor carrier transportation in the Union and to submit recommendations thereon to the Minister of Railways. In the original Act 'motor carrier transportation' was defined as follows:-

'Motor carrier transportation' means transportation over any public road for reward (a) of any person by means of any motor vehicle (i) designed to carry more than eight persons including the driver or (ii) not designed exclusively for conveyance of persons and personal effects, (b) of any goods by means of any motor vehicle designed wholly or partly for the carriage of goods (other than the personal effects of persons travelling thereon).'

On the recommendation of the Board, the Governor-General may, by proclamation in the Government Gazette, define any area as a proclaimed transportation area and any public road as a proclaimed transportation route. Once such areas and routes have been proclaimed any person desiring to engage in the business of motor carrier transportation in such areas and over such routes must apply for
a motor/..

1. The recommendation of the Commission regarding the removal of certain disabilities on the Administration was adopted by the enactment of the Railways & Harbours Regulation, Control and Management Act, 1916; Further Amendment Act No. 40 of 1930. This empowers the Administration to engage in motor carrier transportation: provided that in respect of vehicles used for carriage of goods by road within a municipal area other than to and from the railways, the Admin. shall be liable for the payment of any tax or licence moneys levied on similar vehicles by the local authority.

a motor carrier certificate to the Board or local board; and anybody who operates without such certificate, or otherwise than in accordance with the provisions of the certificate, is guilty of an offence.

Local boards are appointed for every proclaimed area and for every proclaimed route other than a route falling wholly or partly within more than one proclaimed area. The local board exercises similar functions for its own area or route as are exercised by the Central Board for the areas under its jurisdiction.

The main functions of the Board are (1) 'to determine from time to time the volume and nature of motor carrier transportation which shall be permitted to operate over any proclaimed transportation route falling wholly or partly within more than one proclaimed transportation area; and (2) to receive and consider applications for motor carrier certificates for motor carrier transportation over any such route and for the amendment of any such certificate previously issued and in its discretion to grant or refuse such applications wholly or in part, subject to the provisions of this Act.'¹

It is provided in the Act that the motor carrier certificate issued by the Board or local board shall specify:-
 (a) Person in whose favour it is issued; (b) period of issue; (c) class of motor carrier transportation in respect whereof it is issued and where such transportation relates to persons the class or classes of persons who may be conveyed under such certificates; (d) the particular vehicles, identified in such manner as may be prescribed by regulation, in respect whereof it may be issued; (e) the routes along which or the area within which the vehicles to which
 it/..

1. Section 5 (b) and (c).

it refers may be used in motor carrier transportation.

Furthermore the Board or local board is empowered to require the holder of any such certificate (a) to operate any vehicle to which the certificate refers, solely between specified places and according to a specified time-table (b) to publish the scale of charges accepted by the Board or local board upon the grant of his certificate and adhere to such charges for a reasonable period of time and (c) to comply with such further conditions as may be prescribed by regulation.

In issuing certificates the Board and local boards are to be guided by the following general 'principles'. Firstly when considering an application the Board shall publish particulars of the application and afford a hearing to interested parties. The Board is to consider whether the applicant is likely to carry on under satisfactory conditions regarding regularity of service, wages, etc; the transportation requirements of the public on the particular route and existing transportation facilities; the nature of transportation to which application relates and the reasonableness of the proposed charges; whether the transport to which application relates will adversely affect or assist any other transportation facilities and whether it can be co-ordinated with such facilities 'in a manner which is economically sound and advantageous to the public; any other factors which in the opinion of the Board may affect the question whether it is desirable to grant such application; the views of any affected local authority.

It is quite easy to see from the nature of these detailed instructions that the Board was intended to give the fullest protection to the Railways and this is borne out by the positive injunction in Section 13, Sub-section (3) -

"Whenever any transport facilities in existence within
any/..

any area or over any route, are, in the opinion of the Board or local board concerned, satisfactory and sufficient to meet at a reasonable charge the transport requirements of the public within the area or the route, the Board or local board shall not grant any certificate in respect of any motor carrier transportation within substantially the same area or over substantially the same route with such transportation facilities."

The period for which a certificate may be issued shall not exceed 5 years; provision is made for renewal and for the issue of temporary certificates in connection with particular events. Appeals from the local board to the Board are also provided for in the Act.

The powers, then, entrusted to the central and local boards are very far-reaching. They exercise practically autocratic control over motor carrier transportation and, as shall be shown below, they interpreted their instructions to imply the almost total suppression of competition between private transport operators and the Railway Administration and between the operators themselves.

By Section 12 of the Act, however, the boards were compelled to issue certificates to any person who, on January 1, 1931, was occupied in any motor carrier transportation in any proclaimed area or route and could satisfactorily prove that on February 28, 1930, he was engaged on substantially the same transportation and afforded such transportation efficiently and at a reasonable charge. Such certificates were made subject to review after 6 months and then might be amended or cancelled if the transport facilities were in excess of public requirements.

Section 15 makes it illegal for any person who has been issued a certificate to refuse, without sufficient reason, to convey any person or goods which he is authorised to carry. Further it is illegal for him to depart from his

published tariff of charges (if any) or to make a higher or to make a higher or lower charge than he ordinarily makes under similar circumstances. Remuneration in kind is prohibited. This is probably the most valuable section of the Act. It imposes something similar to the "common carrier" principle on the transport company and prevents the use of discriminating monopoly power as between different purchasers.

It is the more valuable in that, as we shall see below, a large measure of local monopoly is granted to such companies. The Act provides for adequate security against loss of third parties and also lays down that no member of the Railway Administration is to serve on the Board or local boards. This is an important principle for securing impartiality of the boards' decisions, but in practice the Administration had no need for representation to secure almost complete abso- lution from motor carrier competition.

In his report for the year ended 31st March, 1931, the General Manager of the S.A.R. noted that, "Owing to the adverse effect of the trade depression upon traffic returns it is not possible to give comparative statistics indicating the extent to which competition with the railways has diminished during the year under review, but from general observations it can be stated that the railway revenue has benefited considerably and will still further improve as the provisions of the Act come fully into effect." 1.

It is pointed out that the protection afforded for six months to those already engaged in transportation would lapse after July 1, 1931, and that the 'present unrestricted competition in the proclaimed areas will then cease'. It would, however, be a bad mistake to imagine that the General Manager was satisfied - like Oliver Twist he cried for more.

Within/..

1. (U.G. 37, 1931) p. 21.

Within the terms of the original Act, the conveyance of any goods sold or being conveyed for sale by the seller, by a motor vehicle belonging to him, in the course of the delivery of those goods to their purchaser or to the place of sale or by a purchaser himself, did not constitute conveyance for reward. This report for 1931 stated that the exclusion of such transport from control had led to a rapid increase in the number of vehicles owned privately by firms. Many people engaged in the business of motor carrier transportation evaded the Act by taking out trading licences so as to represent the goods carried as their own property. The view of the General Manager was that "the transport of such goods (commodities of regular and quick sale) over long distances in the course of trade distribution is essentially the transport of public traffic 'Hired' long-distance public road transport will eventually disappear and be superseded by long-distance road transport operated by the traders and distributors themselves".¹ This Report also complained of the growing practice of using seven-seater taxis to operate regular services between defined points and thereby evading the necessity of taking out a certificate.

When the next Report of the General Manager appeared, the review of certificates issued under Section 12 had been made by the Board and the elimination of many services is reflected in this Report.

"During the year under review, railway revenue benefited considerably, as a result of the action taken by the Road Transportation Board and subsidiary boards appointed under the Motor Carrier Transportation Act to eliminate road transport services in excess of public requirements."² The Report continued that these benefits in the case of passenger traffic were being increasingly nullified by the use of seven-seater taxi-cabs, especially in the Transkeian territories/..

1. Ibid. p 22 (in Report)

2. U.C. 30 1932 p. 37

territories, as omnibuses and, in the case of goods traffic, 'by the increasing use by traders and industrialists of their own motor vehicles for the carriage of goods over wide areas adequately served by railway'.¹

Under pressure from the Railway Administration and the Road Transportation Board, an amendment Act was passed by the Government which extended the scope of the definition of 'motor carrier transportation'. By the Motor Carrier Transportation Amendment Act, No. 31 of 1932, the definition was altered as follows:-

'Motor carrier transportation' means the conveyance of any person or any goods on any public road by means of any motor vehicle, (i) for reward; or (ii) in the course of any industry, trade or business of whatever nature; or (iii) by means of a motor vehicle the use whereof has been obtained for reward, provided that

- (a) conveyance of farm products by their producer by means of a motor vehicle belonging to him; and
- (b) conveyance by a farmer of his own farming requisites to the place where he intends using them, by means of any motor vehicle belonging to him, and
- (c) conveyance of not more than seven persons simultaneously, including the driver, and of personal effects, and of any goods intended for their own use or consumption, by means of any motor vehicle designed or intended for the conveyance of not more than seven persons, if such vehicle is not used for regular conveyance of persons for reward between particular places where reasonable facilities are available for their conveyance over the greater portion of the most practicable route between such places, by railway or by means of any motor vehicle issued with a motor carrier certificate.

shall/..

1. U.G. 39, 1932, p.37.

shall not be regarded as motor carrier transportation for purposes of this Act.' 1.

The effect of this was, of course, to bring the transportation by merchants, industrialists, etc. of their own goods within the control of the Road Transportation Board and to place some restraint on the evasion of the law by the taxis operating as omnibuses. Exemption from the obligation to take out a certificate must, however, be granted

'(a) for conveyance of goods within any area defined by regulation (which may be determined differently for different classes of transportation or for different localities) by their seller for delivery to their purchaser, or by the purchaser or owner to the place where he intends to sell, use or store them, or by any person to any place where he or some other person intends to exhibit them, by means of any motor vehicle belonging to the owner of such goods or to the person conveying them; or

(b) for conveyance of goods by their owner from any place to the nearest railway station or town by means of any motor vehicle belonging solely to such owner.'

Further, exemption to take out a certificate may be granted for the conveyance of goods in the area of jurisdiction of a city council, town council, etc. with a population of not more than 20,000 persons; or goods by any motor vehicle acquired by a local authority for reward within the area of jurisdiction of such body; or farm products from farm to the nearest town; or to parties of students, sporting teams, etc. if no reasonable facilities are provided/..

1. It may be mentioned that hospital ambulances and 'conveyance of any coffin or corpse for burial' are also expressly exempted from having to obtain a certificate.

provided by the Railways or already certified motor vehicles.^{1.}

Thus this amendment led to still further restriction of road motor transport. The General Manager's Report for the year ended 31st March, 1933, noted a marked reduction in road transport competition but complained that there was still a great deal of evasion of the law by taxi operators. The difficulty was to prove to the satisfaction of the Court that the taxi was maintaining a regular service between the defined points. In Natal 'hundreds of motor cars are being operated parallel to railway or road motor services'.^{2.} But even after all the hard work of the Transportation boards, the General Manager could still not find peace. From the dim past the spectre of the ox- and donkey-wagon had arisen, again to plague a harassed General Manager of Railways.

"With regard to animal transport competition, owing to financial stringency and other hardships a large number of the poorer type of farmer has resorted to animal transport riding as a means of livelihood. By reason of the extremely low rates charged by these operators, the volume of traffic, mostly high-rated, filched from the railways by these carriers has assumed considerable proportions."^{2.}

The following Report reviewed the position brought about by legislative action. "In the annual reports for the last two years it was indicated that uneconomic competition with the Railways by road motor vehicle had been reduced to a minimum and that the position generally, in so far as road motor transport throughout the country is concerned, has been placed on a much more satisfactory basis."^{3.}

At/..

1. By this Act Section 16 of original Act, which provided for adequate third party insurance, was repealed.

2. U.G. 34, 1933, p. 21.

3. U.G. 37, 1934, p. 27.

At the same time the request for more effective control of taxi operators, the re-enactment of Section 16 of the original Act relating to compulsory insurance and some measure of control over animal-drawn transport was repeated. By this time it is not surprising to find the General Manager contemplating the idea of socialism - all transport, road, rail, sea and air, should be placed under a Minister of Transport and the main road services should be nationalised.

The reasons put forward by the General Manager for the growth of animal-drawn transport were: (1) exploitation of operators (2) cut-throat competition amongst transport-riders and (3) uneconomical transport charges. But feeling, perhaps, that the economic arguments were not sufficiently strong, the General Manager, with delightful naivete, assumed the mantle of the Society for the Protection of Cruelty to Animals. Transport riders are accused of harsh treatment of the 'little grey donkeys' and pitiful stories of sufferings related. In fact the only reason not given is that some of the rates on the railways are so high as to permit the successful competition of the slow-moving, old-fashioned donkey-wagon. 1.

The/..

1. When certain transport companies in municipalities started to introduce trackless trams, the difficulties of the local boards in authorising temporary departures from scheduled routes by the buses during the change-over were likely to prove so administratively great that a further amendment Act, Act No. 20 of 1934, was passed. It authorised the Governor-General, on recommendation of the Board, to suspend 'wholly or partly the operation of any provision of the Act, either throughout the Union or in relation to any particular proclaimed transportation area or route'. This power was given for a year but was subsequently extended for a further year and again until May 31, 1937, during the last Parliamentary session though not without some demand for a complete review of the whole legislation. This amendment Act is an astounding instance of what Lord Hewart has called the 'new despotism' - it gives the Board, and through the Board the Minister of Railways, the power to make regulations of the most far-reaching character without any need to consult or obtain Parliamentary approval.

The extracts above that have been taken from the annual reports of the General Manager of the Administration are strong evidence that, if protection of railway receipts are accepted as the criteria, the legislation has been most successful in achieving its object of eliminating 'wasteful competition' and the 'duplication of unnecessary services in excess of public needs'.

The reports issued by the Central Road Transportation Board provide the material from which it is possible to give some idea of the position of private road transport operators and of how far competition with the Administration has been suppressed.

By Proclamation No. 210, 1930 (published in Government Gazette of September 26, 1930) fourteen transport areas were proclaimed with headquarters at Beaufort West, Bloemfontein, Capetown, Durban, East London, Johannesburg, Kimberley, Mossel Bay, Pietermaritzburg, Pietersberg, Port Elizabeth, Pretoria, Umtata and Zeerust.

The following public roads were defined as proclaimed transportation routes:- 1.

Between (i) /..

1. Since January 31, 1932, the following additional routes have been proclaimed. The public road between Capetown and Kimberley via Durbanville, Wellington, Bainskloof, Ceres, Karroo Poort, Buikesfontein, Klandsvlei, The Bosch, Calvinia, Williston, Advance, Carnarvon, Pampoenpoort, Victoria West, Hutchinson, Merwefontein, Richmond, Verborghfontein, De Put, Britstown, Andraaisvlei, Prieska, Niekerk's Hoop, Griquatown, Campbell and Schmidt's Drift.

Public road between East London and Bloemfontein via Stutterheim, Bolo, Great Kei Drift, Tsomo, Engcobo, Coghlan, Elliot, Cala, Askeaton, Lady Frere, Queenstown, Bailey, Sterkstroom, Molteno, Stormberg, Steynsberg, Venterstad, Bethulia, Orange Vlei, Edenburg and Bethany

By Proclamation No. 134 of 1933 a transportation area for S.W. Africa comprising the magisterial districts of Gobabis, Karibib, Okahandja, Omaru and Windhoek was proclaimed, and a route defined between Maltahöhe and Windhoek via Mariental, Swartmodder, Hanover and Dordabus.

Minor amendments of these proclamations have been made. Certain areas have been deproclaimed and the 'released' districts added to existing proclaimed areas or routes. These adjustments have been made for administrative purposes and not to reduce the areas under the control of the Board and the local boards.

- Between (i) Mossel Bay and Beaufort West;
(ii) East London and Umtata;
(iii) Durban and Johannesburg;
(iv) Durban and Middelburg (Transvaal);
(v) Johannesburg and Louis Trichardt (via Pretoria);
(vi) Germiston and Pretoria (via Irene);
(vii) Zeerust and Pretoria (via Rustenburg);
(viii) Zeerust and Johannesburg;
(ix) Lichtenburg and Johannesburg.

By Proclamation No. 211 of 1930 all motor carrier transportation, as defined, after January 1, 1931, over these routes and areas is prohibited unless a motor carrier certificate sanctioning such transport is issued.

The areas proclaimed included all the towns with a population exceeding 20,000, such as Capetown, Johannesburg, Durban, East London, Pietermaritzburg, Port Elizabeth, Kimberley, Bloemfontein, Pretoria, Springs, Brakpan, Benoni, Boksburg, Germiston, Krugersdorp, Roodepoort, Maraisburg and Randfontein, where the volume of passenger transportation in each, according to the Board, 'made it imperative that the control at which the legislature aimed, should be exercised.'¹

The proclaimed routes covered almost every mile of railway line in the country and on these routes the Board concluded that road transport should be subject to control, since 'it was found that many carriers of goods conducted frequent services..... and that these carriers catered mainly for commodities classified in the higher railway rates.'

Below a table is given to show the number of ordinary motor carrier certificates issued by the Board and the local boards. The procedure which the Board followed in proclaiming an area or route was to visit the district and hold meetings at which the views of interested parties were heard/..

1. First report of the Central Road Transportation Board (U.G. 21, 1932) pp. 7 & 8.

heard. But throughout the reports of the Board no definite principles, on which decisions were based as to what constituted 'in excess of public requirements', are laid down. ¹

TABLE V

ORDINARY ANNUAL MOTOR CARRIER CERTIFICATES ISSUED
BY BOARD AND LOCAL BOARDS. ²

BY	PASSENGER VEHICLES				DUAL-PURPOSE VEHICLES				GOODS VEHICLES				TOTALS			
	1931	1932	1933	1934	1931	1932	1933	1934	1931	1932	1933	1934	1931	1932	1933	1934
ROAD TRANSPORTATION BOARD	39	34	29	30	66	282	372	399	179	291	228	279	280	607	629	708
LOCAL BOARDS:-																
BEAUFORT WEST	—	—	—	—	9	—	—	—	11	—	—	—	20	—	—	—
BLOEMFONTEIN	29	35	11	14	27	27	13	11	76	66	29	42	132	128	53	67
CAPE TOWN	279	248	240	208	42	100	276	388	672	619	498	572	793	967	1014	1168
DURBAN	173	145	138	145	37	9	6	5	384	336	336	390	594	490	480	540
EAST LONDON	27	23	20	19	34	34	41	43	57	52	71	79	118	109	132	141
JOHANNESBURG	251	250	264	280	98	3	—	—	376	414	532	1092	725	667	796	1372
KIMBERLEY	1	3	4	3	43	22	43	38	68	24	13	10	105	49	60	51
* MOSSEL BAY	4	—	—	—	18	—	—	—	12	—	—	—	34	—	—	—
PIETERMARITZBURG	4	9	12	24	2	—	—	—	29	32	29	31	35	41	41	55
* PIETERSBERG	7	—	—	—	25	—	—	—	22	—	—	—	54	—	—	—
PORT ELIZABETH	98	82	72	84	3	—	—	—	209	100	135	155	310	182	210	239
PRETORIA	71	81	45	59	16	53	63	21	85	104	80	106	172	200	188	186
* UMTATA	8	—	—	—	26	—	—	—	32	—	—	—	66	—	—	—
* ZEERUST	10	—	—	—	2	—	—	—	16	—	—	—	28	—	—	—
° WINDHOEK	—	—	1	1	—	—	35	47	—	—	2	1	—	—	38	49
TOTALS	1001	910	836	867	448	530	849	952	2221	2040	1956	2757	3676	3480	3641	4694

* Deproclaimed in October, 1931 and included in other areas or brought under proclaimed routes.

° Proclaimed in 1934 and brought under Act.

These figures show a decline in the number of certificates issued for passenger and goods vehicles from 1931 to 1933/..

- In Victoria, Australia, in the Act of 1933 it was provided that if the Board refused to grant a licence to the applicant, it could be required to give in writing its reasons for refusal. These written 'decisions' constituted the chief sources of the principles of the Board. This legal provision is an important point in administrative jurisdiction as it tends to secure that the body concerned will be guided by a definite set of recorded decisions. This provision was later repealed.
- Compiled from annual reports of Central Road Transportation Board.

1933 and then a change upwards for 1934, especially in the case of goods vehicles. The number of dual-purpose vehicles increased steadily throughout the period but such vehicles usually have a relatively small carrying capacity both of passengers and goods. These statistics do not show the full measure of restriction imposed by the controlling authorities.

In the first place it is likely that many carriers who had operated services did not bother to apply for certificates to the Board or local board in the belief that such applications would be refused. It seems that there was quite a widespread feeling amongst small operators that the Board was, in fact, merely a tool of the Railway Administration. This supposition is borne out by a statement in the Report of the Central Board for the year ended 31st March, 1934. "It is also a fact that a considerable number of carriers who had, prior to the passing of the Act, operated spasmodic services over these and other routes never applied for certificates, realising no doubt that the nature of their services ruled out any question of protection. An instance of this was seen on the Transkei route where, prior to January 1st, 1931, there were over 60 vehicles operating between East London and the Transkei, while the applications for motor carrier certificates in respect of that route related to less than a third of that number." ¹. In his Report for 1931 the General Manager of the S.A.R. also noted that the growth of competition had been arrested in part by anticipated effects of the Act. All this implies that the number of operators before the Act came into force was greater than the initial number of certificates issued under Section 12 of the Act indicates. It implies, further, that/..

¹. (U.G.30, 1934) p. 9.

that many operators who were operating apparently on a profitable basis and others who considered that the motor carrier business offered a profitable field for investment were diverted from it into other less profitable ventures.

Furthermore when certificates were issued, the conditions of issue often, in fact, resulted in a large measure of protection being afforded to the Railway Administration. In many cases the frequency of operation was reduced, in other cases the actual length of service permitted was curtailed, i.e. the service was only allowed to function over a portion of the former route. Many certificates, too, were issued to operators whose services were diverted into the so-called co-ordinated services. Another device used by the Transportation Board to suppress competition without reducing the actual number of vehicles was to enforce a certain scale of fares or rates on the operator. The tariff was so fixed as to eliminate the 'undercutting of railway rates classified in the higher classes'.

By Section 12 of the Act, it will be remembered, the Board was compelled to issue certificates to carriers who, prior to February 28, 1930, had operated regular services. After June 30, 1931, the Board had power to review such certificates and reduce their number, if so desired. Unfortunately no clear statistical statement was given by the Board of the position after the review. It would be too tedious to reproduce the whole complicated statement of the Board of the review but certain instances abstracted from its first report will indicate the drastic manner in which the review was carried out.

On the East London-Umtata route 5 carriers had been issued with 8 certificates for through goods services. On review the number of vehicles was reduced to 4 and the frequency of 2 services from two trips per week to one. When
renewals/..

renewals for this route were considered for 1932, the Board decided that there was no necessity for through road transport between the points specified and the applications were refused.

Under Section 12, 9 certificates had been issued for the Durban-Pietermaritzburg route in terms of which daily services were operated in respect of all classes of goods. On review the Board cancelled all the certificates but carriers were authorised to convey furniture and household effects. In January, 1934, applications relating to the conveyance of all classes of goods were refused.

On the Johannesburg-Pretoria route applications from 20 operators had been granted under the relevant Section. Sixty certificates were issued - 44 for goods of all classes, 16 for furniture and household effects only. As a result of the review all carriers engaged in the transport of furniture were granted certificates but only 5 certificates for goods, all classes, were issued. When applications for renewal were considered for 1932 all applications for conveyance of goods, all classes, were refused but the removal of furniture was again authorised.

On the same route a passenger company was granted 6 certificates. At the review stage the Board authorised the continuance of the service but ordered alteration of the time-tables, prohibiting the running of 'buses in close proximity to the times of departure of fast trains between Johannesburg and Pretoria.

Local boards carried out a similar process of eliminating 'wasteful competition' and bringing about a 'stable, well-balanced system of transport'.

The position at the beginning of 1932 was as follows:-
 "At the review stage which covered the period July to October, 1931, this competition was considerably reduced, and when applications for renewals of certificates were made to the

Board/..

Board and local boards during December, 1931, and January, 1932, competition was further reduced. The process has been continued in respect of applications for certificates for the current year and further curtailments of services have been effected in those cases where it was found that an unnecessary duplication of service existed.

"But it would not be correct to say that all wasteful competition had been eliminated and that a condition of stability has been reached. Adjustments will from time to time become necessary; the principle of co-ordination will have to be applied further in certain cases and the elimination of those competitive services which cannot usefully be co-ordinated will have to be considered. The majority of those 'original' operators have, however, been restricted to areas or routes where they are employed in affording useful services." ¹.

From the beginning of 1932 the Board began to 'co-ordinate'. 'Co-ordination', magic word, apparently meant that if a road service could be so diverted as to act as a feeder to the services of the Administration, then the service was co-ordinated; if not, then the service became 'unnecessary duplication' and 'in excess of public needs' and hence eliminated.

The Report of the Board for 1934 stated that in the case of operators whose competitive services were discontinued, they were 'wherever possible diverted into spheres where a much needed service could be rendered by co-ordinating their transport operations with the Administration's rail or road motor services or with other previously existing private services..... In most cases the carriers whose services were so co-ordinated are today engaged in supplementing the rail/..

1. Report by the Transportation Board for year ended 31st March, 1933 (U.G. 20, 1933) p. 8.

rail service by means of feeder lines radiating from rail-head into areas not served by rail." 1.

For the year January, 1932, to December, 1932, the local board at Capetown granted 967 applications out of 1120 and the number of passenger 'buses operating in the area was reduced from 279 in 1931 to 167 in 1932. In regard to goods transportation, 'the local board has adopted the principle of co-ordinating rail and road transport and has by this means considerably reduced the excess of facilities over requirements of the public'. 2. In 1931 authority to operate was sought for 672 lorries for through transport between Capetown and outlying districts as far afield as Calvinia, Sutherland, Worcester and Bredasdorp. During 1932 only 67 applications were made to the board, due in the board's opinion to the fact that "operators had become accustomed to and had accepted the system of co-ordinated transport which had been introduced." 2.

The effect of the original Act was, as stated above, to lead to a sharp increase in the use of seven-seater taxis as omnibuses and in the use by merchants, traders, industrialists, etc. of their own transport.

"In certain parts of Natal the position has become so acute that it is no exaggeration to say that a condition of chaos exists. In a report submitted to the Board recently, it was stated that there were literally hundreds of motor cars, five- and seven-seaters, so old and dilapidated that one wonders how they were ever passed by the vehicle inspectors, on the road carrying natives from Durban to all parts of Natal and Zululand. Hundreds of these cars had actually been seen to leave with anything up to 9 or 10
natives/..

1. U.G. 30, 1934, pp. 9, 10.

2. U.G. 20, 1933, p. 24.

natives in each and in addition carried goods of all descriptions on the running boards." 1.

"It has come to the notice of the Board that in recent months hundreds of motor vehicles have been acquired by merchants and are being operated from inland centres to and from the coast." 2.

Competition, like murder, will out!

By the Amendment Act 'vehicles operated by merchants, manufacturers, industrialists, traders, building contractors and by all other concerns in the course of their commercial and industrial activities' are subject to the provisions of control. At the same time, the Board was compelled to grant exemption from the obligation to take out a certificate in respect of the conveyance of goods in the course of a business, trade, or industry within areas to be defined by regulation.

It thus became necessary to define such areas. The Board proposed that in general the normal area of exemption should be the magisterial district, but in the case of a few centres the Board suggested that larger areas, comprising two or more magisterial districts, should be defined. After consultation of various interests and visits to the larger centres, the Board issued Motor Carrier Regulations (Govt. Notice No. 1028, dated August 10, 1932) and the normal exempted areas were defined with minor alterations as suggested by the Board.

Special provision was made in the regulations for wider exemption in respect of the conveyance of newspapers, builders' plant and scaffolding and commercial travellers' samples; a general provision was made for the grant of

wider/..

1. U.G. 21, 1932, p. 24.

2. U.G. 21, 1932, p. 25.

wider exemption if, in the opinion of the Board or local board, any goods must necessarily be conveyed by motor vehicle.

Applications of those who required exemption within the defined area were, of course, automatically granted. In certain cases the Board granted exemptions beyond the normal defined area, e.g. (1) conveyance of assembled radio sets, electric stoves and electric refrigerators, (2) conveyance of tools and spare parts in connection with the installation, maintenance and repair of agricultural or industrial plant, (3) conveyance of boring apparatus, (4) conveyance of road-making materials (tar and bitumen) in specially constructed spraying tanks. 1.

TABLE XVI

NUMBER OF EXEMPTIONS ISSUED 1932 - 34. 2.

	1932	1933	1934	1932	1933	1934	1932	1933	1934	1932	1933	1934	1932	1933	1934
	CENTRAL ROAD TRANS. BOARD			BLOEMFONTEIN BOARD			CAPETOWN BOARD			DURBAN BOARD			EAST LONDON BOARD		
No. of applications	1487	2463	2760	96	212	155	1525	1605	1963	536	765	790	343	444	406
Vehicles Involved	2498	3875	4352	119	245	196	2161	2173	2608	798	1053	1100	398	408	504
Vehicles Exempted	2445	3840	4325	109	234	191	1926	2151	2598	792	1040	1095	389	407	488
	JOHANNESBURG BOARD			KIMBERLEY BOARD			PIETERMARITZBURG BOARD			PORT ELIZABETH BOARD			PRETORIA BOARD		
No. of applications	798	1531	2224	125	166	219	126	146	119	230	389	464	313	494	588
Vehicles Involved	1345	2230	3087	149	187	238	159	177	149	252	471	582	454	603	662
Vehicles Exempted	1277	2213	3045	144	187	217	129	177	149	234	460	561	395	588	655
	WINDHOEK BOARD												GRAND TOTAL		
No. of applications	-	62	63										5579	8227	9751
Vehicles Involved	-	62	63										8333	11,556	13,541
Vehicles Exempted	-	58	63										7840	11,425	13,387

1. Some of the factors considered by the Board when deciding applications for wider exemption are (as given in its second report):-
 - (a) need for personal supervision of goods in transit;
 - (b) contractual condition of installation by the owners' mechanics or engineers;
 - (c) the inherent properties of certain goods, which require conveyance in specially constructed equipment.
2. Compiled from annual reports of Central Road Transportation Board.

These figures of exemptions granted include those exemptions granted to farmers conveying their own produce from farm to nearest station or village or from station or village to farm. The figures, however, refer in the main to exemptions granted to merchants, traders, manufacturers, etc. and the rise in the number granted reflects the increased use of their own road transport with the revival in trade. It must be remembered that within the exempted area, the Board or local board was compelled to grant exemption.

In the report of the Central Board for year ended 31st March, 1934, statistical tables are given of the annual motor carrier certificates issued and the following conclusion arrived at:-

"These statements indicate that while the aggregate number of certificated vehicles fluctuates from year to year there has been no sharp diminution and support the Board's contention that the number of vehicles for which certificates have been refused is relatively small and that most of the original carriers are still operating today." ¹.

This gives the impression that the Board has granted only a moderate amount of protection to the Railway and that there still remains a large measure of competition in the transportation industry. Comment has been made above on the figures but it will emphasise the practical monopoly acquired by the S.A.R. Administration. if the methods of suppressing road motor competition are stated again.

Even in those cases where certificates have been issued, this does not mean that operators were allowed to continue their businesses as they had done previous to the institution of the Transportation Board. In the majority of instances their services were diverted and co-ordinated with the Administration's services; in some instances opera-

tors/..

1. p. 12.

tors have been restricted to only a portion of their former route; the frequency of the service has been curtailed (an example has been given above where 'buses were prohibited from operating at the same time as the fast trains) and minimum charges fixed. The control of motor-vehicles operated by merchants in the conveyance of their own goods was, as the Board itself admitted, 'a far-reaching departure from the existing provisions of the original Act'.

If the increase in the number of exemptions issued over the period of three years is indicative of a growing preference by merchants for road transport, then it is reasonable to expect that far from a 'sharp diminution' there would have been a sharp increase in the number of annual certificates issued. It is certain that during the recent revival in trade, if there had been no controlling authority there would indeed have been great activity in the motor carrier transportation industry and the fact that the number of certificates issued to operators has remained fairly stable is in itself strong evidence of the elimination of competition.

At the present time the Administration has still to contend with the competition of the seven-seater taxis and of animal-drawn transport. The Administration, with the concurrence of the Transportation Board, is pressing strongly for wider powers of control over both these forms of competitive transport.

CHAPTER III.

RAILWAY MANAGEMENT & RAILWAY RATES IN SOUTH AFRICA.

In South Africa with its long distances, sparse population and bad roads it is obvious that the competition of road motor transport could not have seriously affected the Railways and that any effect it might have had was due to a rates structure, which bore little relation even to the accepted principles of public utility charging. There is abundant evidence that the fundamental reason for introducing the restrictive legislation was, in fact, to protect the rating policy of the S.A.R.

The Departmental Railway Tariffs Inquiry Committee, 1930, wrote:

"We thus arrive at the conclusion that, if road motor competition is allowed free rein, it can decide the main feature of the rates policy of the S.A.R. and, what is much worse, can force the Administration to carry out a rates policy which is directly contrary to the general interests of South Africa, and also contrary to the injunctions of Section 127 of the S.A. Act. We attach great importance to this point and would direct special attention to it as it appears to constitute a very strong argument in favour of the proposed legislation." ¹.

In introducing the bill to provide for the control of road motor transport, the Minister of Railways advanced three reasons for the desirability of control, one of which was:- "Our whole rate system is built upon a basis that highly-paying traffic must pay a high rate and low-paying traffic, like agricultural produce and base metals, should

pay/..

¹. p. 16 para. 81.

pay a low rate." 1. i.e. the reason was to protect a particular rates structure.

It thus becomes necessary to examine the management and rating policy of the S.A.R. at that period (about 1928-1930). In an article entitled "Railway Rates and Road Competition in South Africa", the author bluntly stated, "Moreover, Parliamentary control has distorted rate policy and reduced operating efficiency to such an extent that the railways lack the capacity of privately run enterprise to meet the competition that has arisen. The traffic has changed in nature and direction, and the changes in the degree of discrimination in rates between different classes of goods and different lengths of journey have not met the new conditions. Competition has increased, and at the same time the railway's capacity to withstand it has been reduced by political policies which have contributed nothing to efficiency of operation." 2.

When one wishes to investigate railway management in this country, one turns naturally to Professor Frankel's book, 'The Railway Policy of South Africa since Union'. The following information is taken mainly from this work. 3.

When the provisions relating to the S.A.R. in the South Africa Act were drawn up, it seems fairly certain that the framers of the Act intended to devise a form of managerial control, similar to that which had so successfully operated in the case of the Central South African Railways, which would avoid the possibility of political interference in what was to be essentially a business undertaking.

From the outset, however, the Railways and Harbours Board, which was to exercise 'subject to the authority of
the/..

1. Hon. C. W. Malan col. 3671 House of Assembly Debates, 1930.
2. Round Table No. 77, 1929, p. 185.
3. It must be noted that I am not here concerned if conditions have changed for the better or worse at the present day; I am concerned with conditions relevant to that period 1928 - 1930.

the Governor-General-in-Council, the control and management of the railways, ports and harbours of the Union', was regarded as a purely advisory body to the Minister of Railways. All real power was withdrawn from the Board and this apparently wilful misinterpretation of the South Africa Act was given legal effect in the Amendment Act of 1916. This Act stated that 'the working and management of the Railways and Harbours shall, subject to the control of the Minister, be carried out by the General Manager, who shall be governed by such regulations as the Minister may from time to time frame after consultation with the Board.' Thus the railways, from the very beginning, were subject to that political interference and pressure, which has always been the strongest argument against state intervention.

Section 127 of the S.A. Act laid down that, "The railways, ports and harbours of the Union shall be administered on business principles due regard being had to agricultural and industrial development within the Union....". The whole tone of the relevant clauses is such as to leave little doubt that the emphasis was placed on 'business principles'. Note, for instance, the safeguards provided against the building of branch lines so as to win political favour. The Board was charged with the investigation of every proposal for the construction of any new line and if Parliament should over-rule the negative decision of the Board, then the annual loss on the line as estimated by the Board was to be met from the Consolidated Revenue Fund. By Section 131 of the Act, if the Board is required by Parliament 'to provide any services or facilities either gratuitously or at a rate of charge which is insufficient to meet the costs involved in the provision of such services the loss incurred shall be paid out of the Consolidated Revenue Fund to the Railways and Harbours Fund'.

This Act also prescribed the general lines of the rating policy/..

policy to be pursued - 'So far as may be the total earnings shall not be more than are sufficient to meet the necessary outlays for working, maintenance, betterment, depreciation and the payment of interest due on capital, not being capital contributed out of railway and harbour revenue'.

How far have successive Union Governments fulfilled the spirit, if they have the letter, of these provisions?

The figure of £86,352,960 adopted as the amount of capital, on which interest was to be paid to the general revenue, was purely an arbitrary one and represents - according to the late Prof. Lehfeldt - an overstatement of approximately £13 millions. This means that an excess payment of nearly £450,000 p.a. has been made to general revenue. (Changes in the purchasing power of money are apparently neglected.)

Owing to the fact that no definite scale of depreciation was decided upon, the Renewals Fund has been used for purposes other than for those for which it was constituted. During the years 1912 - 1927, the total gross expenditure on new rolling stock met by a charge against the Renewals Fund amounted to £14,507,343 as compared with £1,670,227 value of rolling stock actually withdrawn from service. "Under this system the railways continued to pay depreciation on rolling stock that had already paid for itself." ¹. The unnecessarily high and illegitimate contributions made to this fund have placed a burden on the present users of the railways conservatively estimated by Frankel at between half and three-quarters of a million pounds per annum.

The use of monies from the Renewals Fund appears to have been chiefly due to the difficulties of the General Manager in obtaining even the most essential capital funds for new rolling stocks. The failure to provide for such

vital/..

1. The Railway Policy of South Africa, Ch.II, p.92 para. 58.

vital capital expenditure maintained operating costs at a relatively high level and thereby curtailed the development of traffic.

Prof. Frankel writes, "The Union Government has aggravated the curtailment of necessary capital expenditure by influencing in an inexcusable degree the direction in which the capital expenditure for railway purposes were to be spent".¹ This is the notorious problem of political intervention in the construction of branch lines.

After an exhaustive examination of the working results of such branch lines, Frankel concluded: "One is forced to the conclusion that either the methods of estimation used by the Board are grossly and inexcusably inefficient, or that the estimates are deliberately so framed as to make it possible for the Board to sanction the building of lines at the expense of the Railways, the construction of which it would otherwise have to oppose strongly in accordance with the provisions of the S.A. Act, and which could then only be constructed at the expense of the Consolidated Revenue Fund."² Railways have, in fact, been built in areas suffering from periodic drought and with declining populations.

"In 1926 out of 70 branch lines, only 10 showed a net profit, 32 paid working expenses but were unable to meet full interest payments, while 28 showed earnings which were not even able to cover working expenses. The total losses on these lines, after the payment of interest, amounted to £226,596."³ An excellent illustration is the Touws River-Ladismith line - it was opened in November, 1925, a line of 88 miles; the Board's estimate of revenue for the first/..

1. Synopsis of Conclusions, p.14 Conclusion No. 31.

2. p.15, Conclusion No. 36.

3. Ch. II, p. 120, para. 83.

first year of working was £25,088 while the actual revenue in 1926 was £6,056; The Board's estimated surplus of revenue over gross working expenditure (including interest charges) for the first year of working was £8,984 while the actual short-fall of revenue was £7,095. 1.

It must not be overlooked that apart from the direct loss on branch line construction, there was the even more serious indirect loss from the curtailment of necessary capital expenditure in other directions.

The so-called civilised labour policy placed a burden on the railways of at least £300,000 p.a. and probably very much more. This extra labour cost should have been borne by the general revenue. Other examples of gratuitous services for which the cost should have, but had not, been paid over to the Railways and Harbours Fund are the conveyance of drought-stricken animals (£150,000 p.a.), free passes to members of Parliament and the granting of annual half-price concession fares to over 26,000 civil servants and their families. Without questioning the merits of these services, legally the cost should not have been a charge on the railway users.

Prof. Frankel has estimated the total direct burden at £2,200,000 p.a. This burden does not, of course, fall on all the traffic but only on the high-rated traffic and relief from these burdens would have enabled a reduction to have been made of 22% on the tariffs of goods classed in the high-rate schedules. It is hardly necessary to point out that this in turn would lead to an extension of demand making possible further decreases in the rates.

The General Manager himself admitted that improvements in the transit and handling of goods traffic had recaptured some of the traffic lost to the road. If at the same time a reduction of over 20% had been effected on the higher-rated traffic through the strict enforcement of the law, the Railway Administration/..

Administration would most likely have been able to meet the competition of road motor transport without the need of legislative aid. According to the General Manager in his report for 1933, the average cost of road transport for long-distance traffic is at least four times as high as railway transport and this brings out clearly that road transport is not more economical than rail transport. He stated that the real fact at issue was that the effects of road competition would be that 'the railway tariff policy of the country would be disrupted with disastrous effects on the farming, manufacturing and mining industries of the country'.¹

But if the rates had been reduced by 20% on the traffic for which there was competition, through the administration of the railways on strictly 'business principles', competition of the road motor would hardly have been disruptive of the established rating system. This factor will be taken up again below.

The real value of a road motor carrier industry developing in competition with an already existing railway system is that it goes far to solve the very difficult problem of railway rating. Any text-book tells us that the method of charging in railway transportation is necessarily a differential one, or in other words that the railways are a striking example of a discriminating monopolistic enterprise. The function of State ownership of the railways is to prevent the abuse of monopolistic power that would be available to a private company. On almost every railway system in the world the State has found it necessary to impose some limitation on private operation in order to safeguard the railway users from monopolistic exploitation. In South Africa, on the other hand, the effect of State intervention has been to make the railway tariff an instrument not only of 'simple' differential charging but for giving a concealed subsidy to one particular industry/..

1. p. 28.

industry.

Prof. Frankel puts the facts squarely,

"Certain classes of traffic are charged as much as the railways can possibly extort, regardless of whether the resulting rates restrict traffic which would be offering were the rate reasonable; at times the Railway Administration appears actually to aim at restricting various kinds of traffic; other large traffic are charged at rates disproportionately below that which, in accordance with their nature and value, and the cost involved in transporting them, they should be required to bear.

"While the Administration apparently aims at stimulating South African exports, and grants a bounty on agricultural exports, its policy with regard to the greatest export industry of the country - the gold mining industry - is the opposite; and the Administration has for years seen fit to restrict the activities of this vital industry by glaring discrimination in the rates on the stores consumed by it." ¹.

It is easy then to understand, in view of the above, that the State did not look with favour on the motor lorry as the solution of the problem of monopoly charging on its railways.

Brief history of railway rates in South Africa:-

Prior to Union the coastal colonies of Cape Province and Natal did their best to exploit the position of the inland territories to the utmost. A further factor in the system of charging at that period was that trucks going up fully loaded to the Free State and the Transvaal, returned practically empty to the coast. Thus the goods to the gold and diamond mines had to bear a rate which would cover the costs of working involved in both directions. Natal and the Cape Province used their railways in conjunction with customs duties/..

¹. p. 36 Conclusion No. 105.

duties to fill their treasuries. It has been stated above that by the South Africa Act the railways were not intended to make a profit, but many of the features of pre-Union rating policy still remain. For instance, even today an attempt is made to arrange for an 'equitable' division of the traffic between the various S.A. ports and Delagoa Bay.

"If one sought the key-note of railway rate policy in the four territories which now comprise the Union, it would probably be found in the idea of fixing rates for development purposes rather than with the object of performing the greatest possible immediate service to the community." ^{1.}

The system of preferential rates on S.A. produce and manufactures originated in pre-Union days when these rates were used to capture the Transvaal market. The system was condemned as far back as 1898 by a Cape Select Committee and by the Inter-Colonial Railway Conference at Pietermaritzburg in 1906. In 1911 at Union, the General Manager of the S.A.R. said, "The principle of preferential rates for S.A. articles is one which should, in my opinion, be entirely abolished". The policy was however continued and even extended during the War and the slump of 1921.

A preferential rate was defined by the General Manager of the Natal Government Railways as follows:-

"Where there are two articles of the same description - one imported, the other locally produced - travelling in the same direction, and the local article is conveyed at a lower rate than the imported article, the rate on the local article is a 'preferential' one." ^{2.}

The Report of the Tariffs Inquiry Committee also condemned this system. "This principle has been condemned wholeheartedly by practically every authority for the past 20 years and we are not aware of any serious defence of preferential rates ever having been advanced." ^{2.}

The/..

1. Round Table No. 77 of 1929 "Railway Rates & Road Competition" p.187.

2. quoted from the Dept. Rly. Tariffs Inquiry Committee p. 27

The Report objected to the system on the grounds (a) that there is a danger of fraudulent declaration and (b) the inequality and ineffectiveness of such protection to local products. It cannot, the Report says, be effective for the inland S.A. product exported to the coastal towns and thus favours the coastal manufacturer at the expense of the inland manufacturer. The fundamental objection to preferential rates is, however, firstly that, even under the 'value of service principle' of railway charging, the value of service performed must be exactly similar for the transportation of exactly similar articles; and secondly, that any protection deemed necessary should be applied through protective duties and not through railway rates. It involves high prices for overseas products to the consumer and the other traffic has to bear the higher rates consequent on this concealed subsidy to the S.A. article.

The Admin. has abolished preferential rates on 170 articles since 1910 but there are still at present 70 articles, including sugar, grain, tea and tobacco, to which such rates apply.

The first assimilated tariff-rate schedule of 1911 had 15 classes and the monopolistic power of the railways was used to put into practice an extensive system of subsidy and bounty, the so-called development policy. Very big reductions were made on agricultural productions and requirements, certain industrial materials and export traffic. By 1916 the aggregate reductions since Union were estimated at £1,500,000 p.a.

"Distribution rates" were introduced by the Central S.A.R. into the two inland colonies in 1909. Goods forwarded from inland centres were charged at a rate equal only to the difference between the rates from the port to the forwarding and the destination stations. This gave the short-haul inland traffic the full benefit of the 'taper' in long-distance rates. This system was applied throughout the Union in order to develop trade and industry at inland

centres/..

centres.

"The 1911 classification and subsequent amendments deliberately extended the application of rates per mile, diminishing, as the length of the haul increased, much more steeply than could be justified by the reduction in the cost of carriage." 1.

In 1920 a completely revised rates classification reduced to nine (now ten) classes and arranged scales of rates and fares in zones. With the fall in prices after 1920, reductions in rates were confined to the low-rated agricultural and mineral traffic, and were spread over the longer distance rates.

"The general effect of the War increases and the post-War reductions was to widen still further the discrimination between high-rated goods and agricultural and certain mineral traffic, and to subsidise still more highly the long-distance traffic at the expense of the short-haul and high-rated consignments." 2. The two outstanding features of the rates structure today are still this wide disparity and excessive tapering.

The Tariffs Inquiry Committee found that the distribution rates were necessary because port rates 'taper' as distance increases and without such distribution rates the tendency would be for the distributing business now carried on by merchants in the interior towns to be diverted to the coastal towns. (One finds this attempt to counter-balance one subsidy by the grant of another again and again in the Admin.'s rate policy.) Such rates apply to traffic classified at Tariffs 1, 2, 3 and 4 and are so calculated 'as to secure, as far as possible, equality of opportunity between coastal and inland merchants in direct route from the nearest port to final destination.' 3. This/..

1. Round Table No. 77 pp. 188, 189

2. Round Table p. 190.

3. Dept. Tariffs Inquiry Committee p. 24. Such a system directly conflicts with the Law of Market Areas.

This discrimination to overcome the disadvantages of geographical situation, like the system of preferential rates, could only be maintained so long as the Administration exercised a complete monopoly. Such discrimination is also, of course, at the expense of the consumer.

The Committee differentiated a type of tariff, which is in fact a preferential tariff. Special rates are levied on certain S.A. manufactures and productions to enable the S.A. manufacturers to compete with the imported article at points where the distance from the nearest port is less than from the S.A. factory.

The principle is that if the distance from the S.A. factory to the destination is less than the distance from the nearest port, the S.A. product pays the ordinary tariff rates. If the distance is greater, then the rate applicable to the imported article from the nearest port applies as a maximum on the S.A. article. In certain cases minimum rates are prescribed, otherwise for port towns the railage on S.A. products would be nil.

The Committee did not regard this as a preferential rate and thus not open to the same objections. It did, however, point out certain undesirable features in the application of these rates, as for instance the fact that it is applied as between one S.A. factory and another. Furthermore, it was of the opinion that when it is established that competition by the imported article with the S.A. product is no longer serious, the rate should be withdrawn.

In view of these two objections, which the Committee itself made, it seems astonishing that it could arrive at the conclusion that this special rate was distinct from a preferential rate. The fact that discrimination is exercised as between one factory and another and that it is used to equalise the competitive price of the imported

article/..

article, reveals clearly the protective or preferential basis of the rate. This special rate affords protection to the inland manufacturer and the preferential rate to the coastal manufacturer; and both represent an abuse of the railway tariff as a method for granting a protective duty, which, whatever may be the merits or demerits of protection, should be applied openly through the Board of Trade and Industry.

Another system of special rates to and from factories applies to certain raw materials for manufacturing purposes. These rates are intended to aid the industrial and agricultural development of inland towns. The Committee stated that in general it agreed with commercial interests in opposing discrimination in rates on certain articles according to the purpose for which such articles were to be used. The differential rates on coal according to the purpose to which it is to be put is indeed one of the worst features of the S.A.R. tariff policy. The Committee itself admitted that especially favourable rates are accorded to articles if they are to be used for agricultural purposes, particularly in irrigation.

Reference has already been made to the characteristic development rates. Such a rate is a specially low rate created to build up the traffic of the particular article to which it is accorded. Such development rates have been applied extensively to agricultural products - a very good example is the export rate on maize.

In 1907 a flat rate of 10/- per 2,000 lb. of maize was introduced with the intention of developing an export trade in maize and providing traffic for a large number of empty trucks returning to the coast. At that period the import traffic was much greater than the export traffic. The result has been an enormous increase in the production of maize and today the railways are hauling empty trucks from the coast. In July, 1924, the rate for maize in bags was increased to 15/- per ton, but the rate for maize in bulk

remained/..

remained at 10/- a ton. The view of the Tariffs Inquiry Committee was,

"It is, in our view, of particularly vital importance that nothing should be done to discourage the development of this important trade. The maize farmer in S.A. is subject to special vicissitudes in the matter of drought and pests. He cannot rely on securing good crops oftener than once in several years." 1.

The Committee did, however, advocate some increase in the rate once the position of the maize farmer and market prices had improved. It is obvious that this rate is completely unjustified. In so far as the 10/- per ton covered the additional costs involved in the handling of the maize, this rate was an economic one so long as the maize merely filled otherwise empty trucks returning to the coast. It is simply an instance where the principle of joint costs applies in railway rating. Once, however, empty trucks had to be drawn from the coast, the rate became completely uneconomic as the 10/- per ton would not nearly cover the total cost of transportation in both directions i.e. both prime and supplementary costs. Moreover the increase in this traffic has been so great that the Admin. has been forced to maintain a much larger supply of rolling stock in order to avoid bringing other business, such as coal, to a standstill during the peak export period.

In regard to the rate on export fruit, the Committee stated, 'with rare exceptions, the most unluccrative tariff in the S.A.R. is the rate on export fruit'. 2. It involved the provision of special trucks and expeditions transport.

The/..

1. p.43 - In view of all his difficulties, surely it would be far more kindness to help the maize farmer to find other occupations.

2. p. 44 para. 303.

The Committee recommended that the railway rate for this traffic from Northern and Eastern Transvaal to Capetown should be raised by 10/- to 27/6 per 2,000 lb., with relative increases for distances below or above 1,100 miles.

Prof. Pigou pointed out in regard to development rates, "It is not a social gain if a railway company, by temporary low prices, 'develops the traffic' from one district at the expense of destroying the traffic from another equally well-situated district", i.e. the temporary low prices must lead to the development of a new demand and not merely a substitute for some other demand which is at the same time destroyed.¹

The argument for development rates is precisely the same argument used for the protection of infant industry, and like these infants they rarely grow up. The real test of a development rate is whether, once the traffic has been built up, the specially low rate can be raised to the normal level without destroying the traffic. It is safe to say that in no case here in S.A. could the rate be so increased.

From the above it seems that every particular type or system of rate in the tariff policy of the S.A.R. has many defects. But a more important criticism can be made in general of the whole rating system. The fundamental fault has been to use the tariff as a means of directing the productive resources of the country into particular spheres and this has resulted in the diversion of limited labour and capital from the more productive to the less productive occupations. It is protection through the railway tariff instead of through the customs duty and all the well-known arguments against protection apply with equal/..

1. Pigou: "Economics of Welfare" Part II, Ch.XVI p.271 (4th ed.)

equal force. What is more, the aims pursued by the Government through the Railway Admin. are in large measure incompatible. It has already been pointed out that the tariff policy seems to be a system of counter-balancing advantages and disadvantages.

It appears at times that it has been the deliberate aim of the Admin. to raise the costs of stores required by the gold-mining industry. Frankel has shown that 65% of the ordinary industrial requirements of the gold-mining industry in 1926 were charged at the three highest rates of the Railway Tariff and 37.8% at the two higher rates. Many of these articles were of relatively low value, and on the other hand many articles of relatively high value of S.A. manufacture or origin, of S.A. products for export and of agricultural produce were (and are) classed in the lower rate groups.

The great increase in low-rated traffic, that has followed on the introduction of the development rates, has, in fact, added considerably to the costs of working. It has involved the provision of special handling facilities, expensive and specialised rolling stock and heavier track. Even the Committee made the rather grudging admission, "We feel, however, that at this stage of its development, the Railway Administration has now gone to the limit in the matter of granting low rates on low grade traffic and that the time has arrived, when, if the financial position of the Administration makes it possible to make further reductions in railway tariffs, relief should be granted in the higher class rates." 1.

This survey shows just how vulnerable the financial position of the S.A.R. was in 1929 both to trade depression and to the competition of road motor transport. This system
of/..

1. p. 46.

of intricate differential charging could rest only on a basis of complete monopoly, and once this basis was threatened, the instability of the financial condition was clearly revealed. The anxiety of the Administration to secure protection from competition of animal-drawn transport is evidence that even today the margin of profitable traffic at the highest rates is so small, as to make its position somewhat precarious.

The elimination of competition and the prosperity of the Union in recent years have made possible the resounding Railway Budgets of Mr. Pirow, but when this wave of prosperity emanating from the gold mines subsides, the warning of Prof. Frankel, made in 1925, will become effective again:-

"The present rates policy not only raises the cost of transport of the large traffic now being discriminated against, but leads to a cumulative increase in the rates on all traffic, and will result ultimately in the railways becoming a burden on the taxpayers of the Union. In the meantime the development of the interior provinces is restricted." 1.

1. "Railway Policy of South Africa since Union", p. 40
Conclusion No. 114.

CHAPTER IV.

THEORY OF RAILWAY RATES.

In the previous chapter the various types of rates charged by the Administration have been shown to be defective; in this chapter the theory on which the Administration has based these tariffs will be considered.^{1.} The principles of railway rating were discussed in the first part of the Report of the Departmental Railway Tariffs Inquiry Committee. The argument follows the usual lines of the 'value of service' principle as enunciated by Acworth and Stephenson in "Elements of Railway Economics."

"Railway tariffs on every railway of any importance are dominated by three fundamental facts, viz:-

- (a) That certain classes of traffic can only afford to pay railway rates much lower than the average cost per ton mile of conveyance by rail.
- (b) That some classes of traffic can afford to pay railway rates considerably higher than the average cost per ton mile of conveyance by rail.
- (c) For reasons which will be mentioned later, it is profitable business for a railway to convey additional traffic at rates considerably below the average total cost per ton mile, rather than lose such traffic by demanding higher rates than the traffic can afford to pay." 2.

The/..

1. In this chapter I shall ignore the fact that the system of differential charging has been complicated by political interference.
2. Dept. Rly. Tariffs Inquiry Committee, 1930 (U.G. 56 -'29) p. 3 para. 7.

The first two factors mentioned by the Committee merely state the obvious truth that when an enterprise has obtained the monopoly of the supply of any particular service, that enterprise can obtain larger monopoly profits by charging differential prices than by levying a single monopoly price. The power to discriminate in the rates charged on different articles produces a demand for transport that would otherwise not appear. Certain facts in the provision of transportation by a railway enable discrimination to be practised successfully. The units of service are entirely non-transferable, i.e. 'a railway's offer to charge one price for a ton mile of transport service to copper merchants and a lower price to coal merchants cannot lead to any middle-man device, because it is physically impossible to convert copper into coal for the purpose of transport and afterwards to reconvert it'.¹

Secondly, units of demand are not easily transferred from one market to another, when the commodity concerned is something ready for final consumption, and when markets, between which the discrimination is to be practised, are distinguished according to the wealth of the purchasers (or value of the commodity). Provision of cheaper transport to coal merchants does not lead copper merchants to become coal merchants though it may lead merchants to move over into a favoured locality.¹

The very wide differentiation in rates on commodities of high and of low value is possible because as the Dept. Committee itself put it, "low grade traffic is extremely sensitive or responsive to increases or decreases in railway tariffs, whereas high-grade traffic, such as clothing, boots and druggists' sundries, is not appreciably affected by railway rates."² i.e. demand for transport by traffic
of/..

1. "Economics of Welfare", Part II, Ch.17, pp. 276-277.

2. p.3 para. 9.

of low value is highly elastic, the demand for transport by traffic of high value is inelastic.

This generalisation of Pigou, that discriminating monopoly yields a greater profit to the monopolist than simple monopoly, is the real reason for the validity of the third fact, (c), given by the Committee. ^{1.}

The Committee, however, advances the argument of the operation of 'joint supply' in the service of transportation. It stated:- "The explanation lies in the fact that the out-of-pocket expense which a railway incurs in carrying additional traffic is very much less than the total average cost of conveyance per ton mile including interest and all fixed overhead charges; (because) an extremely large proportion of the total costs of a railway are 'fixed' and does not vary to any appreciable extent with ordinary fluctuations in the volume of traffic handled over the railway." ^{2.}

If, in fact, transport services are jointly supplied, then the differential rates of the Administration might well be determined by simple competition rather than discriminating monopoly of the third degree. Equilibrium theory explains that, if two or more commodities are jointly supplied, i.e. one of them cannot be produced without facilitating the production of the other, the prices evolved by simple competition are so adjusted to demand that the whole output of the commodities is carried off the market.

Taussig, amongst many other writers on railway economics, considered that joint supply did play a dominant part

in/..

1. "..... it is profitable business for a railway to convey additional traffic at rates considerably below the average total cost per ton mile"
2. p.3 para. 9. This is the argument of 'joint supply' or 'joint products', though it is not clear whether the Committee intended it to be.

in the determination of railway rates. Pigou makes a very careful examination of this claim and concludes that it is not justified and that Taussig's argument rests on a misinterpretation of the nature of 'joint supply'.

According to Taussig, whenever a very large fixed plant is used for varied purposes, the influence of joint costs (or joint supply) exerts itself. He states that the capital sunk in a railway "seems equally to aid in carrying on every item of traffic Not only the fixed capital of a railway, but a very large, in fact the largest part, of the operating expenses, represents outlay, not separate for each item of traffic, but common to the whole of it or greater groups of it." ¹. Joint supply, in Taussig's view, operates where a large mass of supplementary costs exist together with the fact that the plant is used for varied purposes. While he admits that joint supply cannot appear where the plant is used to produce a single, homogeneous commodity, he believes that in regard to the conditions of demand the transport of tons of different things and the transport of the same thing for different purposes from one place to another are different, non-homogeneous services.

Pigou does not agree with Taussig in this interpretation. "The conjunction of large, common supplementary costs with separation between the markets to which their yield is supplied does not make railway services joint products in this - the only significant - sense (i.e. in such wise that simple competition might be expected to evolve a system of divergent prices). In order to be joint products each additional unit of investment, apart
from/..

¹. Quoted by Pigou 'Economics of Welfare', Part II, Ch. XVIII, p. 297.

from alternate use to facilitate the supply to either market, cannot be used to facilitate the supply to one market without facilitating the supply to the other.

If merely used alternatively to facilitate the supply to either market, with a number of competing sellers supplying transportation to several markets with different demand schedules - if the price in one of these markets is higher than in another, each individual seller will transfer his offer of service from the lower-priced market to the higher-priced market, and the process will tend to uniformity of price in all the markets. This result, under simple competition, holds good whether supplementary are large relatively to prime costs or not." 1.

It seems clear, then, that in relation to competitive conditions the service of transporting goods or persons must be considered as a single service. An exception must however be made in the case of return loads. Return loads are supplied jointly with 'destination' loads, since any additional expenditure that is incurred in the movement of trucks must facilitate the supply of trucks in both directions, i.e. must necessarily increase the number of movements of trucks from A to B and from B to A. This is, as Pigou points out, true jointness and, under competition, the direction for which the demand for transport is higher would be charged at the higher rate than the return direction for which demand is lower. An instance has been given above of the maize traffic in its early stages.

The conclusion of Pigou is that, "This element of jointness is, however, of comparatively small importance.

Contrary/..

1. p. 298. This seems in fact to be the case with the road motor carriers, who offered their services in the higher-priced markets.

Contrary to the general opinion of writers on railway economics, the services supplied by railway companies are, in the main, not jointly supplied. Hence the conclusion emerges that, subject to the reservations set out in paragraph 2 (given below), simple competition would, in general, evolve a system of equal ton-mileage rates for all commodities, whatever their character, and whether they are to be consumed at B or to be sent from B for some further part of a 'long haul' " 1.

The theory of railway rating of the S.A.R. is, then, one of discriminating monopoly. The principle by which railway tariffs would be fixed under competition is known as the 'cost of service' principle and is treated in detail by Pigou.

Except in so far as transport services sold to one set of purchasers are 'supplied jointly' with those sold to another set, simple competition would tend to bring about a system of uniform rates per ton-mile for similar services. For these services the level of the uniform rate would be such that the demand price and the supply price would coincide i.e. in the long run it would approximate to the cost of production of the service. This rate would be established purely for the service of transportation, extra services such as packing, carriage, special handling, etc. would be charged for additionally.

Pigou states that the circumstances and position of the railway would in part determine the actual level of this uniform mileage rate. For instance a high (relatively) rate would be appropriate for a line through mountainous country and where the traffic is irregular - the supply prices of all quantities of transportation would be specially high. Similarly where the demand schedule is specially low (and conditions of decreasing supply price prevail)/..

prevail), as in sparsely populated regions, a high rate is appropriate. ^{1.}

Under simple competition there would be departures from this uniform mileage rate in so far as buyers of a ton-mile of transport require other incidental services involving cost. Generally it is more costly to carry small consignments rather than large as small consignments involve such expenses as separate collection and delivery, separate handling, accounting at terminals and 'bad' loading. Such elements in the cost of handling as bulk, fragility, perishability, explosiveness; speed and regularity of service required; provision of special equipment are conditions which would also properly lead to variations in the uniform rate.

The principle of 'tapering' may possibly be justified by the fact that a journey which is part of a longer journey is less costly than the same journey as an isolated whole. This, states Acworth, is because long journeys get more mileage out of engines, wagons, train-staff, etc. than a number of short hauls with waits between; engines and wagons are better loaded and the line is more continuously utilised; expenses at terminals are reduced.

Pigou further notes the exception from a uniform rate of a similar service supplied at different times. He illustrates from the supply of electricity how the equipment cost is twice as much per unit to allow for 'peak' periods than it would be if a normal service was supplied. ^{2.}
In order to carry peak loads at different times of the day
or/..

1. This would seem to be the condition in South Africa where the population is scattered over a very large area and many regions are very thinly populated.

2. p. 294.

or in different seasons of the year, a railway company has to maintain a number of additional engines, carriages, extra staff, etc. ^{1.} Though this would seem to infer that higher fares are warranted for busy hours or busy seasons, in fact workmen's tickets and excursion fares are supplied below the normal price. Strap-hanging is not so comfortable, however, as the corner-seat i.e. the quality of the service is lower.

Lastly, the 'cost of service' principle leads logically in certain circumstances to lower charges to people whose purchases of transport are continuous than to those who buy intermittently. The former cannot and the latter may contribute to the 'peakness' of the load. In the case where special equipment has to be provided to supply the service, such differentiation is justified. This is because with regular use of the equipment, the charge per unit of service will be less than with infrequent use.

Some writers on railway rates, such as Prof. Hallsworth, while agreeing with Pigou that the ideal system of tariff fixing would be that of the uniform rate per ton mile of transport as determined by competition, point out that there would be great practical difficulties in actually arriving at this rate. Pigou himself is well aware of the 'delicate adjustments' that will be necessary because of the incidental costs attaching to each service, and such considerations as the time and load factors. "It is therefore always a question how near to the ideal it is desirable to approach; at what point the advantage of getting closer is outweighed by the complications, inconvenience and expense involved in doing so." ^{2.}

But/...

1. This would seem to justify a rate above the average rate for the maize traffic today (because of the need to maintain extra equipment).

2. Ch. XVIII; p. 315.

But the very importance of road motor transport is that it provides the competition in transportation which will enable the 'cost of service' principle to be realised almost automatically. The transportation industry must, it seems likely, always remain a sphere of 'imperfect' or 'monopolistic competition'. The value of the motor lorry and the omnibus is that they afford some protection to the buyer of transportation from monopolistic exploitation.

In the chapters following it will be shown that the allegations, so frequently made, that competition is wasteful and engenders surplus capacity, have no foundation at all. Here the argument for monopoly, that it enables the production of an output which would not take place under conditions of simple competition, will be taken up.

Pigou states that in general simple competition will yield a larger output than monopoly (or competition results in the most favourable distribution of resources in response to consumers' demands), but under a certain set of conditions the reverse holds good. These conditions are that while no uniform price can be established which will cover the expenses of producing any quantity of output, a system of discriminating prices can be evolved which will make some output practicable.

Suppose that it is desired to construct a railway from A to C, two large cities, passing through a country district in which is situated B. These cities, A and C, are however already connected by road or waterway and the costs of transportation by road or water are relatively low. To meet this competition the charge for goods from A to B, which are destined to be carried on to C, must be so low that if applied to all the traffic between A and B, including those goods to be consumed at B, the railway

would/..

would not be constructed. Further the demand for transportation for goods between A and B to be consumed at B is so small, that it cannot alone support the railway. That is if the railway is to be constructed, it is necessary that it obtains both the high rates for the small volume of local traffic between A and B and, also, the large amount of traffic between the cities A and C.

It can also be shown that, in practice, unless discrimination is permitted in the ton-mile rates charged on different commodities, no transport might be provided because there is no quantity of transport demanded for any particular commodity which would cover its expenses of production. Pigou's comment on these exceptional cases is: "I have no quarrel with the proposition that these conditions may occur in practice. Principal Hadley and his followers, however, not content with demonstrating that they are possible, implicitly add, without argument, that they are typical of the whole railway world and suppose themselves, therefore, to have proved that the value of service principle ought to be followed in the determination of all railway rates. Such an unargued inference is, plainly, illegitimate. A careful inquiry is necessary concerning the range over which conditions of a sort to justify the value of service principle are likely to extend in practice." ¹.

In practice, it is generally agreed that discriminating monopoly cannot be socially advantageous unless decreasing average costs operate. Now it is true that the condition of decreasing average cost is likely to be present in the case of railway construction, because of the large size of the minimum first unit of investment and the large size
of/..

¹. Ch. XVIII p. 309.

of subsequent units of investment. It is obvious that the initial costs of arranging for the rail transportation of a few tons of traffic are practically the same as for a few thousands of tons - the same heavy expenditure must be made for acquiring land, for surveying, for constructing bridges, tunnels and platforms, etc. This implies that the railway is a form of investment in which the law of decreasing supply price, or decreasing average costs, acts strongly.

A second condition for discriminating monopoly to yield some output, when simple competition would yield none, is that the demand for the service or product must be elastic. The demand must be elastic in the particular sense that at a certain stage in the demand schedule, a small reduction in the price would cause a sudden 'jump' in the demand schedule. In practice it has been shown that when railway rates are at a moderate level, a small reduction in the rates will cause this jump in the demand schedule to take place - a demand for transport arises in the case of commodities which would otherwise not have been transported at all.

The Departmental Railway Tariffs Inquiry Committee put it as follows: "The principle of charging rates lower than the average cost per ton mile has resulted in an enormous expansion of railway business. As the total traffic of a railway increases, the overhead fixed charges are spread over a greater number of units and this makes it possible to reduce the average level of the railway rates. The principle of differentiating in railway tariffs according to the ability of the various classes of traffic to bear different rates has not only had the effect of

reducing/..

reducing average transport costs, but has been of enormous benefit to the public in enlarging the areas of production, introducing intensive competition by producers from different areas, and consequently lowering prices to consumers?" 1.

It must be admitted that if the only means of transportation service which could be provided was a railway, then permission to base the rates on 'what the traffic will bear' may result in the provision of facilities, whereas the enforcement of a uniform price system would exclude certain demands for transportation and the demand would be insufficient for the railway to be provided. But where there is a substitute for the railway available, in the form of a less expensive plant, then this substitute will be the most economical method of providing for the smaller demand. The unit of operation in motor transport is a single one and the initial minimum unit of investment, and subsequent increments, is relatively very small. Thus the road service might be used to meet the demand for transportation, which would be insufficient to call forth the supply of rail transport unless discrimination in the tariff was allowed. 2.

This exception to the generalisation, that competition equates the 'marginal social net product' and the 'marginal private net product' of invested resources, is then of

small/..

1. p. 4

2. Pigou asserts that in addition to the factors of decreasing supply price and elastic demand schedule, a third condition must be fulfilled to ensure that discriminating monopoly would evolve an output, where simple competition would not. The demand schedule and the supply schedule must be related in a particular way. If the demand price is greater for a small quantity than the supply price, competition would evolve an output, but if demand price is very much less than supply price, neither competition nor discriminating monopoly would produce an output. The relation must, therefore, be an intermediate one.

small practical importance. The very fact that the motor lorry can move from one route to another and satisfy the irregular and small demands for transportation is one of the economic advantages of motor transport; though the Road Motor Competition Commission seemed to consider it 'unfair' that road operators should provide their services according to the availability of traffic and 'transfer their activities from area to area according to the fluctuating density of traffic.'¹

If the road motor service gradually develops the traffic until the demand for transport increases to that extent, which would make possible the economies of decreasing average costs of railway operation, then at this stage the railway may be economically substituted for the road service. Under this process of substitution, there would be no need to grant monopoly powers to the railways for the initial temporary period until the traffic had been developed by a discriminating tariff.

¹. p. 18.

CHAPTER V.

"WASTEFUL COMPETITION".

Perhaps the most frequently repeated argument used to justify the regulation and control of road motor transport is that the competition of the motor carrier with the railway involves waste. The Transport Group at the Congress of the International Chamber of Commerce held in Paris last year passed the following resolution:-

Co-ordination between road and rail is necessary in order to avoid excessive competition which, by reason of the waste incurred ultimately involves the public interest.^{1.}

The Road Motor Competition Commission stated, "Experience in other parts of the world tends to show that unregulated and uncontrolled competition results in an undue and uneconomic multiplication of services in certain areas and the neglect of others."^{2.}

This view that the forces of competition which operate, when new investment or an invention causes a fall in the value, or earning capacity, of previously invested capital, are in themselves wasteful is not confined to the sphere of transport only but is, in fact, a wide-spread belief today.^{3.} Competition, it is said, causes waste by forcing the adoption of new machines when producers would prefer to continue using/..

1. Quoted from "Modern Transport", Feb. 2, 1935.

2. Report of Commission, p.19.

3. The modern enthusiasm for Economic Planning is due to a revulsion of feeling against the levelling effects of competitive forces. Planning has been defined by Sir Basil Blackett as, 'a necessary corrective of the major wastes and frustrations arising from the unregulated impact of one economic activity upon another'.

using the old ones. It leads to over-investment, surplus capacity and the 'premature' abandonment of productive equipment, which suffers a fall in value before it has lost the physical power to produce goods and services.

"Some writers unaccustomed to mathematical analysis have imagined that, when improved methods of producing some commodities are introduced, the value of the marginal social net product of the resources invested in developing these methods is less than the value of the marginal private net product, because there is not included in the latter any allowance for the depreciation which improvement causes in the value of existing plant; and, as they hold, in order to arrive at the value of the social net product, such allowance ought to be included." ¹.

Pigou then proceeds to show why this view is incorrect. His argument, very briefly, is that the loss to the old producers through the reduction in the price of their products is at least equalled by the gain to the consumers, and the profits of the 'new' producers are a net social gain.

In so far as a valid case can be put forward for the protection of vested interests on humanitarian grounds, even this is inapplicable to the issue of road motor competition with the State-owned railways here in South Africa. Again and again the desirability of protecting the £143,000,000 of public monies invested in the S.A.R. was stressed; only Mr. Sturrock in the debate on the bill in the House of Assembly seemed to realise that the very fact of public ownership made protection unnecessary.

"It/..

¹. Pigou "Economics of Welfare", Part II, Ch. IX, p. 188.

"It may surprise the Minister to know that the view of some of us is that because this asset is State-owned, we can afford to look at the question of motor transport with complete impartiality. If the railways were privately owned, we might hesitate to do anything involving losses, but if any losses are incurred now these losses will be borne by the whole of the country, and surely we can face these losses without difficulty." 1. In other words since the railways are not the property of any section of the people, there is no case for the protection of capital values so as to avoid inflicting heavy losses on this particular section.

The investment of capital in the motor carrier industry would take place, with reasonable foresight on the part of the investor, only if it was possible to provide the same service of transportation, previously made available by the railways, 'at a smaller expenditure of current resources (i.e. at a smaller sacrifice of other possible users or to provide better services at an expenditure which is proportionately greater)'. 2. No unit of transportation formerly supplied by the railways will be supplied by road transport, except when the latter can produce this unit at a total cost smaller than the prime cost, which would have been involved in its production by the railways. This implies that every unit now supplied by road must be sold at a price, which is less by as much as the whole of the net receipts, after prime costs have been met, which the railways would have received from producing that unit. This proves that any loss to the railways is at least compensated for/..

1. House of Assembly 1930, Debates, column 3679.

2. Hayek, "Collectivist Economic Planning", p. 224.

for by the gain to the consumer, and that the profit of the road operator is a net gain. ¹.

Mr. G. J. Ponsonby, in an article on "An Aspect of Competition in Transport", in *Economica*, made a very able analysis of the cost structure of railways and of the real nature of the so-called 'wasteful competition'.

He commences by stating that the most significant characteristic of railway investment is the large proportion of it, which is incurred on assets, which have no value in other uses but at the same time do not lose technical efficiency with use and do not require renewing. The expenditure on land, cuttings, embankments and similar assets is specialised and non-transferable. He asserts that the earnings in respect of this type of asset are in the nature of a rent or surplus.

"The practical significance of this lies in the fact that both costs, output and prices, are, generally speaking, independent of whether this surplus is realised or not. So that even if the rate of interest on this form of investment were to fall to zero, there would be no danger to the public, either of losing the facilities already being offered, or of having rates raised against such traffic as continues to pass 'in order to cover the now greater burden of overhead costs per unit of traffic'. For these capital charges are not overhead costs at all, but a resultant surplus earned after having adjusted costs, output and prices to the company's best advantage." ². This/...

1. Pigou, Part II Ch. IX, "The Social and Private Net Product".
2. *Economica* Nov. 1935, p.451. Such immobile forms of investment must be distinguished from certain lands, such as stations in the middle of a city and other similar specialised assets of a railway which have in fact other uses and can be sold. The holding and use of such assets does constitute a cost, in the sense that the owners are denying themselves the annuity which is its value in the other uses. Where, however, the investment takes such a specialised form, that the equipment has no value in any other use, this cannot be regarded as a cost.

When this investment in long-lived equipment was made, the revenue earned in excess of the shorter-run costs was expected to meet the debt charges on this equipment for the forty years, after which it would be abandoned. As a result of new inventions, this equipment is no longer capable of earning a surplus after 20 years. The level of revenue now earned per unit of service reflects the new price - established as the result of technical innovation - and the long-lived equipment will not be abandoned so long as costs per unit of output (which is made up of all the shorter-run costs) remain below that price. It will no longer be used once the new means of transportation has enabled a price to be charged which does not cover these shorter-run costs. Short-lived equipment is assumed to have a life of ten years and this equipment will remain in use so long as the prime costs are covered. Thus though the revenues actually earned may justify the continued use of both long-lived and short-lived equipment, so long as they cover the prime costs, they do not justify the renewal of the equipment.

Mr. Ponsonby sums up: thus the abandonment of capital or assets prior to when it was expected to remain profitably in service at the time of the investment, takes place: in the case of absolutely specialised and durable equipment only if the revenue earned was unable to cover all other costs, short- and long- run, not including any return on the capital invested in that durable form; long-lived equipment when revenues fail to cover the shorter-run costs incurred; shorter-lived equipment when revenues fail to cover still shorter-run costs.

The magnitude of the fall in the revenues which can take place without the abandonment of capital depends 'on the relative importance of capitalisation incurred on behalf of each of various kinds of assets concerned'.¹ Where a large/..

¹. p. 455.

large part is in respect of absolutely specialised assets, the fall would have to be correspondingly large before abandonment. Where interest and depreciation on long-lived equipment is high relative to total expected level of earnings, then within the life of these assets the fall would have to be relatively large before this equipment would be abandoned.

Thus it seems that in South Africa, where the capital investment in immobile assets, which are absolutely specialised in their use, has been heavy and where the debt services on long-lived equipment is relatively high, the danger of a fall in the revenues of the Administration, as a result of road motor competition, which would necessitate the rational abandonment of equipment, seems small.

The effect of protection being extended to the railways is to check the fall in revenue and thereby enhance the value of durable, specialised assets as it enables a larger surplus to be earned over long- and short-run costs. Protection may maintain revenues so as to fulfil the original anticipations of interest and depreciation on equipment, long- and short-lived. Abandonment of equipment may be postponed and there is the danger that at the time of renewal, the 'protected' equipment may be replaced by similar equipment instead of by the new means made available by technical advance.

"Thus under protection capital and labour may be drawn into re-rendering services, for which there is a less urgent demand than for other new services".¹ There is then a waste of resources, but the waste is the result of protection and not of competition. The apparent

'wastes' / ..

1. p. 459.

'wastes' of competition were in fact incurred at the time when the investments were made in the railways. These wastes arise from 'over-investment' in the railways through the failure to estimate correctly the future demand for railway services. The competition of road motor transport was not foreseen. This failure to realise the future possibilities and efficiency of the motor carrier industry resulted in an over-estimation of the revenue-earning life of capital investments and in inadequate provision for the obsolescence of assets. Thus the 'alleged waste' does not take place at the time of the introduction of the improved facilities of motor transport but at the time when the now partially obsolete assets of the railways were originally acquired. The introduction of the new methods merely makes clear the previous waste, which arose from the incorrect anticipation of the future demand for the services of the railway.

"When new facilities (covering all their costs and incorporating the latest technical inventions) are provided which render older facilities incapable of meeting debt services to the extent that was expected of them, it is not the introduction of these new facilities that constitute the waste. Rather their introduction, by proving the essential unwisdom of the form and extent of previous investment and policy, discloses the fact that there has been waste, and no amount of protection can prevent that." ^{1.}

In South Africa where political intervention has played such a large part in directing investment, the waste that showed itself with the emergence of competition naturally seemed extensive. The legalised protection has maintained and expanded the revenues of the railways but it cannot obviate the waste of those misconceived operations carried out many years ago. The estimation of the future course
of/..

1. Modern Transport Feb. 2, 1935 - G.J. Ponsonby "Road Transport & the State" p. 3.

of demand for railway services was in error. As a result the development of motor transport, and this change in demand, in the absence of protection, would have diminished the present capital value of the railway. Since the railways are State-owned, no hardship from the fall in capital value results - no sectional interests of ownership are affected. The railways would have continued to render services at prices, which were previously unacceptable, until the revenues of the railways fell to that extent when abandonment of assets would have taken place as outlined above.

CHAPTER VI**"IN EXCESS OF PUBLIC NEEDS."**

Another often-heard argument for the restriction of road motor transport, is that in the absence of control, the facilities are provided 'in excess of public needs'; or, again, unrestricted competition leads to 'an unnecessary duplication of services'. This is merely another variant of the theme of wasteful competition, but perhaps deserves special mention in view of the widespread belief that the members of a regulatory board are more capable of arriving at the true needs of the consuming public than is the free interplay of economic forces.

If absolute freedom of entry was permitted into the motor carrier business, resources would be invested up to that point at which the return on the investment is ~~at least~~ equal to the return from alternative investments. Under a market economy, production is guided by the comparison of the market price of the final product and the prices to be paid for the required factors of production. The criterion of profitability is the best available test of whether the 'benefits' derived from a particular investment outweigh the 'sacrifices', or not. The price which consumers will be willing to pay for transport services is a reflection of the benefits to be derived and the terms on which people will provide the services are a measure of the sacrifices. If there is a favourable margin, i.e. if profits are made, resources of capital and labour will be attracted. The increase in output, or supply of transport services, may tend to a reduction in
the/..

the least cost to the community. In this way overlapping, redundant or unnecessary services would disappear, and each form of transport would convey just those passengers and goods for which it was best suited. Such a division of traffic between different modes of transport would be determined by the demand of those who required it and the facilities offered by those who provided it, while the incidence of cost to the community should be such as not to involve the subsidisation of any one form at the expense of the others." 1.

The comment made on this in the Final Report of the Royal Commission on Transport was:- "But as things are today, is such a state of affairs, or even any approach to it, practicable? Who is to decide what goods should in the national interest be sent by rail, road, canal or ship?"

Clearly no one person can make such a decision which would attain the 'ideal division of function', but a very large number of persons, constantly comparing prices and costs and constantly attempting to increase output and reduce costs, would 'automatically' approach to the ideal. The decisions of any board established for the purpose of deciding what constitutes 'the requirements of the public' must then be purely arbitrary; competition is the only non-arbitrary method of determining the needs of the public. No one would wish to deny that owing to the incorrect anticipation of the future course of demand for his services, an entrepreneur may invest capital which does not yield the expected return. In this way it is possible to conceive of over-investment in the industry and the provision of transport services in apparent excess of the public requirements. But if the selective force of bankruptcy is permitted to/..

1. "The Future of Rail Transport" in the Economic Journal, Dec. 1934 - article by H. H. Hallsworth, pp. 553-554.

Capetown-Sea Point route. ^{1.} In the halcyon days before the local transportation board appeared at Capetown to make up the minds of Sea Pointers by what means they really wished to travel to Capetown and how much they wanted to pay (i.e. before 1930), it was possible to obtain a 'bus or a tram at half-minute intervals and on certain 'buses the fare was as low as 2d. This state of affairs, the local board decided, was directly contrary to the true interests of the Sea Pointers. The board began by refusing certificates to about half the 'bus operators, in particular those who provided the service at the 'uneconomic fares' of 2d. and 3d. Finally a monopoly was acquired by the Capetown Tramways and Bus Company, who bought out the few remaining independent operators. Still zealous in the interests of the Sea Point public, the board proposed a minimum fare of 3d. on the 'buses which 'enabled' the public to use the trams instead and thereby permitted a number of 'buses to be withdrawn.

"The local board has found that on routes served by parallel services, i.e. 'buses and trams controlled by one operator, the imposition of a minimum 'bus fare is advantageous to the operator as well as to the public." ^{2.}

It is not difficult to agree that the grant of the most complete monopoly powers to the Company has been advantageous to it, but after listening to the comments of irate Sea Pointers, with Hobson's choice between waiting, sometimes 10 minutes, for a 'bus or travelling by a slow and very noisy tram, I feel that the advantage to the public is/..

1. I speak here from actual experience.

2. Report for year ended March, 1935 (U.G. 40,1935) p. 25.

is not quite so conspicuous.

The Road Motor Competition Commission asserted that, "the competition leads to the cutting of fares and rates for transport service and, while the public may temporarily gain by uneconomic rate-cutting - and this is a point made much of by the advocates of free competition - in the end if ^k must pay. It is almost the invariable experience after a rate war that the survivors so frame their tariffs as to recoup themselves for losses temporarily sustained." 1.

The Commission seems here to have been groping after the idea of 'agressive selling' or 'monopolistic dumping', i.e. a particular enterprise attempts to obtain an ultimate monopoly by charging prices below cost so as to eliminate competitors. 2. It is hardly likely that small motor carrier operators deliberately undercut railway rates and suffered losses with the intention of driving the S.A.R. out of the transportation business and then making large profits by charging monopoly prices. There was, in fact, some danger of 'uneconomic' fares and rates being fixed but not by the road operators. Instances can be found where the Administration deliberately undercut the prices charged by private operators with the intention of eliminating such operators and then restoring the old rates. Perhaps the donkey-wagon drivers, who undercut the Administration in the carriage of petrol, are, in fact, waging a rates war with the S.A.R.

In fact, of course, the prices charged by private operators have been sufficient to cover their costs.

1. p. 20.

2. This so-called "cut-throat competition" is really the expression of monopoly. The monopoly deliberately charges prices below cost where it experiences competition so as to eliminate this competition and recoups these losses from its monopoly gains, where it has no competition.

CHAPTER VII

SOME GENERAL CONSIDERATIONS.

It seems to be very easily assumed by those who favour the restriction of competition that, firstly, there is a definite amount of transportation service demanded by the public and that any traffic that the motor carrier obtains is at the direct expense of the railways, and secondly, that the sphere of operation of both forms of service is mutually inclusive.

The first is another variant of the work-fund fallacy. Any traffic that goes by the motor lorry and the omnibus is regarded as necessarily a diversion of traffic from the railways. In fact the road service has developed a certain amount of 'new' traffic. Many charabanc excursion tours cater for a class of passengers, who did not and could not make similar excursions by rail. Such tours are often conducted through routes where the railway has not yet penetrated. In regard to goods services, the traffic might be quite insufficient to permit of the profitable operation of a railway service but is still sufficient to give remunerative employment to a motor vehicle. In certain cases the road permits the carriage of goods through districts in which natural barriers have prevented the construction of railways. Road motor services have proved of particular usefulness in the transport of wool and dairy products.

In so far as the Road Motor Competition Commission admitted that the road motor might provide supplemental and developmental services, it claimed that such services

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had been provided by the Road Services of the Administration rather than by private enterprise. Private operators confined their activities to waiting until the traffic had been slowly built up by the railways, and then slipped in and captured this traffic by undercutting the railway rates. It is true that private carriers have not been conspicuous in the development of services, which were not already provided by the railways - though there are certain exceptional instances. But there is a very good reason why private enterprise did not engage in 'opening up the country'. It has been explained at some length above that the rates for certain classes of traffic were so exceptionally high that road operators could carry these goods at lower rates and obtain substantial profits. Resources were attracted at first to obtain the relatively high rate of return available in this particular form of enterprise, but once the rate of return had declined there, if developmental services offered opportunities of profitable investment, then there is little doubt that private enterprise would have engaged in the provision of these developmental services.

Rail transport is at the moment clearly unrivalled for long-distance transport. When the National Roads Plan has been carried through, the potential sphere of road transport would be greatly extended but it seems likely that for some considerable time, the conveyance of raw materials for industry and of heavy, bulky consignments will be undertaken by rail. In South Africa the motor lorry is definitely unsuited for the handling of heavy, long-distance goods traffic. Road speeds are in general considerably less than rail speeds for the longer distances. It is improbable, too, that any private firm in South Africa could/..

are willing to pay, where necessary, a higher fare than is charged by the railway for the comfort of frequent services and favourable location of stops.

There is no intention to lay down arbitrarily the respective spheres of road and rail transport. But as conditions are today in South Africa, if no restriction was placed on the operation of road motor services, it indicates the limits in which there would be effective competition and substitution of the one form of transport for the other. In England competition was severe because of the excellence of the roads and the railways and the prevalence of the short haul; in America the motor carrier industry has been stimulated by the low first cost of vehicles, by fairly low motor taxation and the higher speeds possible on its solidly constructed highways.

In South Africa the competition for the suburban passenger transport in the larger towns would, in the absence of control, certainly be severe. But the elimination of passenger road transportation is clearly a flagrant frustration of the public's preferences. If the Motor Carrier Transportation Act had been passed a couple of years earlier, there is no doubt that the Sea Point railway line would have still been in operation and residents would have been forced to use it by the suppression of competitive road transport. The great length of the 'long haul', the relative difficulty of obtaining return loads and the very bad conditions of South African roads would seem to preclude the development of competitive road transport on a large scale. In so far as there was competition for goods traffic over distances longer than about 30 miles, it developed solely because of the peculiar rate structure of the S.A.R.

The chief conclusion that emerges from the survey of transport conditions prior to 1929-1930 is, I believe, that the competition of road transport for goods services was only made possible by the relatively high tariffs on certain commodities. If the railway tariff had been modified and railway management freed from those influences, which prevented it from operating on normal 'business lines', then the railways would have had little competition with which to contend. Protection of the railways has made permanent this rates policy, which represents some of the worst abuses of discriminating monopoly, and has further deprived the community of the benefits of technical progress by eliminating the motor carrier from that sphere in which it could have been economically substituted, even if the railways had charged according to the 'cost of service principle'. 1.

A point made by supporters of control of transportation services is that a certain distribution of economic resources

has/..

1. The Dept. Railway Tariffs Inquiry Committee recommended three schemes to meet the competition of road transport on short distances. Scheme A provided that the rates as established in 1929 for goods in classes 1-6 for the distance of 200 miles should be applied per ton mile to all distances between 1 and 200 miles. This would abolish the loading of the rates for distances of less than 200 miles as compared with rates for 200 miles. Moreover so long as the total distance is less than 200 miles, the 'splitting' of the branch line rate would not increase the rate. This Scheme, the Committee estimated, would mean a sacrifice of revenue of £350,000 p.a. Scheme B was to reduce rates for all distances between 250 miles to same rates per mile as apply at 250 miles. The revenue yielded would be £446,400 p.a. Scheme C was to reduce rates for all distances below 300 miles to the same rates per mile as apply at 300 miles, yielding £588,000 p.a. in revenue. It considered that such very minor modifications of the railway tariff would at least counteract the further diversion of traffic. Pp. 18-19 of Report.

has been established on the basis of the present system of railway rates. Investment in certain industries such as agriculture (e.g. maize farming) and location of factories has been based on this differential railway tariff. Transportation costs are an important element in the cost of production to the person who is contemplating the investment of capital. It is true then that any sudden change-over from the present 'subsidy' rates to rates based on the 'cost of service' principle would have very seriously disorganising effects on the established structure. This is, however, merely a recognition of the need for the application of the 'principle of gradualness' in legislation and in no way invalidates the theoretical case against the restriction of competition. Moreover it seems reasonable to suppose that the modifications of the railway tariff, which would be induced by unrestricted road motor competition in this country, would not be of such a violent nature as to disrupt the present distribution of resources and location of industry. It would prevent any further maldistribution, based on 'uneconomic' costs of transport and eventually bring about a rational distribution of capital in so far as transportation costs are a determining factor.

The third reason that was given by the Minister of Railways, in introducing the bill to provide for control, was that the wage rates and privileges of the railway staff would be affected. No lengthy discussion can here be entered into in regard to the Administration 'civilised labour policy' but some mention can be made of its effects. When a department of state pays wages above the market rate, it attracts labour from private enterprise.

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Because of the increased labour cost, the price of the final service will be higher than otherwise. Furthermore this wage-rate can only be maintained if some restriction is placed on the number of entrants into the department's service. On the S.A.R. the 'civilised labour policy' has resulted in the throwing out of the Administration employment of large numbers of non-Europeans. This has had the effect of further depressing wages in the market for unskilled labour. Unskilled white labourers drifting in from the farms have been faced with this unduly low wage, and thus the Government's attempt to solve the poor-white problem by a 'civilised labour policy' has, in fact, tended to increase the magnitude of the problem.

Even if the 'principle of gradualness' is again recognised, competition would hardly have acted so swiftly as to suddenly cause the displacement of numbers of the railway's civilised labourers.

Of all the reasons put forward for the control and restriction of motor carrier competition, only one has real validity. "In so far as road transport has not borne its appropriate share of road maintenance and construction, then it could well be claimed that there has been waste. For the whole industry, through the instrumentality of public finance, may have been thus able to develop beyond that point at which marginal returns are equal. It has been established out of public funds." ¹.

TABLE /..

1. G. J. Ponsonby - "An Aspect of Competition in Transport", p.448 footnote.

TABLE VII**EXPENDITURE ON ROADS & BRIDGES IN THE UNION.¹**

1929-30 - 1934-35.

	1929-30	1930-31	1931-32	1932-33	1933-34	1934-35
PROVINCIAL ADMINISTRATION (Including Divisional Councils in C.P.) ORDINARY AND CAPITAL EXPENDITURE	£ 2,150,779	£ 2,234,238	£ 2,167,677	£ 1,830,242	£ 2,061,113	£ 2,340,776
MUNICIPALITIES ORDINARY EXPENDITURE excluding Interest & Loan Repayments	874,243	823,038	793,574	822,432	832,079	x
CAPITAL EXPENDITURE	687,474	739,793	835,636	923,480	980,211	x
	3,712,496	3,897,066	3,796,887	3,576,154	3,873,403	x

x Not available yet

TABLE VIII**REVENUE COLLECTED FROM MOTOR INDUSTRY IN UNION.²**

1929-30 - 1934-35.

	1929-30	1930-31	1931-32	1932-33	1933-34	1934-35
PROVINCIAL TAXATION	£ 839,156	£ 926,319	£ 1,016,435	£ 1,138,161	£ 1,213,913	£ 1,497,713
IMPORT DUTIES	2,120,476	1,571,593	1,948,727	1,936,368	2,447,107	3,365,587
	2,959,632	2,497,912	2,965,162	3,074,529	3,660,020	4,863,300

It has proved impossible to obtain accurate information for the years prior to 1929-30 but the above tables give details for the expenditure on roads and bridges in the Union and the revenue collected in taxation and customs duties from the motor industry for recent years. These figures are strong evidence that the contribution of the motor industry towards road construction and maintenance

has/..

1. Supplied by the Dept. of Census & Statistics. In the case of Natal municipalities expenditure on all public works is included.
2. Special Report Series of the Dept. of Census & Statistics, Nos. 91 & 97.

has indeed been adequate in the last few years at least. As it is only within this period that the Union Government has given its attention to the improvement of the Union's road system, there is justification for believing that prior to 1929 the proportionate contribution was even higher. The statement of the Chairman of the Road Motor Competition Commission during the course of the evidence is not borne out by the facts. He stated:

"The revenue derived from direct road taxation and from licence fees, etc. on the motor vehicles in operation in this country falls far short of the expenditure necessary to maintain, and in many cases to reconstruct to the higher standard modern transport requirements demand, the road system in South Africa."

Furthermore, as the general community benefits directly and indirectly from road improvements, it would be unreasonable to demand that the motor industry bear the whole cost.

Certain other reasons for the necessity of control were given by a member of ^{one of the} ~~the~~ local boards in a personal interview. He said that there were many cases on record of operators purchasing second-hand vehicles for a few pounds and providing erratic services. The vehicles were not road-worthy and when accidents occurred, these owners were not able to pay out compensation. This is, however, an argument for the enforcement of compulsory insurance, which was in fact written in to the original act but which was subsequently withdrawn. Moreover it seems unlikely that such transport agencies would have obtained much custom. Many of these owners, too, bought their vehicles on the hire-purchase system but with no intention of actually paying the instalments. Thus their charges did not include any contribution towards the cost of equipment/..

equipment. This, again, is no economic argument and motor-dealers could surely have been trusted to take care of themselves.

Another 'non-economic' reason, which the board-member advanced, has considerable practical importance. Rival 'bus companies, in attempting to gain passengers, instructed their 'bus drivers to ignore the ordinary traffic regulations. On the Sea Point route, for instance, speeding and cutting-in resulted in a great number of accidents. Here, too, the remedy would seem to be stricter control by traffic authorities rather than legislation to reduce the number of 'buses. In any case this argument is relevant only to municipal passenger transport.

CHAPTER VIII.

CONCLUSION.

The reasons that have been advanced for the regulation and control of road motor transport have been examined and shown to be fallacious. The restriction of competition cannot be justified on the grounds that it is in the interests of the public or in the interests of the railways, for the railways' interests are, in South Africa, the public's interests. In conclusion it remains for a brief statement to be given of the present and probable future position of transport in this country and to put forward certain suggestions, designed to secure a cheap and efficient transportation service.

A member of the ^a ~~local~~ local board stated that the most important result of the activities of the central and local boards had been the establishment of a co-ordinated system of transport. He said that he himself believed in the system of 'controlled monopoly'. Co-ordination means that competition of road services with the railways and amongst the road operators themselves has been eliminated. Motor carrier services have been diverted to serve as supplemental services to the railways. Thus the position is to-day that the monopoly price is the price for almost every piece of transportation service provided. A member of the local board said that the board welcomed the state of affairs today in Capetown, where the one passenger company has absorbed every other former transport service but one. It is not in any way surprising to find that at the Transport Conference held at Pretoria in September, 1934,

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the representatives of 'certified' agencies heartily approved of the existing legislation. But this is hardly evidence of the general social benefits of restriction of entry into the industry.

The future seems likely to see the extension of the present protective legislation to bring within its control the operations of animal-drawn transport and taxi-cabs. Apparently the profitable margin of traffic of the S.A.R. is so small that the loss of a certain amount of petrol traffic to the donkey-wagons is sufficient to ruin the Administration. It is not impossible that if the number of private motor-car owners continues to increase at the same pace as it is today, that the Administration and established services will demand that the use of cars by their owners be curtailed!

The Union Government has shown its intention to maintain a practical monopoly of the business of transport by acquiring control of commercial air transport. The Minister of Railways, Mr. Pirow, in referring to the loss that the Administration annually sustained as the result of operating the airway service, frankly stated: We must accept and carry this temporary loss if we wish to protect ourselves against competition. If we do not carry on the service some private company will do it and will eventually reap the benefit.

The great social benefits of transportation are obvious. To a country such as this with its widely-scattered, sparse population and vast distances the provision of an efficient and cheap service of transportation is of vital concern. It is of special importance that the addition to welfare, material and immaterial, of technical progress and cost-reducing/..

reducing factors in this sphere should not be foregone. Control and regulation have deprived us of increased efficiency and the reduction in transportation costs. Protection and co-ordination have brought us monopoly and monopoly means the divorce of social and private advantage. How are we to secure in transport the full benefits of the ever-cheapening processes of production, which have been called social progress?

In South Africa the immediate need, as has been repeatedly stressed, is to separate the management of the railways from political intervention. The more glaring defects of the present administration may be removed through remedial legislation. The obvious requirement is the establishment of a really independent Railways and Harbours Board, which would ensure that those provisions of the South Africa Act, designed to safeguard railway users against the increased cost due to politically-imposed burdens, would be enforced. Control of the railways should be vested in the Board, which should not act as an advisory body to the Minister of Railways. The voting power of all members should be equal and qualifications of members should preclude the appointment of the representatives of vested interests. If Parliament should desire that any particular industry or section of the people should have the benefit of especially low transportation costs, the benefit should take the form of a direct subsidy, the cost of which would fall on the whole community and not on the railway users.

To secure that the fullest advantages are derived from technical advance, the Road Transportation Acts should be repealed and complete freedom of entry into the transport industry be permitted. It is, however, advisable that operators should be compelled to provide adequate insurance against accident and that they should not be allowed

to/..

to discriminate in their charges as between different purchasers. A careful investigation should be carried out to ascertain whether road transport is bearing its proper share of the cost of road construction and maintenance and taxation levied accordingly. ¹.

The competition of private operators with the railways and of the private operators amongst themselves would result in the cost of transportation approaching the ideal of the 'cost of service' principle. Under competition there could be no such thing as 'surplus capacity', as any operator who did not cover his costs would either move out of the business or go insolvent. Investment would be restricted only by the possibility of larger returns from the alternate uses of labour and capital in response to society's demands. Professor Lionel Robbins, in commenting on the protection afforded to railways, remarked: "If we want to preserve railways which are unprofitable in the present condition of demand, we should subsidise them as ancient monuments." It seems unlikely that even if road transport were permitted to operate without any restrictions, it would become necessary to commemorate the S.A.R. but the importance of the private carrier to the community lies not so much in his possible usurpation of the railways, but in his providing a check on monopoly.

1. If all the revenue obtained from the motor industry was handed over to the National Roads Board, it seems that the contribution of road transport would be more than adequate.

APPENDIX I.

TABLE ILLUSTRATING EFFECT OF BUS COMPETITION ON THE RAILWAY LINE BETWEEN CAPE TOWN AND WYNBERG.

Amount of Revenue and No. of Passenger Journeys on the Capetown-Wynberg railway.

MONTH	1926		1927		1928		1929	
	No. OF PASSENGER JOURNEYS	REVENUE £	No. OF PASSENGER JOURNEYS	REVENUE £	No. OF PASSENGER JOURNEYS	REVENUE £	No. OF PASSENGER JOURNEYS	REVENUE £
JANUARY			1,477,566	14,355	1,269,838	11,484	1,249,940	10,881
FEBRUARY			1,441,493	13,328	1,159,941	9,748	1,222,746	10,043
MARCH			1,542,480	14,502	1,213,285	10,482	1,301,827	10,974
APRIL			1,524,514	14,375	1,206,765	11,192	1,306,105	10,760
MAY			1,533,413	14,474	1,235,251	10,473	1,291,002	10,735
JUNE			1,496,053	13,956	1,142,294	9,868	1,246,337	10,586
JULY			1,426,790	13,320	1,275,748	10,838	1,342,788	10,781
AUGUST			1,456,800	13,038	1,188,607	9,363		
SEPTEMBER			1,402,875	12,525	1,231,900	10,421		
OCTOBER	1,520,210	14,473	1,392,190	12,708	1,360,464	11,815		
NOVEMBER	1,604,712	14,535	1,328,434	11,758	1,280,879	10,742		
DECEMBER	1,502,747	14,967	1,262,209	11,584	1,270,572	11,167		

This Table is obtained from Appendix IV of Memorandum submitted by the General Manager of the Railways to the Commission on Road Motor Competition. See Volume III of the Evidence.

The electric service was introduced on this line in July, 1928, and extended in September, 1928. Fares were revised from the 1st April, 1929.

NOTE :

At the Southern Africa Transport Conference held recently in Johannesburg, the following resolution regarding competition in transport was passed:

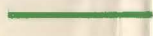
"It was argued that the railways were a vital factor in agricultural development and in preserving the primary industries of any country; that the existing world-wide railway policy of charging high rates for valuable traffic and lower rates for primary products was essential to stimulate and maintain primary production, and that this policy was seriously imperilled where uncontrolled competition by other forms of transport was allowed."
Cape Times, Sept. 15, 1936.

This is further evidence of the fact that the real aim of restrictive legislation is to preserve a particular system of railway rates.

UNION OF SOUTH AFRICA.
UNIE VAN SUID-AFRIKA.

ROAD TRANSPORTATION BOARD.
PADVERVOERRAAD.

TRANSPORTATION AREAS
TRANSPORTGEBIEDE
(From/Vanaf 1/1/32)
TRANSPORTATION ROUTES
TRANSPORTROEIES
(From/Vanaf 1/1/32)

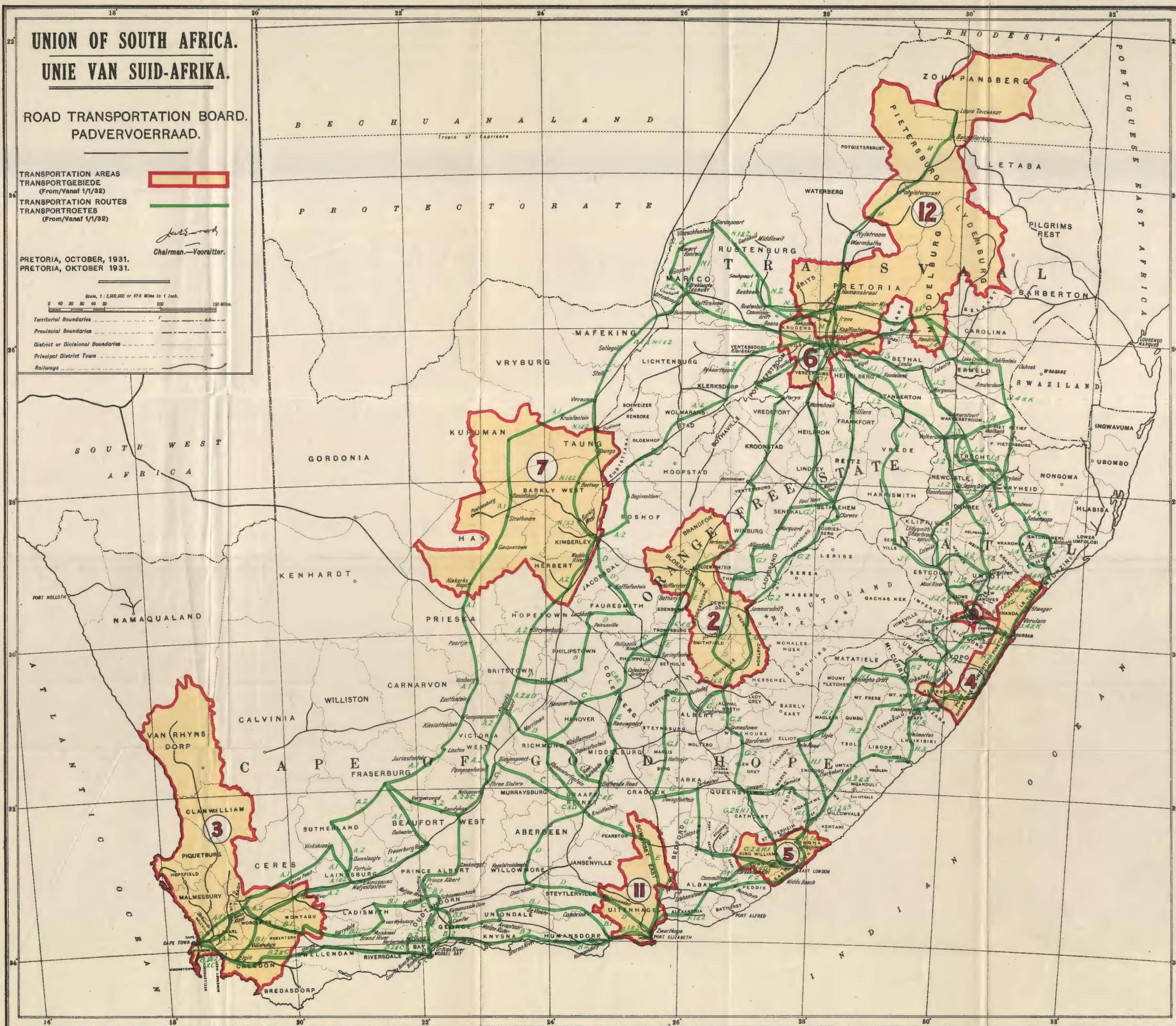


J. G. van der Merwe
Chairman—Voorzitter.

PRETORIA, OCTOBER, 1931.
PRETORIA, OKTOBER 1931.

Scale, 1:5,000,000 or 47.3 Miles to 1 Inch.
0 10 20 30 40 50 100 150 Miles.

Territorial Boundaries
Provincial Boundaries
District or Divisional Boundaries
Principal District Town
Railways



Drawn in the Geological Survey Office.
Heliographed at the Government Printing Works, Pretoria.