

CONTENTS

Page

VOLUME 3

Preface	xiii
1 Icons and Albatrosses:	
Passenger Transportation as Policy and Symbol in Canada	1
D.R. Owram	
1. Introduction	1
2. The Era Before Railways: To 1850	5
3. Land Travel During the Great Railway Era: 1849–1920	11
The Projects of Confederation: The Rise of	
the Railway as National Symbol	21
Passenger Traffic at the Turn of the Century	33
The Final Phase of Railway Development: 1897–1917	41
4. The “Mature” Railway System and the Rise of the	
Car Culture: 1900–1945	46
The Rise of the Car Culture and its Consequences: 1900–1929	51
The Great Depression	73
World War II	81
5. The Competitive Era and the Rise of the Passenger	
Policy Issue: 1945–1967	83
The Rise of Competition in the Post-War Era	85
Cars and Roads in the Post-War Era	88
The Highway Crisis and the Federal Presence: 1949–1967	99
The Airplane	105
The Politicization of the Railway Passenger Issue	113
6. The Modern Era: 1967–1990	123
Subsidies and Cutbacks	126
7. Conclusion: Concerns and Myths in Contemporary Canada	139
Endnotes	145



2 U.S. Intercity Passenger Transportation Policy, 1930–1991:	
An Interpretive Essay	165
George W. Wilson	
1. Introduction	165
The Submergence of Efficiency Criteria	168
The Distinction Between Passenger and Freight Transportation	172
The Role of Economists	177
2. The Period Before 1930	180
Infrastructure Policy	180
Regulatory Policies	187
The Policy of Modal Separation	194
3. The Great Depression	197
Transportation Infrastructure	204
Transportation Policy	207
Regulatory Expansion	209
4. World War II to the <i>Transportation Act of 1958</i>	211
ICC Policy	213
The Weeks Report	217
The Hosmer Report	220
The Situation in Air and Highway Transport	223
Conclusion	228
5. Evolution of Pro-Competitive Policies: 1960–1982	229
The Doyle Report	231
President Kennedy's Message on Transportation	235
After President Kennedy	239
The Economists' Role in Transportation Reform	240
Airline Deregulation	251
Bus Regulatory Reform	253
The Creation of Amtrak: A Deviation from Pro-Competitive Policy?	256
Two Studies Regarding the U.S. Transportation System in the Late 1970s	261
6. A Decade of Experience Under Reform	263
The Airlines After Deregulation	264
Amtrak in the 1980s	268
The Latest National Policy Report	272

The Unfinished Business of Regulatory Reform	274
Beyond Regulatory Reform	275
Efficient Infrastructure Pricing: Highway User-Charges	277
Establishing Linkages	280
7. Lessons from the Past: Relevance to Canada	282
Why Canada Was First	283
Canadian-U.S. Policy Differences	285
Lessons from the U.S. Experience	291
The Message for Passenger Transportation	293
Sources of Competition in Intercity Passenger Service	295
The Issue of Subsidy	296
Other Messages and Lessons	297
Endnotes	303
3 The Role of Equity Considerations in the Provision and Pricing of Passenger Transportation Services	313
Robin Boadway	
I. Introduction: Equity as an Objective of Government Policy	313
1. The Objectives of Government Economic Policy	314
2. The Role of Government in a Market Economy	321
II. Instruments for Achieving Equity in the Allocation of Resources	326
1. Taxes	326
2. Transfers	329
3. Social Programs	331
4. Federal-Provincial Issues	332
5. In-Kind Transfers	335
6. Regulation	336
III. Application to Passenger Transport Services	337
1. General Principles	337
2. Alternative Ways of Addressing Equity Issues in Passenger Transportation	339
3. Subsidizing Passenger Transport as an Instrument of Income Redistribution	340
4. Subsidizing Passenger Transport as a Decreasing Cost Industry	343
5. Passenger Transport Services as Assistance to Persons with Characteristics Other Than Income	343



IV. Summary Remarks	350
Appendix	352
Endnotes	358
References	360
4 Transportation and Economic Development:	
A Survey of the Literature	365
David W. Slater	
Overview	365
The Challenge	366
The Literature That Provides Evidence on Transportation and Economic Development	368
Themes in the Literature	369
Geographic Distribution and Movement of People	370
Contentious Analytical and Policy Views	371
The Survey	
Part A — Transportation and Economic Development	372
The Statistical Record of Economic Development	372
Theories of Economic Development	376
Theory of International and Inter-Regional Trade, Industrial Policy and Transportation	379
Theories of Public Goods and Public Choice, and Impressions Regarding Application to Transportation: Issues of Externalities	382
Macro Views on Transportation and Economic Development	387
Disaggregated Macro Models of Infrastructure, Transportation and National Economic Development	388
Inventories of Deficiencies of Infrastructure	390
The Literature on Transportation and Economic Development	394
Can Generalizations be Made About Over- and Under-Investment in Transportation after Examining the Project Evaluation Literature?	402
Regional Infrastructure (Particularly Transportation) and Economic Development	403
Economic Development and Intercity Passenger Transport	408

Efficient Transportation Infrastructure Investment and Pricing Policy	412
Trends and Prospects for Transportation Needs	415
Some Tentative Conclusions on Transportation and Economic Development, with Special Emphasis on Passenger Transportation	419
Part B — Transportation and Regional Economic Development (With Special Emphasis on Passenger Transportation)	423
Questions and Concepts	423
Trends of Regional Economic Development in Canada and the United States	424
Consider Canada First	424
Have Transportation Elements Been Major Forces Shaping the Regional and Inter-Regional Structure of the Canadian and United States Economies?	427
Literature to be Surveyed	428
Themes in the Literature	428
Some Details for Various Kinds of Regions	429
Transportation and Economic Development in the Hinterland and Between the Hinterland and Export Markets	432
Conclusions Regarding Transportation and Economic Development	436
Part C — Transportation and Tourism	438
Introduction	438
Transportation Supply	440
Importance of Tourism	440
Modes of Touring	441
Elasticities of Demand	442
Transportation Responses to Tourist Demand and Supply	442
Endnotes	443
References	444
5 Subsidies in Canadian Passenger Transportation	463
Trevor D. Heaver	
I. Introduction	463
Objectives of the Paper	464
Outline of the Paper	464

II. Characteristics of Subsidies	464
Definition of "Subsidy"	465
Types of Subsidy	466
Purposes for Subsidies	472
The Economic Effects of Subsidies	478
Subsidy Management	482
III. The Subsidy Experience	488
Highway Transportation	489
Rail Services	493
Air Services	493
Marine Transportation	494
IV. Assessment	495
Modal Services and Subsidy Types	495
Comparison of Subsidy Practices and Principles	499
Endnotes	502
6 Transportation Infrastructure Policy: Pricing, Investment and Cost Recovery	503
David Gillen and Tae Hoon Oum	
1. Introduction	503
2. Infrastructure Pricing: Theory, Issues and Applications	506
2.1 The Role of Prices and Welfare	506
2.2 Alternative Pricing Methods	508
2.3 Non-Market Mechanisms	517
2.4 Potential Difficulties of Implementation	519
2.5 Applications of Pricing Principles	524
2.6 Summary	531
3. Carrier and Infrastructure Cost Structures:	
A Literature Summary	534
3.0 Introduction	534
3.1 Carrier Costs	537
3.2 Infrastructure Costs	542
3.3 Summary of the Cost Structure for Carriers and Infrastructure	545

4. A Framework for the Analysis of Optimal User-Charges and Cost Recovery	547
4.1 General Framework for User-Charges and Cost Recovery	547
4.2 Pricing and Investment in a Network	549
4.3 Second-Best Pricing and Second-Best Investment	553
4.4 User-Charges and Cost Recovery	555
4.5 Road User-Charges	562
5. Alternative Methods of Financing Road Infrastructure	568
5.1 Introduction	568
5.2 Three Categories of Current User-Payments	569
5.3 Evaluation of the Alternative Financing Tools	570
5.4 Summary of Alternative Road Financing Methods	576
6. Summary and Conclusions	582
6.1 Purpose and Organization of the Study	582
6.2 Infrastructure Pricing Principles	584
6.3 Carrier and Infrastructure Costs	587
6.4 Implementation of User-Charges	588
6.5 Alternative Sources of Financing Road Infrastructure	590
Endnotes	591
References	594
7 Competition Policy and Canadian Passenger Transportation	613
John Blakney	
I. Introduction	613
II. <i>Competition Act</i>	615
A. Overview	615
B. Scope of Coverage	620
C. Enforcement Powers and Practices	624
III. <i>Competition Act</i> — Principal Jurisprudence	626
A. Introduction	626
B. Predatory Pricing and Price Discrimination (Paragraph 50(1)(c) of the <i>Competition Act</i>)	628
C. Conspiracy	637
D. Mergers	644
E. Abuse of Dominant Position	666

IV. <i>Competition Act</i> Compared with <i>National Transportation Act, 1987</i> and Related Legislation	679
A. Introduction —Historical Perspective	679
B. <i>National Transportation Act, 1987</i> and Related Legislation	681
C. Jurisdictional Relationships	684
D. Institutional/Administrative Differences	693
V. Transportation Industry Developments: Appropriate Trade Practices Framework	702
A. Introduction	702
B. Industry Developments	703
VI. Concluding Remarks	716
Charts	719
Endnotes	722
8 Controlling Market Power in Weakly Contestable Canadian Airline Markets	723
Keith Acheson and Don McFetridge	
1. Introduction	723
2. The Problem	725
3. The Approach	725
4. Current Access, Rate and Fare Controls	726
Southern Canada	726
Northern Canada	727
Application of Provisions	728
5. Pricing and Quality Experience	730
Discounting	730
Frequent Flyer Programs	735
Travel Agents and Prices	735
Computer Reservation Systems	736
Overall Canadian Price Performance	736
American Pricing Experience	739
Prices and Number of Carriers	740
Network Reconfigurations, Affiliates and Independents	740

Scale and Network Economies	742
Congestion and Access to Airports	745
Flight Quality	748
Charters in the New System	749
Scheduled Flight Frequency	750
Carrier Competition	750
Profits	753
6. The Number of Carriers and the Exercise of Market Power	757
7. Contestability	758
8. Institutional Defences Against Market Power	767
Further Deregulation	767
Residual Rate or Fare Regulation	768
9. Implications of Northern Routes and Other Mode Regulation for Oversight of Fares on Monopoly Airline Routes in Canada	772
Defining a Monopoly Airline Route	772
Defining a Reasonable Fare	773
Access Requirements	775
10. Conclusions	780
Endnotes	783
9 Constitutional Jurisdiction Over Transportation: Recent Developments and Proposals for Change	791
Patrick J. Monahan	
I. Introduction	791
II. The Existing Constitutional Framework	793
Jurisdiction Over Works and Undertakings	794
Interprovincial Works and Undertakings	797
Integration of Local and Interprovincial Undertakings	799
Works Declared for the General Advantage of Canada	801
Peace, Order and Good Government	802
Other Classes of Subjects	803
Regulatory Framework	806
Future Litigation	809

III. Proposals for Constitutional Change	811
The Practical Impact of Existing Constitutional Arrangements	812
Proposals for Constitutional Change	816
IV. Conclusion	823
Endnotes	824
10 Transportation Obligations and the Canadian Constitution	833
Patrick J. Monahan	
I. Introduction: Transportation and the Canadian Constitution	833
II. The Confederation Era 1867–1873: Transportation Undertakings as the Instrument of Political Union	835
A. <i>British North America Act, 1867</i>	835
B. Western Expansion: The <i>Manitoba Act, 1870</i> and the <i>British Columbia Terms of Union (1871)</i>	840
C. The <i>Prince Edward Island Terms of Union (1873)</i>	845
III. Making Good on the Obligations, 1873–1945: Transportation Undertakings as an Instrument of National Policy	847
A. The Intercolonial Railway	848
B. Building the Canadian Pacific Railway	850
C. The Prince Edward Island Ferry	852
D. Summary: Political Over Legal Enforcement	854
IV. Completing Confederation 1949: Transportation Undertakings in the Newfoundland Terms of Union	855
V. The Present Status of the Undertakings: The Movement from Political to Legal Enforcement	860
A. The Prince Edward Island Ferry	861
B. The Prince Edward Island Railway	864
C. The Newfoundland Transportation Obligations	865
D. The Vancouver Island Railway	869
VI. Conclusions	875
Endnotes	878