

## OBSERVATIONS CONCERNING THEORY OF RAILWAY CHARGES.

[CONCLUDED FROM LAST WEEK.]

Under these circumstances what are the relations between the producer of form utilities and the railway which can place them in the market? Starting with the fact that the price is fixed and cannot be modified by the carrier, the next step is to observe that the amount that must be permitted to accrue to the producer of utilities of form is also beyond the carrier's control. This point will be appreciated as soon as it is stated. The producer of utilities of form must receive prices equal to his cost of production. If this is not returned he will go out of business and will no longer furnish traffic for the carrier. Railway officers are keenly aware of this fact and are exceedingly watchful that they may not be taken unaware by changes in market conditions resulting in the unexpected diminution of the tonnage received at any point. The following quotation from a statement of methods of observing traffic movement with a view of preventing such reductions in its volume is very suggestive:

"Now we will take up that very considerable class of tonnage that goes to competing markets or to the same market from competing points. This is not a certain and easy class to determine, but practically the distinction does exist and is very clearly marked at times. Only the traffic man is in position to know just what business it is. It will be scattered at various points along the road and may be very miscellaneous. Where once indicated by the traffic department, such tonnage should be regularly withdrawn each month from the general body to a class by itself. \* \* \* Explanations will largely lie in market conditions. It is the business that is most sensitive to industrial and commercial conditions, and it is the duty of the traffic man to detect at once any general tendencies and adjust his rate without delay. He generally does on the complaints of individual shippers. \* \* \* Sometimes the fault may lie with the producing point, and the traffic manager will be as jealous to guard the business from such decline as if it were his rate that was at fault."

A full comprehension of the significance of the foregoing is dependent upon the realization that it is the statement of a practical railway officer based upon an intimate knowledge of the conditions of railway traffic and expressed in the customary terminology of current railway practice. Its essence is the clear indication that the volume of traffic is to be controlled through the adjustment of charges and that these must respect the interests of local producers or traffic will fail. The admonition to the rate-making officer to "adjust his rate without delay" to changed commercial conditions is in agreement with the most enlightened practice. It is the practical statement of the theory of

charging "what the traffic will bear" and avoiding what President Hadley has called "what the traffic will not bear." The slight confusion of terms in the concluding sentence of the quotation is so evident that it in no way detracts from the obviousness of this interpretation.

## Discriminating Charges.

Were there not insuperable objections to the general practice, even from the point of view of the least far-seeing railway manager, it might be that the adjustment of charges so as to insure to each producer of form utilities the return of his cost of production and to the railway the highest possible revenue would be accomplished by means of separate bargains upon different terms with each consignor. Were this practicable, the railway might collect in each case the difference between local cost of production and the prices paid by consumers (less, of course, other costs of handling in transit, commissions, etc.) and thus absorb all possible local differential gains. This may be the explanation of some of the discriminations among individual shippers that have caused so much complaint in the United States during the last three decades.

The general imposition of the discriminating charges which would be necessary to effect the universal or even frequent absorption of differential gains would be as impossible as it would be illegal and undesirable. Substantial support of this proposition might be brought forward in the form of a discussion of the effect upon productive industry of what producers would regard as manifestly unfair distribution. It is only necessary to suggest this objection, as less complicated ones are readily available. Such discriminations are forbidden by law in the United States and, however defective may be the present enforcement of this law, it has the unquestioned sanction of an ultimately invincible public sentiment and, with regard at least to an important portion of railway traffic, of commercial customs which cannot be overcome. Neither public sentiment nor public law would permit the publication of schedules of rates which, if observed, would have the effect of securing higher rates from certain producers than from others located at the same point and obtaining identical service. Those violations of law which inevitably occur under present conditions are effected by means of secret and usually temporary variations from the published schedules and in nearly all instances must be supposed to have the effect of adding to the differential gains of the more favorably situated producers.

Under any open schedule of charges that may continually be applied at any point, a marginal producer is certain, sooner or later to appear. No one can be required to pay higher rates than

those published, and the marginal producer, if not, as is usually the case, too weak to secure concessions for his traffic, is certain, unless they are withdrawn, soon to see the special rates which he has obtained openly promulgated as charges applicable to all business of like character received at the same point.

The limit to the amount which can be collected by any carrier for any service is, therefore, the difference between the price of the commodity taken to market through its agency and the marginal cost of production of that commodity at the point whence it is shipped.

It may be urged, however, that if the carrier is not satisfied that it will be profitable from its own point of view to perform the transportation upon these terms, it can withdraw from the business entirely or by raising its rates force a particular marginal producer out of business and substitute another whose cost is lower. This contention is by no means wholly groundless, yet it is important to enumerate some of the circumstances and motives which lead railways to accept traffic at the lowest possible rates and occasionally mislead railway officers as to the point at which profit ceases and loss commences.

## Joint Cost.

The primary observation in this connection is that there is no specific cost assignable to a particular railway service. A very large proportion of the expenses of railway transportation are incurred on account of numerous services, many are incurred on account of all, and a very insignificant, in fact almost negligible, proportion of the aggregate is accurately assignable to particular services. President Hadley expressed the consequences of this fact and at least one of its causes when he indicated an important distinction between railway competition and that of establishments having smaller proportions of fixed capital. He wrote:

"The competition of different stores finds a natural limit. It brings rates down near to cost of service, and then stops. The competition of railroads or factories find no such natural limit. Wherever there is a large permanent investment, and large fixed charges, competition brings rates down below cost of service."

In declaring, however, that "competition brings rates down below cost of service," the author of the foregoing quotation apparently sanctioned the erroneous assumption of the existence of specific costs. The fact that railway transportation presents a case of "joint cost" had not received attention at the time (1885) of the publication of the work quoted. The fact that there are no specific costs is now thoroughly understood and there is consequently less tendency to criticise the currently accepted belief among railway officers that anything received for a particular