

INTERTERRITORIAL FREIGHT RATES AND THE PACIFIC COAST

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It is, of course, a mistake to regard the interterritorial rate problem as the exclusive possession of any single part of the United States. As a matter of fact, there is an interregional rate situation wherever two homogeneous economic units establish or seek to establish relations of exchange which require the movement of passengers and goods. The relations between southern and official territories may illustrate such conditions, but they present only one instance out of many. The southern-official case may not even be as clear-cut an example of interterritorial exchange as are some others, because the units concerned lack homogeneity. One suspects that interterritorial rates may exist on shipments between districts all of which are subject to southern or official or western classification, and it may even be, since so-called territorial boundaries do not always coincide with the limits of economic regions, that shipments from one classification or rate territory to another, as from southern to official or western, should sometimes be regarded as intraregional rather than as interregional in character in spite of local patriotisms or formal nomenclatures that may be used. It is desirable to call attention to these elementary facts because so much attention has been paid to relations between northeastern manufacturing communities and states south of the Ohio River, although no useful purpose would be served by elaborating upon the distinctions made.

One important region in the United States, outside of official and southern classification territories, is known as south Pacific Coast territory. This includes California and, for some purposes, parts of New Mexico, Arizona, and Nevada. It is part of the larger region of the Pacific Coast which, in turn, is a segment of mountain-Pacific territory as shown upon rate maps. Of these areas, mountain-Pacific territory presents difficulties in analysis because it contains two great segments, west and east of the Sierras, that have little in common one with the other, either from the economic or the cultural point of view. The Pacific Coast, however, is definitely a "region" or "territory" in almost any sense in which it is desirable to use these terms. It is large enough to be significant; in 1940 the states of Washington, Oregon, and California had within their boundaries 11 per cent of the land surface of the continental United States excluding Alaska, and 7 per cent of the national population. Since 1940 its percentage of the population has increased. In spite of a considerable range of products, some of which can be found elsewhere,

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it has a degree of homogeneity of type of production and a marked self-consciousness, due in part to the successful cultivation and processing of certain agricultural materials and in part to geographical remoteness from the great centers of population in the East. These are sufficient characteristics for purposes of classification.

Assuming the fact that the Pacific Coast is a suitable unit for railroad rate analysis, the writer selects the transcontinental rate structure applied to the south coast and enlarges upon economic conditions in this subdistrict rather than upon rates and conditions in the north coast and south coast combined. This is because recent detailed studies are available that bear upon these rates and upon this more restricted territory. The effect will be to neglect some important problems such as those related to north coast lumber, wheat, and fruit. There is, however, no lack of rate questions in which the south coast is interested, and the striking features of transcontinental rates may appear as clearly in a study based upon south coast experience as in a report which rests upon a broader foundation.

The characteristics of the south Pacific Coast as an economic area are the following:

In the first place, the inhabitants are principally engaged in supplying and exchanging with each other goods and services which can be locally produced. The author has amused himself in estimating the relative importance of local effort in a community such as that of California, which is generally regarded as a state with specialized agriculture devoted to sales in a national market. Without dwelling upon the details of calculations which necessarily involve estimates, he is inclined to believe that 75 to 80 per cent of the efforts of the California population result in the production of goods and services which are consumed within the state. The principal reason for this predominance of local labor is that the number of persons employed in the service groups in this as in any modern community is relatively large. In California, in 1941, out of a labor force of approximately two and one-half million persons, about one million were employed in rendering personal and professional services, in operating local transport, in supplying each other with gas, electricity, and water, in building, in providing telephone facilities (mostly for local use), and in other work primarily of local concern. Of the remainder, some 440,000 were employed in retail trade. Besides the categories of service and local trade, a large part of the labor force in manufacturing, in agriculture, and in rail-air-water transport, in wholesale trade, and in banking and finance necessarily served the local inhabitants. Similar conditions can probably be found in other regions.

But in the second place, and in spite of the degree of self-sufficiency which has just been described, the south Pacific Coast has important connections with other districts. If this were not the case, of course, the south coast would not be concerned, as it is, with interterritorial rates. The nature and extent of these trade connections is generally known, but a few statistics will make the situation clear.

The following table sets forth the number of tons of revenue freight originated and terminated in California in the year 1945:

TABLE 1

TONS OF REVENUE FREIGHT ORIGINATED AND TONS TERMINATED IN CARLOADS BY CLASSES OF COMMODITIES,
CALIFORNIA—CLASS I STEAM RAILWAYS. CALENDAR YEAR 1945¹

Commodity Group	NUMBER OF TONS OF REVENUE FREIGHT	
	Originated	Terminated
Products of agriculture.....	9,312,552	6,680,166
Animals and products.....	723,777	1,707,069
Products of mines.....	11,418,777	13,105,498
Products of forests.....	3,355,924	5,399,346
Manufactures and miscellaneous.....	20,016,837	29,393,336
Total.....	44,827,867	56,285,415

It appears from the foregoing figures that California originated, in 1945, more carloads of agricultural products than were unloaded within the state and that it unloaded more animals and lumber products (mostly from adjacent areas) and more manufactured goods than it sent out. Corresponding figures from Washington and Oregon also show a balance of imports of manufactures, although the distribution of other items differs from that in California.

There is nothing particularly new or striking in the facts presented in the preceding table, except that the tonnage preponderance of westbound movements in an area which should show a tonnage balance of exports properly causes some alarm. With all due allowance for other factors, westbound preponderance indicates a purchasing power in the West which is swollen by government expenditures and may lack permanence. Apart from this, statistics present the familiar picture of a community which enriches its local consumption by adding a variety of eastern products to the goods and services that it can itself supply. But the extent of this exchange and the effect which it produces upon the entire economy of California and, indeed, upon that of the entire Pacific Coast, focuses attention upon the transportation upon which this interregional trade depends.

Further examination of available statistics, supplemented by more general studies, carries the inquiry some steps further. The products of agriculture which California and the south Pacific Coast export are principally fruits and vegetables grown and processed on the Coast, wine, and sugar imported from Hawaii and the Philippines. In many cases the California output is a principal source of supply for consumers of the entire nation, as well as a source of purchasing power for the state itself. The variety of identifiable articles is large, but oranges, grapes, lettuce, canned fruit, dried fruits and vegetables, sugar, and wine are suggestive names. Westbound, the principal movements are of steel and manufactures of steel, including automobiles and trucks, and machinery. Clothing and dry goods, beverages, tin articles, wine, and canned vegetables are among the remaining imports. Westbound shipments include

¹ INTERSTATE COMMERCE COMMISSION, BUREAU OF TRANSPORT ECONOMICS AND STATISTICS, STATEMENT No. M-550 (SCS) CALENDAR YEAR 1945.

more types of goods than are sent eastward, but the volume of each category is small compared to the concentration of outbound movements.

The Bureau of Economics and Statistics of the Interstate Commerce Commission prepared data for use in connection with the *Class Rate Investigation*,² based upon carrier reports for May 27 and September 23, 1942, which suggest the distribution of railroad carloads moving between mountain-Pacific territory and specified territories of origin and destination. These figures of exports are not limited to movements from the Pacific Coast, but they may be used in the present discussion because the production of certain articles and hence their point of origin within mountain-Pacific territory may safely be assumed to have been for the most part in the coastal states. The following table presents the conclusions which the Bureau of Economics and Statistics reached in its report with respect to eastbound shipments:

TABLE 2

PERCENTAGE DISTRIBUTION OF COMMODITY CARLOAD SHIPMENTS FROM MOUNTAIN-PACIFIC TERRITORY BY TERRITORY OF DESTINATION. MAY 27 AND SEPTEMBER 23, 1942³

Article	PERCENTAGE ORIGINATING IN MOUNTAIN-PACIFIC TERRITORY AND CONSIGNED TO:					
	Mountain-Pacific Territory	Western Trunk-Line Territory	South-western Territory	Southern Territory	Official Territory	Canada and Mexico
Citrus fruits.....	9.946	13.979	7.527	6.586	50.403	11.559
Other fresh fruits.....	20.222	14.111	3.556	3.111	54.333	4.667
Fresh vegetables other than potatoes.....	16.912	17.647	9.375	4.228	44.485	7.353
Dried fruits and vegetables....	28.997	17.073	4.065	11.382	32.792	5.691
Sugar.....	45.238	18.651	5.556	5.952	24.603
Beverages.....	68.116	4.348	2.898	4.348	20.290
Canned food.....	49.088	7.664	4.197	4.379	34.672

A table similar to that just presented and from the same source shows the distribution of railroad carloads shipped to mountain-Pacific territory by territory of origin. The warning should be repeated that the information here given covers more articles than those shipped to the Pacific Coast. The statistics are, nevertheless, informative.

It appears from the data presented to the Interstate Commerce Commission and made part of the record in Docket No. 28,300 that from 20 to 54 per cent of a group of selected articles which were shipped from mountain-Pacific territory on two days in 1942 terminated their movements in official territory, from 4 to 18 per cent in

² Docket No. 28,300, 262 I.C.C. 447 (1945).

³ INTERSTATE COMMERCE COMMISSION, BUREAU OF TRANSPORT ECONOMICS AND STATISTICS, TERRITORIAL MOVEMENT OF CARLOAD FREIGHT—MAY 27 AND SEPT. 23, 1942 (Exhibit No. 194, Docket No. 28,300, Class Rate Investigation) 18 (1943). According to the Interstate Commerce Commission, 65 per cent of California citrus fruit shipments, 80 per cent of the deciduous fruit, and 75 per cent of its melons and fresh vegetables terminated, in 1945, in official territory. *Ex parte* No. 162, Increased Railway Rates, Fares, and Charges, 1946, and *Ex parte* No. 148, Increased Railway Rates, Fares, and Charges, 1942, 266 I.C.C. 537, 563 (1946).

TABLE 3

PERCENTAGE DISTRIBUTION OF COMMODITY CARLOAD SHIPMENTS TO MOUNTAIN-PACIFIC TERRITORY BY TERRITORY OF ORIGIN. MAY 27 AND SEPTEMBER 23, 1942⁴

Article	PERCENTAGE TERMINATING IN MOUNTAIN PACIFIC TERRITORY ORIGINATING IN:				
	Mountain-Pacific Territory	Western Trunk-Line Territory	South-western Territory	Southern Territory	Official Territory
Iron and steel, 5th class.	13.177	6.946	1.124	3.166	75.587
Machinery and boilers.	13.218	6.035	1.149	2.299	77.299
Autos, trucks, and parts.	25.516	5.629	1.313	5.253	62.280
Beverages.	48.621	11.724	.345	8.276	31.034
Fabrics, bagging and bags.	12.195	4.878	2.439	63.415	17.073
Manufactures and miscellaneous, n.o.s.	47.771	6.560	2.131	4.317	39.221

western trunk-line territory, and from 3 to 11 per cent in southern territory. On the westbound movements tabulated above, from 39 to 80 per cent originated in official and southern territories. Mountain-Pacific territory depended less on official territory as a market than does the South for all articles covered by the report of the Bureau of Economics and Statistics of the Interstate Commerce Commission in 1942, but the difference was not striking in the case of products of agriculture, including Pacific Coast specialties referred to in the text; nor did the South draw a substantially larger proportion of its imports from official territory than did mountain-Pacific buyers when it came to manufactured goods. Currents of trade in both instances are attracted by concentrations of population and industry north of the Ohio and east of the Mississippi and Missouri rivers; the effect of these relations upon rate structures is, however, even greater in the West because of the degree of separation between eastern cities and the Pacific Coast.

What are the peculiarities of the transcontinental rate structure under which shipments move between the Pacific Coast and eastern points?

A first peculiarity is certainly that significant transcontinental rates are commodity, and not class, rates. The course which controversy has taken in the discussion of southern-official tariffs has unduly emphasized class-rate practice, although the decision in the *Class Rate Investigation* of 1939 did refer briefly to commodity rates also. But in transcontinental business class rates are admittedly unimportant. It is true that class tariffs do quote rates on articles exchanged between the eastern and the Pacific states. Such class rates are, however, so high that they are rarely used, and then only in special and supplementary ways.

The following table shows class and commodity rates in force between California termini and selected eastern cities before the general revisions authorized in 1945 and 1946:

⁴ BUREAU OF TRANSPORT ECONOMICS AND STATISTICS, *op. cit. supra*, note 3, at 42.

TABLE 4

COMPARISON OF CLASS AND COMMODITY RATES BETWEEN CALIFORNIA TERMINI AND EASTERN POINTS OF ORIGIN OF DESTINATION⁵
(Rates are in cents per 100 pounds)

Commodity	Point of Origin or Destination	Class (Carload)	Class Rate	Commodity Rate
EASTBOUND				
Oranges.....	New York	3	438	135
Grapes.....	New York	3	438	150
Lettuce.....	New York	A	317	184
Canned fruits.....	Cleveland	5	305	96
Wine.....	New York	4	372	99
Dried fruits and vegetables....	St. Louis	5	271	121
Sugar.....	Chicago	5	284	70
WESTBOUND				
Automobile bodies.....	Detroit	A	300	176
Beverages (beer).....	Milwaukee	5	284	99
Canned vegetables.....	Chicago	5	284	88
Clothing.....	New York	2	528	307
Dry goods.....	Boston	1	611	206
Fertilizers.....	Nashville	E	122	75
Tin articles.....	Chicago	5	284	77
Steel articles.....	Chicago	5	284	110
Vehicles.....	Detroit	1	578	450
Wine.....	Buffalo	4	363	182

The difference between class rates and commodity rates in transcontinental movements is so great that it is obviously uneconomical to use the former when a commodity rate is available. This means that class rates, for most purposes, can be neglected. On the other hand, it is true that class rates are important historically, and that even today the zone boundaries set in class tariffs are often used in commodity rate construction. These rates cannot, entirely, be ignored.

A second statement which will throw light upon the transcontinental rate system is that through rates are quoted to and from terminal zones upon the Pacific Coast and not to and from single terminal cities. The practice of terminal ratemaking is of long standing. It is not, however, always understood that the relative position of western terminal and intermediate points has been, in the course of time, reversed. Originally, western termini were points at which water competition was encountered; and the rates to and from termini were usually lower than the rates to and from intermediate points. A terminal town had, therefore, an advantage over an interior city. Today, the rates to and from intermediate points on transcontinental hauls cannot be more, except in special cases, than the terminal rate, but they can be less. It may, accordingly, be to the advantage of a city to break away from the

⁵ STUART DAGGETT and J. P. CARTER, THE STRUCTURE OF TRANSCONTINENTAL RAILROAD RATES 29 (1947).

terminal system so as to obtain, independently, lower rates. The present terminal area in south Pacific Coast territory includes most shipping points in California when class rates are involved. For commodity shipments the zone is broadened to include portions of Nevada, Utah, New Mexico, and Arizona. The eastern boundaries of the zones vary with the commodities which are moved.

More important today than the practice of western terminal grouping is the fact that eastern points of origin and destination are also grouped in zones, often stretching from the Canadian border at the north to the Gulf of Mexico at the south, and ranging in breadth from a comparatively narrow band to distances which include the greater part of the United States. For citrus shipments, a rate zone of 131 cents per hundred pounds included, before the recent revisions, the southeastern states, except Florida, and a large portion of the Mississippi River and the Missouri River basins, while a 135-cent rate was applied to the Northeast. The variation in charges in these sections did not exceed five cents over an extreme distance of two thousand miles. In fixing rates on eastbound wine, a single rate of 99 cents per hundred pounds was charged, irrespective of distance, to all points east of Salt Lake City and the eastern border of California. Zones on westbound shipments are also large. Thus for canned goods a rate of 88 cents was until recently applied from the entire central portion of the United States, and also from steamship piers at New York, Philadelphia, and Baltimore. States in the southeast paid 96 cents, while most or all of Virginia, West Virginia, Maryland, Delaware, Pennsylvania, New York, and New England paid 102 cents.

If one were to select any single feature of the transcontinental rate structure by which to characterize the whole, this would probably be the practice of zoning. Westbound, the practice encourages decentralization of industry in the East to the degree in which it places alternative sources of supply upon the same freight-cost level in serving the Pacific Coast. This is especially evident in the case of steel. Standard group outlines in this instance are distorted in order to establish identical rates from Birmingham and from Chicago. Dry goods and clothing tariffs apply the same rate from southern as from New England mills, and the canned goods group covers, as has been pointed out, the entire central portion of the United States. These are illustrations only, but they call attention to the effects of zoning in equalizing the position of competitive producing points.

Eastbound, the use of zones in the Pacific area has little discernible effect in scattering production. But the grouping of points of destination in the central, southern, and eastern states is convenient to shippers and carriers for two reasons. The first reason is that grouping promotes competition between parallel transcontinental lines by enabling northern routes to supply southern cities and southern routes to supply northern cities without encountering the prohibitions of section 4 of the Interstate Commerce Act.⁶ The second reason is that the existence of zones simplifies diversion privileges which shippers have found useful in the routing of their

⁶ 24 STAT. 380 (1887), as amended, 49 U. S. C. §4 (1940).

freight. Both subjects could be developed at some length, but not usefully for the subject now in hand.

Interregional rates between the Pacific Coast and eastern points evidently present problems of construction which have not attracted attention in the southern-official controversy. It is also clear that some questions which arise in that debate are not important in considering transcontinental rates. Shippers on the Pacific Coast are little interested in the relation of class to commodity rates and in determining the proportion of overhead which should be borne by either category. Such differences are insignificant in a system in which 98 per cent of the traffic moves upon a commodity basis. They are, likewise, only slightly concerned with problems of transition between classification territories, because most tariffs which they use quote through rates from origin to destination, and in these tariffs the addition to the total rate is small for movements in the eastern and southern states. Pacific Coast and southern shippers and consumers are, however, all interested in the level of rates and in their progression with distance. Any discussion of western rates must take these matters into account.

Characteristically in the transcontinental rate structure, eastbound commodity rates rise rapidly after shipments leave California during the first eight or nine hundred miles; after this, goods pass over a series of broad rate plateaus at successively higher levels until they reach a maximum elevation, varying with the commodity, beyond which no further increase occurs. In the case of sugar the rate from Crockett, California, to Chicago is actually less than that to some destinations west of the Mississippi River because of water competition, principally from Gulf cities. The details of profiles upon westbound movements are not available to the author, but from Chicago west the pattern is not too different from that which prevails eastbound.

Speaking still of eastbound rates, the level of charges on transcontinental shipments is more responsive to competition than to cost. Eastbound rates are low for the longer distances, in spite of the fact that movements consist mostly of perishables. They are low because of the importance of the traffic to the railroads, the elaborate organization of producers, market competition, and the general understanding that a high level of charges will reduce eastern sales.

Westbound transcontinental movements are principally of manufactured goods from official classification territory. Discussion of their levels is difficult, because of the great variety of shipments. It is clear, however, that local rates on the Pacific Coast are low—even lower, for instance, than rates for short distances (200 to 300 miles) out of Chicago. This is because of active motor-truck competition over an excellent highway system. Water competition between San Francisco and Los Angeles and between both cities and destinations in the Northwest contributes to the control of local charges. On middle-distance hauls, the rates are not particularly low except in special cases; but, at least, a recent survey based upon samples indicates

that the meeting points of eastbound and westbound rates on manufactured goods are not far from the geographical centers of the routes involved.

The following parties are concerned with transcontinental rates:

First, there are the consumers upon the Pacific Coast;

Second, there is a western farming community. This, to a greater degree than such communities in some other areas, is dependent upon outside markets;

Third, there is a commercial and distributing interest which has long served as an intermediary between East and West;

Fourth, there is a manufacturing organization, already considerable and anxious to expand;

Fifth, there are transportation agencies—rail, motor, and water—which should be developed or which, in any event, should be maintained, although the relative importance of these agencies may vary from time to time;

Sixth, there are distributors, producers, and consumers in other states. These have a legitimate interest in California and a right to be considered in any policy which the National Government may be asked to approve.

These are the people to be served. The general question is how to set up a railroad rate system which will best accommodate them all. There should be agreement upon details if possible and, in any event, upon principles which should be applied. Let us arrange our discussion, for a while, around some principles and policies which are discussed.

How far shall transcontinental carriers adjust their rates to the necessities of shippers who seek to sell in eastern markets? It may be assumed that eastern consumers approve this practice. Generally speaking, Californians also desire as low rates on eastbound movements as can be obtained, although they have sometimes objected in particular cases. Thus in *Rickert Rice Mills, Inc. v. Abilene & Southern Railway*,⁷ millers in Arkansas, Louisiana, and Texas asked for reductions in the rates on rough rice from California; but opposing California interests objected to rates which would enable eastern millers to buy California rice in competition with millers in California. This is certainly an exception, for California growers and producers generally wish eastbound rates to be low, if this is possible, for the sufficient reason that low rates are likely to enlarge sales and to increase growers' net returns, both by increasing consumption and by displacing other sources of supply.

It may be, nevertheless, that shippers of California products eastbound will be forced, during the next few years, to oppose increases in transcontinental rates rather than to demand decreases, and this for several reasons.

One minor reason is that public attention has been directed to the advantages, real or alleged, of mileage rates. Shippers are conscious that legislation has been introduced into Congress calling for class and commodity scales to be universally applied in all parts of the United States. They doubt if such scales will be suited to their needs. Certainly, ordinary scales would price Pacific Coast commodities out of eastern markets.

⁷ 248 I.C.C. 427 (1942).

In addition to the threat of legislation, there is a tendency in public discussion to emphasize the extra cost of railroad transportation in western territory and there is at least a chance that this may affect transcontinental rates.

Studies by the Board of Investigation and Research conclude that the full distributed costs of carrying railroad carload freight for three hundred miles are higher in mountain-Pacific than in any other of the freight rate territories except New England, for loads of twenty-five tons (box cars) and thirty tons (gondola and hopper cars).⁸ Similar comparisons for hauls of 100, 300, and 500 miles in the *Class Rate Investigation* report of 1945, based on computations for 1939, showed higher full distributed costs in western territory (southwestern, western trunk-line, mountain-Pacific, northern Illinois and southern Missouri) than in any other part of the United States, although out-of-pocket costs based upon actual average loading were lower than in the East, including New England.⁹

Comparisons of this sort may form the basis of an attack upon the present moderate scale of eastbound rates.¹⁰ The attack, when it is made, will be supported by groups in the South and East which compete with California products, and by intercoastal and Mississippi River carriers. This, together with other influences which may affect eastbound rates, causes California shippers some concern.

How far shall transcontinental carriers adjust their rates so as to encourage the growth of domestic industry upon the Pacific Coast? This is a type of problem which has caused most controversy in the South.

For the encouragement of local manufacturing industry one or both of two things are necessary. It is important to create and maintain a favorable relationship between rates on finished products from California manufacturing centers to markets on the Pacific Coast and in the mountain states, and rates on similar products from eastern points to these same destinations. The relationship should, probably, be one of preference and not only of equality because of certain advantages upon which eastern manufacturers can depend. It is important, too, to secure a favorable relationship between the rates on raw or slightly processed materials and those on highly processed imports. If such relationships can be safeguarded, western manufactures will be able to develop at more than a normal rate.

The present adjustment of railroad charges, while not obviously burdensome to the local western manufacturer, can probably be improved for the purposes mentioned in the preceding paragraph. Complaint is made, for example, of transit

⁸ INTERSTATE COMMERCE COMMISSION, BOARD OF INVESTIGATION AND RESEARCH, REPORT ON INTERTERRITORIAL FREIGHT RATES, 1943, H. R. Doc. No. 303, 78th Cong., 1st Sess. 257 (1943).

⁹ Class Rate Investigation, 1939, 262 I.C.C. 447, 576-577 (1945).

¹⁰ The particular comparisons referred to in the text are probably impertinent because they are based upon too short an average haul. Not only this, but elevations and low densities of traffic which transcontinental railroads encounter do not certainly raise costs or, at least, do not increase them as much as the casual observer might suppose. Elevation itself is not an obstacle to transport, but only the cost of attaining elevation; and low density need not imply imperfect utilization of facilities or be reflected in high cost if the railroad which handles the traffic is built upon a scale appropriate to the volume of traffic which it actually secures. These conditions generally characterize transcontinental movements. They reduce the cost of railroad operation, as western interests hope to show.

arrangements which bring Birmingham steel into Arizona at effective rates considerably below the charges published for traffic originating at Birmingham. The details of these practices, as developed in hearings before the Temporary National Economic Committee in 1939, make interesting reading. It was apparently possible at the time of the hearings for a Birmingham steel manufacturer who desired to sell fabricated steel at Phoenix, Arizona, to buy steel in Birmingham at the Chicago price, with stipulation that the steel so bought should originate at a Chicago mill. The material so acquired could be shipped from Chicago to Phoenix via Birmingham, with the privilege of fabrication in transit at Birmingham. Having obtained possession, the Birmingham mill could process the imported steel or an equivalent amount of local steel, and could then forward the completed article to Phoenix at the remaining portion of the through rate from Chicago to Phoenix. This remaining portion would be substantially less than the published rate for a consignment of the same commodity produced at Birmingham from steel originating at that point without transit substitution. Los Angeles complained that, in consequence, a Birmingham fabricator twenty-two hundred miles from Phoenix could deliver his product in the latter city at a total landed cost of \$267.75, whereas the cost to a Los Angeles fabricator, 395 miles away, would be \$308.50.¹¹

The transit situation, in its effect upon Los Angeles and Birmingham, may be regarded as an abuse of a current practice which is producing unexpected results. The opposition to the introduction of processed goods into Pacific Coast markets is not limited to instances of this sort.

In *Soya Bean Meal to Pacific Coast Ports*,¹² a case which will be referred to later in another connection, producers and distributors of cottonseed meal and cake in California, Arizona, and New Mexico objected to rate reductions on soya meal cake from points of origin in the Middle West.

Likewise, in *Hormel & Company v. Atchison, Topeka and Santa Fe Railway*,¹³ Pacific Coast handlers opposed reductions in transcontinental rates on fresh pork and packinghouse products. This dispute illustrates the interest which California processors take in the relationship between railroad charges on raw products and those on processed goods. California obtains her cattle and sheep from nearby sources, but her slaughtering industry depends for something like half of its supply of hogs upon importations from the Middle West. Whether these animals will arrive alive or in pieces depends upon the comparative rates upon hogs, on the one hand, and upon fresh meats and packinghouse products on the other. If rates on live hogs are low and rates on products are high, then animals will be slaughtered upon the Pacific Coast. If the relationship is reversed, Pacific Coast handlers will meet severe competition. It appears that the relation between hog rates and product rates was, until 1945, distinctly favorable to California. To take one illustration, the rate on fresh

¹¹ *Hearings before the Temporary National Economic Committee*, Part 20, 76th Cong., 2d Sess. 10916-10917 (1939).

¹² 215 I.C.C. 291 (1936), 225 I.C.C. 51 (1937), 231 I.C.C. 411 (1939).

¹³ 263 I.C.C. 9 (1945).

meat from Omaha to Los Angeles was about 249 per cent, and that on packinghouse products was 191.7 per cent, of the rate on hogs; whereas from Omaha to New York the percentages were 136 and 99.7. Packers in the Midwest asserted that they were being frozen out of the California market. The Commission agreed that traffic was not moving freely, due to the high level of the rates which were assailed. For this and other reasons, the Interstate Commerce Commission reduced rates on fresh meats and packinghouse products. The old rates from Omaha to Los Angeles had been 249 and 197.5 cents; the new rates between the same two points were made 156 and 130.¹⁴ The decision was highly distasteful to the Pacific Coast.¹⁵

Probably the most important problem in California in which transcontinental rates on manufactured goods play a part is that in which the rates on steel and products of steel are involved. We have already seen that, in the exchanges between California and the East, the largest import into California consists of manufactures and miscellaneous commodities. Within this category a principal movement or group of movements consists of steel and of products made of steel.

The greatest volume of shipments comes in by water, but Interstate Commerce Commission figures show a large balance of tons by railroad terminating in California as compared with tonnage originating in that state.

In spite of heavy imports, a considerable local steel industry grew up in California before World War II, largely based upon scrap and imported sheets, plates, bars, pipe, and other semi-processed raw material. During World War II this industry greatly expanded in the West, principally at Geneva, Utah, and at Fontana, California, and local supplies of iron ore and coal were developed for its use. Whether this new expansion will maintain itself will depend principally upon its ability to dominate the local market to the exclusion or partial exclusion of eastern imports and, in the second place, upon the possibility of developing steel exports either to other countries or to other parts of the United States. In realizing its opportunities California must depend, in part, upon adequate railroad service and upon favorable railroad rates. Favorable, in this sense, means that rail rates on steel products must be relatively low outbound and that corresponding rates on westbound movements must be relatively high. Similar difficulties have been experienced by manufacturing industries in other parts of the country. The peculiarity of the California situation is that the demand is for the stabilization of an existing industry, not for the creation of something new.

There is a third question to be considered in discussing transcontinental railroad

¹⁴ *Hormel & Co. v. Atchison, T. & S. F. Ry.*, 263 I.C.C. 9, 50, 57, 58, 63 (1945).

¹⁵ Complainants in the *Hormel* case compared westbound rates on fresh meats and packinghouse products with eastbound rates on fresh fruits and vegetables. In reply to a contention that low rates on fruits and vegetables from the Pacific Coast to the Midwest were depressed because of market competition to aid the Pacific Coast in marketing its surplus crops in the East, complainants stated that midwestern meats and packinghouse products were also subject to market competition, that there was a surplus of those products in the Midwest, and that midwestern meat shippers were just as much entitled to the benefits of competition of this kind as were California fruit growers. *Hormel & Co. v. Atchison, T. & S. F. Ry.*, cited *supra*, note 14, at 51.

rates: should the railroad rate structure between East and West be shaped to meet the needs of intercoastal and Mississippi River water lines? Historically, of course, the relation of transcontinental rail and water carriage has been competitive, and recent controversies show that pressure still exists. The pressure of water competition upon the rates of western railroad carriers is felt in three ways.

In the first place, coastwise water movements along the Pacific Coast limit the amounts which railroad lines can charge between south coast ports such as San Francisco or Los Angeles and cities on the Columbia River and Puget Sound. This traffic is not, strictly speaking, interterritorial, but it is interesting to observe that the Interstate Commerce Commission accepts the fact of water carriage in the coastal area as a sufficient reason for exempting the railroads along the coast, with stated limitations, from the prescriptions of section 4.¹⁶

In the second place, rail carriers have to deal, in transcontinental traffic to and from the Middle West, with competition from a combined barge-ocean or rail-barge-ocean route, using the facilities of the Mississippi River and of steamships plying between Gulf ports and the Pacific Coast. This competition is important.

In *Wire Rods Westbound to Pacific Coast*,¹⁷ the record showed that the joint rail-barge-ocean rate from Chicago to San Francisco was \$14.83 per ton as compared with a straight rail charge of \$22.85. The water service was inferior, but not notably so. In spite of the opposition of certain intercoastal water carriers and of New Orleans, the railroad obtained permission to quote a rate of \$14.30.

In *Soya Bean Meal to Pacific Coast Ports*,¹⁸ rail carriers were permitted to reduce their rates from 76.5 to 60 cents. The water rate by rail-barge-ocean from Illinois was 55 cents—a rate fixed by competition with shipments from the Orient. Rail rates to points intermediate between Illinois and the Pacific Coast were not changed by this decision except when combinations on the ports resulted in lowered charges. Permission for relief from section 4 was granted in spite of the opposition of producers and distributors of cottonseed cake and meal in California, and the Southwest.

In *Sugar from California to Chicago*,¹⁹ rail carriers were authorized to reduce rates to meet the competition of the ocean-barge route between the Pacific Coast and Chicago. Because of this competition all-rail shipments from San Francisco Bay points to destinations in the Middle West, including Chicago, had fallen from 109,370 tons in 1929 to 32,803 tons in 1933, while all-water or water-and-rail business had increased from 37,147 tons to 137,291 tons. The maximum all-water charge from San Francisco via New Orleans to Chicago was 54.99 cents. Rail rates to Chicago were 65 cents. Rail carriers offered to reduce their rates to 48 cents (minimum 80,000 pounds) and 53 cents (minimum 60,000 pounds). The Interstate Commerce Commission authorized rates of 60 and 65 cents, with permission to lower to 50

¹⁶ Pacific Coast Fourth Section Applications, 129 I.C.C. 3 (1927), 165 I.C.C. 373 (1930), 190 I.C.C. 273 (1932).

¹⁷ 214 I.C.C. 561 (1936).

¹⁸ 215 I.C.C. 291 (1936), 225 I.C.C. 51 (1937), 231 I.C.C. 411 (1939).

¹⁹ 211 I.C.C. 239 (1935).

cents if water rates should be still further reduced. Carriers were released from the limitations of section 4.

The third type of water competition to which transcontinental rail carriers have been subject is that supplied by the intercoastal lines. This is, for traffic between the Atlantic and Pacific seaboard, the most effective water opposition which railroad lines encounter, and it is also the best-known. Estimates made in 1944 are to the effect that railroads carry only 45 per cent of the total business between the Pacific Coast and ports in Atlantic and Gulf states; almost all of the remainder moves by water. General familiarity with the rivalry between intercoastal and railroad lines makes it possible to pass this subject with two references.

In the *Southern Pacific Transcontinental Cases*²⁰ the Southern Pacific Railroad proposed reductions on a list of eastbound and westbound commodities over the Sunset-Gulf route which averaged 44 per cent. Westbound, the reductions included a shrinkage in the rates on iron and steel bars from 100 cents to 42.5 cents; on canned goods from 106 cents to 57.5 cents; and on chocolate from 160 cents to 113 cents. Eastbound, the rate on beans was lowered from 105 cents to 56 cents, and that on canned goods from 105 cents to 52.5 cents. These reductions were intended to reestablish a rail movement which, to and from California terminals, had declined from a total of 2,732 tons in 1925 to 924 tons in 1928. Reductions were not to apply to intermediate points. The proposals were not, however, approved.

Attention may also be called to *Transcontinental Westbound Automobile Rates*²¹ because, in this case, the railroads proposed a general formula governing the relation of transcontinental and intermediate rates on the assumption that relief from section 4 could be obtained. The rates in force on automobiles from groups C and D to California ports were, when the case was brought, \$4.65 and \$4.50. The carriers proposed to reduce these rates to \$3.82 or even, in some contingencies, to a considerably lower level. They then suggested that rates to western points intermediate to California terminals should be constructed by adding to the rate for the nearest terminal 75 per cent of the lowest interstate rate from such terminal to the intermediate destination, with rates to terminals actually in effect before the case was brought to be observed as maxima. The rail-water rates from interior manufacturing points to the California ports were constructed by combining the rail rate to the Atlantic seaboard and the proportional steamship rates from the Atlantic ports by way of the Panama Canal to the Pacific Coast. The proposed rail rates to California ports were obtained by adding to this sum an amount of thirty cents to offset port and terminal charges, insurance, other expenses incidental to handling by rail, and the recognized superior value of all-rail over rail-and-water service. The Interstate Commerce Commission did not approve the application, so that the proposed relationships were not set up.

Rail and water carriers have always competed, but at the present moment they

²⁰ 182 I.C.C. 770 (1932).

²¹ 209 I.C.C. 549 (1935).

would be glad to modify the intensity of transcontinental competition for the reason that railroads and water lines alike feel the need of higher rates. As a matter of fact, the water lines are taking the initiative in proposing that the level of transcontinental rail rates be changed. This is because of wage and price increases and the uncertainties of future traffic. It will be recalled that railroads requested authority to increase their charges throughout the United States in 1946, and that they received permission to do so in *Ex parte 162*.²² At the moment, the United States Maritime Commission, which is about to withdraw from its emergency operation of coastwise and intercoastal lines, has become convinced that private water carriers will not be able to cover costs after its withdrawal without an increase in shipping rates, and that a condition of this increase will be a reworking of railroad tariffs. The Maritime Commission has persuaded the Interstate Commerce Commission to undertake a comprehensive investigation of railroad rates, which are alleged to be so depressed as to prevent shipping lines from operating profitably without government support. The railroads seem willing to accommodate the water lines generally, if not in detail, but on condition that the relation of rail and water rates remains unchanged and on the further condition that increases will not jeopardize transcontinental movements by the encouragement of other sources of supply. The limitations are not acceptable to the water lines, and an order fixing minimum rail rates is desired.

Water carriers have not yet opened their case before the Interstate Commerce Commission, but there is little doubt that it will include several propositions.

The first of these will be that the Interstate Commerce Commission should modify a rail rate structure which, in intercoastal and coastal commerce, makes water transport impossible.

This contention is based upon the preamble to the Interstate Commerce Act as amended in 1940. The language of this preamble permits the argument that the present transcontinental rate structure does not "foster sound economic conditions in transportation" because it threatens to eliminate a low-cost carrier, that the structure constitutes an "unfair or destructive competitive practice," and that transcontinental rates interfere with the end of "developing, coordinating, and preserving a national transportation system by water, highway and rail, as well as other means, adequate to meet the needs of the commerce of the United States, of the Postal Service, and of the national defense."²³ The language quoted may be interpreted to mean that the Interstate Commerce Commission should, when necessary, cause railroad rates to be raised to a level which will enable water lines to participate in traffic between the Pacific and Atlantic coasts.

The argument on the other side is that the Interstate Commerce Act directs the Commission to foster both rail and water transportation. It contains no mandate that common carriers by water are to be accorded preferential treatment.²⁴ The

²² 264 I.C.C. 695 (1946), 266 I.C.C. 537 (1946).

²³ 54 STAT. 899 (1940), 49 U. S. C., note preceding §1 (1940).

²⁴ *Soya Bean Meal to Pacific Coast Ports*, 225 I.C.C. 51, 57 (1937).

Interstate Commerce Commission, it is said, may not require one carrier or group of carriers to maintain rates for the purpose of protecting the traffic of others.²⁵ This view is reinforced by reference to sections 15a, 216(i) and 307(f) of the Interstate Commerce Act, which direct the Commission, in fixing rates, to "give due consideration, among other factors, to the effect of rates upon the movement of traffic by the carrier or carriers for which the rates are prescribed."²⁶ Land carriers point out that it is permissible for railroads to meet water competition²⁷ and assert that reduction of rates does not constitute an unfair or destructive competitive practice,²⁸ although the Commission may step in, in extreme cases.²⁹ These observations suggest, though they do not fully describe, a line of discussion that will probably appear.

A second contention of the water carriers is that transcontinental railroad rates, or some of them, are exceptionally low because of past conditions of water competition. The argument is that water competition is no longer effective and that water-depressed rail rates should, accordingly, be raised. It is true that the Interstate Commerce Act forbids rail carriers to increase their charges under such circumstances,³⁰ but it has been held that this prohibition must be construed in the light of other sections of the Act.³¹

There seems to be no real legal difficulty which should prevent rail carriers from raising present rates. It is not so clear that they can be compelled to do so unless the low rates produce a discrimination forbidden by sections 2, 3, or 4 of the Interstate Commerce Act³² or unless they are unreasonable under other sections of the law.

This leads us to the insistence by water carriers that transcontinental rail rates are unreasonably low. In elaborating this argument the shipping lines presented a formula to the Interstate Commerce Commission in January, 1947, based upon the assumption that reasonable transcontinental rates today are the rates approved by the Commission in 1945, increased by an allowance for special conditions in mountain-Pacific territory and by allowances for subsequent increases in wages and material costs. Unfortunately, the calculations and the more obvious criticisms must be relegated to a note below.³³ We may hazard the opinion, however, that the Commission

²⁵ *Seatrains Lines, Inc. v. Akron, C. & Y. Ry.*, 243 I.C.C. 199, 214 (1940).

²⁶ 48 STAT. 220 (1933), as amended, 49 U. S. C. §15(a) (1940); 49 STAT. 560 (1935), as amended, 49 U. S. C. §316(i) (1940); 54 STAT. 938 (1940), 49 U. S. C. §907(f) (1940). See *Chicago, B. & Q. R.R. v. United States*, 60 F. Supp. 580 (E. D. Ky. 1945)

²⁷ *Grain and Grain Products to Florida*, 197 I.C.C. 441 (1933); *Glass from Southwestern Points to Mobile, Ala.*, 246 I.C.C. 315 (1941).

²⁸ *Rubber Products between Southern & Ohio Points*, 41 M.C.C. 93 (1942).

²⁹ *Morgain Forwarding Co., Pick Up and Storage*, 258 I.C.C. 771 (1944).

³⁰ 36 STAT. 548 (1940), 49 U. S. C. §4, par. 2 (1940).

³¹ In the Matter of Reopening Fourth Section Applications, 40 I.C.C. 35, 40 (1916).

³² 24 STAT. 379 (1887), as amended, 49 U. S. C. §2 (1940); 24 STAT. 380 (1887), as amended, 49 U. S. C. §3 (1940); 24 STAT. 380 (1887), as amended, 49 U. S. C. §4 (1940).

³³ The shipping lines reasoned that the class scale prescribed by the Interstate Commerce Commission in the *Class Rate Investigation*, 262 I.C.C. 447, 766 (1945), should be accepted as a statement of "reasonable" rates at the time the Commission's decision was handed down. Starting with this basic scale, the following operations were proposed:

1. The basic class scale of 1945 should be extended beyond its limit of 2500 miles to whatever

will not be much impressed by this or by any other formula, but that it will give general consideration to the cost of transcontinental movements in order to determine the "compensatory" character of the rates which are involved. Once the Commission has embarked upon this inquiry, the case is likely to follow familiar lines. The simplest position is that railroad rates are "non-compensatory" when they do not cover "over-all" or "fully distributed" costs. More elaborately, and because it is not certain that the transcontinental rate structure can be asked to bear such costs, it may be argued that transcontinental rates do not provide revenue to meet (a) full operating costs, exclusive of a fair return on the fair value of railroad property, or (b) added costs, or the difference between total period costs when a given shipment is undertaken and total costs without that shipment.

It should be possible, in the approaching proceedings, to obtain some fair judgment as to what transcontinental rail costs in the various categories may be. It should be possible also—and this will be interesting—to ascertain whether inter-coastal water carriers or railroad lines now operate at the lower cost, due allowance being made for differences in quality of service. The past assumption has been that the water lines are cheaper, but it is by no means certain that this is still the case. A recognized procedure, when the foregoing facts have been ascertained, would be to fix minimum rates for the low-cost carrier sufficient to cover fully distributed costs and to permit the other carrier to meet this minimum so long as its added costs are provided by the price. This would settle the question as between the rail and water carriers involved, although the water carriers have less flexibility than the railroads and might find it difficult to operate if they were declared to be the more expensive agency. It would not, however, satisfy shippers, and it might easily disrupt patterns of charges which are of considerable importance to producers and consumers in the United States.

distances might be necessary in transcontinental rate-making;

2. The basic scale, so extended, should be increased by 12½ per cent for such portions of the transcontinental haul as lay within mountain-Pacific territory (1200 miles);

3. The amended scale should be further increased by 22½ per cent on the authority of the Interstate Commerce Commission's decision in *Ex parte* No. 162, *Increased Railway Rates, Fares, and Charges*, 266 I.C.C. 537 (1946);

4. Commodity rates should be derived from the perfected class scale by consideration of the approved relationships between class and commodity charges;

5. The Commission should prescribe the commodity rates so calculated as minima below which railroads should not be permitted to go.

There are obvious objections to the formula just described. For one thing, the proposal would eliminate the broad groups which are now a characteristic of transcontinental railroad rates and would disturb existing competitive relations to which eastern and western shippers have adjusted themselves, with effects upon the flow of traffic which can hardly be foreseen. A second weakness in the plan is that it assumes a similarity between the costs of transcontinental hauls and the general costs of movement in mountain-Pacific territory which has not been established and probably cannot be established. Again, the proposal undertakes to ascertain and to use approved relationships between class and commodity rates. It is true that the Interstate Commerce Commission has referred to such relationships in considering rates upon specific commodities; but these relationships are not fixed for all commodities; they vary with differing lengths of haul and operating conditions, and they are, of course, affected by competition. It is hardly possible to determine the level or form of particularized commodity rate structures by assimilation with a general class-rate structure. The Commission is highly unlikely to attempt this practice at so late a date.

The preceding discussion makes it evident enough that interregional structures are not erected solely for the entertainment of persons in southern and official classification territories. These structures create problems in the Far West as in the Far East, and one set of complexities may be as hard to disentangle as the other. Certainly the West is interested in interregional rates, because railroad rates condition exchange between the Pacific Coast and other areas, and exchange with other territories permits specialization, raises the level of productivity, and improves the standard of living of the inhabitants.

California differs from the states south of the Ohio and Potomac in that the average income of her inhabitants is high. In 1945 this income was \$1,480 per capita, contrasted with an average of \$761 in the Southeast and a low of \$556 in Mississippi, and exceeded only by the per capita income of \$1,595 reported for the state of New York. Nor was this the outcome of the war, for as far back as 1929 the California per capita income was still greater than that in any other state or district except New York, New Jersey, and the District of Columbia. This high per capita income is the result of many causes, but it is evidence that the specialized commercial agriculture of the state has yielded, on the whole, a profitable return.

The transcontinental rate system was devised to bring the products of California agriculture to market in competition with other sources of supply: hence the low rates on long hauls, the extensive grouping, the diversion privileges, and the other features which the present article has discussed. The test of this structure has been its ability, along with other factors, to produce the results described. There has been no dispute with reference to the technique of crossing territorial boundaries, for most transcontinental rates have been through rates to destination. There has been no demand for "destination" bases of rate making, because local rates in California have compared favorably with those in eastern states. And, until recent years, there has been no critical comparison of eastbound and westbound rates, nor any desire to change the fundamental structure of the state's economy, except for normal ambitions of local industry to take advantage of the purchasing power of the state. The chief rate controversies on the Pacific Coast, on the contrary, have grown out of the desire of interior producing areas to share in the advantages provided by the favorable location of the Pacific termini. This does not mean that the rate structure has been ideal, but only that disputes have for the most part dealt with adjustments and corrections.

The interterritorial rate problem which now confronts California is no longer, however, one of detail. It arises out of several facts or tendencies. One of these is a rising level of transport costs, first felt by the carriers and then reflected in the level of transport rates. An increase in eastbound rates, and especially a percentage increase, affects remote areas of supply such as California more than it does areas which are near the market which they serve. This is why Florida supported a percentage increase in railroad rates in 1946 while other interests favored a flat increase or an increase subject to a maximum. The Interstate Commerce Commission then

recognized the difficulties of the Pacific Coast by introducing maxima to limit rate advances on some, though not on all, commodities. Increased railroad charges are normally shifted to some extent, and are borne, in varying degrees, by carriers, producers, and consumers of the goods. Some impairment of the position of California has, nevertheless, occurred.

A second fact which threatens to affect California arises out of changes in the intercoastal shipping situation. It is not yet possible to predict how far the cost of maintaining a domestic merchant marine will be imposed on the producers and consumers of the Pacific Coast. To the extent that it is so imposed, the balance of California production will be disturbed.

These two circumstances relate, most importantly, to California agriculture. Meanwhile, a postwar employment condition has appeared in the West which lends urgency to the question of industrial development mentioned in the earlier discussion of railroad rates. This condition was not caused by transport deficiencies and cannot, perhaps, be cured by readjustment of tariff charges; but it is certain that the transcontinental rate structure is involved. To summarize the situation briefly, more than a million and a half people migrated to California after 1940. These migrants, along with large imports of capital, made possible a dramatic enlargement of western shipbuilding and aircraft industries, although not all migrants were employed in those industries. The building of aircraft and of ships fell off when the war closed. California now finds herself overequipped and overstaffed in the manufacturing field. While some of the new supply of men and material can be employed in agriculture and service, it does not seem likely that immediate unemployment can be prevented unless industry is enlarged. There is an echo here of difficulties which confront the South, although the timing and the fundamental situation are not the same. Hitherto, in considering manufactures and railroad rates on manufactures, it has been possible to argue reasonably that low westbound rates on manufactures tend to increase the real income of coastal communities by reducing the total cost at which processed articles can be obtained. They are, therefore, generally desirable. But this is now contrasted with the fact that low westbound rates encourage importations which interfere with domestic industry and so prevent the utilization of surpluses which cannot otherwise be employed. This strengthens the position of local manufacturers, who assert that the sum of transport costs to all markets which local industry can reasonably expect to reach should in principle be no greater than the sum of transport costs payable by outside competitors. When production costs are relatively high, local manufacturers even ask for an equalization of advantage by manipulation of the rate.

California manufacturers are no more and no less idealistic than manufacturers elsewhere. As in the Old South, the best conditions for them are those which most increase their sales. But from a more general point of view, opportunities for the rapid growth of manufactures in California appear to be of the following sorts:

²⁴ *Ex parte* No. 162, Increased Railway Rates, Fares, and Charges, 1946, 264 I.C.C. 695 (1946).

The first opportunity lies in the supply of local needs for goods and services which have always been locally produced. The importance of this opportunity may be suggested by the estimate made earlier in this paper that over 75 per cent of the efforts of the labor force in California were occupied, in 1940, in satisfying its own requirements. This outlet does not require that California producers shall exclude eastern manufacturers from access to local markets.

The second opportunity will be found in the specialization and improvement of certain types of manufactures so that these, as well as specified agricultural products, may form part of the exports from the state. In as much as the bulk of prewar exports was disposed of in the Mississippi Valley or at points east, this chance, if realized, will require an increase in long distance hauls, eastbound. If new markets, as in the Orient, can be found, the goods selected for export will be different from those which prewar conditions would suggest.

A third opportunity will be, to a degree, a mixture of the preceding two. If transportation and production conditions justify the practice, a larger proportion of the exchanges between California and other regions may take place between California and other mountain-Pacific states, thus reducing the total volume of transport and changing the character of California exports.

Still another possibility will be the substitution of local production for manufactures which have previously been imported from the East in exchange for agricultural exports. To the extent that this occurs, the outbound movements of agricultural commodities from California may be expected to be reduced.

For completeness, a fifth alternative may be mentioned. If the surplus labor and capital not engaged in self-maintenance in California are supplied with material and otherwise supported by imports, if their products are exported from the state, and if the difference in values between imports and exports is used for investment in other areas, then this surplus can function without effect upon the economy of the Pacific Coast.

Assuming a balanced economy and relatively stable rates on products of agriculture, it would seem that an increase in westbound rates on manufactures would tend to reduce the volume of westbound shipments and so occasion, in the long run, either a reduction in eastbound exports, an outward movement of capital, or an accumulation of purchasing power which might be expected to be reflected in an increase in the price level in the state. Ultimately a new balance would be reached, presumably less favorable than the old.

If we assume an unbalanced economy, with an excess of labor and capital which is unemployed, the effect of low westbound rates might be to make industrial employment of at least a portion of the surplus labor and capital highly difficult. High westbound rates, on the contrary, would permit new capital and labor to be turned directly to the production of articles formerly imported. If the rates were prohibitive, the complete replacement of imports by domestic production would not be impossible to achieve. A corollary would be the cessation of exports, for goods would

hardly be continuously exported from the territory when nothing was received in exchange. In the long run this would be desirable if the productivity of labor and capital in the isolated area, taking account of reductions in over-all costs of transport following isolation, were greater than before interregional shipments were cut off. It would be undesirable if this assumption should not represent the facts.

The importance of this type of analysis lies in the conclusion that a solution of the interregional rate problem, in so far as the Pacific Coast is concerned, requires a preliminary consideration of the organization of industry and agriculture which is most appropriate in the Far West. There is, actually, no reason to suppose that the ideal adjustment will be one which maximizes industry in this area any more than that it will be an adjustment which maximizes agriculture, while it is clear that simple equalization of western rate levels with charges in other parts of the country will lead nowhere, without regard to the effects which such an equalization will produce. The problem is highly complicated, and can best be summarized in the statement that interregional rates which discriminate against the Pacific Coast are rates which dislocate arrangements that are desirable from the point of view of the Pacific area. Only when the optimum organization of industry and agriculture has been determined can the best plan of rate charges be worked out. A reasonable assumption is that arrangements which facilitate interterritorial exchange will improve the quality of production and raise standards of living in the West; but it is logically possible that restrictions upon interchange, at some times and places, may lead to a superior result. A reasonable assumption, also, is that the optimum development of the Pacific Coast will contribute to the prosperity of other sections, although here, too, conflicts may exist. The relations of regions in the United States are cooperative as well as competitive, so that all may benefit in the long run from policies that strengthen the individual elements which, together, form a completed whole.

These remarks grow out of a study of transcontinental rates. They are, perhaps, pertinent to the treatment of interterritorial rates generally, wherever an interregional problem may appear.