WILEY

Review

Author(s): W. M. Acworth

Review by: W. M. Acworth

Source: *The Economic Journal*, Vol. 16, No. 63 (Sep., 1906), pp. 394-398

Published by: Wiley on behalf of the Royal Economic Society

Stable URL: <http://www.jstor.org/stable/2220816>

Accessed: 26-06-2016 13:31 UTC

Your use of the JSTOR archive indicates your acceptance of the Terms & Conditions of Use, available at

<http://about.jstor.org/terms>

JSTOR is a not-for-profit service that helps scholars, researchers, and students discover, use, and build upon a wide range of content in a trusted digital archive. We use information technology and tools to increase productivity and facilitate new forms of scholarship. For more information about JSTOR, please contact support@jstor.org.

Wiley, Royal Economic Society are collaborating with JSTOR to digitize, preserve and extend access to *The Economic Journal*

Mr. Meyer certainly draws an alarming picture of the unsystematic and objectionable manner in which our municipal authorities have opposed private trade. Whether his ways of expressing his views are always judicious the reader must judge. In his concluding chapter we are told that "nowhere in Great Britain has the electric street railway been used for the purpose of decentralising" the population; and that "in this matter the British cities have shown an indifference to and a disregard of the public health, physical as well as moral, that for brutality have no parallel in the records of private industry" (p. 324). Coming from an intelligent foreign critic, after a very careful discussion, these words are startling. The accusation against our local authorities that they are indifferent to suffering is grossly unfair; but in reading these outspoken comments I cannot but feel something of the sensations of the clergyman in the story, who thanked the bystander for expressing sentiments suitable to the occasion in words he himself could not possibly have used. I wish that some of the energy now devoted to the creation of garden cities might be, not diverted, but used also to force our authorities to consider questions relating to suburban locomotion in a more rational manner. To many of the sentiments expressed in this book approbation may, however, be given without any qualification. We are warned that the public are being completely blinded to their own interests by the argument "that a business in which had been invested 'the people's money' must not be impaired by" private competition (p. 325); and a study of this work, though one-sided, would certainly help to cure our blindness to some of our own faults.

LEONARD DARWIN

Government Regulation of Railway Rates. By HUGO RICHARD MEYER, Assistant Professor of Political Economy in the University of Chicago. (New York: The Macmillan Co., 1905. Pp. xxvii—486. Price 6s. 6d. net.)

It is to be hoped that even the fact that on its title-page it appears to be concerned with the economics of transport will not deter English economists from reading this book. For it throws very interesting light—and it is, as far as we are aware, the first book in the English language to do so—on an important side of the fiscal policy of Germany. It is true that the German story only occupies one-fourth of the book. But to our thinking it is much the most original and valuable portion. The story of the

remaining Continental countries and of Australia is little more than an impressionist sketch, while in the latter half of the volume, which deals with the United States, we cannot think that Professor Meyer shows quite sufficient academic detachment of mind. Take, for instance, his criticism of the Inter-State Commerce Commission. With every inclination to agree with Professor Meyer's conclusions, the present writer is bound to admit that the Commission have more to say for themselves than the Professor allows. We may cite, as one example, the "basing point" system of rate-making—the system, that is, under which through rates are only given between important centres, so that traffic from a local station, say, fifty miles north of New Orleans to a local station fifty miles south of Cincinnati, would have to pay the local rate back to New Orleans *plus* the through rate, thence to Cincinnati *plus* the local rate from this latter city to its destination. This system, common in America, more especially in the Southern States, the Inter-State Commerce Commission has vigorously opposed—without much success hitherto, it must be acknowledged—and Professor Meyer equally vigorously champions. He may be right—from the railway point of view he certainly is; from the point of view of the greatest happiness of the greatest number, as measured by the lowest average rate, he probably is right also. But the system looks unfair on the fact of it; undoubtedly works considerable injustice as between, for instance, a town just big enough to be, and a neighbouring town just not big enough to be a "basing point"; and has been condemned, as strongly as by the Commission itself, by economists of distinction who have specially studied the subject, amongst others, if we mistake not, by Professor Ripley of Harvard. It must be admitted, in fairness to Professor Meyer, that in his chapter on Australia he makes out a strong case against sliding-scale rates—or, as he prefers to call them, "tapering" rates—(*Staffeltarife*, *Tarifs à base décroissante*) in a new country, and it must also be admitted that sliding-scale rates are almost a necessary alternative if the basing-point system is not to be adopted. For all that, we cannot see that Professor Meyer is entitled to adopt so positive an attitude. He knows, if he will permit us to say so, too much about his subject. On a subject so new and so intricate as the influence of methods of railway rate making on the development of a new country, positive assertion may well be left for those who are not hampered by any excess of knowledge.

Having ventured to criticise Professor Meyer, perhaps the

present writer may be permitted to express his substantial agreement with the Professor's conclusion of the whole matter in his last paragraph :—

“ The verdict of the experience of the countries of Continental Europe and of Australia, as well as the verdict of the experience of the United States, under both the Federal Inter-State Commerce Commission and the several State Commissions, is unmistakable. It is impossible for the State to conserve and promote the public welfare by intervening in the regulation of railway rates beyond the point of seeking to abolish secret personal discriminations, guaranteeing that all rates shall be reasonable *per se*, and providing that those rates which involve the question of relative reasonableness shall embody compromises which were made with intelligence and in good faith.”

The verdict of English experience only confirms that of the other countries mentioned. The present writer has on two occasions recently discussed the question of the extent of State interference, which, in the public interest, is ideally desirable, with two men of eminence in their respective branches of the railway profession, the one an American and a lawyer, the other an Englishman and a practical manager. Both of them agreed with him in a conclusion formulated somewhat as follows :—“ The State should only interfere to secure (a) absolute publicity and (b) equality of rates under similar circumstances. If a railway manager can show in two given cases that an inequality of rates is *bona fide* caused by circumstances of, in his judgment, commercial dissimilarity, he should be permitted to take his own course. He may be wrong, but he is more likely to be right than any State tribunal. Such a tribunal can usefully act as a *forum conscientiae*, express opinions, and give advice. It should only exercise compulsion when the manager's action is such that no reasonable person could honestly justify it.” A somewhat lame and negative conclusion and one that would render superfluous not a few score volumes of legal reports and text-books. But as there is not the remotest hope that it will find acceptance in practice in any single country in the civilised world, perhaps there is no necessity to expatiate upon it.

Professor Meyer's criticism of Prussian railway history, since Bismarck first adopted a policy of State ownership, about a quarter of a century ago, can best be put in the form of a syllogism. Railways can only exercise their full beneficial influence in developing the trade of a country when their rates are based on the principle of charging what the traffic can bear ; a government must necessarily be, or at least seem to be, impartial between com-

peting interests—cannot, that is to say, venture to adopt this principle; therefore governments should not own railways or even control their rates. And in defence of his thesis he certainly brings forward some remarkable facts.

“Geographically, Mannheim, at the head of navigation for sizable vessels on the Rhine, is in the same position as St. Louis, at the head of navigation for sizable vessels on the Mississippi. In 1900 there were carried into and out of Mannheim 7,000,000 tons of freight by vessels, and 5,800,000 tons by rail. In that same year there were carried into and out of St. Louis 700,000 tons of freight by vessel and 24,600,000 tons by rail. Mannheim is the product of the State ownership of the railways, which system has paralysed the development of the ancient and neighbouring city of Frankfort on the Main, immeasurably better equipped with capital than is Mannheim. . . . The Railway Department may not give Frankfort, Bremen, and other cities railway differentials which will put those cities on a footing of equality with the cities served by rivers and canals, for that would be departing from the hard and fast scheme of rates based on the distance tariff principle.” [pp. 455-6.]

Indeed, the famous Prussian Finance Minister von Miquel laid it down as an axiom that State railway rates must be inflexible. “The system of government ownership will,” he said, “break down, unless it shall prove possible to find refuge from the jealousies and conflicts of local and sectional interests behind the stone wall of a system of hard-and-fast railway rates, which admits of no exercise of discretion.” This stone-wall system of railway rates protects German producers in competition with each other from discriminative treatment, and protects them also as a body from foreign competition. But when it is a question of encouraging German exports, gaps are made in the wall, and the results are remarkable. One would expect *a priori* that the Rhine, a rapid stream, would carry more traffic downwards than upwards. But in fact we find that of the exports from Germany to Holland the river-borne proportion decreased between 1873 and 1898 from 69 per cent. to 49 per cent. of the total, and the rail-borne proportion increased from 20 per cent. to 46 per cent. Into Germany the railway-borne proportion fell from 43 per cent. to 13 per cent. of the total, while the water-borne increased from 55 per cent. to 82 per cent. Import traffic, that is, was met on the railway by the stone wall; exports enjoyed the benefit of the special export tariffs.

English Chambers of Commerce are wont to pass resolutions—mostly without discussion—to the effect that English trade is

handicapped in competition with foreigners by the higher English railway rates. They give no proof of their assertion, possibly for the sufficient reason that figures to prove or disprove it are not in existence. But perhaps they will be interested to learn that an eminent German authority calculates that "in Germany the transportation charges constitute 28 per cent. of the cost of producing pig-iron, as against 10 per cent. in England" (p. 23). Not a few other points bearing on our own fiscal problem are raised in Professor Meyer's book. On p. 209 there is a table showing that the difference between the *London Gazette* price and the Nebraska farm price of wheat per quarter fell between 1870 and 1889 from 29s. 9d. to 11s. 8d. Since then it has practically remained stationary. On p. 240 he endorses one of the main arguments of our tariff reformers in the following words:—"The leading advantage which the American manufacturer has over the British and German manufacturer is the size of his unimpeded home market." On p. 95 he tells us that "German men of affairs (apparently, however, referring only to the iron trade), in discussing the future of Germany, are inclined to leave Great Britain out of consideration, and to confine themselves exclusively to the conditions of production in the United States."

Lastly, we may notice that the Australian Commonwealth has supplied us with a definition of railway rates which are respectively differential and preferential. It reminds one of the old distinction between orthodoxy and heterodoxy. A differential rate is "a legitimate reduction in rates made in order to develop traffic." A preferential rate is a rate that "aims to give one city traffic that properly belongs to another." Will anyone, even Professor Meyer, be inclined to be too hard upon a Prussian railway official who is unable to construe and apply this luminous definition?

W. M. ACWORTH

The Clothing Industry in New York. By PROF. JESSE ELIPHALET POPE. (Social Science Series. Vol. I. Published by the University of Missouri.)

THE clothing trade, in Professor Pope's definition, includes only "men's and children's outside wearing apparel and women's cloaks." It thus corresponds pretty nearly with what in England we call the "tailoring trade."

The history of that modern branch, the "ready-made tailoring," is curiously parallel on both sides of the Atlantic. It has