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PROFESSOR RIPLEY ON AMERICAN RAILROADS.

Railroads, Finance and Organisation. By WILLIAM Z. RIPLEY, Ph.D., Nathaniel Ropes Professor of Economics in Harvard University. (Longmans, 1915. Pp. xx + 638. Price 14s.)

ON the publisher's wrapper of this second volume of Professor Ripley's comprehensive review of railway problems I am reminded of what I said in the *ECONOMIC JOURNAL* on the occasion of the appearance of the first volume two years ago. "In the English language there exists no such complete presentation of the whole subject from the pen of so competent an author." The same high praise may be given without hesitation to the volume now before us, though it is right to notice that this new volume, as is only natural from its subject, possesses less interest for the catholic economist outside the United States than the former. Theory and general considerations have more bearing on rates and regulation than on finance and organisation, which must be chiefly controlled by the special market and business conditions of each particular country. While, therefore, the new volume will be read everywhere by students of railway questions with the utmost interest, it can hardly be expected to command outside America as wide an audience as the previous one. The railway financial history of the United States covers now nearly three generations and extends over two-thirds of a Continent. To compress it all, from the time when the capital of the Camden and Amboy was raised in England in the early 'thirties down to the New Haven *débâcle* of the other day, within the compass of a single volume it is necessary to cut very short each individual tale. And it is questionable whether the reader, coming to the subject with no previous detailed knowledge, will in every case be able to grasp, from Professor Ripley's necessarily abridged summary, what it is all about. There is a further disadvantage. When space is thus limited and summaries are thus abridged, selection, not only of the cases to be included, but of the salient points in those which are included, largely depends upon the personal equation of the selector.

And this is an important matter. In reviewing the previous volume I said that I had only "one serious criticism," that Professor Ripley's doubt, whether there was in it "bias" and "lack of judicial poise," must in my judgment be decided against him. In the present volume I seem to see a certain change of mental attitude. Credit is given to the railroads in terms that

are often generous. For instance, on p. 51, winding up fifty pages of what is rightly described as "rather depressing comment" upon American construction methods, Professor Ripley points out that "the magnitude of the achievement as a whole must constantly be kept in mind . . . it is an accomplishment unparalleled in history . . . and should be a matter for national pride. . . . It is all too easy to look back upon the record and to call attention to faults and shortcomings. . . . Happily it is clear that for the most part the financial methods were consistent with the highest standards of probity and good judgment." And again on p. 226: "The foregoing outline tells but a sorry tale . . . a range of operations from mystification and petty deceit to utter fraud. But the conclusion must be carefully avoided that, because such offences have at times been committed, American railroad finance on the whole is unsound. Such an opinion would be absolutely unfounded. A large majority of our common carriers are certainly on the whole as honestly administered as are private businesses. Nor has the standard of integrity in the main ever been so high as it is at present." But these deliberate opinions, frankly expressed in straightforward and emphatic language, only cover a few lines in the middle of hundreds of pages devoted to the rather depressing comment upon all the frauds and scandals of American railway history from the day of Jim Fisk downward. It is hardly conceivable that an ordinary reader, who has to gain his knowledge of the subject wholly from Professor Ripley's story, would end by sharing the opinion that the Professor holds, after reading a book in which the adventures of the occasional stray sheep are told at length, while the history of the ninety and nine that remained respectably within the fold is passed over in silence.

Professor Ripley desires to maximise public interference. One would think that a supporter of interference by public authority would necessarily postulate two things: that the authority should be intelligent, and that the authority should be honest. Professor Ripley does not assert—as indeed in view of the history he could not—that either of these pre-requisites exist in the United States. As for intelligence, let us take a crucial instance. If intelligent regulation is to be found anywhere, it is surely in that highly expert and respected body, the Interstate Commerce Commission. Yet in July, 1914, after an inquiry extending over more than twelve months, the majority of that Commission solemnly re-affirmed their refusal of three years earlier to permit the Trunk Lines to raise their rates. Under the

compulsion of gross and palpable fact they reversed that decision some six months later. But it is safe to say that for every dollar Jim Fisk stole from the Erie—and he stole a good many—the inhabitants of the United States lost a million in the months succeeding July, owing to financial depression and trade dislocation consequent primarily on the unintelligent appreciation of the situation by the Interstate Commerce Commission.

What about honesty? In the midst of a scathing indictment of the quite recent mismanagement of the New Haven Railroad Professor Ripley enumerates among its crimes “wholesale bribery, veiled in various ways, of members of the legislature.” And this is not in the Far West two generations ago, but in Massachusetts yesterday. Not a word is said in reprobation of those who were bribed. Does Professor Ripley take it as a matter of course that members of the legislature will be accessible to wholesale bribery? As for honesty in other than money matters, take this instance. The Interstate Commerce Commission are at this moment engaged in hearing at Chicago the application of the railroads in the territory west of that city to be permitted to raise their rates, with which, of course, the intra-state rates are inextricably entangled. Mr. Clifford Thorne is chairman of the Iowa State Railway Commission, and he is appearing before the Interstate Commerce Commission as counsel for (a) a number of Western State Railway Commissions, including his own, and (b) for a private trading association which dislikes the prospect of having to pay increased rates. The American public appear to see no objection. The Interstate Commerce Commission is evidently powerless, and the simple English expedient of disbarring Mr. Clifford Thorne is presumably not available. An Englishman, considering the propriety of further private regulation of railways, takes for granted the probity of Parliament and the Board of Trade and the Railway Commission. But what would he think if legislators were accused of wholesale bribery, and if Commissioners were as impartial as Mr. Clifford Thorne?

Take another instance, not from a Western State, but from the Federal Government itself. For years the railroads have claimed that the payment to them for carrying the mails, which is practically in the uncontrolled discretion of the Postmaster-General, is inadequate. Some three years ago they succeeded in obtaining the appointment of a Joint Committee of the two Houses of Congress to investigate. That Committee severely censured the Post Office Department and substantially supported the railroad contention that the method of payment was bad, that

the arbitrary powers of the Department were unjust, and that the amount of payment was insufficient. While the Committee was sitting, the Postmaster-General introduced and carried a Bill establishing a Parcel Post. The original limit of weight was reasonable. It has subsequently been extended to 50 lbs. No provision was made in the Bill for payment to the railroads for the extra work thrown on them beyond the authorisation of the Postmaster-General to pay to certain railroads a temporary increase not exceeding 5 per cent. of the amount they were then receiving. How the extended Parcel Post is working as a business undertaking may be judged from scores of reports in the American Press: of, for instance, a warehouse at Wells, Nevada, "where 80 tons of grain are held for shipment, sack by sack, through the Parcel Post"; of "a fast mail train delayed by the loading of two tons of wheat as parcel post"; or of "a car load of potatoes from Deeth to Haleck." From the moral point of view it is sufficiently criticised in the published words of ex-President Taft: "When we establish a parcel post—a good measure in itself—and make the railroads carry all the business we can get without adequate compensation, we are stealing from the railroads. That is what we are doing." But this is not all the story. When the report of the Joint Committee above mentioned, based on two years' study of the question, was complete, and its tenor became known, but before it had been officially presented, the Chairman of the House of Representatives' Committee on Post Offices, at the instance of the Postmaster-General, suddenly introduced a Bill, the effect of which was further to reduce the payment which the Joint Committee had found to be inadequate, and to make the Postmaster-General absolute judge without appeal of his own cause. The Bill was forced through the House of Representatives, the railroads being refused even a hearing, and sent up to the Senate. The Senate refused to pass it, whereupon a second attempt was made to jam it through in the rush of business before the adjournment by "tacking" it on to an Appropriation Bill. Thereupon the Senate threw out the Appropriation Bill, and the Postmaster-General, who, be it observed, is a Cabinet Minister, has since publicly accused the railroads of attempting to "loot the Post Office revenues." I have told these stories (which are not derived from Professor Ripley's pages) at some length because it would seem that English readers, in forming an opinion as to the desirability of more or less regulation, should have regard to the public record, not only of the regulatees, but of the regulators.

Another point may be noted in this connection. The railroads in the United States are regulated by forty-eight separate States and the Federal Government—"fifty stripes save one," as a railroad president puts it—and in each of the forty-nine the authority to regulate is shared between the legislative, executive, and judicial branches of the Government—branches whose respective functions are strictly delimited by written constitutions. Professor Ripley recognises the existence of a hopeless welter of confusion. He speaks of "the well-nigh intolerable conflict of authority of the many public services, commissions and State courts now at work. . . . No fewer than six different State Commissions are said to be taking a hand in the reorganisation of the Wabash. The approval of each is necessary for validation of the plans. And it is impossible to obey so many masters. It is daily becoming more clear that the conflict of State and Federal authority can only be averted . . . by the assumption of unified control by the United States. Rates, service, and finance are so completely interlocked that satisfactory regulation in each field cannot be exercised except by the assumption of full authority over all three domains alike." That exclusive Federal authority will be established in the near future is most unlikely. For, as has been shrewdly pointed out, any member of Congress who voted to deprive his State of control of its railways would sign his own political death warrant. And such documents politicians do not sign with alacrity. But Professor Ripley is so whole-hearted an advocate of public regulation that even the "well-nigh intolerable conflict of authority" does not deter him from desiring to increase both in scope and minuteness the present mass of public regulation.

Professor Ripley's former volume was rightly entitled *Railroads, Rates and Regulations*. The new volume is called *Finance and Organisation*. But its true title should be "Regulation of Finance and Organisation." For throughout the leading idea is, not what the companies are doing, or are likely to do for themselves, but what they should be compelled to do by external authority. I confess myself not altogether clear in all cases as to what precisely the Professor desires. There is, for example, a very interesting chapter on Physical Valuation, which is now in process of being carried out at a cost which admittedly will not be less than £10,000,000. When the valuation is complete—if it ever is, and if it is not then hopelessly out of date—it will be useful, we are told, not only for purposes of taxation, but also as a valuable guide to the public authority in fixing reasonable

rates. But what would seem to be a crucial question on this point is entirely ignored. How is the valuation to be applied to the rates? Are the rates of the whole system to have relation to the valuation of the whole system, or are they to have relation to the different values of the different divisions and sections, or even individual miles of the railroad? On physical valuation principles our Parliament makes the Forth Bridge fifteen miles long for local, and twenty-five miles for long-distance traffic. But this is for the purpose of fixing maximum rates. Where the public authority fixes actual rates, it would seem neither good economics nor good business to charge a third-class passenger 15d. from North Queensferry to South Queensferry. And there is a still more serious point. There are a dozen routes from Chicago to New York; and the physical valuation of the different routes varies enormously. Yet there can only be one rate for the same traffic between the two points. How are valuation and rate to be brought into relation with one another? It may be said that each railroad, taken as a whole, is to be permitted to earn a "reasonable return"—which by American regulators is usually taken to mean a maximum of 6 per cent. dividend in a highly speculative undertaking—on its total valuation. If so, seeing that the competitive rates which produce the bulk of the revenue must be the same on every system, it would appear as though the local traffic on one railroad would have to be carried for less than nothing to keep down the dividend, while on another road the local rates might have to soar to the empyrean. But on these interesting points Professor Ripley affords us no guidance.

The question, too, of competition needs further elucidation. Speaking of the Trunk Line position on p. 486, Professor Ripley uses the words, "A permanent condition of monopoly has taken the place of unregulated and often destructive competition," which would appear to indicate approval. Four pages later he states that "since 1900 the entire south-eastern quarter of the United States has been consolidated to a standstill." Surely the phrase at least hesitates dislike. Then on p. 574 he says "the avowed purpose of the people to perpetuate railroad competition is accepted as an established fact." And he lauds the Sherman Anti-Trust Act as having "prevented evil," the evil being apparently restriction of competition. And yet in another connection on p. 308, he speaks with apparent approval of "the settled policy in the East of recognising and protecting transportation as a local monopoly." If I understand Professor Ripley's attitude on the whole question rightly it is this: competitive new construc-

tion and competitive rate reductions are to be restrained by public authority. They may even be allowed to pool their traffic under public supervision. But the railroads are to be compelled to remain independent in order that they may compete in facilities. But surely this is impossible as a permanent policy. It lasted to some extent in England for a good many years. But, though the Great Western short cuts to Exeter and to Birmingham are not very ancient history, it broke down as soon as the railroads were seriously faced with increased expenses and declining dividends. Pools and competitions in facilities are ill-matched bed-fellows. How little competition in facilities is left in England anyone can judge for himself who will compare the improvements as shown in Bradshaw for July for the years, say, of 1900–1904, with those for 1910–1914. Certainly the railroads of the United States have at present no money to spare for the luxury of competition in facilities.

Professor Ripley agrees with almost all other competent authorities that “the evidence is conclusive that over-capitalisation does not exist,” and that the alleged over-capitalisation of American railroads is a “hoary-headed bogey.” Nor are they earning any excessive return on their capital cost. A table given by him shows that in the year 1906, a period of great prosperity, the net return on all the principal systems, after payment of fixed charges, was 6 per cent., and this in a country where according to the last census the average return on capital invested in industry was 12 per cent. And of this 6 per cent. it was only the balance that, according to established American practice, after provision for non-revenue-earning improvements, obsolescence, and so forth, was available for dividend. And the 6 per cent. of 1906 has dropped, if I mistake not, to little more than one-half for the year ending June 30th, 1914. Professor Ripley fully recognises the need for improvement in this respect. He pleads “*emphatically*” (p. vii.) for “recognition by the State of the right of investors, under efficient and honest management by their own agents, to a reasonable return.” “It may,” he says on p. 327 (I think the “may” is typical of his whole attitude), “be sound business policy to be more generous—sufficiently generous, that is to say, to make it certain that an adequate supply of capital for future needs will be forthcoming. The immediate danger is assuredly too great niggardliness in this regard. . . There should be a frank recognition of the need of an ample return to private capital.” And, again (p. 346), “On the whole the average rate of return upon the existing net capitalisation is modest enough.

It is certainly not more than fair in amount. That it does not exceed 5 per cent. at the present time seems to be well established." But again my criticism is that these few lines of somewhat half-hearted exhortation to greater generosity must be swamped in the mind of the ordinary reader by the pages upon pages pointing out how the wings of those responsible for the Frisco and the Alton and the Rock Island scandals must be clipped.

One quotation more.

"The primary lesson [p. 237] to be learned by railway managements is that not more than current earnings, but at all times far less, should be distributed in the way of dividends. The moral for the public is that it must be prepared to countenance such rates as shall yield a substantial sum in addition, not only normal rates of return upon capital, but to provide for future contingencies, especially the 'costs of progress.'"

This is excellent, and, though I might not agree with Professor Ripley as to what should be regarded as the normal rate of return for the common stock of an undertaking as speculative as a railroad in Texas, I could not wish to alter a word of it. This is what Professor Ripley really thinks. This is the aim that, if he were—as it is to be hoped he may yet become—a member of the Interstate Commerce Commission, he will doubtless set himself to accomplish. I cannot, however, think that this new book will help in that direction. It is surely time, more especially now that the railroads have been deprived of the right of managing their property, that the "hoary-headed bogeys" of Jim Fisk and the Credit Mobilier should be laid to rest. Perhaps the most useful contribution to the railway question in the United States at the present moment would be an equally well-informed, intelligent, and honest history and criticism of the faults, both of dishonesty and stupidity, of the public authorities of the United States in dealing with their railways. Let us hope that Professor Ripley will find time to write it.

W. M. ACWORTH

PROF. CARVER ON SOCIAL JUSTICE.

Essays in Social Justice. By T. N. CARVER, Ph.D., LL.D.,
David A. Wells Professor of Political Economy in Harvard
University. (Published on behalf of the Harvard University
Press by Humphrey Milford : Oxford University Press.
1915. Pp. viii + 429. 8s. 6d. net.)

It would appear that Professor Carver's new book is made up largely of occasional papers and addresses : the result is that the book as a whole is not only somewhat disjointed and unequal in