

# High Hurdle for Oklahoma Industry

By FINDLEY WEAVER

## Freight Rate Discrimination Against the Southwest Gives A Headache To Business Men Establishing New Industries

**A**N acute problem faces manufacturers in the southwestern states, including Oklahoma, Arkansas, Texas and Louisiana, because of the present freight rate structure which discriminates against this region and favors the northeastern part of the United States. The competitive disadvantage of Oklahoma and the Southwest resulting from discriminatory rates is a material factor retarding the general economic development of this region.

The problem as it appears in particular industries is well known to many businessmen. But its full economic import is not generally recognized.

Economic development of the Southwest follows the pattern found in the history of other regions. The early stage of this development is characterized by extensive production of agricultural raw materials and exploitation of mineral and forest resources. Despite a pronounced demand for labor and capital, a region in its economic youth has a shortage of these factors in proportion to natural resources. Because of this deficiency, a new territory adapts itself to a system of production involving extensive use of land and exploitation of other resources but a sparing use is made of labor and capital. The greatest comparative advantage is in

raw material production and not in manufacturing goods or rendering services.

A later stage of development is characterized by increased specialization in the production of manufactured goods and the rendition of services, during which stage the region becomes economically mature. In time, the comparative lack of labor and capital is overcome. Eventually all the land becomes settled even to the point where submarginal farm land is in cultivation. Mineral and forest resources are also fully exploited, in some instances to the point of destruction or serious depletion. In this later stage of development comparative advantage shifts from raw materials production to the economic pursuits of an industrial society.

Development of a new region from a colonial system towards economic maturity has been retarded at times and accelerated at other times by special conditions.

Manufacturing in the South and West was delayed during the period between the Civil and World Wars while industry in the North and East grew rapidly. This movement was accelerated by the destruction of capital equipment and impoverishment of the South because of the war and by the expansion of markets for northern goods because of the settlement of the West and the Southwest. At the same time, national economic policies favored the North. For example, free silver and other inflationary programs were defeated and the gold standard was established. This monetary policy was adverse to the debtor sections of the country but favorable to the industrial North. The tariff policy was also designed to protect Northern industry. Related to these national policies, restraint of trade by industrial combinations, control of patents, and innumerable unfair marketing practices favored manufacturing in the

North by eliminating competition elsewhere. Finally, the freight rate structure was designed in favor of manufacturing in Official Territory.

In one important instance, however, the economic interest of the West and South did influence national policy. This influence resulted in regulation of the railroads. But despite the benefit of this regulation, it has not removed the sectional discrimination in freight rates that deprives the Southwest of equal opportunity in manufacturing as compared with the North and East.

Although economic conditions and national policies during the era between the Civil and World Wars exercised a retarding influence on the industrial development of newer parts of the country, there have been powerful economic forces, especially since 1920, accelerating this development. The chief of these has been the effects of the depressions following 1920 and 1929 on agriculture. Relatively lower prices of farm products have made agriculture less profitable than it was prior to 1920. This circumstance forces people in agricultural regions to seek new means of livelihood. At the same time the need for manufactured goods and services is growing because they play an increasing part in the satisfaction of wants. Greater need for manufactured goods and services, therefore, combines with the adversity of agriculture to shift comparative advantage to manufacturing.

But transportation costs are a primary factor determining the location of manufacturing. Discrimination in freight rates against a region can, therefore, restrict the opportunity for its manufacturers in reaching the wide market necessary to sustain most kinds of manufacturing industry. Moreover, a comparatively high level of

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Points reached from five principal cities on a freight rate of approximately \$1, for first class less-than-carload shipments

Findley Weaver, director of the Bureau of Business Research at the University of Oklahoma, has studied various problems affecting the growth of industry in Oklahoma and the Southwest. Last spring the Oklahoma Corporation Commission asked Mr. Weaver and two members of the Oklahoma A. and M. College faculty to analyze certain economic evidence and represent Oklahoma at a freight rate hearing conducted by the Interstate Commerce Commission at St. Louis. Mr. Weaver is continuing to act as economic adviser for the Oklahoma Corporation Commission, and is probably the state's best authority on the effects of freight rate discrimination on industrial development in Oklahoma.

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transportation costs restricts even the local market. For this reason the Southwest is handicapped in securing the development of industry favored by its comparative economic advantages.

The nature and extent of discrimination can be measured by making comparisons of rates in different regions. For freight rate purposes, the country is divided into five major territories known as Official, Southern, Southwestern, Western Trunk Line and Mountain-Pacific. Official Territory, generally speaking, lies east of the Mississippi and north of the Ohio rivers and includes, among others, the wealthy and populous states of New York, Pennsylvania, Illinois and Massachusetts. Southern Territory is bounded on the West by the Mississippi river and by the Ohio river on the north. The Southwest includes Oklahoma, Arkansas, Texas and that part of Louisiana west of the Mississippi. Western Trunk Line Territory reaches from Iowa and Minnesota to the Rocky Mountains and from Kansas to North Dakota. Mountain-Pacific Territory includes Montana, most of Colorado and Wyoming, New Mexico, and all other states to the Pacific coast.

One general measure of the extent of discrimination is found in a comparison of the distances first class, less-than-carload freight can be shipped in different territories at a given rate. Such a measure is valid because most rates for other classes and commodities are related to the first class rate. To make this comparison a number of points have been selected, the rates to which from Chicago, Philadelphia, Oklahoma City, Houston, or Atlanta are not less than 97 cents or more than \$1.03. There are few points the rate to which from the foregoing cities is exactly \$1.00. But those points selected have a rate not more than 3 cents above or below \$1.00 and the average rate for all points is approximately \$1.00.

This comparison (see the accompanying map) shows that for an average rate of 99½ cents the average short haul distance from Chicago is 281 miles. The average distance of shipments from Oklahoma City at an average rate of \$1.00 is only 125 miles. Average distances that can be reached from other principal cities for approximately \$1.00 are: 298 miles from Philadelphia, 145 miles from Atlanta, and 131 miles from Houston.

A second measure of the extent of discrimination is found in a comparison of rates in different territories on specific commodities for equal distances of shipment. Innumerable such comparisons can be made for different commodities and industries. But the following are selected as illustrations. The rate on sole leather in carload lots from Oklahoma City to Chicago is \$1.27. The short haul distance from Oklahoma City to Chicago is 825 miles. From Philadelphia to Chicago, a distance of 817

miles, the rate on sole leather is 60 cents. The difference in these two rates is 67 cents or 112 per cent in favor of the shipper in Official Territory. There are no commercial establishments in Oklahoma manufacturing sole leather; it is unlikely that one could exist in the face of such a disadvantage. The rate on cheese from Oklahoma City to St. Louis, a distance of 543 miles, is 79 cents while the rate from Green Bay, Wisconsin, to Akron, Ohio, a distance of 551 miles, is 57 cents, a difference of 22 cents or 39 per cent in favor of the shipper in Official Territory. In this case the disadvantage in transportation can be overcome only by lower prices for milk or lower wages and other costs of manufacture.

A third measure of the extent of discrimination is afforded by constructing an index of average rates applying to different territories for all classes of freight. Such an index, prepared by the Tennessee Valley Authority shows the level of rates in Southwestern Territory to be 175, using the rates in Official Territory as 100. The index numbers for freight rates in other territories are: 139 for Southern; 147 for Western Trunk Line; and 171 for Mountain Pacific.

**FINALLY**, a comparison of revenue per ton-mile moving into terminals on December 13, 1933, shows the amount of revenue collected for each mile a ton of freight is hauled to be 31.1 per cent greater in Southwestern Territory than in Official Territory. Revenue per ton-mile for other territories was greater than that in Official Territory as follows: Southern, 30.7 per cent; West Trunk Line, 36.3 per cent; and Mountain-Pacific, 19 per cent.

These measures of the extent of discrimination show conclusively the competitive disadvantage of a southwestern manufacturer in reaching the wide market found in the large consuming centers of the northeastern part of the country or in serving local markets in the Southwest.

An inquiry as to whether there is economic justification for territorial discrimination must begin with an analysis of the practice of discrimination in general.

Railroads operate at decreasing costs. That is, a large part of their operating costs are fixed and do not vary with the volume of traffic hauled. Consequently, the roads seek a large volume of traffic which will yield a total revenue sufficient to cover their costs and leave enough to pay a fair return on the investment.

In order to obtain a large volume, the railroads discriminate in various ways in fixing freight rates. A chief example of this discrimination is found in the variation of rates between commodities. Sand moves at a rate lower than the rate on shoes. If rates were equal on all commodities, those articles of low value could not be shipped and the railroads would have less revenue than they have with discriminatory rates. There-

fore, discrimination between commodities is justified on the ground that it is necessary in order to produce sufficient total revenue. It is further contended that the practice of discrimination is to the advantage of the shipper paying a high rate because his rate is not as high as it would be in the absence of discrimination. Since collecting a large total revenue is the chief objective, particular rates are fixed primarily on the value of the service to the shipper and not on the cost of hauling. This policy is summed in the rule of charging what the traffic will bear.

Discrimination is not only practiced in fixing rates on different commodities, but there is also discrimination on the basis of distance and size of shipment. A rate for a long haul, for example, is not as great in proportion to distance as the rate on a short haul. Justification of this practice rests on the fact that the fixed expenses at terminals bear no relation to the distance the freight is shipped. Therefore, the additional charge for a long haul over that for a short haul is small. Also the rate on a less-than-carload shipment is greater in proportion to weight than is the rate on a carload shipment. In general, the principal of discrimination on the basis of commodities, distance and size of shipment is economically justified and is accepted as necessary in view of the economic character of railroad operations.

The justification of discrimination between territories, however, is disputed. Possible grounds for applying a higher level of rates in one section of the country over the level applying in another section are: First, the total cost of transportation may be higher in some territories than in others. Second, the density of traffic may be smaller in some territories than in others and consequently, a higher level of rates becomes necessary if the railroads are to meet costs and earn a fair return on the investment.

There is evidence that differences in the total cost of transportation between different territories do not justify territorial discrimination in rates. In fact, the railroad freight service cost (the cost to the railroads) in the Southwest is less than that in New England. In any comparison, regional differences in cost are not proportional to the variations in rate levels. Figures prepared by the Bureau of Statistics of the Interstate Commerce Commission show the carload cost in New England for commodities moving in box cars, for example, with a net load of 25 tons, for a distance of 300 miles to be 134 per cent of the national average. The percentage relation to the national average for other regions is 98 for Southwestern, including Southern Missouri; 102 for Eastern, excluding New England and Northern Illinois; 94 for Southern; and 103 for both Western Trunk Line, excluding Northern Illinois and Southern Missouri and Mountain-Pacific.

These costs include carload operating ex-

penses, rents, and taxes including allowances for less-carload and passenger operating deficits, and 5¾ per cent return on the value of the property.

It is true that the density of traffic is greater in Official Territory than in the Southwest. This fact can be used to argue that the level of rates should be higher in the Southwest. But it can also be argued that a lower level of rates in this region would result in an increase in the density of traffic so that the total revenue of the railroads would be unchanged or even increased as compared with the amount of revenue derived from a high level of rates. This question as to the relation between density of traffic and the level of rates cannot be settled by the use of statistics. The only way to know the extent to which the volume of traffic will be increased by a lowering of rates is to lower the rates. But in view of the advantages of the Southwest in manufacturing, it is reasonable to believe that the removal of gross discrimination against this region would cause a marked increase in traffic.

The Southwest is in urgent need of a remedy for freight rate discrimination. The first possible remedy is to ask for readjustment by the Interstate Commerce Commission. A difficulty in using this remedy is that present legislation does not clearly specify that the Commission shall have complete regulatory power over discrimination between territories although certain provisions of law, if interpreted broadly might be used as a basis for territorial rate readjustments. A second possible remedy, in case the first is ineffective, is to pass new legislation to fully authorize or make mandatory territorial readjustments by the Interstate Commerce Commission. In this connection it is to be recalled that the first Interstate Commerce Act passed in 1887 originated from the influence of the West.

It is taken for granted that any remedy sought by the Southwest will be opposed by the Northeast. The industrial organization of the country is based on the present freight rate structure. To change this structure would cause wide-spread readjustment. The cost of this industrial readjustment to the nation must be considered. Nevertheless, the Southwest will not be satisfied to retard in its industrial development indefinitely because of vested interests in other sections.

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## Sooners at Home and Abroad

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guage. His hope is to return later to continue his work.

Mr. Blakemore has been a student of international law since becoming associated with the Institute of Current World Affairs in 1938, after his graduation from the University School of Law.

## Advertising Executive

One of the youngest executives in one of the nation's largest industrial firms, Lowry Crites, '30, is now director of media for General Mills, Minneapolis, Minnesota. This recent promotion puts him in a top position in his chosen field.

Mr. Crites' career as a Sooner student was relatively short, but none the less ardent, for he fervently claims Oklahoma as his alma mater. After graduating from a Junior College in Wichita Falls, Texas, his home town, he enrolled in the O.U. College of Business Administration in the fall of 1927. He worked in the oil fields the following year, but returned to O.U. for another year of business courses in 1929-30.

This in-and-out schooling was prearranged, however. With a friend, Tally Timmons, he had a co-operative educational agreement. One year Talley worked as roustabout in the oil fields, and sent Crites to school, and the next year—vice versa. They were at O.U. together only for the first semester of 1927, after which the flip of a coin sent Talley out to earn the education for that year.

Talley eventually got his degree in geology in 1932. By schedule, Crites should have received his the year before, but fate intervened, in the form of a job as accountant for General Mills in Oklahoma City. Something else that intervened was Miss Mary Jane Nelson of Wichita Falls. They were married in the fall of 1930.

The couple lived in Oklahoma City until 1933 when Crites was transferred by General Mills to Atlanta, where he was division sales manager for Gold Medal flour. In 1940 he was transferred to the main office in Minneapolis.

His experience in accounting and sales fitted him for the post of comptroller of advertising and this year he was promoted to the position of director of media. As such, Mr. Crites has responsibility for placing of several millions of dollars worth of advertising in magazines, newspapers and radio stations.

He is 35 years old, and although the description doesn't fit him any more his Sooner friends still call him "Skinny." He was a member of the Kappa Alpha fraternity basketball team which won the intramural championship in 1930, but his present exercise is confined to cribbage and an occasional game of golf. The Crites have one daughter, Jane Ann, 6 years old.

## Masonic Honors

Three Sooners were among 25 Oklahomans honored at the biennial session of the Supreme Council of the southern jurisdiction of Scottish Rite Masons held in late October at Washington, D.C.

Elected to the 33rd degree in the Masonic order were O. Fisher Muldrow, '22, Ardmore, president of the Alumni Association; and Lewis S. Salter, '12fa, '17ba, Norman, dean of the O.U. College of Fine Arts.

Emerson N. Price, '30, Vinita, was elected a Knight Commander of the Court of Honor.

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