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## Review of “Interstate Commerce Commission, Part III, Vol. B,” By I. L. Scharfman

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INTERSTATE COMMERCE COMMISSION, Part III, Vol. B. By I. L. Sharfman. New York: The Commonwealth Fund, 1935. Pp. xiv, 833.

This fourth book, called Part III, Vol. B., of Mr. Sharfman's intensive analysis of the work of the Commission, deals with the regulation of the rates chargeable by common carriers subject to its jurisdiction. Because this involves two problems, instead of one, Mr. Sharfman has divided his treatment under the headings: The Rate Level, and The Rate Structure. The former involved the reasonableness of return to the owners and creditors of the carriers, the latter includes reasonableness from the standpoint of the shippers, the public, and the product carried. He points out that there were no legislative standards of reasonableness laid down, and that *Smyth v. Ames* stressed the issues of value and return so that the Commission was compelled to have in mind the limitations laid upon regulation by the rate level as a whole. The policies of the Commission in this regard are examined in the light of its decisions in the general rate advance issues, and they are grouped chronologically in two divisions: those decided before the Act of 1920, and those decided under the broad powers conferred by that Act. Mr. Sharfman offers numerous quotations and illustrations to offset the criticism of narrow and restrictive attitude on the part of the Commission. He maintains that pragmatic considerations played a leading part in solving the problems, and that the Commission avoided theoretical solutions and demands for economic favoritism in establishing rates. There did develop, it is admitted, a reluctance to accord due weight to legitimate revenue needs, and, to the reader, it would seem that the legislation of 1920 was a distinct recognition of and reaction against the policies of the Commission.

The experience of the Commission in administering Section 15a of the Transportation Act of 1920, under which rates were to produce a fair return to the carriers and the public was to be protected by the recapture clause, is set forth and estimated. Mr. Sharfman finds evidence of conservation of railroad revenues as an important factor in the execution of those powers, and he enumerates a number of economic factors other than the Commission's policies which have been both numerous and effective in preventing the attainment of satisfactory results. In the summary and conclusion of the activities of the Commission in connection with the Rate Level, it seems to the reader that Mr. Sharfman is experiencing some of the difficulty faced by the Commission, *i. e.*, justifying the things done and excusing the shortcomings by blaming extraneous factors. The repeal of the recapture clause and the statutory revision of 1933 seem to be recognition of the shortcomings in the regulatory attitude. That the rate of return fixed by the Commission at 5.75% was seldom earned and never achieved by all the roads seems to be set up as a justification for the legislation of 1933 releasing the Commission from prescribing any rate of return. The elimination of the requirement of a fair return is not, in Mr. Sharfman's opinion, dangerous. However, it will always be possible to ascribe deficiencies in return to the lack of honest, efficient and economical management.

In examining the work of the Commission in its relation to The Rate Structure, Mr. Sharfman points out a basic difference between the trans-

portation and other commercial enterprises. Competition has been deemed a regulatory force in the latter, but the railroad rate structure is simply a controlled system of prices of the product of the former, transportation of persons and property. With two-thirds of the total of railroad expenditures independent of the volume of traffic carried, demand factors and cost factors bear little relation to each other. Because the system of railroad charges is based in large measure on the *ability of the particular traffic to bear the rates*, it is generally criticised. On pages 321-325 and again on pages 421-440 Mr. Sharfman has done a service in drawing a clear distinction between the meaning of the foregoing phrase when it describes "monopolistic price fixing" and when it describes the practice of "apportioning common costs" among the various services in accordance with the relative intensity of the demand for them or as compelled by competitive pressure. So complex is the task assigned to the Commission that, "No single and clear-cut principle of rate control emerges through which the hundreds of thousands of transportation charges involving every type of commodity of commercial importance and every locality in the country can be rationalized; no simple formula is available, in terms of cost of service or of value of service or of some definite combination of the two, through which maladjustments can be automatically removed and the public interest universally furthered."<sup>1</sup>

One would like to relate the progress of the author in detail as he examines the problems and their solutions offered by the Commission. His discussion of the reparations for past maladjustment brings out the fact that personal discriminations have been very largely eliminated as a result of enforcement of statutory requirements rather than through policies evolved by the Commission. In predominant measure the Commission still relies upon the initiative of the carriers for the establishment of rates and charges. The strong appeal in the phrase "value of the service" is commented upon at various points but Mr. Sharfman maintains that such a measure of rates is not tenable and has not been of much influence on the Commission. He points out how it has been necessary to consider *relationships* rather than *absolutes* in creating the rate structure. Values, uses, loading costs, weight density, risk of loss or damage, volume of movement, care required and the like influence the tariffs and the classifications. The social importance of the goods is another imponderable which the Commission has to consider. Distance relationships take up one hundred and seventy pages of discussion, and the problems raised by Section 4 are examined and the action of the Commission favorably commented upon, when it recognized the competitive element. Mr. Sharfman's discussion of the dangers of treating commercial conditions as a rate factor in pages 661-667 is of interest in showing its effect on the actors<sup>2</sup> as well as in its bearing on rate structure. His opposition to the propriety of authoritative recognition of commercial factors<sup>3</sup> is

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1. P. 327.

2. Failure of confirmation of reappointment of a member of the Commission and failure of confirmation of the appointment of a judge.

3. Pp. 685-693.

convincing. He reviews the constructive efforts of the Commission toward the creation of a sound rate structure in a section on Comprehensive Rate Adjustments. These efforts and their results are traced from the aid given in the Consolidated Classification, prepared through the cooperation of the United States Railroad Administration in 1919 through the accomplishments under the Hoch-Smith Resolution of 1925 down to the repeal of that resolution in 1934 and the assumption of the investigations by the Coordinator.

The summary and conclusion on The Rate Structure cover pages 753-768. Some of his conclusions are favorable to the results produced. Recognizing that theories of rate making are likely to run into ideal terms conceived in the absence of practical obstacles, the Commission has proceeded in a practical way with knowledge that its action has a vital bearing upon interests of great magnitude, those of shippers, communities and carriers. He is critical of some of the processes and reasoning of the Commission in important particulars, especially in the analysis and use of various rate factors. Thus he thinks cost of service was given little effect because of the difficulty of ascertaining it. On the whole he concludes that many years of control have contributed only moderately toward the achievement of a symmetrical and logically integrated system of charges. A shifting membership, not particularly qualified for the task, has not aided in improving the results.

Finally it is pointed out that the long experience with railroad rate regulation should be seriously considered when the question of general price control arises and should prevent its facile acceptance without due consideration of its difficulties, and the magnitude of the task involved. The ablest and experienced men are necessary to assure the proper administration of the tasks assigned to the Commission.

In this volume Mr. Sharfman has had recourse to and cites the leading experts in the economics of transportation as well as Supreme Court decisions and the Commission's reports. The style is attractive and the presentation critical but in a judicial and impartial way. Both his praise and his criticism are worthy of serious consideration. Unlike many critical studies, this book can and should be read by as many layman as possible because of the clear and interesting presentation.

St. Louis, Mo. CHARLES E. CULLEN.†

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BROOKINGS: A BIOGRAPHY. By Hermann Hagedorn. New York: The Macmillan Company, 1936. Pp. 334.

This succinct and sprightly volume of 334 pages may be regarded as several different works in one. It presents the life of an American captain of industry who made money in a field of fierce competition, as many other successful business men have done. It also presents the life of a rich and debonair gentleman, fond of music and literature, who, dissatisfied with the ordinary uses to which much American wealth is devoted, showed originality

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