

CHAPTER X

CHIEF FREIGHT RATE STRUCTURES OF UNITED STATES AND CANADA— SOUTHERN CLASSIFICATION TERRITORY

The rate structure of the Southern Classification Territory shows marked contrasts with that of the Official Classification Territory.¹ Like the system considered in the preceding chapter, it has been the outgrowth of the economic conditions peculiar to the South and in order to see it in its proper setting we shall have to see what these conditions have been.

Reasons for the former basing-point rate system.—Southern territory is surrounded by navigable water, and some of these waterways penetrate the interior. When the period of railroad building began the South was almost entirely an agricultural country, producing largely cotton and tobacco, and sending these by the waterways to markets situated on the waterways. Some of the early railroad lines formed links between the waterways or acted as feeders for them, but more frequently they were competitors and carried on the fight for traffic. The result was that the cities upon the coast or inland navigable waters were given very low rates as a result of this competition, while a much higher level prevailed at the interior points which were not so favoured. In this way there originated the famous "basing-point" system. Another result of the competition was that, since the steamboats made no distinction between carload and less-than-carload traffic, there was the establishment, to a greater extent than in any other part of the country, of any-quantity freight rates. It was the practice of the railroads, in the case of local non-competitive business, to establish rates increasing rapidly with distance and so high that as a competitive point was approached the rate would be cut by the combination of the low rate to that point plus the local rate back; in other words, the intermediate non-competitive point obtained the benefit of the lowest combination. In this way the large trade centres became the basing points for the territory tributary to them. With the extension of railroad construction the

¹In the material of this chapter I have followed very closely the Proposed Report of Commissioner Eastman, of the Interstate Commerce Commission, on the *Southern Class Rate Investigation*, 1924.