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ON TARIFF FREIGHT RATES

THE CONTENTS

1. THE MEANING OF TARIFF FREIGHT RATES

Tariff freight rates mean the freight charges indicated in classified forms according to the kinds of transport service and the kinds of objects for transport (goods to be transported), at which the transportation is to be carried out generally, irrespective of the person who requires the service. The freight which, in individual cases, is arranged for through negotiations or bargainings between common carriers and their customers may be defined as freight rates in free competition, and not tariff freight rates.

The mere fact that the prices of transport service are indicated classificatorily in tabular form does not necessarily indicate that they are tariff freight rates. In the case of railway transportation, all freight rates are shown in a tabular form, and all transport transactions are always made in accordance with these rates, so that in this case the tariff denotes a clear indication of the willingness on the part of the common carriers to carry out the transportation of goods generally at the rates mentioned in the table. Such being the case, in so far as railways are concerned, it may be defined that tariff freight rates are freight rates indicated in a tabular form. In the shipping business, however, there are freight rates, which, though given in tabular form, do not necessarily signify the intention of the common carriers to carry out the transportation of goods in accordance with those announced rates. Those rates which are shown in "freight quotations" belong to this class. The explanation is, therefore, incomplete if we say that tariff freight rates mean the rates which are published in tabular form.

As a general rule, regular liners have their tariff rates, but when a company with regular steamship services operates tramp steamers or puts additional ships on its regular line, as sometimes happens, it fixes freight rates temporarily in a tabular form with due regard to the ruling market quotations, according to the kinds of goods for transport and their destinations, and communicate them to its customers, viz. shippers. In this case, the freight rates, though given in a definite tabular form, as in the case of tariff rates, simply represent the standard market freights then ruling, and it does not necessarily follow that the shipping company will arrange the rates strictly according to the figures given in this table when goods are entrusted to it for transport. The common practice, in this case also, is rather to fix the rates in regard to individual cases by negotiation between the shipping company and the shippers concerned. This being so, the rates in this instance cannot be termed tariff freight rates; they are freight rates in free competition just the same. Tariff freight rates must essentially be such as are rigidly applied to any customers generally. "Tariffs" representing the tariff rates and "freight quotations" embodying the ruling standard market prices of transportation are very much alike superficially, but in substance there exists a difference such as has been pointed out.

In discussing freight rates, Western scholars are apt to deal with "tariff" or "*Tarifwesen*," instead of "tariff freight rates." While dwelling upon the formation, merits and principles of tariffs at considerable length, they make no reference to "tariff freight rates," beyond mentioning that the prices indicated in tariffs are called "tariff rates" or

" *Tarifsatze.*"[1] It is true that as tariff freight rates are given in tabular form, to discuss the tariff table is to discuss the rates after all, but from the point of view of the nature of the subjects under discussion, it is not exactly the same thing. To discuss tariff freight rates is to go into the nature of the matter directly, while to discuss the table in which the rates are given is an indirect method of discussion.

Some writers think it one of the characteristics of tariff rates that they are settled through some measure of official influence. Needless to say, the governments of all countries are fully cognisant of the very far-reaching effects of railway freights on national economy generally, irrespective of the kinds of railways, whether they are nationalised, public or private; and exercise, as part of the State powers, what is called " *Tarifhoheit*," thereby ensuring their participation in the fixing of tariff freight rates. Their participation takes the form either of official sanction of the rates decided or the obligation imposed on the management of railway companies to give the previous information of the proposed rates.[2] Such being the case, it may be admitted that in railway tariffs, the official influence on their establishment forms one of their characteristics. In marine transportation, however, tariff freight rates exist, generally speaking, only in regard to the transportation of goods by liner companies which generally combine in a Shipping Conference. Inasmuch as these rates are fixed by the Shipping Conference, which is a body of an international nature, no country can fully exercise its " *Tarifhoheit* " over the matter.[3] Thus, it

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1) For instance, Emil Rank, Das Eisenbahntarifwesen in seiner Beziehung zu Volkswirtschaft und Verwaltung, S. 123; Franz Ulrich, Das Eisenbahntarifwesen im allgemeinen, S. 27; Kurt Giese, Das Seefrachttarifwesen, S. 108 ff.

2) For instance, Article 21 of the Local Railway Law of Japan, Articles 34-39 of the regulations for the enforcement of the above-mentioned law, Article II of the Tramway Law (*kidoho*) and Articles 19-23 of the regulations for the enforcement of the said law.

3) See Sections 4 and 6 of Chapter 8 of my book entitled " *The Shipping Conference* " [海運同盟論]。

may generally be accepted that they are fixed with no official participation or interference from the State. Such being the case, although official influence on the fixing of the rates constitutes one of the attributes of the railway tariff freight rates, it is not generally so in regard to marine transportation. The only exception is the case of the subsidised lines, the rates for which are amenable to State control, for in this case the above-mentioned characteristic is noticeable to a more or less extent.[1]

Some scholars hold that "public announcement" constitutes one of the attributes of tariff freight rates. For instance, Grunzel, in his definition of the railway tariff employs the language "Die öffentlich kundgemachte Zusammenstellung jener Gebühren,........."[2] By public notification is meant the announcement of the rates in print which are given for general public, or the putting up of notices with the rates at places exposed to public observation. In the case of railway tariff rates, they are, almost without exception, publicly announced by these means,[3] but such methods of publication are not always, with only very little exception, adopted in regard to ocean shipping tariff freight rates in all countries. In Japan as well as in England, most of the shipping companies operating regular services communicate tariff rates to their shippers on application, but they do not usually make them public voluntarily.

The most common idea held by people with regard to tariff freight rates is that they are fixed by the will of the common carriers exclusively. Some people so stress the unilateral nature of this decision that they add that it is authoritative. In explaining shipping tariff rates of freight, Dr. K. Giese employs the terms "einseitig festgesetztes Verzeichnis" or "einseitige autoritative Festsetzung."[4] These

[1] For instance, Article 5 of the Oceanic Lines Subsidy Law, of Japan.

[2] Grunzel, System der Verkekrspolitik, S. 111.

[3] Article 3 of the Japanese Railway Business Law orders the promulgation of the railway freight rates at all stations.

[4] Kurt Giese, Das Seefrachttarifwesen, S. 11, 108.

remarks do not, however, necessarily apply to shipping tariff rates, though they are applicable to railway tariff rates. It is true that, in shipping matters also, tariff freight rates can be, as Giese has it, fixed by the onesided and arbitrary will of a Shipping Conference, when it deals with disconnected and unorganised shippers. Even the Conference, however, cannot afford to disregard the wishes of shippers, when the latter organise an association among themselves and take joint and united action in order to withstand the arbitrariness of the Conference. Then, it becomes necessary for both parties to confer on the terms of transportation on the shipping lines concerned. In such a case, the shippers' associations are duly consulted when the Conference contemplates either the fixing or altering of rates.[1] For instance, in the "Memorandum of Agreement between the South African shippers and the regular Steamship Lines trading to the Union Ports of South Africa."[2] "The basic berth rates" are settled in the Memorandum, and it is agreed that "all alterations in and additions to the tariff of rates of freight to be communicated to the South African Trade Association as hitherto."[2] In the "Memorandum of Agreement between the shippers and Steamship Lines trading to Australia", it is stipulated "that no general increase in basis rates shall be made except after consultation with the Australasian Merchants' Association and full consideration of the shippers' views thus ascertained."[3] These rates are tabulated as the freight rates for regular liners and all transactions are made in accordance with them. They are clearly tariff freight rates. Thus, it will be seen that shipping tariff rates are not necessarily fixed by the arbitrary will of shipping companies. Nor are they fixed authoritatively. They are in

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[1] See Page 230 and downwards, Page 234 and downwards and Page 568 and downwards of my book entitled "*The Shipping Conference.*"

[2] See the Final Report of the Imperial Shipping Committee on the Deferred Rebate System. 1922, p. 52, and Supplement No. 8 of my book "*The Shipping Conference.*"

[3] See Supplement No. 9 of my book "*The Shipping Conference.*"

some trading routes fixed in consultation with shippers or shippers association.

I have explained the real nature of the tariff rates of freight. When they are compared with freight rates in free competition, to which brief reference has already been made, the following points of difference will be noted between them :—

(1) Freight rates in free competition are rates which are fixed separately in regard to individual transport service and consequently they usually vary, as the objects for transport or their shippers differ. As for tariff rates, they represent rates of general application for transport service of a similar nature, which is repeatedly required. These rates are given in a tariff in the terms of prices for a unit of weight or size (for instance, one ton, one picul, etc.) generally adopted in transport business of the objects for transport according to the kinds of transport service and the kinds of objects for transport, and they are, as a general rule, applied to transport service of the same nature and to objects for transport of the same kind, irrespective of shippers. Thus, uniformity characterises tariff rates of freight.

(2) Inasmuch as freight rates in free competition are fixed for application in one particular case, in consideration of the circumstances prevailing at the time when the transport service is required, they usually differ as the circumstances under which they are fixed differ, even if the transport service required be of the same nature. In other words, different rates are required for individual cases. Not so with tariff freight rates however. As tariff rates are so fixed as to accord with the general economic conditions which tend to influence the transport interests on the route concerned and the general conditions of the shipping business, they, as a general rule, remain unchanged, so long as there occur no changes in these general economic conditions. This being so, although no time-limit is set to tariff rates, they continue in force for a certain period. From this

point of view, tariff freight rates may be said to possess stability.

(3) While freight rates in free competition exist when competition is going on among suppliers of transport service, tariff rates of freight can exist only when there is no rivalry among suppliers of transport service or when such competition has ceased to exist. When there is competition among suppliers of transport service, no suppliers can be free from the restraining influences of their rivals upon their freight business policies, with the result that they are unable to formulate tariff rates for general application which can be enforced for a fairly long time. Not until suppliers of transport service find themselves in a position to adopt an independent freight policy without fear of restraint from their rivals can there be tariff freight rates. By an independent freight policy, I do not, of course, mean a freight policy which they can shape with no influence from the side of shippers. Since freight rates are nothing more or less than the prices for service fixed between the suppliers of service and shippers, there can be no suppliers who can fix them without regard to the mind of the shippers. What I call an independent freight policy, therefore, simply means a policy which is shaped by suppliers without restraints from their rivals. In my opinion, monopoly may be taken as indicating that position in which one can adopt an independent price policy in the above sense. Viewed from this point of view, freight rates in free competition are fixed by the simple operation of the law of demand and supply, while tariff rates of freight are fixed by the principles of monopoly.

2. THE FORMATION OF TARIFF FREIGHT RATES

What conditions are, then, required to bring tariff freight rates into being?

The first condition is that transport service is carried on repeatedly and more or less regularly in accordance with a fixed plan. There can be no tariff rates where adequate methods of transport and transport equipment are provided only after orders for transport have been received—or where exist conditions analogous to the production of goods to order in industry. In such instances, transactions can only be effected by means of freight rates in free competition. Tariff freight rates are possible only where common carriers can draw up a plan for general application to meet general transport requirements, so that transport service can be offered with fixed methods and arrangements—or where, to cite a parallel instance in industry, the method of market production can be adopted.

In such cases, transport is effected as an organised action conducted systematically, and transport service for individual objects for transport, goods or passengers, can be recognised, only conceptually, as a part of a transport organisation which is operated systematically. From the point of view of individual objects for transport, it may be said that transport service of the same form is worked simultaneously for their benefit, regularly as well as continually and repeatedly, but this is a fact which exists only conceptually. As a concrete fact, all that exists is the systematic activity of one transport organisation, which operates in regular succession.

That transport should be undertaken in such a manner is one of the pre-requisites of tariff freight rates. Freight rates in free competition can rule only where transport is effected only when there are cargo or passengers available, while, on the other hand, tariff freight rates come into existence when there arises a state of things in which goods are transported under a transport organisation which is operated systematically. Such being the case, tariff freight rates may be defined as the price for a particle of the systematic activity of one transport organisation, which is working in regular recurrence.

The second condition necessary for the formation of tariff rates is that goods which require transport service of the same kind, are available both continually and in great numbers on one and the same route, as otherwise there can be no room for the existence of a transport organisation which operates systematically. From the point of view of the transport business, the material conditions required for a systematic transport organisation depend on the advanced art concerning the loading apparatus, the route and the motor power, which make up the transport organs, and the accumulation of capital needed for obtaining such outfits. As the immaterial conditions, there must be a combination of the enterprising spirit required for operating the transport organisation as an enterprise and the business talents needed for carrying on the enterprise profitably. In order, however, to ensure the existence of such a transport organisation as an economic enterprise, it is necessary that on the route on which the transport business is conducted, goods which require transport service of the same kind should be available in great numbers and move at regular and frequent intervals. Such plentiful movements of goods cannot be hoped for unless social order is maintained, natural resources are fully developed and the wealth of all countries is increased with the consequent advance of the economic line of all nations. Thus viewed, it may be said that not until there are advanced social civilisation and developed economy can there exist tariff freight rates.

The third condition is that the common carriers concerned should be so circumstanced that they can monopolise the transport business. That is to say, the common carriers must be in a position to adopt, either independently or in union with their confreres an independent freight policy without fear of competition from anywhere. If they are so placed as to be unable to fix their own freight rates without being influenced by the rates adopted by their competitors, their freight policy lacks stability. Their rates are liable to constant changes, as they cannot remain unaffected by the rates fixed by their rivals. In such circumstances, it is out of the question for the rates once fixed to be maintained for a long period so that the transport business can be operated in accordance with them. This being so, it is one of the pre-requisites of tariff rates that common carriers should be in a position to monopolise the business. This monopoly can exist in regard to the business as a whole in the case of railways, but in the case of shipping business, it can exist only in regard to the regular steamship service and especially in respect of the goods fit for transportation by regular liners. It may also be mentioned that in the railway business, monopoly is automatically established where the enterprise already existing meets the requirements on the route of transport satisfactorily, while in other cases it takes the form either of a cartel or of a trust. In the case of the shipping business, however, the form of a cartel only operates, the form of a trust being incapable of acquiring a monopoly. The cartel combined among liner companies is generally known as a "Shipping Conference." On this subject I dwelt at considerable length previously.[1]

As I have already pointed out, the existence of a great demand for a transport service of the same kind on one and the same route is the basic fact on which tariff rates are formed, and at the same time it may be said that this fact constitutes a factor which makes it absolutely necessary for transactions in transport service to be effected by means of tariff rates. When there exists much and frequent demand for transport service of the same kind, it is not only too troublesome for common carriers to arrange for rates by separate negotiations with different customers but the procedure involves them in needless expense. In such cases, therefore, freight rates must needs be uniform, a circumstance which helps tariff rates into being. Such a state of things is remarkably in evidence in the railway transport business. The fact that the application of the same scale of rates to railway transport service of the same kind is

[1] See my article "Shipping Combinations as seen from the view-point of Freight Theory," No. I. of this Review.

ordered by law in most countries[1] has the natural effect of bringing tariff rates of freight into existence in regard to the railway transport business.

In the shipping business, there is, generally speaking, no law in any country ordering such a uniform treatment of shippers in respect of rates. It nevertheless sometimes happens that the government makes such a treatment one of the terms of a shipping subsidy which it grants to a shipping company and a clause in this respect is inserted in the subsidy contract.[2] Where there exists no such subsidy contract, it is the most powerful stimulant to tariff freight rates that there should be much and frequent demand for transport service of the same kind. This is, however, a very modern phenomenon in the shipping business.

Not only in the Middle Ages but even in the latter part of the nineteenth century, marine trade was of a very adventurous nature, and those who engaged in this trade were limited to a small number of merchants with a big capital. These merchants operated the trade with their vessels which were generally called Free Traders. In those days, there were, of course, no freight rates. Even in the case of merchants who had no ships of their own, as the goods dealt in by them in oversee trade in those days were bulky cargoes, the transport was made by chartered ships, so that charterage took the place of freight rates. It is obvious that the prices for transport service which differ according to cases, as in the case of the charterage referred to, can never take the form of tariff freight rates.

It was not until industrial goods came to constitute the principal goods for transport, as a result of industrial revolution, and numerous merchants began to participate in trade that tariff freight rates became necessary in the shipping business. As the trade in industrial goods became prosperous,

1) For instance, What Articles 3 and 6 of the Railway Business Law imply.

2) For instance, the contract concluded between the Italian Government and the Societa di Navigatione Generale Italiana.

a regular steamship service, which was systematically operated, came into being, on the one hand, and there sprang up increasing and frequent demand for transport service of the same kind on the same route on the other. The result was that in marine transportation, transport service was divided into transport by charter-party and transport by individual contract. With regard to the transport of innumerable individual goods, which were entrusted for transport at frequent intervals, shipping companies, like railway companies, found it too troublesome and expensive to arrange for freight rates in respect of individual cases separately, and came to choose tariff freight rates for the sake of the simplification of business transactions. Wheras in the transport by chartered ships, "the system of open competition," as it is called in England, was adopted, "the system of uniform rates," or tariff freight rates, has been in force exclusively in the transport of individual goods since the business passed into the hands of the shipowners operating regular lines.

3. THE MERITS OF TARIFF FREIGHT RATES

Tariff freight rates bestow advantages of varying kinds on the general public as well as on common carriers and customers.

As already mentioned, tariff rates exist only where there is a monopoly of the transport business, and they represent the prices to be paid for the transport of individual goods. In the tariff, the same rates are charged on goods of the same kind entrusted for transport, as I have endeavoured to make plain. The common carriers who operate their business under an independent freight policy can, therefore, fix the rates by taking into due consideration the capacity of the objects for transport to bear freight, that is to say, the prices of the goods. Thus, it will be seen that tariff rates of freight are fixed in accordance with the principle of "What the traffic will bear."

In the case of freight rates in free competition, it is naturally impossible for the prices of the goods entrusted for transport to be taken into consideration in fixing the rates. Suppose that a certain common carrier who has to carry on his business in competition charges the rates fixed in proportion to the prices of the goods entrusted for transport, and his competitor or competitors offer to undertake the transportation of high-priced goods at rates slightly lower than he charges, as is the natural outcome of competition. In such circumstances, the common carrier who charges the rates according to the prices of the goods will be compelled to take those goods only on which low rates are charged, as all costly goods, on which he levies high rates with a view to making up for the loss suffered by the low rates charged on low-priced goods, will go to his rivals. Thus, the object for which the prices of the goods are taken into consideration in fixing the rates will be defeated. Worse still, he will find it difficult to carry on his business. The idea of fixing the rates with due regard for the prices of goods is, therefore, impracticable except where tariff rates can be enforced.

As tariff freight rates are fixed with due regard for the capacity of the goods to bear freight by taking their prices into account, and as they exist only where there is a monoply of the business, they ar , as already noted, generally enforced in the railway business, but in the shipping business, they are in force in regard to regular steamship services exclusively. They are impracticable with regard to tramp steamship services.

In the regular steamship service, the adoption of tariff rates gives the shipping company the benefit of transporting, on a route which it monopolises, comparatively high-priced goods at rates correspondingly high, while transporting comparatively low-priced goods at correspondingly low rates, so as to prevent these goods from going to tramp steamers. Such being the case, by adopting tariff freight rates, which are fixed in consideration of the capacity of the goods to bear freight, shipowners operating regular liners on monopolised routes can transport as large quantities of goods as the circumstances prevailing at the time permit, thereby expanding the revenue from freight as much as possible. This puts the shipowners operating regular liners in a more favourable position as compared with those operating tramp steamers under freight rates in free competition. It would, however, be too hasty to conclude that because tariff rates are monopolistic in nature, shipowners operating regular liners can, therefore, indulge in profiteering. This phase of the question must, of course, be dealt with separately from tariff freight rates, and it may be said that the matter largely depends on the strength of the monopolised position occupied by such shipowners.

Another advantage which the owners of regular liners can derive from tariff rates is the abundant facilities afforded them to exercise supervision over their fellow members of the Conference, when they form such a combination, in order to see that they faithfully enforce the rates agreed upon. As has been repeatedly stated, when more than two shipowners of regular liners operate their shipping business on one and the same line, competition is inevitable among them. As each has a rival against which competition is directed, rivalry comes to assume the aspect of a battle, as is called rate war, which tends to redound to their common disadvantage. In order to preclude such competition, they form a cartel, called a Conference and fix the rates and other business conditions by agreement. The rates of freight agreed upon in this way being common to all within the Conference, they naturally constitute tariff rates. The members of this Conference carry on their business in accordance with these rates. If any one of the members of the Conference transacts business at rates fixed arbitrarily in negotiation with shippers, instead of at the rates agreed upon with his colleagues; he is guilty of an offence against the terms of the Conference. The faithful observance of the tariff rates by the members of the Conference is a proof that the Conference exists not only in name but in fact. From this point of view, tariff freight rates may well be described as the measure by which the stability of the Conference can be judged.

The greatest benefits which shippers generally derive from tariff rates are their stability and uniformity. As already mentioned, tariff rates, unlike freight rates in free competition, are not subject to constant changes, as they are comparatively proof against the changes which come over the relationship between demand and supply in respect of transport service. They remain unaltered for a certain period. In this sense, tariff freight rates possess stability. This stability enables the shippers who may be either sellers or buyers, to fix their prices by counting definitely on the amount of freight to pay. When there are constant changes in rates as in the case of freight rates in free competition, neither the sellers nor the buyers of goods can fix their prices on any solid basis. The freight rates which they must consider in fixing the prices of their goods in this case will be a dubious entity after all. The result is that they run the risk of incurring unexpected losses in consequence of fluctuations in freight rates. Such being the case, even if transactions themselves may be devoid of either venturesome or speculative elements, the changeableness of the rates imparts the nature of speculation to transactions in the case of freight rates in free competition. The stability of tariff rates, therefore, deprives transactions, made in accordance with them, of speculative elements, at least in so far as the freight is concerned, and helps the sound development of the trade.

As above mentioned, the stability of tariff freight rates makes the trade done according to them free from speculative elements. At the same time, it enables people to calculate all freight charges with certitude in concluding long-term contracts or dealing in futures, thereby rendering such transactions possible. This, however, largely depends upon the degree of stability, and there naturally exists some difference between railway and shipping transactions. In the case of railways, as the monopoly is very firm, the stability of the rates is accordingly very steadfast whereas in the shipping industry, as tariff rates exist in regard to regular liners only, as I have frequently mentioned, and as, moreover, the monopoly, on which the stability of the rates hinges, is not so deep-rooted as in the case of railways, a latent competition always existing, the rates cannot but be less lasting. Nor are those traders who, in view of the nature of their goods, are obliged to make use of tramp steamers, to share in the advantages accruing from the stability of freight rates. Tramp steamers are utilised by those who handle mining, forestry and agricultural products, while regular liners are chiefly used by those who handle industrial goods. Such being the case, it may be said that industrial countries or advanced countries are more closely interested in the stability of tariff freight rates adopted for regular liners than agricultural countries or backward countries.

Next, the uniformity of rates means the charging of the same freight on goods of the same kind requiring the transport service of the same description on the same route, irrespective of shippers. I have already referred to the uniformity of this nature, which tariff freight rates possess. As this uniformity of rates entitles small shippers, or those who entrust small quantities of goods for transport, to the same treatment as that accorded big shippers, or those who contract for the transport of large quantities of goods, it puts them on the same footing in carrying on competition, at least in so far as freight rates are concerned. It is usual that those who handle large quantities of goods and make enormous transactions enjoy greater advantages and facilities in many respects as compared with those who handle small quantities of goods and make small transactions. From this point of view, tariff rates help and protect small shippers in their competition with big ones. As, moreover, small shippers are numerous, while big ones are limited in number, the fact that tariff freight rates rule in respect of the domestic transport business, as, for instance, the railway service, may be interpreted as calculated to protect merchants and industrialists generally, and consequently to redound to the advantage of the consumers at large.

In oversea trade, tariff rates and the uniformity of rates inherent in them are available in regard to regular liners exclusively, as I have already explained, and the benefits accruing therefrom are chiefly enjoyed by small shippers of industrial goods. Big shippers stand to gain more from freight rates in free competition than from tariff rates. In the case of freight rates in free competition, for instance, big shippers can adopt a strong attitude in their negotiations with shipowners for fixing the rates because the space required by their goods is immense. As for those engaged in the shipping business, the appearance of competitors for these higher class goods obliges them to be content with such rates as enable them to cover the cost of transport and as are only little higher than those charged on the lower class goods, for instance on agricultural products. In arranging for rates in such circumstances, they cannot afford to take into consideration the fact that the industrial goods are costly ones and are consequently capable of bearing higher rates. In short, they are obliged to fix rates in disregard of the principle of " What the traffic will bear." Thus, there arises the question, which is more conducive to the development of oversea trade in the industrial goods of the country, tariff rates of freight, which protect the interests of small shippers, or freight rates in free competition, from which big shippers derive greater benefits than from the other procedure.

Inasmuch as big export traders are influential merchants in international commercial competition, it seems to be not only in their interests but desirable from the point of view of the future development of the export trade of the country that they should be put in a favourable position in the matter of freight rates. It is for this reason that some people maintain that freight rates in free competition tend to promote the development of foreign trade of a country, but the advantages which are exclusively given big shippers in the matter of rates are destined to result in international trade being monopolised by a limited number of big merchants. This will lead to a situation in which producers of goods for export will be brought under the sway of these traders with big capitals. The result will be that the production of goods for export will be dictated by these export merchants who have an eye to their selfish interests, and the natural growth of the export industry will be impeded. Both from the point of view of the prosperity of domestic industry and from that of the future development of the export trade, the rise of such a state of things seems to be disadvantageous as compared with cases where a large number of small traders can engage in the export business in competition with a small number of big traders on an equal footing under the tariff rates system. It sometimes happens that an export industry is developed by the manufacture of a new commodity, to which little attention is usually paid by domestic merchants, and this is possible when manufacturers are in a position to give full play to their originality and ingenuity. The existence of many small traders renders the export of such commodities easier also. In cases where the export trade is monopolised by a small number of big traders, who direct the manufacture of such goods from mercenary motives alone, the export of newly designed goods is liable to be either neglected or discouraged. Furthermore, the increase of the sum total of the export trade of the country can be more easily looked for when the export trade is competitively carried on among a large number of traders than when it is monopolised by a small number of traders. Tariff freight rates are, therefore, more conducive to the development of the export trade of industrial goods than freight rates in free competition.

I have dealt with the chief advantages which tariff freight rates bestow upon common carriers and shippers, and, through them, on the general public. Some scholars maintain that tariff rates operate to ward off a panic by checking extreme speculative practices and also that they have the advantage of enabling *entre preneurs* to quote the old prices, even when the prices have developed a downward tendency. Dr. K. Giese, for instance, says to the effect that "in some respects, a tariff operates to regulate the prices (of commodities). As a rise in the prices of commodities affects the tariff only very slowly, the general market can be warned before speculative transactions develop extreme proportions. Especially, those engaged in the shipping business can take warning from an excessive increase in the demand for tonnage. In this way, the edge of the threatened panic can be blunted. When business depression sets in also, a very slow decline in freight rates under the tariff system produces similar effects. The fact that the freight rates under the tariff system decline but slowly when economic depression sets in—and when economic depression sets in it is often a vital question for a manufacturer to maintain the prices for the goods held in stock—enables the holders of stock-in-trade to quote high prices for a certain period on the ground that there has been no change in the rates."[1]

With regard to the effects of tariff rates of freight in the days when business depression sets in, I hold a view just the opposite to the one I have just quoted. The gradual increase of actual demand (consumers' demand) for the goods, which is prompted in certain circumstances, leads to a rise in the prices of commodities, resulting in business prosperity. If, in such cases, merchants or producers form an erroneous estimate of the actual demand (consumers' demand) in the market and start speculative production and speculative transactions. Such speculative transactions will at last result in unmasking a disparity between actual demand (consumers' demand) and supposed demand (merchants' demand), which is nothing but a panic. If, in these cases, freight rates can exert any restraining influence over this panic, such rates

[1] Kurt Giese, Das Seefrachttarifwesen, S. 101.

must be necessarily ones which are very susceptible to fluctuations in the market prices of commodities. Freight must rise even at a greater rate than the market prices of commodities so that speculative transactions and production may be rendered difficult, if a panic is to be nipped in the bud. Even if it cannot be averted, its dimensions can be circumscribed. If freight rates are kept at a low level, notwithstanding the rising tendency of the prices of commodities, they will have the effect of accentuating the supposed demand (merchants' demand) with the inevitable effect of expediting an economic panic. They can never operate to keep off a panic. In my opinion, therefore, it is freight rates in free competition, not tariff rates of freight, that can operate to prevent a panic coming on the market.

Dr. K. Giese is perhaps under the impression that when tariff freight rates remain stationary in a period of business prosperity, when the general prices are forced up, it will increase the supposed demand (merchants' demand) in comparison with the time when freight rates rise in proportion to the general prices, and there will be an increase in the quantities of the goods to be transported. This abnormal increase of goods to be transported, he seems to think, will cause merchants and producers to be on their guard and refrain from speculative transactions or speculative production, with the result that a panic will be either prevented or lessend. Generally speaking, however, either merchants or producers are apt to put a favourable construction on the state of the market, when there is business prosperity and the general prices are rising, and shape their course in a way calculated to accelerate a panic. They very often fail to notice the abnormal nature of the increase in the movements of goods, and it is hardly possible that they take should warning from such a state of affairs. If they really can see the danger in the abnormal increase of the supposed demand (merchants' demand) in the increasing movements of goods, accentuated by the fact of the freight rates remaining stationary, must also be able to see other facts pointing to the same tendency, as for instance, an increased demand for funds and a rise in the discount rates and in the interest on loans. That a panic does come in spite of the existence of these factors indicative of an abnormal increase in the supposed demand (merchants' demand,) from which they ought to have taken warning, shows that on the merchants and producers concerned these signs are lost. The view that a panic can be averted by tariff freight rates remaining stationary is no more tenable than the opinion that a panic can be warded off by keeping intact the interest on loans and discount rates.

Nor can I agree with those who hold that fact that tariff freight rates remain unchanged, instead of going down as the prices of commodities fall, when economic depression sets in, forms a reason for the *entre preneurs* keeping their price at the old level, so that they can lessen the blow from the economic depression. For the decline of prices on the advent of a business depression is due to a diminution in the purchasing power of the public and a decrease in the actual demand (consumers' demand), and neither cause can be removed by keeping freight rates intact. The efforts to be made by the sellers to prevent a fall in the selling prices on the ground that freight rates remain stationary will be unavailing, if no purchasers are forthcoming at their prices. From this point of view, I believe that freight rates in free competition, which respond so easily to the rises and falls of prices, tend to lessen the blow from business depression to a greater extent than tariff freight rates, for if a fall in freight rates combines with a fall in the prices of goods to lower the selling prices, it will stimulate the actual demand (consumers' demand), or at least it will have the effect of modifying its diminution.

4. THE PRINCIPLES RULING TARIFF RATES

As freight rates in free competition are rates which obtain where there is free competition, they are fixed in accord with the relation between demand and supply actually existing at the time when transport service is needed. Needless to say, they are ruled by the moneymaking principle, from the point of view of private economy. On the other hand, tariff rates being rates which obtain where there is a monopoly of the business, they are ruled by the principles of public economy, when the monopoly springs from reasons for advancing the public good, though they are ruled by the money-making principle, when the monopoly is created as a requisite for the execution of business on money-making principles. Even when the business itself is a private enterprise, the principles of public economy cannot be ignored in fixing tariff rates, though the principles of money-making economy may largely operate in the matter, provided the monopoly of the transport business is sanctioned either by the State or by a local autonomous body from motives of promoting the public good.

For instance, the rates for tramp steamers are regulated by the relation between the supply and demand of space where there is free competition, and these are fixed on the side of suppliers of transport service on money-making principles, pure and simple. On the other hand, the rates for railways take the form of tariff rates, because of the monopolistic nature of the railway business. In the case of State-owned railways, these rates are fixed in pursuit of the economic and social policies aiming at the development of national economy and the progress of social life, or, in other words, in consonance with the principles of public economy. In this case, tariff rates may be taken as one illustration of the national economic policy. Concerning private railways also, although the rates are fixed in accordance with the business policy of the companies which own them, the State reserves to itself the right to participate, whenever it deems it necessary, in the matter of fixing them, through the exercise of the *Tarifhoheit*, which it has over the domestic transport business, for the railway business is admittedly very closely bound up with the national life and consequently occupies an important position in the national economic policy. The State calls upon private railway companies to report the rates they have fixed to the proper authorities and obtain their approval previous to public announcement. In such cases, therefore, the money-making principle rules tariff rates only in so far as it does not contravene the principle of promoting the public good.

With regard to shipping freight rates, those for regular steamers on international routes are tariff rates due to the monopoly secured by a shipping ring or a Conference, which exists on almost all routes now-a-days. Unlike railways, however, this monopoly is neither granted by any particular country for the promotion of the public good from the point of view of its own national economy, nor is it conceded by the Powers interested in these lines on consultation among themselves for the same purpose of advancing the public good. This is entirely due to the desire of the steamship compaines forming the Conference to carry on their business profitably. It is a monopoly which is established and maintained by these companies by mutual concession to avoid mutual loss which is sure to result from competition, to the detriment of the healthy development of the business. It is a monopoly which arises entirely out of the restraint which the competitors themselves put on their rivalry—a self-restraint which is born of their desire to increase their profits. The rates in this instance, though tariff ones, are ruled by the principles of money-making economy, as in the case of freight rates in free competition, the only difference between them lying in the fact that while the former is based on monopoly, the latter is not.

Although both railways and regular liners adopt tariff rates alike, their rates are ruled by different principles, for the monopoly on which they are based is different in nature. While the principle of promoting the public good, pure and simple, or that of money-making consistent with the promotion of the public good governs the railway rates, the principles ruling the shipping rates are almost entirely those of increasing business profits. The fundamental reason for creating this difference is the freedom of the seas. As land belongs to the sovereignty of some particular State, the railway business which is operated on it is amenable to the *Tarifhoheit* of the State concerned, and consequently tariff rates are governed by the principles of public economy, directly or indirectly. In the case of the high seas, however, they are under the sovereignty of no country, nor can any country exercise *Tarifhoheit* there, and so there only remains the money-making principle to be adopted by the shipowners concerned. This fact gives rise to the difference that while the tariff rates of railways are of the nature of national economy, those for regular liners are of international economy by nature. That is to say, although the tariff rates for railways are influenced by the economic policy of the State concerned, those for regular liners are not amenable to the economic policy of any country.

It is true that there are what are called international railways, but they are international, not in the sense that the rates are fixed in accord with the principle of international economy, but simply in the technical sense that they traverse several countries. Although they traverse several countries technically, the rates are fixed by each country in accordance with the policy it generally adopts towards the railways of its own state. Thus, the tariff rates of railways are generally affected by the various circumstances attending the national economy of each country, so that they bear the characteristics of each country. Again, though the rates for regular liners partake of the nature of international economy, and are fixed on the lines of the money-making principle, the State sometimes takes a part in the fixing or altering of the rates for the shipping companies of its own nationality as one condition for the grant of a shipping subsidy for the promotion of its shipping or trade interests. In this case, the principles of public economy play their part in fixing the tariff rates for regular steamers on international lines, and the nature of national economic policy is sometimes imparted to such rates. But as I have already explained, the rates for the regular steamers on international lines are fixed by compromise between at least two shipping companies of different nationalities which form a shipping conference. Sometimes, the companies of different nationalities which take part in the discussion on the fixing of such rates number a dozen. Such being the case, any country which may desire to carry out a definite freight policy designed for its own benefit through the shipping company or companies of its own nationality can do so only in so far as such a policy accords with, or does not run counter to, the business policy of all these shipping companies. In other words, in such cases, the principle adopted by some particular country for advancing the public good can be enforced within the limits of not contravening the money-making principle of the shipping companies concerned. When, however, the shipping company of this particular country occupies so influential a position in the Conference in that route as the result of a State subsidy which it receives, that it can lead the Conference, and that all other companies within the Conference are obliged to follow the freight policy dictated by this company, the national economic policy of the country, to which it belongs, may be reflected in the rates for the regular steamers on international route. In order to win such a favourable position, one company within the Conference must necessarily occupy the predominant position over all other companies, and this is by no means an easy task to accomplish, not only from the point of view of capital power but from that of the capacity for business management. It, therefore, follows that the freight rates for the regular steamers on international routes are, as a matter of fact, of the nature of international economy ruled by the money-making principle, and are, on the whole, independent either of the policy of any particular State for promoting the public good, or of its national economic policy.

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