f 4a Ec. of desig cost

GENERAL TELEPHONE COMPANY OF MISSOURI
19 S. 7th
Columbia, Missouri

Dear Customer,

Rate revisions as authorized by the Missouri Public Service Commission went into effect on May 1 in all exchanges operated by General Telephone Company of Missouri.

Increases on business service ranged from 55 cents to 70 cents per month while residence rates were only raised from 20 to 30 cents per month. Also revised were the rates on miscellaneous services such as bell, gongs, and switchboard equipment.

Rates for telephone service in the corporate limits of communities levying gross receipts taxes will be slightly higher to include an amount equal to the tax levied. The right to include the gross receipt tax as part of the telephone service rate was granted by the Commission.

Certain exchanges will be assessed higher rates as a result of their being reclassified to a different rate bracket. General Telephone exchanges are assigned into one of six rate groupings, the rates of which are determined by the number of telephones a customer can call without long distance charges.

It is a common practice in the telephone industry to reclassify exchanges into lower or higher rate brackets as the number of telephones available to the customers in an exchange increase or decrease. This practice has been approved by the Missouri Public Service Commission.

Should you have any questions regarding your telephone bill, please contact your local business office.

Very truly yours,

C. H. Joy
General Manager

It is not just rural roads that are city-subsidized, but rural xptn. of all kinds. airlines (BW, 7-15-61, pp. 120 ff.)

This may make some sense. Rural & low density lines gnrly. are decreasing cost. "Load factors" (% of capac. used) are low.

But 'subsidy' shd not be subsidy, but flat rate levied on rural l.v. benefited from particular service. Margin is where this combs. of incomes doesn't pay for cost of service. [In practice this would be tough, with many factors influencing l.v., to decide how much Δ was due to air service, but something cd. be worked out.]

Subsidy comes from gnrl. taxes, which are on production in cities. Insofar as these fall on Ag cost opns & reduce unavoidable congestion, etc.



Short-hop passenger boards North Central's flight 457 at Green Bay, Wis.



At next stop, Stevens, Wis., the DC-3 pauses only 6 min. to load and unload. Pilot saves time by shutting down only the left engine, the one on the side where loading

TRANSPORTATION

The high cost of low air traffic

That's the problem of local service airlines, and the reason why they get government subsidies. Lots of cities that want service can't provide the volume

North Central Airlines flight 457, a DC-3 that hops across the countryside from Chicago to Minneapolis-St. Paul by way of Green Bay, Stevens Point, Wausau, and other points (pictures), is no match for nonstop jet trips of the major airlines. Yet in its way it is every bit as essential.

For many people along North Central's routes, the line has become basic public transportation. Passenger trains may not come through town any more, and bus service is often infrequent. This leaves only the family car or the airline. Often if people wish to lure industry in, frequent air service is a must.

To North Central and the 12 other domestic carriers in the group that make up the nation's local service airlines, the chief difficulty is that in many places this service simply doesn't pay.

"We get some calls," says Frank N. Buttomer, North Central sales vice-president, "where a voice says, 'This is Butterfat, Wisconsin. We've just lost our last train. When can you start service?' One of the most pathetic things we have to do is tell them they can't afford an airport—or our service."

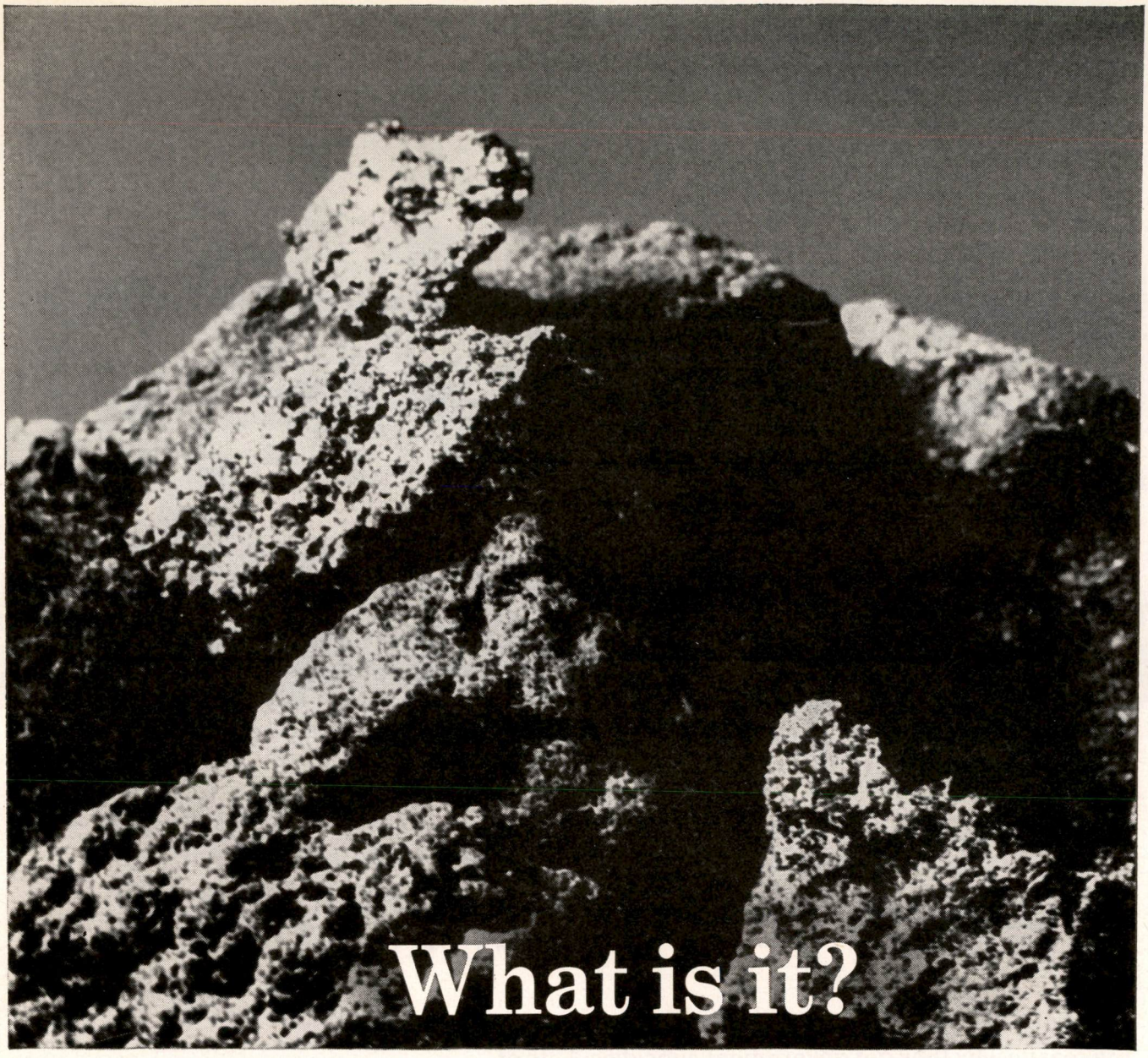
More stops. At present, the 13 local service carriers fly into 547 cities and provide the only air service to 334, up sharply from just a few years ago. Last year, for example, North Central's route system increased 30% to 7,100 miles.

Since 1957, the CAB has been conducting a series of regional investigations to strengthen route patterns by allowing airlines to serve denser markets and by creating a more favorable operating situation for the introduction of new aircraft. But at the same time the public has been demanding new air services—and winning its case with CAB.

Thus, while the CAB has helped beef up some routes, it also has put the airlines into dozens of new towns where traffic doesn't cover costs.

This is one of the basic problems the Assn. of Local Transport Airlines will discuss at its annual meeting next week in Asheville, N. C.

Growth of 15 years. Local service airlines got their start only 15 years ago when Congress and CAB designated them as a special group of air carriers worthy of permanent operating authority. They began



It's not a mountain or a volcanic eruption. Nor is it an undersea reef or a sponge. It's a product the Rock Island railroad has carried millions of ton miles in the last year. The point is, no matter what you ship—whether it's a raw material like this or a finished product like an automobile—you can be sure the Rock Island will spare no effort to transport it carefully, quickly, and economically. Strategically located direct interchanges, push-button yards, split-second communications, modern, trouble-free equipment, and experienced, conscientious personnel all assure fast, efficient shipping. Your Rock Island Representative will be glad to put this effective combination to work for you. Call him.

What is it? See page 126

Rock Island

ROCK ISLAND LINES

The railroad of planned progress
...geared to the nation's future

CHICAGO 5



and unloading takes place. Flight 457's pilot and co-pilot make 195 takeoffs and landings per month.



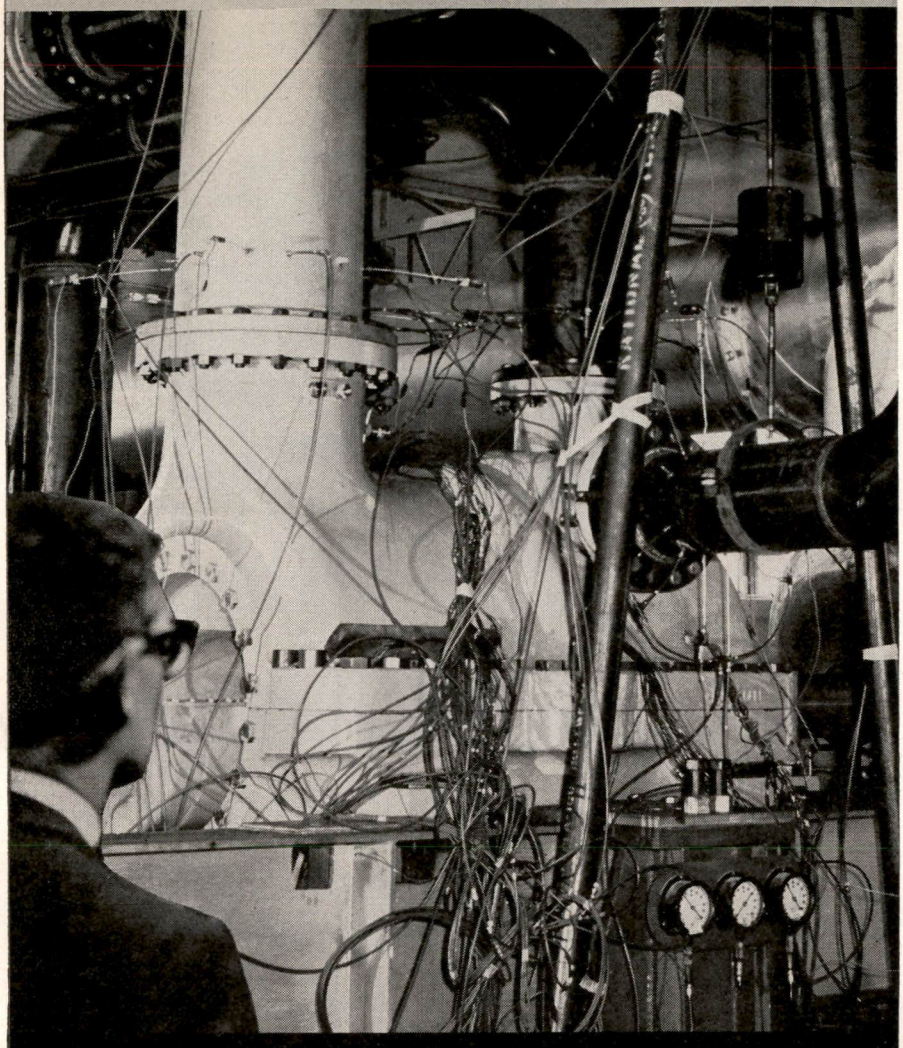
Stewardess Nancy Abrahamson serves coffee, lemonade, and hot chocolate in flight. In such service, no food is served.





Station manager Frank M. Seitz at Eau Claire, Wis., keeps track of Teletype and radio communications (above) and also deals with the customers. Here, with his one assistant, he checks a passenger in at one end of waiting room.

Now I See What They Mean When They Say,



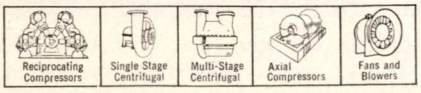
"JOY TESTING PROCEDURE GIVES A COMPLETE PERFORMANCE PROFILE OF EVERY DYNAMIC COMPRESSOR MANUFACTURED"

Since performance of dynamic compressors under various inlet and discharge conditions is usually critical, Joy conducts exhaustive tests on every machine made. Temperature and pressure readings are taken at ten different points in each compressor under eight sets of conditions. This complete testing procedure is but one of the many "plus values" offered with all Joy Dynamic Compressors.

A "plus value" can only be determined by your particular process requirements. Whether it be efficiency, fewer stages, space and weight limitations, or a seal problem, Joy engineers are prepared to evaluate and design compressors to meet your requirements.

Joy offers dynamic compressors in sizes from 15 to 15,000 hp, as well as a line of reciprocating compressors from 15 to 1250 hp. Consult your Joy representative whenever you need machinery for compressing air or gas. For more complete information on the Joy Dynamic Compressors, write for Bulletin 2725-56.

AIR MOVING EQUIPMENT FOR ALL INDUSTRY



JOY

Joy Manufacturing Company
Oliver Building, Pittsburgh 22, Pa.

In Canada: Joy Manufacturing Company (Canada) Limited, Galt, Ontario

with a handful of war-surplus DC-3s; now they fly more than 300 aircraft, including 43 prop-jets.

A decade ago, they flew less than 1-million passengers. Last year, North Central, largest of the 13 in terms of passengers carried, flew that many alone. The 13 lines carried 5.6-million passengers.

Subsidies. The growth of the locals has not occurred without difficulties, however. All 13 operate on federal subsidies, and the industry has been far from a profitable one. Even with subsidies, it has shown a net profit after taxes and interest for only four of the past 10 years. In 1960, the locals had operating revenues of $146.8-million—compared with $1.9-billion for the domestic trunk airlines.

Congress agreed to subsidize the local service carriers because it gave them the job of serving small cities that are close together and that generate comparatively little traffic.

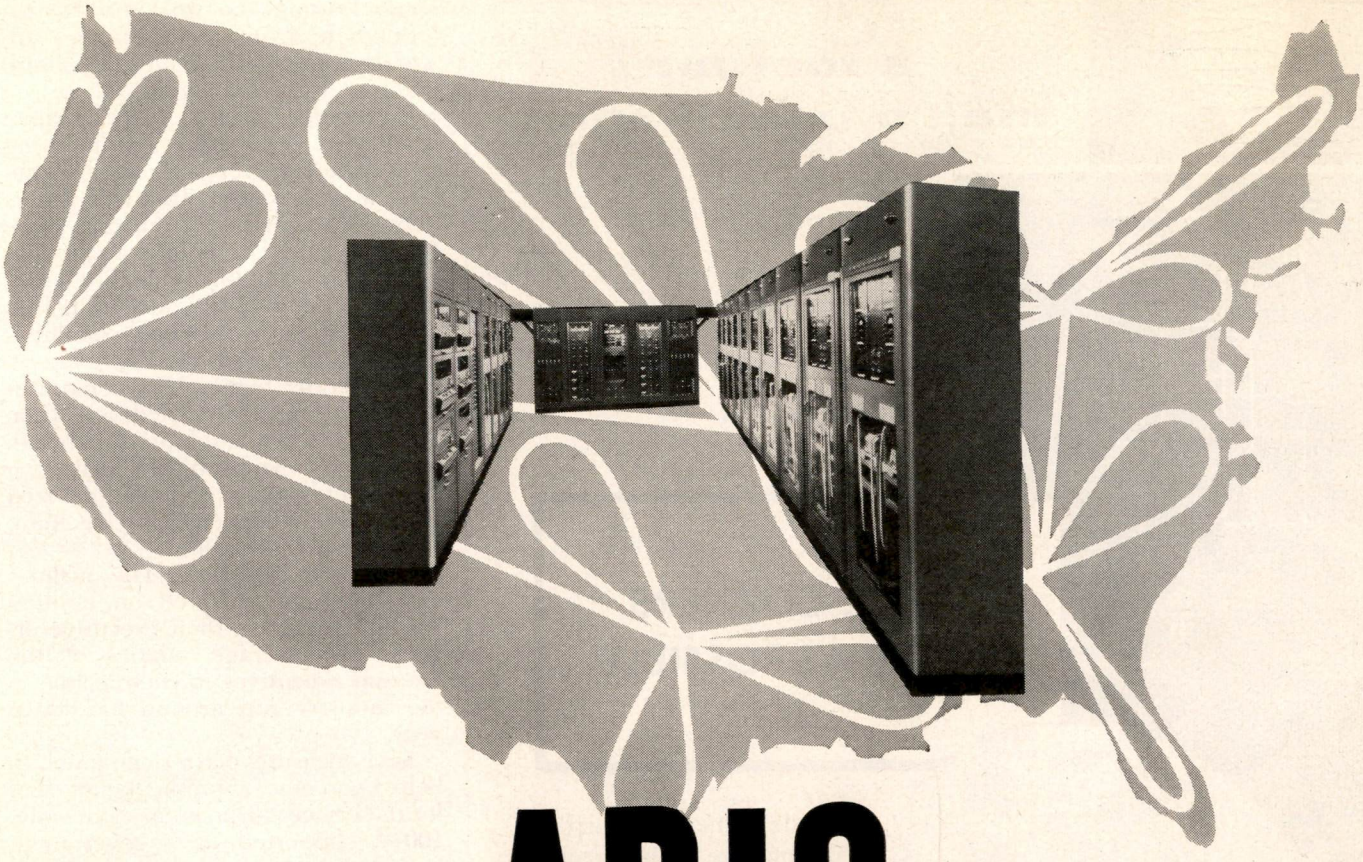
High costs. There are a number of reasons for these high operating costs. The average flight between stops of the local service carrier is only 90 mi., contrasted with 308 mi. for the non-subsidized trunks. This means planes spend much of their time taking off and climbing, thus operating at maximum power, gulping gasoline, and undergoing heavy wear. In addition, the average local airline passenger travels only about 190 mi. and pays an average fare of only $13.60. The costs of reserving his seat, ticketing him, and handling his baggage are constant, while the shorter his trip, the less revenue there is to offset these costs.

Because of the short-haul, light-density nature of their operation, the local airlines have found it difficult to build up load factors (the percentage of a plane's seats filled by customers). Their over-all load factor has risen, from 31.5% in early days to 42.4% last year. But it is still below the 69.7% breakeven point.

Complicating the picture is the fact that the airlines have had to rely for years on the outmoded DC-3 as their principal plane. While this is a venerable, sturdy craft, it is hopelessly uneconomic by today's standards. The carriers have found it tough to finance newer equipment.

Money-savers. To overcome the cost obstacles they face, the small airlines have gone for a number of innovations. They have concentrated on reducing the time planes spend on the ground. They were the first to develop the folding stairway as part of the plane's equipment, so that passengers don't have to wait for exit stairs to be rolled up.

Many local service planes also save



ADIS

Communications breakthrough

New Teletype Automatic Data Interchange System (ADIS) now enables the Federal Aviation Agency to interchange aviation weather data coast-to-coast ten times faster than ever before.

With this new electronic message switching system, the FAA effects a major advance in the speed, scope and flexibility of its weather communication service—which supports all civil and extensive military aviation in the United States.

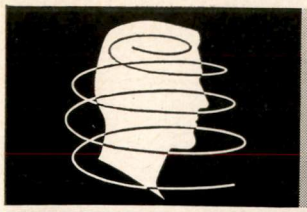
Nucleus of the system is a series of five Interchange Centers, located in Kansas City, Cleveland, Atlanta, Fort Worth and San Francisco. Each of these acts as a clearing house for a number of area circuits, or outlying "loops," collecting data from observation points on these loops and providing the area circuits with data from other parts of the country.

Teletype electronic communications equipment at the Interchange Centers carries out an automatic program of sequentially calling data-originating stations, classifying messages by priority, selecting only those weather items wanted at regional stations, and delivering them to the area circuits—while maintaining the ability to handle emergency traffic when required.

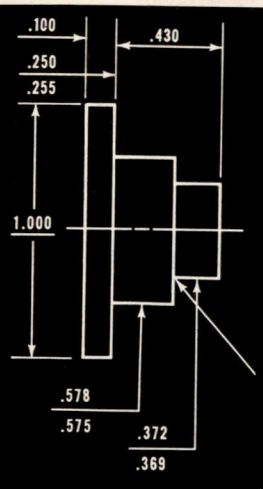
Ultra-fast communication between Interchange Centers is provided by Teletype punched tape equipment operating at 850 words per minute, utilizing the Data-Phone concept. Stations on outlying loops are equipped with Teletype Model 28 page printer and punched tape units. Speed-conversion equipment permits automatic interoperation between the national circuit and the local loops. Thus the new system, which serves some 2,400 locations, can report weather conditions from any part of the country in a matter of minutes.

The FAA, through the years, has followed a program of continually upgrading its facilities to meet the needs of the nation's growing air traffic. Teletype Corporation is proud of its part in providing communications equipment for this vital service.

TELETYPE®
CORPORATION • SUBSIDIARY OF *Western Electric Company* INC.
Dept. 14-G, 5555 Touhy Avenue • Skokie, Illinois

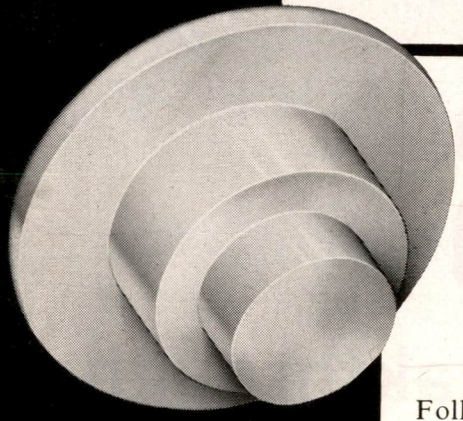


KEYSTONE WIRE
a tool for
man's imagination

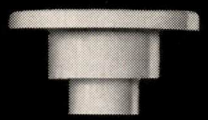


Car door assembly part specifications called for . . .

INSIDE CORNERS SHARP AS POSSIBLE



"Inside corners as sharp as possible," read the specifications for this shoulder rivet used in an auto door assembly. "Rockford"® Screw Products Co., Rockford, Illinois, accomplishes this cold heading operation from Keystone Wire.



ACTUAL SIZE

Following an extensive steel wire study, fastener engineers at "Rockford" Screw Products turned to Keystone Steel & Wire Company to supply the necessary wire. These engineers concluded that the controlled chemical analysis, as well as correct thermal treatment of Keystone Wire assured accurate forming of this special shoulder rivet and that it could be made without the metal cracking.

Our trained metallurgists and technicians are available to help solve your wire problems, too. It might pay you to investigate. Send us your specifications and blue prints and we shall be glad to give you recommendations.



Keystone Steel & Wire Company, Peoria, Illinois

KEYSTONE

Cold heading and forming wire for industrial uses

time by cutting off only one engine while loading and unloading at intermediate stops. And pursers are widely employed to handle, in flight, much of the paper work.

Commuter flights. One airline, Allegheny, has been experimenting with commuter service, offering low-fare, no-reservation, frequent flights between major points on its system. It has operated commuter flights between Philadelphia and Pittsburgh since October, 1959, and last July started similar service between Philadelphia and Boston via Providence.

Before it began its commuter flights, Allegheny carried less than 1% of the Philadelphia-Pittsburgh traffic, while Trans World Airlines, a major trunk line, nearly monopolized the market. Allegheny now has more than 50% of the traffic.

No plush salaries. The airlines also have concentrated on holding down expenses in their executive offices. The average salaries of the five top executives in each airline in the industry run around $17,000 a year.

Such measures have done much to help overcome a public belief that local service airlines are virtually 100% supported by government handout. In their early years, more than 75% of their income did come from federal funds, but today the proportion of subsidy is down to 37%.

Nevertheless, the industry's total subsidy bill has been increasing in recent years and is expected to continue doing so for the next few years. This is a matter of concern to the airlines themselves, to Congress, and to the board. Federal contributions amounted to almost $54-million in fiscal 1960, rose to almost $62-million in fiscal 1961, and are expected to top $68-million this fiscal year. North Central's 1960 share came to almost $7.5-million.

Toward self-support. With the subsidy bill on the increase, CAB has taken a number of steps to try to bring it down and eventually put the local service airlines on a self-supporting basis. But the board members concede that, despite these steps, subsidies will continue climbing for the next two or three years and that it will probably be a decade before they can be ended altogether.

The fastest way of making the industry self-supporting, of course, is to permit it to serve only the larger cities and eliminate the smaller ones. Hal N. Carr, North Central president, estimates that if his company could cut off the "bottom 20" of its route stops, it could go off subsidy immediately.

Feeder service. North Central's

"MY NEW 1913 KELLY IS THE BEST INVESTMENT I EVER MADE"

says New York Bottler



4 cylinders, 3¾" bore, 5¼" stroke; water-cooled, cellular radiator; 3-speed transmission; wheel base, 120"; 25 horsepower at 1200 RPM; 15 miles per hour, governor controlled; Timken bearing equipped; price $2,060.

COURTESY AUTOMOBILE MANUFACTURERS ASSOCIATION

©THE TRB CO. 1961

Everything's changed but the name on the bearings

In sparkling colors and gold leaf, the new 1913 Kelly rolled 75 to 100 miles a day with its load of ginger ale. It did the work of four teams and wagons, saving the bottler $50 a week in livery and hotel costs. ■ Today trucks do everything from whisking giant logs down mountain sides to delivering your wedding cake—one good reason why every American make of truck uses Timken® tapered roller bearings. We've worked with truck makers since 1906, designing bearing applications for wheels, transmissions, drive axles and steering gears. ■ And the bearings have changed as much as the trucks. They're smaller, yet capacity-packed to take today's tremendous loads and higher speeds. And because we've learned a thing or two about making bearings, truck makers pay less for more bearing life than twenty-five years ago. ■ When you buy trucks, do what the top fleets do. Specify Timken bearings. The Timken Roller Bearing Company, Canton 6, Ohio. Also makers of fine alloy steel and rock bits.



TIMKEN®
TAPERED ROLLER BEARINGS • *Since 1899*

TRANSACTER

AT THE GARRETT CORPORATION

AiResearch Manufacturing Division

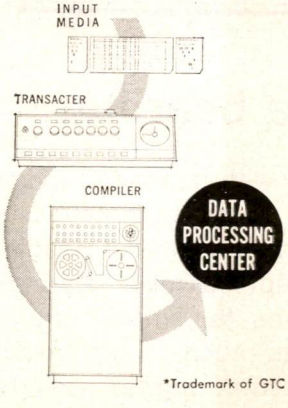
AiResearch, Phoenix announces an intensive program in manufacturing controls aimed at reducing production time. The heart of this program is continuous status reporting on every machine and part in production by the TRANSACTER* System.

Located throughout the plant, the TRANSACTER System units provide an accurate, instantaneous link between widely scattered factory locations and central Compilers which receive the messages, digest them and feed continuous punched tape to the data processing center.

Not only is production status continuously reported — so too, is order location, inventory control, tool crib and stores control — all contributing to accurate labor costing—together with continuous reports of receipt and shipment.

At AiResearch, Phoenix management reports that have heretofore taken days, can now be produced in minutes.

Write for informative brochure.



*Trademark of GTC

GENERAL TIME CORPORATION
STROMBERG DIVISION
THOMASTON 3, CONN.
Makers of the World's Finest Time Equipment

four biggest stations are Chicago, Detroit, Milwaukee, and Minneapolis. Its high-frequency nonstop run between Chicago and Milwaukee is one of its most lucrative. However, this sort of service is not the basic reason for the industry's existence.

To fulfill its function, North Central must still fly into the smaller communities. Both by government decree and by economics, such an airline's major purpose is to carry passengers from these smaller communities to a terminal—such as one of North Central's four big cities—to connect with a trunk airline.

"Our market," says Buttomer, "is not the man going from Green Bay to Chicago but the man who's going on to New York, to the West Coast, to Miami. More than half our passengers are connecting business."

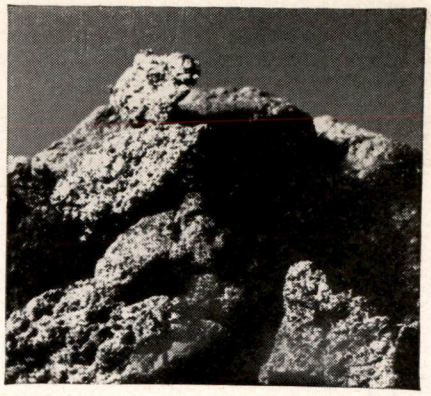
Cutting deficits. CAB hopes to eliminate the short-haul industry's deficits, hence reduce its subsidies, first by changing the method under which subsidies are computed, second by giving the local lines a chance to strengthen their routes.

The old subsidy system was based on the size of operating losses, so it had the effect of encouraging a carrier to keep its costs high, its fares low, its schedules inflated beyond load factors and demand. Under the new method, which went into effect last Jan. 1, operating costs have no direct bearing on the amount of subsidy. Instead, carriers are rewarded for efficiency, through a complicated formula that also induces them to boost volume.

To strengthen routes, CAB is constantly allowing the locals entry to larger cities originally served only by the trunks. At the same time, the trunks have been voluntarily giving up many of their smaller points.

Minimum demand. On the other end of the scale, the board is allowing local carriers to quit serving some smaller communities that fail to generate a minimum number of passengers. It has adopted a "use-it-or-lose-it policy" that requires a community to supply at least five passengers daily if it is to continue getting airline service.

Now the locals want the removal of operating restrictions on their routes. Under these restrictions, the local lines usually cannot fly nonstop between two major cities as the trunks can, but are required to make intermediate stops. The locals want more nonstop authority. They also want more "skip-stop" authority whereby one or two flights a day would provide service to intermediate points while the remaining flights would be nonstop. **End**



The answer to the question on page 119

It's coke...a product that the modern, trouble-free equipment on the Rock Island railroad moves quickly, efficiently, and economically millions of ton miles year after year.

Rock Island
ROCK ISLAND LINES
The railroad of planned progress ... geared to the nation's future
CHICAGO 5

MIT
Dividend Announcement
Massachusetts Investors Trust
DECLARES ITS 147th Consecutive Dividend

Over 214,000 owners will share in the payments from quarterly net income, amounting to 10 cents a share, payable July 24 to shareholders of record June 30, 1961.



ROBERT W. LADD,
Secretary
200 Berkeley Street, Boston

The nicest things happen to people who carry
FIRST NATIONAL CITY BANK

TRAVELERS CHECKS
Member Federal Deposit Insurance Corporation

Weight-Mile Truck Tax Principle Spreading

In one form or another, 16 states have now adopted the weight-mile principle pioneered by Oregon for heavy truck taxation. This is a method of truck taxation which relates the amount of tax to highway use. In November 1952, the people of Oregon overwhelmingly ratified the Oregon weight-distance tax and defeated a constitutional amendment initiated by the truckers to outlaw such taxes.

In Ohio, the legislature has recently adopted what it calls an axle-mile tax which sets up a relationship between the average axle loading and distance traveled to determine the amount of tax paid. Alabama uses much the same principle. Wyoming, Colorado, New Mexico, Kansas, Michigan, Florida, South Carolina and New York follow the gross weight-distance traveled principle as in Oregon. Utah, North and South Dakota, Mississippi, and Illinois use weight-distance taxes as alternates for other forms of road-use tax.

In reviewing the situation, Public Administration Clearing House mentions the gross receipts tax used in California, Arizona, Montana, Virginia and North Carolina as a rough equivalent of the weight-distance tax:

"Gross receipts taxes are in effect a rough measure of weight and distance since gross receipts reflect in part the load carried and distance traveled."

With this statement we cannot agree. It is an over-simplification because rates vary widely according to the character of the load and gross receipts are by no means an effective measure of load use in terms of gross weight and distance traveled. It is our belief that in time all states will have to recognize the weight-distance method of truck taxation as the fairest and most accurate tax for these heavy vehicles, because, as we pointed out in the Oregon campaign, the necessity for special truck tax is due not merely to the actual or potential road damage from the heavy vehicles but to these additional factors:

All roads and bridges must be designed and built to extra width and strength to carry these huge freighters successfully.

On hills and curves and at approaches to cities extra lanes have to be provided to insure the clearance and safety factors which the big vehicles make necessary.

All highway costs are greatly increased by the necessity to accommodate big trucks with other fast moving traffic.

Truckers have complained bitterly that they pay, loaded or empty, under the Oregon system, but with the tax geared to the average gross weight of vehicle and load there is little reason for such complaint. One of the greatest advantages of the Oregon tax is that it permits almost no escape or evasion. A truck enters the State of Oregon, its carrying capacity is known, it travels so far, the rate for trucks of that class is such and such per mile traveled, and that's that. Even if the truck fails to weigh in, all its movements will be reflected in reports to the I.C.C. and State Commission. Experience records show practically no escapes or evasions.

e for your money!



FASHION TAILORED

SLACKS

A REAL VALUE!

10.95

Select several today for either all wool sharkskins or flannels in harmonizing colors. A REAL VALUE!

SAVE $1.01!

MEN'S PILGRIM

SPORT SHIRTS

Regularly 3.98

NOW



out the area.

The report will be in the same form as several prepared for other federal departments during the past year. They will note what they found while touring the Bonneville power facilities, some of the methods used in administration, plus some recommendations for probable changes.

Most of the survey team's time has been spent in the Portland headquarters of BPA. The group also spent time visiting Bonneville installations in Montana, Idaho, Washington and Oregon.

The stop at Eugene is the last on the tour. And there was little time to visit local facilities or to view some of the local industry dependent upon Bonneville for power.

FULL REPORTS

But one of the men explained there really is little need for on-the-spot check of many things, since full reports of operations and facilities are on file in Washington and Portland offices. The men said they did fly over many of the transmission lines, substations and other installations belonging to the BPA, however. They also visited some of the dams where Bonneville Power is generated.

The five were to return to Portland Wednesday night where they'll probably compare notes and start work on the report. Then they'll go to Washington during the weekend to complete it.

Naval Reserve Has Vacancies

Eugene's Naval Reserve Surface Division this week listed its manpower needs of the moment.

It is the largest of the local reserve units, but vacancies still exist in the following specialties:

Machinist mates, radiomen, electronics technicians, enginemen, boiler technicians, electric-

Miller, from Tallahassee,
says power co.s have not
learned to adjust gnrtrs
to load fluctuations,
so much is lost

in adjustment. Still, the more customers you have, the more predictable they must be, so big distrib. better than small — that may be a prime reason, in fact.

Anyway, this may mean MC of power doesn't even include fuel, since it wd be used anyway

10-5-60

St. Louis Globe-Democrat

HISTORY MADE IN MIAMI

150,000 Ride Free in Strike

MIAMI, FLA. (AP).—Strike bound busses rolled again in Greater Miami Tuesday and 150,000 passengers rode free—in an arrangement new in the history of mass transportation.

William D. Pawley, owner of the Miami transit and Miami Beach railway companies, agreed to provide busses and fuel. Union men drove them for nothing as a public service while strike issues are negotiated.

Each side hoped the deal would force the other to its knees.

"The union members are losing $280,000 a month in salaries," said Mr. Pawley. "I wonder how long they can keep that up?"

LOSS FIGURED

Union officials said the service would cost Mr. Pawley $8000 to $9000 a day and figured this expense would force him to come to terms.

The 507 drivers struck Saturday over a demand for a 20-cent hike in their $2.16 hourly pay. Mr. Pawley offered four cents.

While labor and management quarreled, the riding public never had it so good.

"I never in my life expected a free bus ride," said Claire Waldron, first passenger on one of the buses. She planted a kiss on the cheek of the driver, A. R. Moore.

Regular fares are 20 cents in Miami and 15 cents in Miami Beach.

UNION'S IDEA

The free ride idea was suggested by the union to prevent hardship in a metropolitan area of almost a million population. It brought up problems, such as insurance, but Mr. Pawley agreed.

He stipuated that the drivers must accept no tips and receive no compensation from the union other than their normal $25 weekly strike benefits.

In Washington, Henry Mann, executive vice president of the Amalgamated Association of Street and Electric Railway Employes, said the plan was the first of its kind in the industry.

EST. 1886 PR. T
STOP WA
• PRE-TESTED C
• WALLS RAISE
• I-BEAMS INST
E. F.
HOUSE MOVI
FREE ESTIMATES



Witnesses Protest In Holloran Case

Mark R. Holloran Jr., 20-year-old son of the Democratic National Committeeman for Missouri, was fined $25 and costs Tuesday on his plea of guilty to leaving the scene of an accident in which a person was injured at Taylor avenue and West Pine boulevard Aug. 6. A charge of careless driving was dismissed by the city.

The fine was imposed by City Judge Rodney H. Weiss who said it was the "usual penalty" in similar traffic cases.

MAKE PROTEST

Witnesses to the accident protested the city's failure to call them for testimony although four of them were seated in the courtroom when the case was called.

Russell Champion, 1245 McKinley ave., Rock Hill, who

driving charge, I pleaded my client guilty to the other charge. It was all very routine," he said.

Mr. FitzGibbon said he was unfamiliar with the case because another prosecutor, now retired, had handled it.

U. S. Gift to Aid Japanese Study

TOKYO, (AP).—The United States Tuesday presented a check for

Promotional rates, dynamic ec., are big & important thing.

Planning future, some things wd. be ecl. if all do at once; otherwise might never happen.

In practice, someone must move first. E.g. people bought air conditioners, then power cos. install more capacity, then promote electric space htg.

Now wdn't it make more sense to provide the excess capacity first, since $-\Delta g$ costs? The $-\Delta g$ cost opn is the one that shd assume risk & waiting costs of expanding first.

This shd be convertible into a strong argument for mc pricing.

Oort, Coenraad J. Decreasing Costs as a Problem of Welfare Ecs.

Amsterdam: Druckerij Holland N.V. 1958

Generally sterile. But should allude to if ever write on decr'g costs.

Gnrl pitch: all is indeterminate, cannot conclude anything.

Ley

Re MC pricing

Dartigalles. Jean.

La Tarification des Chemins de Fer

Paris: Sedes, 1953

(Societe d'Edition d'Enseignement Superieur)

99 Blvd St-Michel

Paris Ve

p 117 ff. SNCF adopts modified MC scheme, ff. M. Boiteux, after 1947. & M. Allais.

Phone Stock Order Given

12-31-54

By JIM CHANEY.

The State Utilities Commission authorized Carolina Telephone and Telegraph Company yesterday to sell 66,640 new shares of common stock on condition that it charge $125 a share.

The company had wanted to sell at par, or $100 a share. The Commission ruled the higher price would be better—both for the company and for the company's customers.

The price was $10 higher than the $115 the Commission had ordered more than a year ago. Carolina Telephone had proposed to issue 33,320 shares then. It protested the $115 price, took an appeal to the State Supreme Court and, when the Supreme Court remanded the case to the Commission, it filed a new application, doubling the old request.

Commissioner Sam O. Worthington, Greenville attorney who soon will leave the Commission to return to the General Assembly, wrote the new Commission order. Only one of the Commission's five members, E. H. McMahan, dissented.

"The proposal to market these 66,640 new shares . . . at par of $100," Worthington observed, "represents an underpricing below the current market value of between 30.55 and 31.74 per cent, depending upon whether the quotation of 144 existing at the date of the hearing or the quotation of 146.5 which now exists is used."

"We have determined that the

See STOCK, Page Two.

(Continued from Page One.)

earnings record and past history of this company clearly show that the issue of stock can be marketed at not less than $125 per share," he wrote, "and marketing at such price is compatible with the public interest."

Effect of Order.

The order made no change in the company's plans for offering the stock to present stockholders at a rate of two new shares for each five shares now held.

It did not affect the company's $8 per share dividend rates.

It made a considerable difference in the profits the stockholders have been able to realize in the past. Up to now, rights for the purchase of new CT&T stock have been worth around $35 or more a share. Some stockholders customarily would sell these rights and thus pocket an immediate profit.

At $100 a share, CT&T stockholders would have earned eight per cent per year on their investment in the new stock—a rate many earn on present CT&T holdings. At $125 a share, they will earn 6.4 per cent.

A 6.4 per cent yield, the Commission held, is "considered fair and reasonable under present day market conditions."

The Commission pointed out that the company which has come in repeatedly since World War II with proposals for raising its customer's telephone bills, obviously could use the extra money the higher price will produce.

As evidence of need, the Commission cited the fact that the Tarboro firm has a hefty backlog of unfilled orders for service, plans for an expansion program and $7,379,000 in short-term bank notes coming due.

"If this issue is sold at par and the proceeds . . . used to retire short-term bank notes," the Commission said, "the company will still owe $715,00 on short-term notes . . ."

But a price of $125 a share, the Commission said, will give the company all it had hoped to get, plus something for extras.

"At this price," Worthington wrote, "the company will receive $1,666,000 more in equity capital at no cost to the company, except such expense as may be incidental to the sale . . . , and will thus enable the company to pay off all of its short-term notes outstanding . . . and leave $951,000 for use in expansion of services."

Some of that $951,000 could go, he suggested, to providing service to the 7,000 Eastern North Carolinians who have applications on file for telephones or for upgraded service.

Worthington reminded the company that the rates the Commission has allowed it to charge the public are "in a large measure responsible for the fact that the company is able to pay an $8 dividend.

"This dividend," he said, "is one of the primary reasons for the value of the stock. It is understandable that the existing stockholders would want additional stock at par when they can reasonably anticipate an $8 dividend upon the issue of the stock and will be reasonably assured that said par stock will immediately become worth approximately $140.

"The history of this company is such that it is not anticipated that there will be much change in the market value of the stock upon this issue. The fact remains that there is a constant demand for the stock, with no offering, and the bid price has gradually increased while the disposition of this Commission to require a sale at a price above par has been well known for several months."

Company Contentions.

The company had contended that a Commission decision pricing the stock at more than par to stockholders would weaken the market for CT&T shares.

Worthington answered in the order that since the stock can be sold at well above par on the open market, it would be "logical" to assume that the whole new issue could be sold in that fashion.

At least one brokerage house representative had testified at a public hearing in the case, he recalled, that his firm would take the entire 66,640 shares at $130 a share if it were given the chance.

"If this should result in new stockholders buying into the company," he said, "it would be a decided advantage for the company. It would strengthen the company's position in future stock sales . . ."

Besides, he noted in the order, the company has done extremely well by its stockholders in the past. Most of them are small but one, Southern Bell Telephone and Telegraph Company, holds approximately 30 per cent of outstanding CT&T stock. The same attorneys who regularly appear for Southern Bell appear for CT&T and were the leaders in this fight to keep the CT&T stock price at par.

To bolster a contention that the higher price would weigh in the public's favor, Worthington and his associates made these points:

1. Carolina Telephone has preemptive rights in a large part of Eastern North Carolina, and a large part of the area is "without adequate telephone service."

2. It is the duty of the company to provide service to the residents of its franchise area and "it is manifestly unfair . . . to deny these people telephone service because the revenue produced by such service will not result in a return equal to $8 a share on $100 par value stock."

3. Every public utility should sell its stock at the best price obtainable and certainly somewhat near the market value as long as the price remains within reasonable bounds and does not reach a point that existing or new investors refuse to purchase.

4. With the need and demand for telephone service in the territory served by the company, the additional funds should certainly be acceptable.

5. The rates a company pays for borrowed capital and as dividends on stock are linked to the revenue it must exact from its customers. If the company is permitted to issue more shares of stock than necessary to obtain the money it needs . . . it might well mean that the rate-payers will be called upon to pay rates yielding a higher return than otherwise necessary.

6. In every rate case this company has had before this Commission in recent years, its evidence has always been to the effect that the rate of return must be sufficient to enable it to pay a reasonable dividend to its stockholders. The rates thus allowed have enabled the company to maintain an $8 dividend. In doing so they have resulted in the company's stock being worth a market price far above that of par. The ratepayers of this company are directly responsible for the present value of the company's stock.

The company's lawyers had appealed the former Commission order on grounds that the Commission had exceeded its authority in setting the price at $115 per share. The Supreme Court did not say in its decision what it thought of that contention. Rather, it sent the case back with instructions that the Commission show why it had set the price and why it considered its action was in the public interest.

The Commission yesterday took the position that the authority for its action was clearly defined in the State's General Statutes. Moreover, it added, the Supreme Court itself had suggested in an opinion in the Southern Bell rate case that stock prices should be considered.

The court had pointed out in the Southern Bell case, Worthington explained, that the fact that American Telephone and Telegraph Company reaps a benefit on Southern Bell stock out of the difference between par and market value means that Southern Bell customers bear a loss.

"So it is here," Worthington said.

McMahan contended in his dissent that the Commission majority had based its decision on a false premise.

"I deem it unwise and unwarranted at this date and in the absence of proof as to fair value," McMahan wrote, "for this Commission to say that the basic value of the property of the Carolina Telephone and Telegraph Company is such that each share of its capital stock is worth not less than $125. But that is what the majority opinion appears to say."

"I deem it unwise and dangerous and unwarranted," he added, "for this Commission to assume and to base an opinion on that assumption, that Carolina Telephone and Telegraph Company has a 'fixed' dividend rate of not less than $8 and that the Commission should fix rates reasonably calculated to produce for the Company an amount of money sufficient to pay any fixed dividend and pass a reasonable amount to surplus.

"To state my conclusion very briefly, I think that the number of shares of common stock outstanding has nothing to do with either a fair value rate base or the fair rate of return on fair value rate base. . . ."

CAUTION!

Act Fast When Cough From Common Cold Hangs On

Chronic bronchitis may develop if your cough, chest cold, or acute bronchitis is not treated and you cannot afford to take a chance with any medicine less potent than Creomulsion. It goes into the bronchial system to help loosen and expel germ laden phlegm and aid nature to soothe and heal raw, tender, inflamed bronchial membranes.

For children you can now get milder, tastier Creomulsion for Children in a pink and blue package.

Get a large bottle of Creomulsion at your drug store. Use it all as directed. Creomulsion is guaranteed to please you or druggist refunds money. Adv.

I CALLING



on's Capitol

e Neuberger—

March, 1958

eed, I received a strong telegram supporting 5-cent rate from James A. Farley, who served FDR for so long as Postmaster Gen-l.

Is it fair to tell underpaid postal work- that one is championing their cause, and n be unwilling to vote for rate increases to nce adequate salaries? First-class rates e not gone up during a quarter of a century, le everything bought by the Post Office De- tment - trucks, fuel, telephone service, nting - has soared astronomically. Most -class letters are sent by businesses and porations. Why should their mail bills be sidized by the general run of citizens through ir withholding taxes, clipped from hard- rned paychecks?

At least 10 leading Oregon communities sperately need new Post Office buildings - particularly Portland, which requires a $3.5 million annex. These edifices would put at work thousands of building-tradesmen in a state with the country's highest rate of unemployment. Yet, if the postal deficit is not reduced, how will all the new Post Offices be paid for?

Furthermore, no state generally seeks more Federal appropriations than does Oregon - for every manner of benefaction from Forest access roads to veterinarians for brucellosis inspection. Can we unceasingly demand funds and never be willing to raise Federal revenues? Such a course so risks cheapening the value of our currency that we will lose at the grocery store more than we gain in governmental projects.

I felt rewarded for my stand, despite its political hazards, when there came to my desk a letter from the dean of the Senate, Carl Hayden of Arizona, who has represented his Western state since its admission to the Union! As chairman of the key Senate Appropriations Committee, this lifelong Democrat has done more to provide money for Oregon public works than any other individual. Declared Senator Hayden's letter:

"You were aiding me to obtain money for public works projects which will pay for themselves when you vote for a 5-cent postage

the end of World War II:

1st-class letters	51%
airmail letters	60%
2nd class (newspapers, magazines)	95%
2nd class (advertising portion only)	108%
3rd class (so-called "junk" mail)	103%

The Post Office deficit has been running at the rate of $700 million annually. During the past decade this debt has totaled $5.4 billion. The interest alone on the postal deficit has been $648 million - enough to pay for both Hells Canyon and John Day Dams. Why should this huge sum be assessed against all the taxpayers of the nation, rather than paid by the users of the mails? Don't forget that 70 per cent of all Federal income taxes are collected from lower-bracket taxpayers. They carry the brunt of the cargo when a postal deficit piles up.

Some would have you believe that, under a 5-cent out-of-town stamp, an unfair burden would be heaped on 1st-class mail. All during the history of the U.S. Post Office, 1st-class letters have sustained a disproportionate share of costs. If the 5-cent rate is enacted, 1st class will pay 138 per cent of its total expenses. Yet it reached 164 per cent when Franklin D. Roosevelt was President. Was this great champion of labor loading it on "the little fellow"?

rate, to help reduce the staggering deficit which we have been carrying in the Post Office budget.

"By voting to cut down the Postal deficit, you were actively assisting me to provide more Federal funds for dams, locks, transmission lines, reclamation projects, harbor dredging and other needed public works in the State of Oregon.

"Federal funds, first or last, have to come from the taxpayers of this country. When we must divert such funds to cover postal deficits, it means less money for public improvements in such regions as the Pacific Northwest.

"I want to thank you for your courage in not flinching from the question of a 5-cent postal rate."

New Portland Office Location

My Portland office has been moved to new quarters at Room 326, New U.S. Court House at Southwest Broadway and Main. Although the surroundings have changed, visitors will continue to be assisted by Mrs. Vera Springer, who has held down the Portland end of our operations since the summer of 1956 after working with me in Washington for a year and a half. She will be on hand to answer inquiries from constituents and to provide information on legislation. Drop in some time.

Marissa Leonzio And Her Bridge

Three Senators - Wiley (R., Wis.), Pastore (D., R.I.) and Neuberger (D., Ore.)- took a young lady to lunch in the Senate Dining Room. She drank two glasses of milk, ate chicken potpie and chocolate ice cream. Her name was Marissa Leonzio. She is 9 years old and lives in the rugged mountains north of Leghorn, Italy.

Marissa was in America because on the Feast of the Epiphany, she had written a letter telling what she wanted most in the world. It was a bridge across the mountain torrent near her home, so she could attend school regularly. The American Field Service heard of Marissa's letter and persuaded the producers of the movie, "The Bridge on the River Kwai," to build Marissa her little bridge. Marissa's father told us that the 9-year-old walked four miles to school each day, wading the upland creek except when it was in flood. Sometimes she went alone, at others with her "older" brother, aged 11.

After lunch with Marissa Leonzio, I thought of all the times I had complained - about my meals not being on time, about some letter being mis-typed, about other trivial things. I felt very contrite and ashamed, indeed.

The Best Remedy: The Truth

Some people have been critical of me during the past three years, when I have warned of unemployment and economic distress in Oregon. They claim that such blunt truths are bad for morale. I wish such people could read a recent article in, of all places, the Wall Street Journal. William H. Grimes, one of the editors of that big business periodical, denounces the old fallacy that, "in a time of recession, a downward trend can be halted if the unpleasant facts are withheld." He argues for full disclosure of the economic situation facing the nation. "The role of Government and economists," writes Mr. Grimes, "should be to get the country information as complete, as impartial and as undistorted as possible."

We must have facts and understanding of them to reverse the trend of recession in Oregon. In my opinion, the key to revival of Oregon business can be found in fast action on emergency housing legislation. Some 75 per cent of Oregon lumber goes to the housing market. That is why I urged the Democratic Majority Leader, Senator Lyndon Johnson, to give legislative priority to passage of our housing bill to speed Federal funds into this important channel of trade. Senator Johnson read my letter to him on the floor of the Senate, and this was a factor in early passage of the bill.

~~The Topper~~

Charge for space, not movement - good tax principle where space is the scarce thing.

Cars, parked, if on street, take as much as cars in motion (well not quite)

Why wd mnpst. bother to build excess capacity? To be able to flood mkt in case of comp-n. Merely cutting prices won't do it if you can't meet full demand at eq. price.

$42 Million Telephone Call Slated Today

NEW YORK, Sept. 24 (UP)—An American industrialist is scheduled to place a 42-million-dollar telephone call Tuesday.

He's going to ring up the head of the British post office in the first transatlantic telephone call ever to be made by undersea cable.

The call from Cleo F. Craig, new chairman of the board of directors of the American Telephone and Telegraph Co., to Dr. Charles Hill in London will mark the inauguration of the new service.

AT&T, the British post office and Canadian Overseas Telecommunication Corp. joined in the establishing of the new system, which can carry 36 conversations at the same time. That is about three times the traffic now transmitted between North America and Great Britain by radiotelephone, which often is knocked out by sunspots and other disturbances.

A telegraphic cable has spanned the Atlantic for nearly a century, but the new system provides the first voice cable under the ocean.

The network consists of 2,250 miles of underwater cable from Clarenville, Newfoundland, to Oban, Scotland. There are two cables, 20 miles apart. One transmits west to east and the other east to west. They are only 1¼ inches in diameter, but were made to withstand pressures of at least 6,000 pounds per square inch.

Completion of the system at a cost of 42 million dollars marked the end of 25 years of research by communications men on both sides of the Atlantic. It means that a person may make a call from any point in the U. S. to Britain with assurance of being able to be heard clearly.

9-25-56

A new communications link with the Northwest

One of the many improvements in your service to be completed in 1956

Telephone men are now hard at work on a vital new communications link with the Pacific Northwest. This is a microwave radio relay system which runs from the San Francisco Bay area to Portland via Sacramento. We expect to have it in operation by August, in time for the political conventions in San Francisco and Chicago.

At present, long distance calls, as well as TV programs, are carried between Sacramento and Portland by coaxial cable. The new radio relay system will share the communications load by providing additional TV channels, leaving this cable free for telephone calls. short run $ig costs.

This new radio relay system to the Pacific Northwest is only one of the many telephone projects that will be completed in 1956. In the coming year, Pacific Telephone will invest a record $385 million to make your telephone service even better and to provide new facilities to care for the ever growing needs of the communities we serve.

Also during 1956 we will introduce direct

stuck in the mud. That's when we got out and walked."

For full seven days of their ordeal, Mrs. Sharkey and Mrs. Ferguson were without food and water. All the time, rescuers, on foot, mounted and in airplanes, scoured the area.

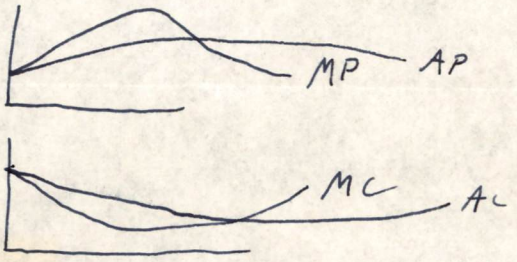
On the seventh day, as they were making their last attempt to climb out, Harry Fisher and his colleague found them. "The men brought us water in their hats," said Mrs. Sharkey. "It was such good water." Both Mrs. Sharkey and Mrs. Ferguson have now recovered from their frightening ordeal.

Capt. Gordon Auborn presents a reward check for $250 to Harry Fisher for his part in the rescue.



Decreasing Cost Utility

If you have many acres, e.g. for farming, & are underusing it, you may be in decreasing costs, i.e. Δ in mp. Or Δ in ap still for a while after mp starts to drop.



Essence of a decreasing cost utility is, it takes a big area of land & underuses it. At least that is a big part of it.

Consider a r.r. between 2 cities. Suppose traffic gets so heavy they must build a parallel track. That is not decreasing costs, probably, except for some economies of scale at terminals etc.

So when a utility gets highly burdened, — in sense of limited space — ok to charge a price. However most burdened utilities wd. be unburdened if they improved sites to bear more -- cap., not land, the limiting factor.

The way to achieve economies of scale on transit & utilities & communication is to consolidate settlement. — use central land intensively. & then of course use the franchise rts of way etc. intensively.

~~Wilson~~

Suppose a city of 100,000 simul doubles its area & its pop. w/o chang'g demand per cap. for xptn etc. Traction co. doubles size, includ'g land. Few if any ec.s to scale.

Those ec.s come from dense pop. that lets you use streets intensively: bigger busses, longer el trains, more frequent service Or putt'g another customer on same gas main, phone line, etc

Hotelling, no P=MC for p.u.

Manufactured for
A. S. U. C. Store
STEPHENS UNION
BERKELEY, CALIFORNIA

University of California

GRADE
1—
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3—
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5—
6—
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EXAMINATION RULES

1. No Student is to leave the examination room while an examination is in progress except with the express permission of the Instructor in charge.
2. Only such materials as are actually required in writing an examination may be brought into the examination room.
3. No smoking will be permitted in the examination room.

Name Merrill M. Gaffney

Subject Econ 230

Date Nov. 14, 1950

productivity was, indeed, consumer surplus. But quite beyond this defect of the Joseph argument, I am concerned with the idea that consumer surplus is overstated as the area under the demand curve. (& above price) If consumer surplus be defined as what the consumer would pay for a quantity of a good on an 'all-or-nothing' basis, then clearly it is less than the area under the demand curve & above price, because the higher price paid reduces income. But as a measure of welfare, it is important that his income is not reduced, that he gets the intra marginal units cheap & keeps his income up. Hence I stick with the area under the demand curve as the measure of consumer surplus, & reductions in it as measures of excess burdens of taxes on particular industries.

Turning from criticisms of Hotelling to criticisms of Du Puit & Marshall, many critics aver the 'consumer surplus' concept overstates the excess burden, because it assumes constant marg. utility of money. Joseph has constructed a demonstration of the excess burden argument which is supposed to be free of this defect. Unfortunately the Joseph argument has a more serious defect, viz. the assumption that resources leaving the taxed industry will become unemployed. Marshall's argument did not require this assumption. Marshall could state that displaced resources could be put only to marginal uses in other industries, while they were taken from supermarginal uses in the taxed industry. This excess of productivity over the marginal level of

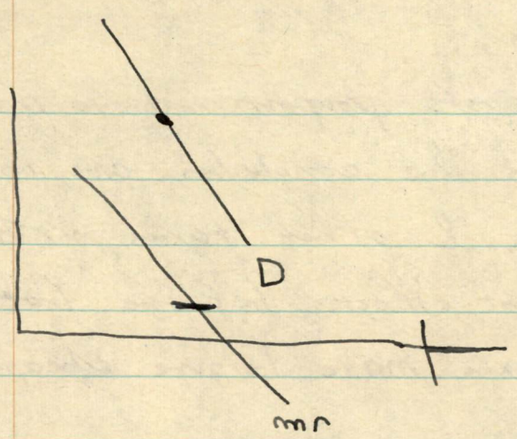
The tax may be viewed as a reduction in demand to the producer, rather than an increased cost. Then all mc curves would fall, because alternative opportunities had fallen. All prices received by sellers after tax would fall proportionately, being still = to mc.

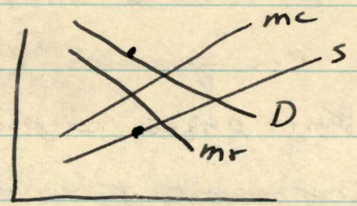
Alternatively, the tax may be considered to increase costs, but to lower opportunity costs of resources, again keeping mc = p.

In either conception, an excise tax that was proportional to prices would not keep any resource from its ~~best~~ best use, & this can be described as keeping mc=p. But monopolies truly make mc < p, & keep resources from uses with higher marginal productivities.

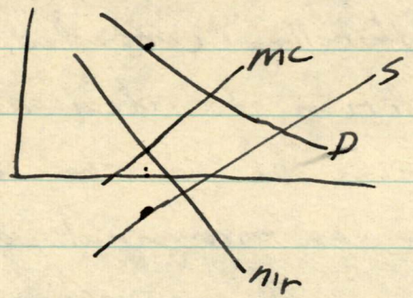
do not like his formulation. For if all production were monopolized, prices might still bear the same relation to each other as marginal costs to each other, & still allocation not be ideal. The ultimate criterion of ideal allocation is that every resource be used where its marginal productivity is highest. Where excise taxes are the wedge between marginal cost & price, proportionality is a sufficient condition to assure this; but where monopolistic institutions are the wedge, prices may be proportional to marginal costs while resources are not allowed to realize their highest marginal productivity.

I prefer to state Frisch's point by saying that a perfect system of excise taxes would not disturb the equality of price & marginal cost.





Price should be α to $\frac{1}{2}$ social mc, not monop.



marginal costs proportional to prices. Both taxes, he concludes, are inferior to site taxes, & other taxes with no announcement effect, because both income & excise taxes make leisure cheaper relative to goods.

Hotelling had condemned excises (& high utility rates) on the grounds that ideal allocation called for prices = mc. Mc is supposed to represent the foregone gain from producing the marginal unit, & should just = the value of it. Frisch criticized, & Hotelling conceded, that a sufficient condition for ideal allocation was that prices be in the same proportions to each other as marginal costs are to each other. I see what Frisch meant, & I agree with the point he was trying to make (that income taxes & excise taxes have similar effects), but I

proportionality - Frisch (& H) wrong, because of income.

m.v. of m.

~~of the~~ limitation of 1 good. True basis of argument
is that factors make
less elsewhere.

Rolph's criticisms: 1. Other factors
2. Def.
3. previous norm

what Du Puit & Marshall had shown for an excise on one particular commodity, that the tax results in destroying some 'consumer surplus', which is the excess burden.

Hotelling later admitted, under fire, that his result was not perfectly general. He had, in fact, assumed non-proportional excise taxes, and his argument only held good for such a case. This case ~~incom~~ is only a variant of the Du Puit theorem, whose limitation was that it applied to but one commodity. Hotelling's original contribution is therefore slight. He concedes, finally, that proportional income taxes are equivalent to proportional excise taxes, except that excise taxes exempt saving. He asserts that in practice income taxes are superior because excises cannot be devised so as to keep

A-

I Hotelling, Harold, "The Effect on Economic Welfare of Excise Taxes, Public Utility & Railway Rates."

The essence of Hotelling's argument is that excise taxes have an 'excess burden', i.e. they take more from consumers than they yield the treasury. He extends the argument to show that ~~public~~ resources are ideally allocated when prices = marg. costs, & hence that charges for public utility services (analogous to excise taxes) should be fixed equal to marginal costs, & not with any consideration of meeting fixed costs.

The original part of Hotelling's argument consists in some esoteric mathematics, by which he claimed to show for excise taxes in general

Roads, free goods, taxes – principles I now accept.

Rolph says roads are treated as a free good. If so, tax autos etc to pay for them, & they won't be. In fact, that would be a good way to allocate precisely, or fairly precisely, govt service. If you only build what the taxes pay for --- but this depends on rate, etc.

Besides, are they so treated? Is the toll not collected in the form of rent? But most rents that would be raised are type that you would pay whether or not you used road, hence be no deterrent to using it.

So here is a sound argument for certain taxes on production. The gasoline tax is a good one after all. It would be most precise

of all to collect a tax for using the road, but this would be awkward, gasoline tax better.

This points to possibilities for other good taxes besides lvt. Anything that amounts to a payment for what would otherwise be a costly good made free. & anything that would cause recognition of complementarity. --as a tax on professors to subsidize libraries, or such -- that is far-fetched, but there might be some (besides lvt of course). A tax on any existing capital to subsidize something whose production would mainly bring returns to owners of the existing capital rather than the producer of the thing. Mainly tho this would apply to taxing land values to subsidize public improvements. But it might even be taxing labor to subsidize some improvements.

Recall my argument with Watt, when I said projects should not be extended until $m_R = m_C$, if resources limited, because before this is done everywhere ~~resources will~~ techn. will change; & old stuff just in way, like crotchety machs.

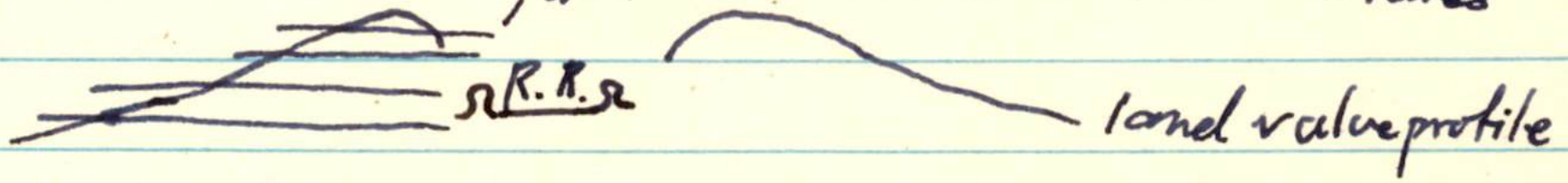
This might be applied vs IVT.

Tho only in part, because is no limit on resources until $m_R = m_C$

If a r.r. can't pay its way, but still is so compl. to surrounding property that it is a net ec. asset to society, couldn't it pay its way? Won't the users of that property be willing & able to pay higher rates -- won't that property supply an inelastic demand? Some of the property affected will be marginal to the r.r. of course, giving elasticity. But the point is whatever rent is increased by the r.r. can be reduced as the fare is raised (but may not be immediately, due to spec, hps). & it is possible for the r.r. to get all the ec. benefits of its own existence that are compl to

land. Well, not all, because the only way to get all from the most favored site would be to increase the fare to its limit, thus cutting out all other land. So it is still possible that a r.r. be a net gain to society & not be able to support itself, because it can't collect all the increased products caused by its existence.

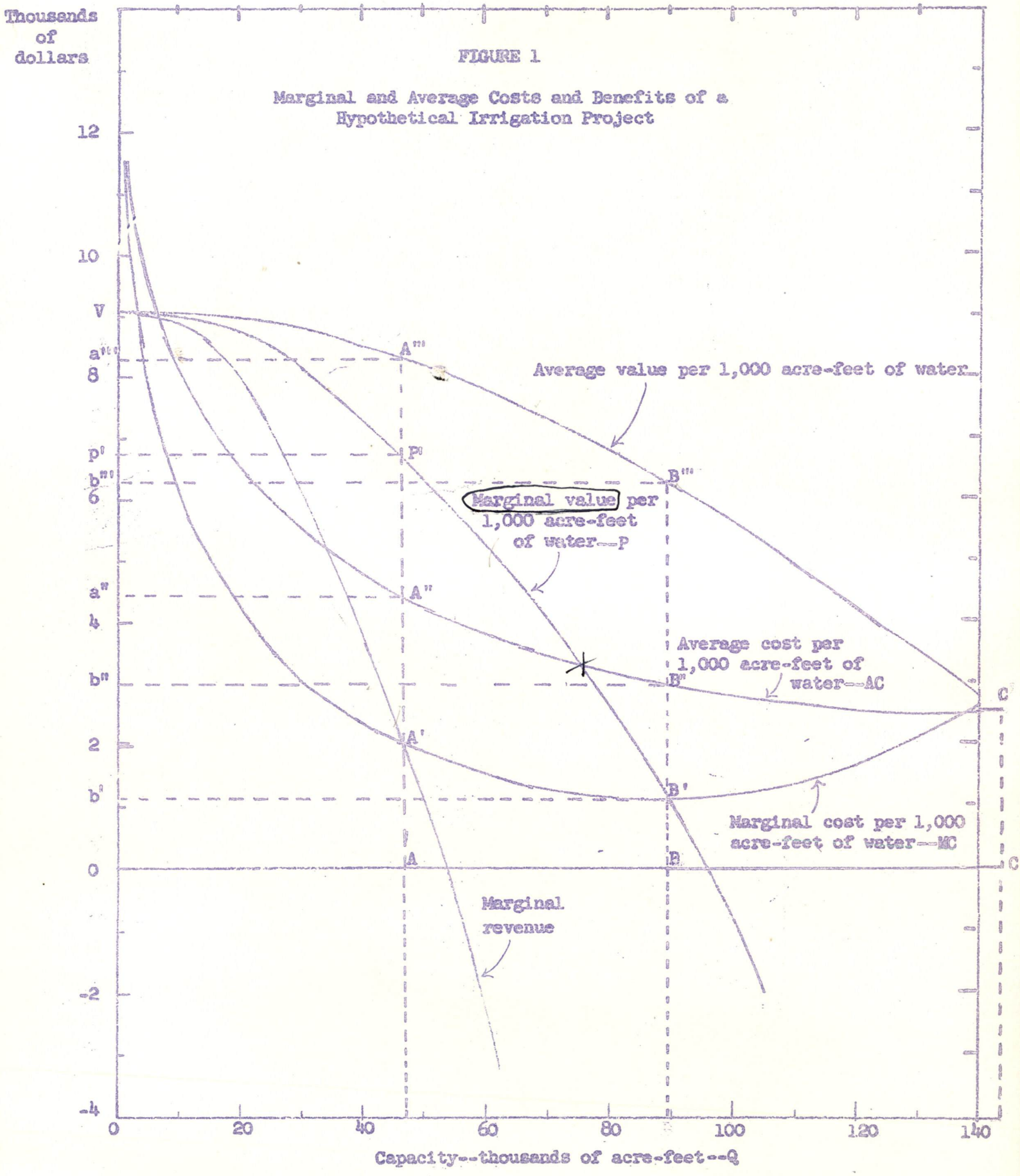
Gain to labor & cap would be general thru mkt area. As fare rose, area in which labor benefits reduces, again you would not end entire benefit until fare high enough to cut out most benefited area.



Internal acc't's of firm, mgmt cost's of decr. cost sectors evident. Free elevators in office bldg's. KCLC distr. system. Ass. line, use of. Etc.

FIGURE 1

Marginal and Average Costs and Benefits of a Hypothetical Irrigation Project



Weeks inclines toward gross. — soft-pedals o.c.

Vanzetti

Bressler thinks cons surplus disappears when consider aggregate. I wd answer justif-n of public subsidy is decr. cost argument.

Uncle Tom & Aunt Bess say big trucks roar past their house all day. Why? Bes thruway tolls are so hi, trucks avoid it.

Beautiful NY thruway, Albany - Buffalo.

H. L. Nichols Jr
Forest 9-6772

HW
Hunter 5-8974

3-18-56

About These Toll Roads

s the day when a toll road was as good as a gold mine gone? Or is there a chance that some day soon you can go across country on high-speed highways, with hardly an intersection? The picture isn't as rosy as it once seemed but the toll road is probably here to stay, an AP survey shows.

By ROGER D. GREENE.

WASHINGTON, March 17 (AP)—Just 55 years ago an intrepid motorist named Roy D. Chapin donned his owl-eyed goggles and linen duster and performed the breath-taking feat of driving from Detroit to New York in 7½ days.

Skeptics said it couldn't be done. The roads were too bad.

Used Tow-Path.

But Chapin was smart. Deliberately avoiding the muddy, meandering regular roads, he chugged along the well-drained towpath of the Erie Canal—and became the first man in history to make the 654-mile trip by automobile.

U. S. roads have vastly improved since those pioneer days. The answer, to a large extent, has been the big upsurge of modern toll highways since the end of World War II.

By next fall, motorists will be able to travel virtually nonstop for 874 miles on multilane toll "cruiseways" from New York to Chicago. The final link, by way of Indiana's new 158-mile turnpike, is scheduled to open in November. Tolls from Manhattan to the Chicago Loop will cost $10.45 for automobiles.

By the end of 1956, motorists traveling mostly on super-speed toll highways will be able to drive 1,950 miles from Oklahoma City via St. Louis, Chicago, Cleveland, Buffalo, Albany and Boston, thence up Maine's "big rud," almost to the Canadian border.

"Rud?" that's Down-Easternese for road.

And within 15 years, experts predict blue-ribbon highways will span the nation from coast to coast and from the Great Lakes to the Gulf of Mexico.

Despite enormous improvement however, America's so-called highway system is nearly as outmoded as a horse and buggy in the jet age.

Most Inadequate.

Badly neglected during World War II, about 85 per cent of the nation's highways are rated inadequate according to present-day standards. Among the more notorious examples are such murderous strips as the old Boston Post Road between New York and New England and "Bloody U. S. I., "also known as "Suicide Alley," between Baltimore and Washington, D. C.

Meanwhile, motor vehicles clogging the highways have multiplied from 100,000 in 1906 to 60 million automobiles and 10 million trucks in 1956. Experts predict there will be 100 million cars and trucks operating by 1965 or earlier.

In desperation, many states have turned to toll roads as the answer to the highway crisis. Toll pikes are not new. They have flourished sporadically for centries, dating back at least to 1665 in England, but their popularity in the past has been debatable.

Ten years ago the United States had only 300 miles of major toll roads. Today there are 12 toll highways covering 1,846 miles, built at a cost of $2,298,987,000, operating in 10 states — New York, Connecticut, New Jersey, Pennsylvania, Ohio, West Virginia, Maine, New Hampshire, Colorado and Oklahoma.

In addition, an Associated Press survey shows, some of these and 14 other states have either started construction or charted plans for 30 new toll highways extending 3,974 miles at an estimated cost of $4,600,739,000. Most of these are fairly firm commitments. Dozens of others are in the talking stage.

The first modern toll highways — such as Connecticut's Merritt Parkway, Pennsylvania's east-west pike and the New Jersey Turnpike—hit the jackpot with such resounding success that other states feverishly began making plans for their own projects.

It looked like money in the bank. All they had to do, it seemed, was build a fenced-off or limited-access highway, put up a few toll booths and start raking in the profits.

Many Headaches.

That was before they discovered the headaches. Early hopes, in many cases, went glimmering for a wide variety of reasons:

Critics protested loudly that toll pikes violate the American tradition of free roads . . . angry landowners raised legal snarls against being shoved aside to make way for the new highway . . . politicians wrangled over pork-barrel favors. . . . opponents denounced toll ways as "gold-plated death traps" . . .

To top it all, while some toll roads pay off handsomely, others have limped far behind engineers' original rosy estimates. Many truckers boycotted the new 241-mile 326-million-dollar Ohio Turnpike after it opened last October.

Drivers of the big rigs balked at paying as much as 12.4 cents a mile compared to 1.2 cents a mile for motorists. Ohio truck tolls are the highest in the country, almost double the rate on the connecting Pennsylvania Turnpike.

On the Ohio Turnpike, engineers predicted truck tolls would make up 73 per cent of total revenue; in the first three months of operation it amounted to only 32 per cent. Ohio authorities are now dickering with the trucks in an effort to lift the boycott.

Similarly, West Virginia is in hot water because truck patronage has fallen far below expectations on the state's new 88-mile, 133-million-dollar "turnpike to nowhere." The road got its nickname because it doesn't hook up with major highways at either end.

The West Virginia pike needs an average daily income of $15,400 to break even but earned only $7,645 daily last year.

In Texas, turnpike trouble took a different turn. Plans for two privately financed toll projects —a 223-mile, 114-million-dollar pike from Dallas to San Antonio and a 243-mile, 160-million-dollar highway from Dallas to Houston —hit a snag and were at least temporarily shelved when the state refused to guarantee it wouldn't build free roads alongside the toll expressways. That gave bond buyers cold feet.

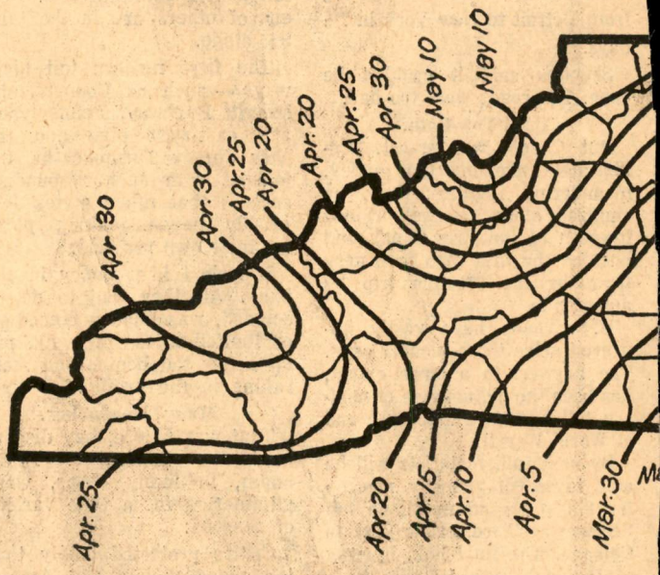
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VOL. CLXXXII. No. 77



After A Hard Winter

Spring Dances

By CHARLES B. CARNEY.
Raleigh-Durham Weather Bureau.

The best thing about spring is that it comes after winter.

Some years it is late, some years early, but come it does. Only for astronomers does spring begin on a definite date; they say spring begins about March 21st, the time of the vernal equinox, when the sun is directly over the equator at noon. Here in eastern North Carolina, one of the most delightful features of our climate is that spring usually beats the astronomers' date by several weeks.

Really Welcome This Year

Spring is welcome any year, but especially after an unusually cold winter, such as we have just had. The past winter brought little extreme cold, but there were protracted periods when the mercury was too low for comfort to most people. This was especially true in the usually mild southeastern counties, where temperatures were much below their usual winter levels during December and January. Yet, by February southeastern North Carolina began having mild weather, with afternoon readings rising into the 60's and 70's. This warming gradually spread inland, causing spring plants to break through the ground early in February as far inland as Raleigh. By the beginning of March, early spring flowers were blooming in the central part of the State.

Leaving to the poets and editorial writers their pleasant annual task of announcing spring's arrival and extolling its beauty, let's follow the course of spring as it usually advances northward and westward across North Carolina from the south coast to the mountains. In order to do this, suppose we agree that spring begins when the average daily high temperature reaches 60 degrees, realizing that the temperature trend in the average spring ha[s] when northerly winds occasionall[y]

SPEAKING OF TAXES . . .

When you buy almost any kind of item from the local grocer, druggist, or "five and ten" store, it's not surprising to find quite often there's an added charge for taxes of one type or another. It may be more surprising to note, however, that taxes of all types on each main telephone served by Southern Bell *averaged* $32.80 for 1955. Of this amount, the Company's operating taxes totaled over 105 million dollars while subscribers paid more than 48 million in various excise taxes.

As these figures indicate, Southern Bell and its subscribers provided a substantial amount of support to local, state and federal governments through telephone taxes last year—$2.73 a month for each main telephone.

and a director.
Southern Bell,
nd Pacific Bell.
ns assistant vice
Turner. W. E.
Baker, who has
tant vice presi-
.
rs as beginners



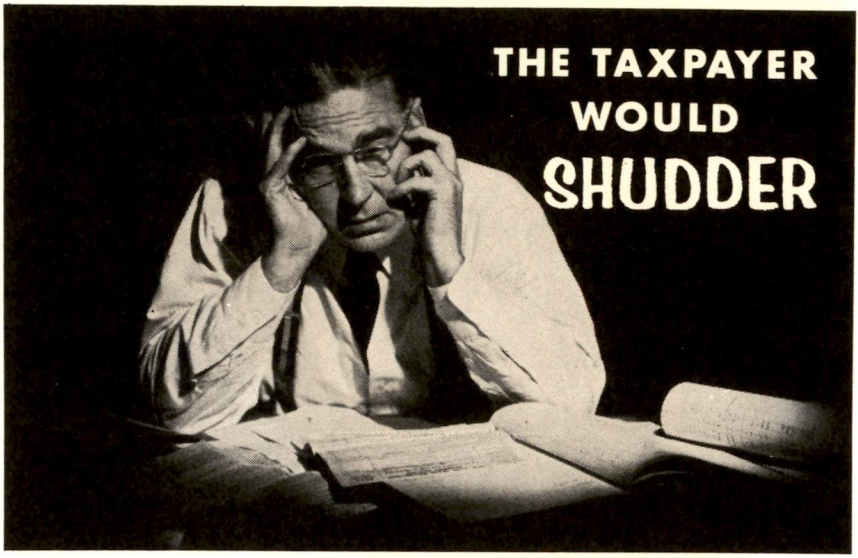
Mr. Stubbs
Secretary



Quote 'n' Unquote

Anyone who thinks he is indispensable should stick his finger into a bowl of water and then notice the hole it leaves when he pulls it out.
—Grit

The world is a looking glass, and gives back to every man the reflection of his own face. Frown on it and it will in turn look sourly upon you; laugh at it and with it, and it is a jolly kind companion.
—*Thackery*, Vanity Fair.



The average taxpayer would be likely to shudder if he fully realized how the Federal Government spends some of his money.

A case in point: *Reported 4th class mail (parcel post) losses 1926-1954 total more than 1.2 billion dollars.* But that is not the complete picture.

The Post Office Department admits its reports do not include all the expenses paid by the Government for 4th class mail operations. The unreported expenses have been estimated at more than $43 million annually. No private business can compete with government—let alone at below-cost, taxpayer-subsidized rates.

The Hoover Commission, after thorough studies, made note of the serious issue of government competition and past Congressional efforts to reduce it. It has recommended to the present Congress a further step—that continuing taxpayer subsidies to parcel post shippers be wiped out through rate increases adequate to cover all costs.

One year's debt interest paid by taxpayers, on reported past deficits alone, amounts to more than $33 million.

There is no more reason to subsidize someone else's shipping costs than to help pay his rent, electric or other business expenses.

For a free copy of an informative booklet, "The Truth About Parcel Post," address The Public Relations Division

RAILWAY EXPRESS AGENCY, INC.

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A PRIVATE ENTERPRISE IN THE PUBLIC SERVICE

ABOUT THE PUBLISHER

THE FOUNDATION for Economic Education is a nonprofit institution dedicated to a society of free men, voluntarily cooperating with one another, to the end that each may best realize his potential. This involves the study, explanation, and promotion of such libertarian ideals as private ownership, willing exchange, open competition and limited government.

In addition to publication of THE FREEMAN each month — a major undertaking in itself — the Foundation also conducts numerous other projects. A detailed report of these activities is available on request.

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All donations are deductible for income tax purposes.

Take "External ecs & discs" as title.

It is altogether remarkable that 2 ec-sts in mid 20th cent. Am., ~~cd. find~~ surrounded by decr. cost op-ns & subsidies thereto, cd. find nothing on which to comment more recent than Eng theorist.

Only specific e.g. - trade jnls - is awfully weak, I borrowed anyway.

Scribendo:

Advantageous for me to attack Ellis-Fellner article. For Ellis has already stabbed me, he can do no worse; & his opinion probly derived from Fellner's, for E. was friendly until my prelim trouble & sessions w. Fellner.

So one way to prove ~~then~~ Ellis wrong in saying I can't make "big leagues" is to attack him successfully "elevated to stature of a classic"

Clapham, who started this w. "of Empty Ec. Boxes"; chided ec-sts for not findg when Δj & -Δj costs prevail. E-7 done nothg to answer, but returned to abstraction so completely removed from reality one has hardest time fathomg — & not very good abstract thinkg at that.

He points out we don't know whether various ind-ys are Δj or -Δj returns.

He's a silly ass. Thinks subsidizg decrg cost ind-y n.g. bes Δj cost ind-ys are "nearer raw materials"; hence not eligible for taxation. How odd.

Cites Marshall, Ind-y & Trade, p. 405 n., for prop. to tax Δj & subsidize decrg cost.

E & 7 emptied boxes, their contributions

Vs. Ellis - Fellner

They address selves to refutg decreasg cost subsidy.

But take Pigou argument applyg money analysis to incr. cost — which Pigou had virtually retracted by '24
an obvious ✓ blunder — & devote some pages to worryg it, laboriously.
elementary

Never come to grips w. substantial argument. Find good expression of it. Challenge E.&/a F. to refute.

Not nec. to tax incr. cost ind-ies — tax rents, anywhere.
Pigou's eti's tax on incr. .. .. may have bn necessary to avoid this conclusion.

2d argument, external ec.s.

Essential technique: take 2 tangential arguments, present & refute them in tedious style, such as to leave reader w that dazed exhausted feelg as tho had bn thru something very profound

Has provoked no jnl comments pro or con, & seems worthy fate but republic-n ~~shows~~ elevates to status does not deserve

~~The~~ ~~Briefs~~ H. E. W. L 7's wartime '43 article on "External Effects" has never received, in the lit so far as I ~~can det~~ hv. discovered, any comment pro or con. It seemed for several yrs to hv passed quietly into the limbo of ; & there I, for one, was willg to let it rest in peace. But its selection by a distinguished AER comm. for republication in 152 AER Rdgs in p thy elevated it to a new, ~~dignity~~ (& as it seems to me ~~wholely~~ unwarranted) dignity & authority

E-7 very hard to follow. As a dutiful grad. student gave benefit of doubt, that this reflected profundity of analysis & intrinsic difficulty of subject. As a freer agent today, seems to reflect rather authors' failure to grasp elementary ec. principles & state their points clearly; & their preoccupation w. refuting the subsidy thesis.

Entirely failed to come to grips w. argument for subsidy. Chose weak, untenable form of argument (Pigou); & then one entirely incomprehensible (external ec.)

"Come on & have it out in the open". Skulking behind incomprehensible ambiguities, hiding in ponderous platitudes, attacking not w. direct reason, but obscurities, pseudo-semantic terminological imperialism (whatever words you use must mean what I say — otherwise have no meaning)

No need to be so obscure, ~~bark back to~~ dig up ancient blunders. Any competent theorist shd see basis of argument: MC = P.

Hotelling, The General Welfare in Relatio to Problems of Taxation and of Railway and Public Utility Rates.

Works out quantities and triangles on graph, concludes that excess burden is the small triangle at apex, equals the area of that triangâe, which is ½ the decrease in Quantity times the tax rate. (Adds, probly unnecessarily, that for small increments of taxation, the decline in Q is prop. to dTax, hence loss is prop. to square of dTax.rate. Dupuit remarked upon this.)

He seems to identify these various surpluses with indivi ual consumers, not metnioning land values.

The objections to this analysis have beenxxix objections to consumer surplus concept. 1, that demand curve for some commodity might rise to infinity, if a necessity. (so what. It might indeed. But of course in a limited area, such as is relevant for public works discussions, it would never have infinite value, for people could always move away. And if this necessity is being supplied for whole world, then it does have infinite value, and this should be recognized. Of course the increment to supply furnished by this public work probably would not go all the way back, undoubtedly would not go all the way back, to the beginning, for there was an alternative original supply. The only benefit ascribable to the work is the increment in production, and fall of its price, etc) Hotelling gives weak response to this objection that you needn't go all the way back to beginning, can start figuring surplus from some arbitrary point.
2, Pleasure non-measurable 3, C.s. from different items not additive, because interdependent. 4. Surpluses of different individuals not commensurable (but dRents are.)

He sees the increase benefits from p.w. as to individuals, not to l.v.,and suggests elaborate studies for, e.g. a bridge, of how much xportation time it would save, rather than how much tolls it would bring in.

Think on his point that prices should not cover fixed costs. Is that what he means?

Where facilities not adequate to meet all demand, he would charge a rent to users, whose purpose is to equate s & d and provide revenue for state, and not to meet overhead costs or carry invested capital. It is just a rationing device, and site rent is an e.g., and water tolls another. The charge is an element of marg. cost as he uses it. Water tolls ~~are~~ a good e.g., for with water you take from someone else the limited water.

Concludes that a given sum can be raised with less sacrifice by direct or income tax than excises, because a person can to some extent avoid the excises by rearranging his consumption, and the rates must be set high enough to raise the money after the adjustment. The conclusion is not new, but Hotelling has reached it by reasoning about all commodities at once, rather than one at a time. But he assumes non-prop. tax which is conx (cons)

His reasoning has been long & mathematical, with indifference curves, and I didn't follow it. But it comes to same conclusion he reached graphically, the area of the triangle in the apex.

Marshall used c.s. analysis to conclude that incomes and increasing cost industries should be taxed to subsidize decreasing cost ones.

Hotelling would stop talking about demand curves, use demand functions, math. expressions in which more variables can be handled. Says Marshall wrong in concluding from graph that tax will lead to price increase of something less than the tax, too simple.

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of the old point which took only one commodity.

H., too, would subsidize decreasing cost industries, -- the higher costs of the first units is same as fixed costs, should be borne by state, bring mc to equal prices hestresses. This seems wrog to me.

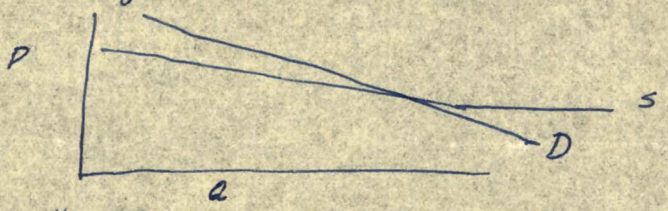
If d or s curve is steep, triangle of "dead loss" from tax is slight. Site tax perfect he says. He's definitely for us. p. 256 he defends it at some length -- get Rolph's reaction.

The "attention" of people is a limited resource, which advertisers try to take away for their own uses, and advertising should be taxed, like sites, on this ground, as a rationing device to prevent the other sort of rationing that comes from overcrowding.

He does not state why ~~xx~~ income taxes do not involve the same kind of dead loss that excise taxes do.

p. 257

No, it is ok. E.g.



This industry is socially economic, but could not collect all its worth in price. - even if, if a monop, it could set p > mc. It might be one firm, or many - in either event worth a subsidy.

H., too, would subsidize decreasing cost industries, -- the higher costs of the first units is same as fixed costs, should be borne by state, bring me to equal prices hereinbefore. This seems wrong to me.

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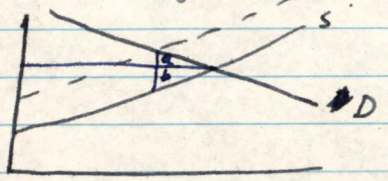
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p. 257

- another good one to try my paper on

Hotelling, Harold, The General Welfare in Relation to Problems of Taxation & of Rwy. & Utility Rates.

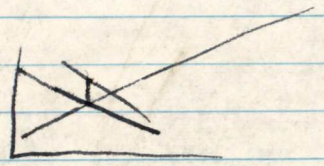
Opt. social welfare achieved by selling everything at mc. Means sales taxes & toll bridges bad, inc., inheritance & site taxes good. Would finance big utilities from site taxes, to keep their prices down to marg. cost. (is he ass. declining mc? Otherwise mc × Q will be more than enough to pay off) Sc - with tax (of kind that As mc)



From above, classics concluded that price As, but by less than tax; & Q declines.

Dupuit said p.w. worth more than price, as some would pay more. But instead of identifying what they would pay with demand curve, he said it was cost of alternative service. Hotelling wrongly identifies the 2 ideas. But is ok, we will proceed as the demand curve were it.

Is a consumers surplus under D curve, & producers surplus over S curve. He adds the 2 for net social benefit. Identifies S curve & mc curve. Seems ok. This gives room for large subsidy. Reconcile with my method.



Hotelling, cont.

Gives TVA e.g. Benefits exceed costs greatly, yet the saleable output could not be sold for enough to pay for TVA. He would have public finance investment, & sell output at m.c. Doesn't mention site taxes here, but justifies having people in other parts of country help pay, by inc. taxes, because of extended benefits.

Work on extended benefits, thesis?

(his analysis of extended benefits is slipshopd. e.g. he says lower price of fertilizer will help farmers, & goes no further. This subject in general is one on which I wish to do lots of work, perhaps write a thesis. Complementarity & all the ideas that flowed frm it involved.)

Distribution of wealth would not be much affected regionally under Hotelling's plan, for projects would be built all over. But land speculators and the wealthier would suffer from the taxes. (wrong. Land speculators would benefit from the taxes, if they replaced tolls, and more particularly if inc.&inh. taxes brought in to help pay)

Includes heavy industry with utilities as being a natural monop. and, I suppose, with some justification, esp. for those producing things with high xport. costs.

Local govt. & gen. int.

pp. 261-2: "But NYCity's bridge and tunnels across the Hudson are still operated on a toll basis, because of the pressure of r.e. interests anxious to shift the tax burden to wayfarers, and the possibility of collecting considerable sums from persons who do not vote in the city."

R.r.s have very complex rate structures, in attempt to squeeze last drop of consumer surplus out.

e.g. their fares are higher in winter, altho they have less passengers then, because the demand of the summer passengers is more elastic, as they are on pleasure while the winter travellers are on business.

He identifies the excess benefit from p.w. as the golden triangle, but he ~~sny~~ doesn't consider displaced facilities, hence just gives half the picture really. Might write him on this.

Actual r.r. rates not only complex, but not near m.c.

Due to indivisibilities, m.c. may be suddenly very high. Would average this out.

Attempt to cover fixed costs from prices charged contributes to cost rigidity in depression he says. In 1931 r.r. rates pushed up 15% in money, on grounds that was needed to meet fixed costs. (surely one of the most colossal blunders of the era, which I must remember to stress). On grounds that they needed more money to pay off their bonds.

Where there are overhead costs he says, competitive prices cannot prevail.

Hotelling, cont. (with Frisch coming up)

He concludes with some remarks about priority, seems to favor max. net benefits, not get the idea about max. ratio of benefits to costs.

By and large, the best thing I have seen. Hotelling gets the prize. It is full of minor errors, but the general idea is superb, and I'm delighted to see that someone else has been working along this line.

Frisch, The Dupuit Taxation Theorem, Econometrica, April '39, p. 145

Says that Hotellings generalized proof of Dupuit's theorem (i.e. his math., which I did not follow) does not ~~prove that~~ state that satisfaction is nec. reduced by shifting from inc. to excise taxes, but that only if excise taxes are non-proportional to pre-existing prices (i.e., if different rates applied to different items?) is satisfaction reduced.

So Frisch has taken up the error in Hotelling's paper which I mentioned, that excise taxes differ from income taxes, and is working on that angle. Which is ok. The case for site taxes must not be one that lumps them with inc. taxes, but which lumps inc. taxes with excise taxes, only inc. taxes are worse than excise, because progressive.

The funny thing is, Hotelling said that his math. which I didn't follow was a generalized proof that excises are worse than inc. taxes, independent of the error of assuming an excise on just one thing. *But he did assume uneven excises.*

Hotelling concluded that it was "highly improbable" that excise taxes could be adjusted so as to be as good as inc. taxes. Frisch not so sure. Not so happy with assuming the base prices are best.

Frisch objects to saying the loss of the apex triangle is a net social loss, because when govt spends m it may get other such triangles. But this is irrelevant, for the question is comparing excise taxes with other kinds, not with govt. expenditures. (Hotelling later points this out)

Hotelling, answering, says that Frisch says that opt. welfare does not demand that all p eq. mc, as H., said, but be proportional. (I didn't think Frish said that). H. agrees, so if everything taxed prop. to mc, ok. Says it is impossible to devise a practical sales tax that affects all prices proportionally, due to evasions, services skipped, etc. (but inc. tax also misses much) Furthermore he says, the sales tax would have to be on mc, not p, which might differ.

Says that the proof that imposition of excise taxes reduces satisfactions cannot be made backwards to show that their repeal ~~would also reduce~~ (and replacement by inc. tax raising same revenue) ~~presumably~~ would also lower satisfactions, because the first base was one at which mc eq. price

Finally, Hotelling brings up a point I'm delighted to see, that Frisch didn't mention, that inc. taxes affect choice between work & liesure, are subject to same objection as excises on this ground, and should be avoided where possible to use site taxes & taxes on other rents he has mentioned.

Hotelling - Frisch, cont

Hotelling says his arguments apply particularly to cases of declining mc. This is certainly a characteristic of utilities. Think on this. Characteristic of monop.s

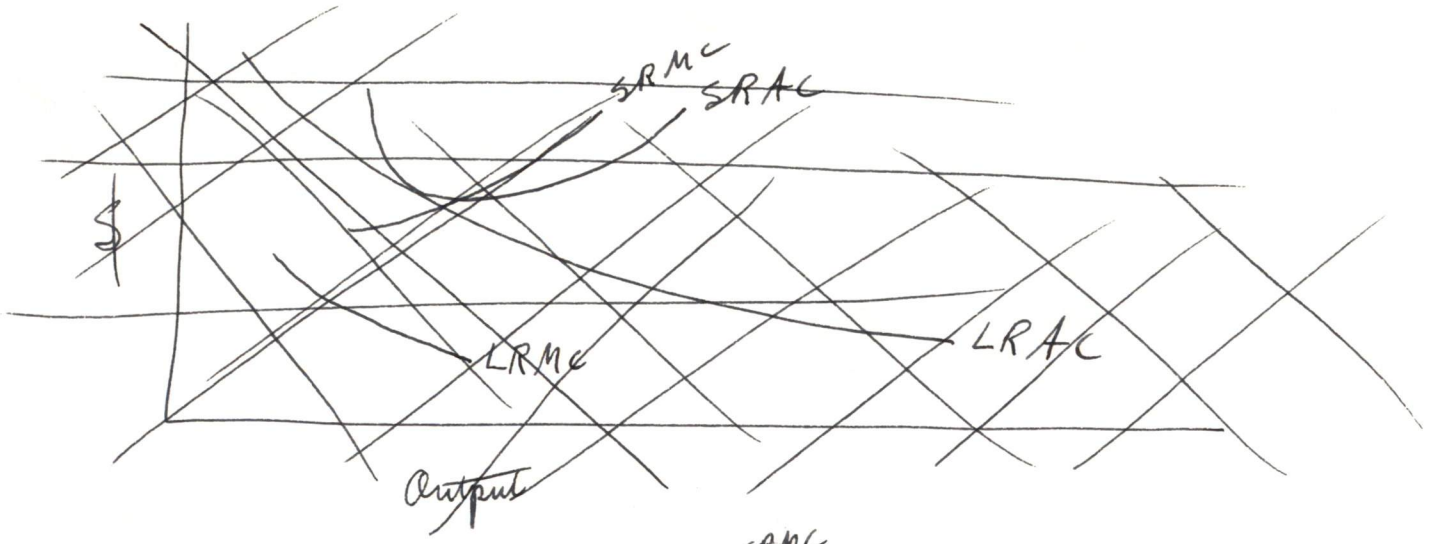
Frisch says the base period where p eq. mc may not be good, because mc affected by so many barriers already. & therefore he would be "less categoric" in conclusions than H. (but this is pretty irrelevant. Obviously we have to take some prices as given, and, if we want to improve the array of prices, attack barriers and imperfect institutions where they are, rather than by making other insitutions imperfect.)

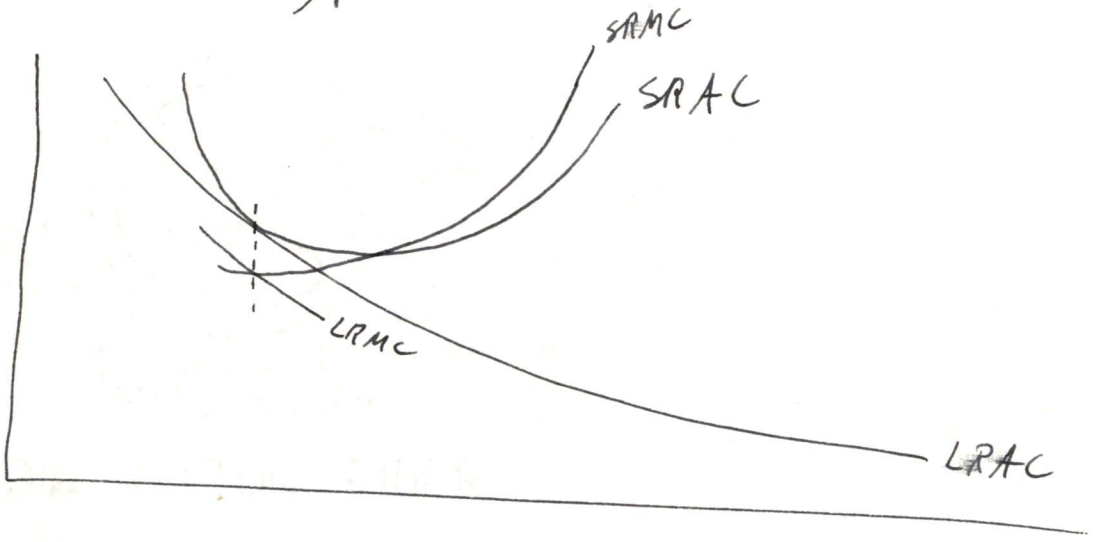
IF YOU CAN FIND THAT HOTELLING IS STILL TEACHING, HE IS THE PERFECT MAN UNDER WHOM TO WRITE A THESIS. He is no longer in Columbia catalogue.

Rolph probably dislikes H's arguments because of their criticism of laissez-faire -- he was unnecessarilyhharsh in his language and criticism of "classical economists", and because of his land tax propensities.

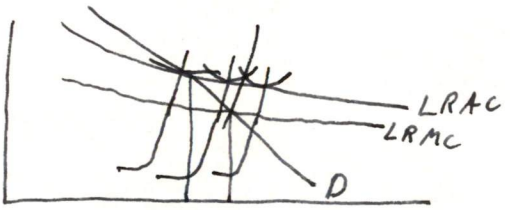
Rolph Review notes, 4

To repeat my criticism of Frisch's criticism of Hotelling. Frisch said that it was enough that various prices bear same proportions to each other that various mc bore to each other. But if we take mc to mean the social foregone gain, then it should just equal the price. With Frisch's perfect system of indirect taxes, what appeared to be marginal cost to the buyer of labor would be xxxx less than the social mc. Instead of calling the apparent mc the real mc, and talking in terms of proportionality, he should have identified the social mc as the foregone gain, and said this should equal price. His criticism of Hotelling is no good because Hotelling was obviously using mc in the social sense; e.g., with respect to monopolies, Hotelling would not say that ideal allocation called for price to equal mc in the monop. sense, but price to equal social mc.





Is subsidy necessary? SRMC rise above SRAC, even tho have further unexploited ~~LRAC~~. decreasing costs, LR.

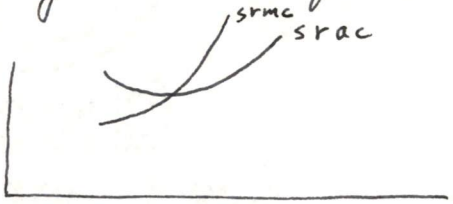


To answer is subsidy necessary may have to analyze succession of uses, as demand grows? But why complicate it ... assume fixed demand, to begin. Subsidy clearly nec. — & build a plant slightly larger than wd. give min. SRAC at that amt. have low SRMC.

Then get into dynamics, build ahead of demand, etc.

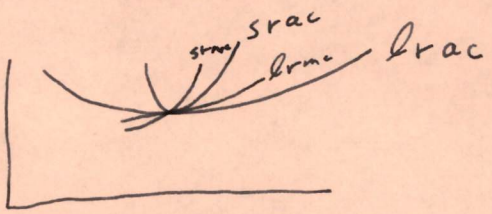
From risk standpoint, too --- with variable but not nec. growing demand (more)

excess capacity seems desirable bec probly ~~it~~ srac rise faster when you exceed capacity than when fall short:.



In such case clearly you do not want ~~minimum, but~~ to aim for max. no. of days opg at min. srac, but left of it, to keep out of hi srmc area.

There are supposed to be special difficulties in mgnl cost pricing in decreasing cost indies. Bert I wonder. Bes. the dg cost firm would have ~~—~~ srmc below lrac if slightly overbuilt. Fixed annual charges, interest &c., never enter into mc. Mc must be forced up by pressing on capacity, whatever is true of lrac.



So the problem of equating srmc to lrmc is not peculiar to decr. cost opns.

The mc=p argument is not especially a sr one, as Little implies, one that eeges on existing plant at expense of misguiding invmt. decisions. It is the lr invmt decisions that are distorted. Suppose const. demand. Policy of p = srmc could get you high price, by underbuilding. The big thing is to ~~get~~ achieve lr ees. by building to exploit low lrmc.

★ Civic Center Beat —

Downtown business interests are taking a sour view of the proposal by the municipally-owned Dept. of Water and Power to raise its electric rates.

The Water and Power commission held a public hearing on the proposal last week. It is seeking an average 5.9 per cent increase in rates. Householders would have to pay 7 to 60 cents a month more for electricity.

Commercial users and industry would have to pay 8.9 per cent more. The department needs to raise $4,800,000 more a year to keep up with rising labor and material costs.

Electric rates haven't been raised in 36 years. Last increase was in 1920. After that there were 12 cuts, the last in 1947 for 38 per cent. It is a startling example of the thriftiness of municipal power operations.

Even with the raise—if it is approved by the City Council—L.A. still will be among the cities with the lowest rates in the country. Business and industry representatives whose spokesmen was Frank Swenson of the May Co., Chester B. Caldwell of the Southern California Hotel Ass'n. and George D. Rives of the California Manufacturers Ass'n.

They asked for and got a continuance in the hearing to study the rate proposals. They are going to have a difficult time fighting an increase—if this is what they intend doing. A comparison of rates between the Southern California Edison Co. municipal systems in the Los Angeles area shows what private power must get for the same service to stay in business.

The following figures were taken from the Federal Power Commission's report for 1955 for typical electric bills for 250 kilowatt hours:

SERVED BY MUNICIPALLY OWNED POWER DEPT.S

Los Angeles	$4.90
Burbank	$5.00
Pasadena	$5.25

SERVED BY SOUTHERN CALIF. EDISON CO.

East Los Angeles	$6.24
Alhambra	$6.24

Max Lerner Asks:

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