Supplementary Material

Chapter 7: The Republican Era – Federalism

Houston East & West Texas Railway Co. v. United States ["Shreveport Rate Case"], 234 U.S. 342 (1914)

Railroad rates were a source of intense political conflict in the late nineteenth and early twentieth centuries. Railroads stitched the country together, linking far-flung towns, producers, and markets. The railroads were a particular lifeline to commercial farmers who produced crops for sale in distant markets and needed to transport their goods across the country. For railroads, long-haul routes were more efficient but also more competitive. They frequently engaged in price discrimination, charging a lower price per mile for cargo shipped long distances than for those shipped short distances. Congress created the Interstate Commerce Commission (ICC) in 1887 to regulate interstate railroad rates and stamp out price discrimination. Many states created their own commissions to regulate railroads operating intrastate lines. The federal judiciary was often called upon to evaluate the actions of these commissions and mediate conflicts among them.

In this case, the ICC charged several railroads with discriminating in favor of intrastate routes within Texas by charging higher rates for goods and passengers shipped across state lines to Shreveport, Louisiana, and charging higher rates on westbound lines than on eastbound lines. The differential rates weakened the market position of Shreveport relative to large cities in Texas. The ICC ordered the railroads to equalize the rates by reducing the tolls within Louisiana and on westbound routes. The railroads responded by denying that the ICC had the authority to set rates on intrastate hauls and that the current rate structure was driven by Texas regulatory authorities. The ICC contended that it had the power to set intrastate rates in order to remedy violations of interstate rate requirements and that federal directives trumped conflicting state directives.

The railroads filed suit in the specialized federal Commerce Court, but the Court dismissed them. The railroads appealed to the U.S. Supreme Court, contending that Congress did not have the constitutional authority to regulate intrastate commerce and had not provided statutory authorization to the ICC to issue such regulations. In a 7–2 decision, the Supreme Court upheld the authority of Congress and the ICC to set railroad rates on intrastate lines that directly affect interstate traffic. Two justices dissented without filing opinions.

In what circumstances can Congress regulate intrastate rates? Would it matter if there were other ways to equalize rates? Are there limits on the ability of the federal government to displace state regulations? Could the ICC regulate rates on purely intrastate routes or on those adopted by purely intrastate railroads? Could the courts act on their own to block Texas from regulating intrastate rates to the detriment of interstate commerce? What are the implications of the Court's decision in this railroad rate case for other types of commercial activity?

JUSTICE HUGHES delivered the opinion of the Court.

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It is unnecessary to repeat what has frequently been said by this court with respect to the complete and paramount character of the power confided to Congress to regulate commerce among the several States. It is of the essence of this power that, where it exists, it dominates. Interstate trade was not left to be destroyed or impeded by the rivalries of local governments. The purpose was to make impossible the recurrence of the evils which had overwhelmed the Confederation and to provide the necessary basis of national unity by insuring 'uniformity of regulation against conflicting and

discriminating state legislation.' By virtue of the comprehensive terms of the grant, the authority of Congress is at all times adequate to meet the varying exigencies that arise and to protect the national interest by securing the freedom of interstate commercial intercourse from local control. . . .

Congress is empowered to regulate, -- that is, to provide the law for the government of interstate commerce; to enact 'all appropriate legislation' for its 'protection and advancement' . . .; to adopt measures 'to promote its growth and insure its safety' . . .; 'to foster, protect, control and restrain' . . . . Its authority, extending to these interstate carriers as instruments of interstate commerce, necessarily embraces the right to control their operations in all matters having such a close and substantial relation to interstate traffic that the control is essential or appropriate to the security of that traffic, to the efficiency of the interstate service, and to the maintenance of conditions under which interstate commerce may be conducted upon fair terms and without molestation or hindrance. As it is competent for Congress to legislate to these ends, unquestionably it may seek their attainment by requiring that the agencies of interstate commerce shall not be used in such manner as to cripple, retard or destroy it. The fact that carriers are instruments of intrastate commerce, as well as of interstate commerce, does not derogate from the complete and paramount authority of Congress over the latter or preclude the Federal power from being exerted to prevent the intrastate operations of such carriers from being made a means of injury to that which has been confided to Federal care. Wherever the interstate and intrastate transactions of carriers are so related that the government of the one involves the control of the other, it is Congress, and not the State, that is entitled to prescribe the final and dominant rule, for otherwise Congress would be denied the exercise of its constitutional authority and the State, and not the Nation, would be supreme within the national field. . . .

. . . . Congress in the exercise of its paramount power may prevent the common instrumentalities of interstate and intrastate commercial intercourse from being used in their intrastate operations to the injury of interstate commerce. This is not to say that Congress possesses the authority to regulate the internal commerce of a State, as such, but that it does possess the power to foster and protect interstate commerce, and to take all measures necessary or appropriate to that end, although intrastate transactions of interstate carriers may thereby be controlled.

This principle is applicable here. We find no reason to doubt that Congress is entitled to keep the highways of interstate communication open to interstate traffic upon fair and equal terms. That an unjust discrimination in the rates of a common carrier, by which one person or locality is unduly favored as against another under substantially similar conditions of traffic, constitutes an evil is undeniable; and where this evil consists in the action of an interstate carrier in unreasonably discriminating against interstate traffic over its line, the authority of Congress to prevent it is equally clear. It is immaterial, so far as the protecting power of Congress is concerned, that the discrimination arises from intrastate rates as compared with interstate rates. . . .

. . . . It is for Congress to supply the needed correction where the relation between intrastate and interstate rates presents the evil to be corrected, and this it may do completely by reason of its control over the interstate carrier in all matters having such a close and substantial relation to interstate commerce that it is necessary or appropriate to exercise the control for the effective government of that commerce.

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Having this power, Congress could provide for its execution through the aid of a subordinate body; and we conclude that the order of the Commission now in question cannot be held invalid upon the ground that it exceeded the authority which Congress could lawfully confer.

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The decree of the Commerce Court is *affirmed* in each case.

JUSTICE LURTON and JUSTICE PITNEY dissent.