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Solving the Railroad Problem

BY

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ACCEPTED your invitation to discuss the railroad situation tonight not only because it gives me pleasure to come here and break bread with you, but because I believe it is of great importance at the present time for the facts regarding the railroad situation to be fully presented and discussed from all points of view. All classes of our people—workingmen, farmers, business men, railway officers, public men—have been discussing proposed solutions of the railroad problem for years. We still have it with us, however, and, frankly, I think we shall have it for a long time to come.

When the state and national governments about fifteen years ago began adopting strict policies of regulation, many believed those policies would solve the problem. Some of the policies adopted were beneficial, but others were harmful, and the outcome showed that as a whole they had not solved but aggravated the problem.

In the midst of the war, government operation was adopted. Many believed that it would so improve labor, transportation and other conditions as to show it was the solution of the problem. But the public decided that government operation also did more harm than good and that, therefore, the roads should be returned to private management.

THE TRANSPORTATION ACT.

Preparatory to the return of the railroads, Congress last February passed the Transportation Act. This measure partially or wholly reverses some of the policies of regulation formerly followed. Many believed, and still believe, that the Transportation Act is the greatest constructive

railroad measure ever enacted, and that a full and fair trial of it will solve the railroad problem. Some, on the other hand, are conducting a propaganda to show that the Transportation Act is adverse to the interests of railway employees and the public and unduly favorable to the companies, and that it should be repealed and government ownership and management, or government ownership and employees' management under the Plumb plan, substituted. There are also financiers and railway officers who are not satisfied with all the provisions of the Transportation Act and fear the effects that it will produce.

It is therefore very uncertain whether the Transportation Act will afford a satisfactory solution of the railroad problem. Indeed, I think we should frankly recognize the fact that probably no solution of it ever will be reached which all classes will accept as entirely satisfactory. The railway employees have certain opinions as to the conditions of employment and the wages they ought to be given. The shipping and traveling public has certain opinions as to the rates and service it ought to be given. The owners of railroad securities have certain opinions as to the interest and dividends they ought to be paid. It has been found impossible thus far to give to any one of these classes all it has held itself entitled to without depriving one or more of the other classes of a very large part of what it has considered itself entitled to.

It has been hoped, however, that, by establishing certain governmental agencies to mediate between the classes holding these conflicting views, it would be possible to secure adjustments which all would recognize as doing a rough justice. The Interstate Commerce Commission was established over thirty years ago primarily to determine controversies arising between the railways and their patrons regarding rates. The Transportation Act has given it new powers and duties with respect to the fixing of rates, and also new powers and duties regarding the regulation of service. In addition, the Transportation Act has created

a new body, the Railroad Labor Board, to settle controversies concerning wages and conditions of employment arising between the railways and their employees. Whatever differences of opinion may exist as to how this new law has worked thus far or will work in future, there is one point concerning it on which all must agree. This is, that it is the most important piece of railroad legislation ever enacted in this country.

The railways were returned to private management under the Transportation Act on March 1st, and therefore have now been operating under it over seven months. Not only are there differences of opinion as to how the Transportation Act will work in future, but some controversies have arisen as to the results it has produced already. I am going to try, in the short time at my disposal, both to review briefly the developments which have occurred since the railways were returned to their owners and to indicate some of the things I think must be done in future if their operation under the Transportation Act is to result in a solution of the railroad problem which will be approximately just and satisfactory to shippers and travelers, to railway employees, to investors in railway securities, and to the public.

THE RESULTS OF GOVERNMENT CONTROL.

Before anybody attempts to pass judgment on the developments in the railway field within recent months, he should picture to himself the conditions which existed when the Transportation Act went into effect and the railways were returned to their owners. The railways had been in the hands of the government over two years. Their traffic departments had been largely destroyed, and much traffic, especially freight, had been diverted from its normal channels. Both the tracks and the locomotives and cars had been subjected to the hardest kind of service without being maintained to as high standards as under private operation. The number of new locomotives and freight cars purchased

had been less than half the number previously bought merely to replace those worn out, and not a single new passenger car had been bought.

The eight-hour day and other policies which had been adopted had resulted in an increase of 250,000 in the number of employees, without any appreciable increase in the traffic handled. Many classes of employees who previously were unorganized had been unionized. Piece work had been abolished where it formerly had prevailed, and grievance cases had been appealed to central boards of adjustment sitting at Washington until discipline among the employees had been demoralized.

The freight cars of the individual lines had been scattered all over the country and, partly owing to this and partly to the effects of the coal strike last winter, the eastern lines found an excessive number of their coal cars were in the West, while the western lines found that an excessive number of their box cars were in the East. Operating expenses had been increased far more than rates and earnings, with the result that all net operating income had been wiped out. There was pending an unsettled wage dispute between the Railroad Administration and the employees of the railways involving \$1,000,000,000 a year. A very active propaganda was being carried on among the employees against private ownership and management, and in favor of the Plumb plan of government ownership and employees' management.

The companies had to resume the operation of the properties not only under these adverse conditions, but at a time when the productive industries of the country were offering to the railways a business so large that under government operation it had been overtaxing the facilities. The situation that existed is illustrated by the fact that about 100,000 loaded cars were accumulated in the various large terminals because of inability to move them.

RECENT IMPROVEMENTS IN OPERATING CONDITIONS.

An improvement in operating conditions was effected in the first month of private operation. The business moved in March was the largest ever handled in that month. About April 1st, however, chiefly owing to the unsettled wage controversy which was a heritage from the Railroad Administration, there began a series of "outlaw" strikes of switchmen in large terminals throughout the country that created a serious condition. They greatly reduced the amount of freight that could be moved, and increased the accumulations of loaded cars in terminals to almost 300,000. It required herculean efforts by railway officers and the loyal employees to cope with the situation. Gradually, however, labor conditions improved, and they have shown still more marked improvement since the Railroad Labor Board made its wage award at the end of July.

The railway executives formed a co-operative organization to secure the most efficient possible use of locomotives, cars and all other facilities. The result has been the most remarkable improvement in transportation conditions ever made within an equal period. In July and August the amount of freight handled was the largest ever handled in those two months in history. There was at one time very serious danger of a coal famine, especially in the Northwest. By co-operation between the Interstate Commerce Commission, the coal mine operators and the railway managements, production and transportation were so increased that the danger of any serious shortage of coal in the country as a whole, or any section of it, now seems to be practically past. The western lines have had great difficulty in handling the grain business. This has been largely due to the fact that when the railways were returned to private operation an excessive number of box cars were on the eastern lines and the "outlaw" strikes rendered it very difficult to move sufficient numbers of them west. With- in recent weeks, however, the box car situation on the west-

ern lines has improved and there is now more grain being moved than at this time last year.

COMPARATIVE COST OF GOVERNMENT AND PRIVATE OPERATION.

During the time when the railways were struggling with the switchmen's strike, and business was somewhat demoralized by it, the defenders of government control and advocates of the Plumb plan began to criticize private operation upon the ground that it was proving incapable of handling the country's traffic as well as it had been handled under government operation. Now that under private operation, in spite of all the difficulties that have had to be overcome, the railways are moving more freight than ever was moved under government operation, and have reduced congestions until the accumulations of loaded cars amount to only 41,000, the defenders of government operation and critics of private management have begun to use ammunition of a different kind. As you know, the government guaranteed to the railway companies during the first six months of private operation the same return that it guaranteed to them under government control. Recently widespread publicity has been given to the effect that since the railways were returned to their owners they have been incurring a large deficit which the taxpayers will have to pay. It is estimated the total deficit for the six months' period will exceed \$600,000,000. The inference is that the loss to the public during these six months was much more than it would have been if government operation had been continued. Propaganda to this effect is being spread all over the country by advocates of government ownership and the Plumb plan.

It is, unfortunately, true that during the first six months of private operation the companies did incur a large deficit which the taxpayers of the United States must meet. Probably the estimate that it will amount to \$600,000,000 is not far from correct. Nevertheless, I am prepared to main-

tain, on the basis of the showing made by the Railroad Administration in the closing months of government control, that the government saved the taxpayers of the country a large amount of money by returning the railways to private operation when it did—in other words, that if government operation had been continued the deficit in these six months would have been much larger than it actually was under private operation.

Most people know that under government control the operating expenses of the railways greatly increased and that a large deficit was incurred. Most people apparently do not know that the increases in the expenses and in the deficit continued month by month right up to the termination of government control. As a matter of fact, both the operating expenses and the deficit incurred in the very last months of government control were the largest that ever were incurred under government control. Reviewing the last six months of government control we find that in August, 1919, the operating expenses were \$359,000,000, while in February, 1920, they were \$415,000,000, an increase of \$56,000,000. In August, 1919, the net operating income earned was \$92,000,000. In September it declined to \$78,000,000; in October it was \$76,000,000; in November, \$22,000,000; and in December, \$13,000,000. In January the net operating income reported was \$64,000,000, but this included \$50,000,000 of back mail pay which the Interstate Commerce Commission held that the Post Office Department owed the railways because of underpayments over a period of years. The true net operating income earned in that month was only \$14,000,000. In February, the last month of government operation, the operating expenses and taxes of the roads exceeded their total earnings by over \$12,000,000—in other words, they earned that much less than no net operating income at all.

Since within six months the net operating income of the railways had dwindled under government operation from \$92,000,000 to \$12,000,000 a month less than nothing, it is

reasonable to assume that if government operation had been continued the loss incurred would have kept on growing relatively greater. Let us, however, give government operation the benefit of the doubt and assume that if it had been continued for six months more the results obtained would have been relatively no worse than they were in the first two months of the year—January and February. This is very fair to government operation, for in those two months the total business handled and the total earnings made were the largest ever recorded in January and February. The government's guarantees to the railway companies in January and February, based on the net operating income actually earned by the companies in the three test years, were \$104,551,000. The net operating income actually earned in those two months under government operation was only \$1,930,500, or but 1.84 per cent of the guarantees. The government's guarantees to the companies for the six months from March 1st to September 1st would have been, if government operation had been continued and they had been based on the amounts actually earned by the railways in the three test years, \$457,676,000. If in those six months the government had earned only 1.84 per cent of the guarantees, as it did in January and February, the net operating income earned by it would have been only \$8,421,000, leaving it with a deficit of \$449,255,000.

But there are other most important factors to be considered. One of the principal reasons why under private operation the railways have incurred a large deficit is that advances in wages amounting to \$52,000,000 a month, and effective during four of these six months—from May 1st to September 1st—and therefore amounting for the four months to \$208,000,000, were granted by the Railroad Labor Board in July. It is fair to assume that corresponding advances in wages would have been made if government control had been continued, and if this had been the case the deficit incurred by the government during these six months

would have been increased to \$657,255,000. In addition to all this, the railways have been subjected to increases in the prices of coal which caused their total fuel bill in July, 1920, to be \$14,000,000 more than it was in July, 1919. It is a fair assumption that this increase in the cost of coal also would have occurred under government operation and would have further increased the government's deficit during the six months by \$50,000,000 to \$75,000,000. It is, therefore, a fair conclusion from all the facts that if government operation had been continued the deficit incurred by the government during these six months would have been not less than \$700,000,000, a figure much larger than the estimated deficit actually incurred under private operation.

INCREASES IN EXPENSES AND EXPENDITURES UNDER PRIVATE CONTROL.

It is undeniable that there have been large increases in expenses since the railways were returned to private operation. But these increases have been due to causes beyond the control of the managements. One of the reasons has been the large increase in wages granted by the Railroad Labor Board I have already mentioned. Another has been the large increase which has occurred in the price of coal. Another has been that, as I have said, the government returned the railways to their owners in a greatly deteriorated condition, and it has been necessary to spend larger amounts for maintenance than were spent under government control. For example, there was a large increase under government control in the number of freight cars in bad order, and, in addition to repairing all the cars they could in their own shops, the companies have had to turn over many thousands to be repaired by outside car building and car repair companies. In the five months from March to July, inclusive, the companies spent \$103,000,000 more for maintenance of way and structures and \$132,000,000 more for maintenance of equipment, a total of \$235,000,000

more for maintenance of both kinds, than was spent during the same months of 1919 under government control. Another factor of great importance which must not be forgotten is that the railways have had to go through a series of "outlaw" strikes which were a result of the failure of the government to settle the wage controversy which was pending when the railways were returned to their owners. These strikes reduced the earnings and increased the expenses of the companies to an extent which made the deficit incurred probably \$200,000,000 more than it otherwise would have been.

THE RESULTS OF RECENT INCREASES IN EFFICIENCY.

On the whole, the results gained indicate that in spite of the great increases in maintenance expenditures which have been made necessary by the deterioration of the properties under government control, the railways have been much more economically operated under private control than they would have been under government control. How has this relatively greater economy of operation been secured? It has been secured by increasing efficiency, in spite of strikes and other difficulties, in almost every way in which it could be increased. The latest complete statistics regarding operation which we have are those for July, when the effects of the "outlaw" strikes were still seriously felt. Even in that month, as compared both with February, when the railways were returned to their owners, and with July of last year, very great increases in efficiency had been secured. The average number of miles each car was moved daily in July, 1919, was 24.1 miles, while in July, 1920, it was 26.1 miles. This had the same effect as increasing the available supply of cars by 200,000. The average number of tons hauled per car in July, 1919, was 27.8, and in July, 1920, it was 29.6. This had the same effect as increasing the number of available cars by 135,000. The number of cars unfit for service in July, 1919, was 8.7 per cent, while in July, 1920, it had been reduced to 7.2 per cent.

This had the same effect as increasing the number of cars by over 35,000. The average tons hauled per train was increased from 761 to 769. All these improvements helped to secure the great increase in the amount of traffic moved which has been obtained within recent months; and the increases in the average miles moved by each car daily and in the average number of tons handled in each car and each train tended strongly to keep down operating expenses, although of course the economies effected were more than offset by increases in the cost of fuel, in wages and in maintenance expenditures.

Considering all the difficulties under which they have labored, the record of increased efficiency the railways have made since they were returned to private operation is one of which they are proud, and justly proud. As I indicated in beginning my remarks, however, the railroad problem is not by any means solved yet. It will require years of patient co-operation between the patrons and the managers of the railways, years of strenuous exertion by the officers and employees of the railways, and the investment of vast amounts of capital in new facilities, to solve the problem in a way that will be even approximately satisfactory to all concerned.

AFTERMATH OF THE RATE ADVANCES.

Realizing the need for large increases in the earnings of the railways to put them on their feet financially and make possible the rehabilitation and expansion of their facilities, the Interstate Commerce Commission has granted advances in rates which, it has been estimated, will yield about \$1,500,000,000 of additional revenue and enable the companies to earn a 6 per cent return on the total valuation placed on them, or about \$1,150,000,000 net operating income annually. One of the most important questions confronting us is whether all the advances in rates contemplated by the Commission actually will be made. A committee of three, representing the State Railroad and Public

Utility Commissioners, sat with the Interstate Commerce Commission throughout the rate hearings and afterward recommended that advances in all state rates should be made corresponding with those authorized to be made in interstate rates. Many of the state commissions have thus far failed, and many have directly refused, to act favorably on this recommendation. In some states smaller advances than those authorized by the Interstate Commerce Commission have been granted, while in others no advances have been granted.

If advances in all state rates are not made corresponding with those made in interstate rates, the railways will be denied the opportunity to earn the net returns the Interstate Commerce Commission and the committee of state commissioners who sat with it have held that they should, in the public interest, be allowed to earn. The inevitable result will be that the roads will be prevented from adequately rehabilitating their properties and expanding their facilities. This is not a matter which concerns merely the railway companies. It is the producing and consuming public of the United States which most needs improvement and increase of the facilities of transportation. The railways with their existing facilities cannot, even with the most strenuous exertions and the most efficient operation, handle all the traffic offered to them when business is good and production is at its maximum. They cannot handle all the coal the mines can produce, or all the lumber or iron and steel that the manufacturing plants can turn out, or all the grain and cotton that the farmers can grow. Therefore, failure to improve and increase the facilities of transportation is bound to prevent an increase of production, and without an increase of production there cannot be an increase in the necessities, comforts and luxuries provided for the people or a permanent and substantial reduction in the cost of living. The state railroad commissions that are refusing to follow the lead of the Interstate Commerce Commission in advancing rates are not defending, but

jeopardizing the interests of the people, and it is hoped public sentiment, acting, if necessary, through the federal regulating authorities, will cause them to change their attitude.

Suppose that all the advances in both interstate and state rates contemplated by the Interstate Commerce Commission when it rendered its decision shall be made. Will that put the railroads on their feet financially again and enable them in time to so improve and increase their facilities as to make it practicable for them to render adequate and satisfactory service? That is a question which only the future can answer. It will be determined by future developments affecting the amount of traffic offered to the railways, the trend of their operating expenses and their ability to sell their securities. While the traffic handled by the railways as a whole has continued to increase, the amount of it offered to some railways has declined within recent months. This has been especially true of the so-called "granger" roads in the Middle West. Most of these roads in September, owing to declines of traffic, did not have much larger earnings than they did before the advances in rates were made. As to operating expenses, the increase in the price of coal is forcing the railways as a whole to pay at an annual rate of \$150,000,000 to \$200,000,000 more for fuel than they did during the period on whose operating results they based their applications for advances in rates.

THE RELATION OF LABOR TO INCREASED EXPENSES.

There are other reasons why they are having great difficulty in preventing undue increases in expenses. Relatively the largest increases in their expenses have taken place in the shops used by them for the maintenance and repair of equipment. Before government control was adopted the employees in many railway shops were paid on a piece work basis. During government control all piece work on railways was abolished. The result has been a

serious decline in the efficiency of certain classes of employees. The Railroad Administration entered into national agreements with many classes of employees which have imposed burdensome restrictions and have greatly increased expenses. The Railroad Administration also established at Washington a number of boards of adjustment to which employees of all the railways could appeal discipline and grievance cases from the individual managements. These boards rendered numerous decisions which greatly increased expenses, and we are now confronted with demands from the labor unions for the establishment of similar boards under private operation.

I do not intend now to enter upon any extended discussion of the present labor situation on the railways, but I will say what ought to be perfectly obvious, viz: that the railways cannot restore the efficiency and economy of operation which formerly prevailed unless they can secure efficient work from their employees. The employees are to-day paid the highest wages in history and are working on an eight-hour basis, and it is their duty, not merely to the companies but to the public, to give one good hour's work for every hour's pay that they receive. If the railway managements are opposed to certain labor policies adopted under government control it is because they know that those policies have resulted in a decline in the efficiency of labor, and if the employees persistently refuse to increase their efficiency under those policies, then we maintain the labor organizations and the public should cooperate with the railway officers for the welfare of all in establishing other policies which will result in an increase in the efficiency of labor.

PRESENT SITUATION IS ONE OF UNCERTAINTY.

As what I have said would indicate, the present situation is, from the standpoint of the railway managers, one of uncertainty. They do not know as yet what rates they are going to get, or what net return they will be able to earn

when they get them. They do not know whether the net return earned will be sufficient to enable them in the present unsatisfactory money market to sell enough securities to raise the new capital required adequately to improve and increase railroad facilities. But the railway managers have accepted the Transportation Act in good faith and are doing their best, and will continue to do their best, to operate the roads under it with maximum efficiency and economy. They did not secure even from the Interstate Commerce Commission all the advances in rates for which they asked, and are being very unfairly treated by many state commissions, but they believe that the Interstate Commerce Commission acted with as much fairness, wisdom and foresight as any government body could have been expected to in the circumstances. Not only have they no complaint to make about the Interstate Commerce Commission's decision in the rate case, but they feel and express the most cordial appreciation of the wise and energetic assistance which it has given them in solving the extremely difficult problem of moving the country's business with which they have been confronted ever since private operation was resumed. If the railway executives find that the net income they are able to earn under the new rates is not sufficient they will not hesitate to say so, but at the same time they will make the best use possible of what they do earn in improving and increasing the service rendered. Whatever may have been the attitude of railway managers in the past, they all to-day frankly recognize the fact that they are trustees not only for those who own the railways but also for the public, and they insist, and shall continue to insist in future, that they must be given opportunity to operate the properties efficiently and to earn an adequate return, not merely in the interest of the bondholders and the stockholders, but also in the interest of the public, whose welfare is vitally dependent upon the provision of good, economical and adequate railroad service.

