

The Present Railroad Situation

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I am glad of this opportunity to come here and talk to you about the railroad situation. If ever there was a time when the welfare of the public imperatively demanded that the railroad situation should be fully and frankly discussed, that time is now. It will be possible in the time at my disposal to touch upon only a few features, and I intend to deal chiefly, first with the conditions affecting the movement of commerce which have existed since the railways were returned to their owners, about which there seems to be much misunderstanding, and, secondly, with the reasons why the railways must be given an opportunity to earn adequate net returns if any progress is to be made in solving the general railroad problem.

It is just four months since the railways were returned to private control after twenty-six months of government operation. These four months have been a period of turmoil and stress in the railroad business. When the roads were returned the public was greatly dissatisfied with the results of government management, and more friendly to private management, than ever before.

In consequence of developments which have occurred, or which are alleged to have occurred, since private operation was resumed, the managements of the companies already are being subjected to bitter criticism by persons and newspapers who are in favor of government management, or of employes' management under the Plumb plan. While these attacks are unjust, they cannot safely be ignored. The question of what advances in rates, and what increases in net operating income, shall be granted to the railways is now under consideration by the Interstate Commerce Commission. The future success of private management of railroads, and even whether private management will endure at all, will be largely determined by the decision of the Com-

mission in these rate cases and by the way in which its decision is received by the public. Since every attack which is made upon private management is likely more or less to influence public opinion, I shall make no apology for using some of the attacks which are being made upon it now as a basis for the discussion of recent developments in the railroad field and the present situation.

CRITICISMS OF PRIVATE MANAGEMENT

The character of these attacks is illustrated by certain statements which a former prominent government official is quoted as having made in a recent address. He said, in substance, that during the war the railways had "broken down," that the government had to assume their operation to keep the country's commerce moving, that within a few months the government had the railways running efficiently, and that it continued to run them efficiently until they were restored to private operation. Now, he alleged, after they have been back in the hands of the companies only a few months they are again "broken down."

These allegations as to what occurred before the government took the roads and as to what has occurred since it returned them, are equally untrue. In 1917, the last year before government operation, the railways moved a much larger traffic than ever before, and continued to do so until the very day government operation was adopted. The Railroad Administration had power to do many things which the private companies previously were forbidden by law to do. It could, and did, disregard shippers' routing of freight, pool the traffic and facilities of the railways, and abolish the preference orders for the movement of freight by which the railways were literally overwhelmed by the government departments in the last months of private operation. Did the government, with all of its opportunities and power, increase the amount of traffic handled anywhere near as much in proportion as

the private managements had been increasing it? In the last two years of private operation the railway companies increased the freight handled 40 per cent. The increase in the freight handled in 1918, under government operation, was less than 2 per cent, and in 1919 the amount of freight handled was much less than it had been under private operation. If ever the effects of the so-called "breakdown" under private operation would have been plainly manifested, this surely would have been in the last two months of 1917, just before the government took the railways over. In those months the railways had to fight the worst weather conditions ever known. On the other hand, in November and December, 1918, the business offered to the railways under government operation was the largest ever known, and weather conditions were exceptionally favorable. Now, in the months of November and December, 1918, the number of tons of freight moved one mile under government operation was 69,193,000,000, while in the last two months of 1917, under private operation, it was 68,365,000,000, or barely 1.2 per cent less.

In view of these facts, it is amazing for an advocate of government operation to assert that under private operation the railways "broke down," while under government operation they were raised to a high plane of efficiency.

THE AFTERMATH OF GOVERNMENT CONTROL

With respect to developments since the railways were returned to their owners, it must be admitted that they have been unsatisfactory to both the railway managements and the public. But consider for a moment the conditions that existed when the railways were returned. The government had followed a policy which many people at one time, believed would render it impossible ever to return the railways to private operation. The official organizations of many roads were disrupted. Traffic was diverted from its normal channels. Freight cars were pooled and the cars

of the various railways were scattered all over the country, so that even today the railways have upon their own lines only a small percentage of their own cars. Not a single passenger car was bought during the more than two years of government operation. About as many freight cars and locomotives were bought as had ordinarily been scrapped by the railways in a single year. Repairs of freight cars were so inadequately done that when the roads were returned an abnormally large number of freight cars were in bad order. The number of new rails and ties laid in the tracks was abnormally small. While the eight-hour day was established and advances in wages amounting to over \$1,200,000,000 a year were made, railway labor conditions were not improved, but made much worse. For several months before the roads were returned the employes were demanding vast additional advances in wages. The government did not definitely grant or refuse these, thus greatly aggravating the dissatisfaction and unrest among the employes. Operating expenses increased enormously while no corresponding advances in rates were made, with the result that when the railways were handed back to their owners their net operating income had been practically wiped out. In February, the last month of government operation, the railways failed by about \$12,000,000 to earn enough to pay their operating expenses and taxes.

In addition to all these things, there had been a strike in the coal mines in November and December, 1919. The accumulated fuel supplies of the country had been enormously reduced, resulting in great increases in the demands upon the railroads for transportation. The other kinds of traffic demanding movement also were larger than ever before. The Transportation Act was passed only a week before the railways were returned. Therefore, almost up to the day that they were returned there was such uncertainty as to their future that the managements of the companies could take hardly any important steps to provide for the resumption of their operation.

A COMPLEX AND DIFFICULT PROBLEM

If there had existed no conditions except those I have mentioned to render enormously complex and difficult the problem presented to the managements during the months immediately following the resumption of private operation, the conditions I have mentioned would have presented a problem sufficient to tax their energy and ability to the utmost. In the latter part of March, however, less than a month after the roads were returned, there began a series of sporadic strikes on the railways in all parts of the country. These were "outlaw" strikes begun because of discontent created under government control.

The demands which the employes had before the Railroad Administration for months were then under consideration by the Railroad Labor Board, a government body which had been created by the Transportation Act to settle railway wage controversies. Since the railway companies could not have granted the demands of the employes without practically disregarding the provisions of the Transportation Act, and since the strikes came in less than a month after private operation was resumed, it is obvious that private operation should not be held responsible for the results produced by these strikes.

INCREASE IN FREIGHT HANDLED

Many persons, however, seem to think, and some charge, that the railway companies have failed to meet adequately the situation created by the strikes and by the other conditions which they inherited from government management. Many seem to think, and some charge, that the serious industrial and financial conditions which developed were due to the fact that there was an enormous reduction in the amount of freight handled by the railways. As a matter of fact, in spite of all the adverse conditions with which they have had to contend the railways, even since the strikes began, have moved more business than they did in the same

weeks of last year. Reports made to the American Railroad Association by a very large majority of the railways of the country show that between March 21 and June 12, 1920, which includes the period of the strikes, the number of cars of freight moved by these roads was 8,264,485, as compared with only 7,708,927 during the same weeks of last year, an increase of 555,518 carloads. In the week ended June 12 the number of carloads of freight handled by these roads was 754,857 as compared with 726,176 last year, or an increase in that week of almost 69,000.

With respect to coal, the statistics of the United States Geological Survey show that up to June 12 the railways had transported 39,000,000 tons more than they did during the same period of last year. Why, then, are there complaints of a serious coal shortage all over the country? Chiefly because the country's coal supplies were enormously depleted by the coal mine strike last November and December, and that it has never been possible to offset this depletion of the supplies.

It seems to me the facts I have presented afford a conclusive answer to the propaganda which is being carried on to show that the railway managements, since private operation was resumed, have not solved as efficiently as could be reasonably expected the extremely difficult problem presented to them—a problem which is largely a heritage from government operation. In fact, I think they show that, considering all the conditions, the railway managements have been doing much better than might reasonably have been expected.

It is, however, far from my purpose to imply that the problem confronting the railway companies and the public is solved, or anywhere near solved. Unfortunately, it is far from solved and it will take not merely months, but years, of good understanding and close co-operation between the railway managements, the railway regulating authorities and the public to solve it in a way that will be beneficial and satisfactory to all.

INADEQUACY OF TRANSPORTATION LIMITS PRODUCTION

There are many factors in the situation which are important, but perhaps the one which should give the most concern to the public, as well as to the railway managements, is the great inadequacy of the present facilities of the railways to the demands of the country's commerce.

Developments over a period of years have shown with increasing force and conclusiveness that the facilities of the railways have become insufficient to handle the commerce of the country. During the railroad strikes, many industries were forced partially or wholly to close down. This was not merely because of the strikes. It was due to the fact that before the strikes, even when the railways were operating to their capacity, they were not able to handle anywhere near all the traffic offered; and, of course, when the strikes reduced the amount of freight they could handle the industrial situation rapidly became acute.

Let us imagine what the conditions would soon be if we should go on increasing the investment in and the capacity of our other industries without largely increasing the investment in and the capacity of the railways. The amount of traffic which the industries would offer to the railways, and which they would be unable to handle, would grow larger and larger. This inability of the railways to handle additional business would more and more drastically limit the increase of production. But without an increase of production in the industries in which increased investment is being made it would become impossible to earn any return upon the increased investment in them. This would inevitably result in financial disaster to these industries and to the country. Every day that the nation, or those who represent it in governmental affairs, delays to adopt the measures necessary to enable the railroads to expand their facilities, we are courting disaster.

Congress, in drafting and passing the Transportation Act, had these facts and dangers of the situation more or less clearly in mind. Therefore, it put into the law a pro-

vision directing the Interstate Commerce Commission, in regulating rates, to give consideration to the need of the country for adequate transportation facilities.

The railways have suggested to the Interstate Commerce Commission that the return allowed to be earned by them should be 6 per cent upon the basis of their property investment as shown by their books, first, because this is the only tangible basis now available as to all roads; second, because they believe the valuation of the railways as a whole will exceed their book cost as a whole; and, third, because they believe that any return averaging less than 6 per cent upon the book cost of the railways as a whole will be insufficient to enable them to refund the large amounts of obligations which are coming due, and to raise anywhere near the amount of new capital that they must raise if they are to provide adequate and good service.

It is inconceivable to me how anybody familiar with existing conditions can doubt the necessity of the Interstate Commerce Commission so fixing the rates as to enable the railways to earn an average of 6 per cent. Judge C. A. Prouty, Director of Valuation of the Interstate Commerce Commission, one of the most experienced regulating official in the United States, recently indicated his view upon this subject when he said, in an address to the Chicago Association of Commerce, "Will any sane person contend that for the next two years 6 per cent is too great a return?"

And in that same connection, Judge Prouty said to the business men of the country: "Your first and most important duty is to see that these carriers are allowed adequate rates. * * * Without proper facilities, a suitable road, adequate equipment, the service which you require cannot be adequately performed."

ADVANCES IN RATES IN OTHER COUNTRIES

While the advances in rates which will have to be made to put the railways on their feet will be large, they will be

not nearly as large as those which have been made in some other countries. The railways of Great Britain advanced their passenger rates 50 per cent during the war. Recently they have advanced the freight rates from 25 to 100 per cent, and the demurrage charges from 100 to 200 per cent. The Italian government railways have advanced their passenger rates 60 to 120 per cent and their freight rates 40 to 100 per cent. The Swiss government railways have advanced passenger fares 100 per cent and freight rates 180 per cent. Passenger rates of the French railways have been advanced 70 to 80 per cent, and their freight rates 120 per cent. In Belgium both passenger and freight rates have been increased by the government railways 100 per cent. The total increases in passenger fares in Austria have been 290 per cent, and in freight rates 390 per cent. In Germany the advances in passenger rates have averaged about 700 per cent, the increase in the first-class rate being 825 per cent, in the second class rate 650 per cent, and in the third class rate 590 per cent. Freight rates of the German railways have been advanced 800 per cent since pre-war times.

The fact should not be overlooked that it is not the fault of the railway companies that they will require a very large advance in rates to put them on a 6 per cent basis.

The present wide disparity between the income and outgo of the railways of the United States, which makes necessary large advances in rates here, was created under government operation, when the increases which occurred in operating expenses greatly exceeded the advances which were made in the rates.

WESTERN RAILWAYS MUST BE EXPANDED

While it is necessary in the public interest that railway rates shall be made adequate in all parts of the country, it is peculiarly essential that this shall be done in western territory. This territory needs much more extensive railway facilities for the transportation of the commodities

that it is already producing. The lumber manufacturers of the Northwest are finding that their business is being severely restricted by their inability to ship all the products which their mills are capable of turning out. There are hundreds of millions of bushels of grain being held on the farms and in the elevators of the West because the railways have been unable to haul it away. All classes of producers are finding their operations are being limited by insufficient transportation.

The West also needs the construction of many thousands of miles of new railway lines to open up extensive territories which are now undeveloped. In the year 1917 there were only two states east of the Mississippi River and north of the Ohio that had less than 12 miles of railway for each 100 square miles of area. In that same year there were only two states west of the Mississippi, viz., Iowa and Wisconsin, which had as much as 12 miles of railway for each 100 square miles of area.

And yet, within recent years, the growth of the railroads of the West has practically stopped, and in several states the mileage torn up or abandoned has been greater than the new mileage built. It cannot be regarded otherwise than as ominous that in the newest and most undeveloped section of the United States the growth of the railroads should temporarily at least, have been stopped.

The railways of the country as a whole are asking for an advance in freight rates averaging 28 per cent. After it had been made the advances in freight rates in this country since pre-war days would be less than the advances in the prices of almost any class of commodities or in the wages of almost any class of labor. Under government control freight rates were advanced 25 per cent. A further advance of 28 per cent would make the average advance since government operation was adopted about 65 per cent. The average advance in annual wages per railway employe since before the war has been 96 per cent, and the increases in the prices of almost all railway materials and equipment

have been from 100 to 200 per cent. Government reports indicate that the increases in the prices of all the principal commodities that enter into the cost of living have averaged about 100 per cent. After the proposed advances had been made railway rates would be lower in proportion to general wages and prices than before the war.

WHAT THE WESTERN LINES ARE ASKING

In western territory the net operating income of the railways has not declined so much since pre-war days as in the other parts of the country, and therefore the western lines are now asking for an advance in freight rates of 24 per cent. Four years ago—in 1916—these railways earned \$460,000,000 net operating income, or an average of 5½ per cent upon their property investment at that time. The amount of net operating income required to yield 6 per cent upon their present property investment account is about \$538,000,000. I call your attention to the fact that the net operating income which they are asking the Interstate Commerce Commission to allow them to earn is but \$78,000,000 more than they actually did earn in 1916, and that one-half of this additional \$78,000,000 is needed to pay a return upon additional investment which has been made in their properties since 1916. Only the remaining \$39,000,000 is being sought to enable them to earn a higher rate of return than they earned four years ago.

In view of the great changes which have occurred in financial conditions since four years ago, and especially the great increases which have taken place in interest rates, is it not obvious that these western lines should be allowed to earn a higher rate of return than they earned four years ago, and that, indeed, they must be allowed to earn a higher rate of return if they are to be enabled to raise large amounts of new capital? It seems to me the judgment of business men must be that the increases in their net operating income for which the railways of the country, and especially the western lines, are asking, are very reasonable, and that

there is much more danger that after they are granted they will prove insufficient to enable the railways to raise the new capital they need, than that they will prove more than what the railways will need. It is only fair to say, in this connection, that the advances in rates for which the railways are asking do not provide for any further advances in wages, and that if the Railroad Labor Board, in the proceedings now pending before it, should award the railway employes further advances in wages, the railways would be obliged to ask for advances in rates in addition to those for which they are now asking.

In my opinion, the decision of the Interstate Commerce Commission in this rate case will largely determine the future development of our railways, and thereby the future development of our country, and its natural resources for years to come, because the country's natural resources can be developed and its production can be augmented only in proportion as it is provided with means of transportation. The railways cannot be adequately developed, and they cannot render adequate and satisfactory service under private ownership, unless they are allowed to earn a net return sufficient to raise the vast amounts of capital that are required to increase the capacity of the existing lines and to build the new lines which the welfare of the country demands.

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