What About the Railroads?

By MAJOR-GENERAL W. M. BLACK, U. S. A., Retired

RAILROAD legislation designed to take care of whatever situation may develop after the return of the roads by the government to the corporations owning them did not pass the special session of Congress, although a number of measures were considered, and one, the Esch Bill, was adopted by the House of Representatives. The Senate was too busy on the Peace Treaty fight to take up other legislation.

As a consequence the railroad problem is still before Congress and is one of the big questions to be taken up for settlement during the winter—a question, too, that must be settled—and satisfactorily—for the roads are going back to their owners about the first of the year.

Naturally, any suggestions designed to bring about better conditions are of interest, and this, made by Major-General W. M. Black, U. S. A., Retired, that freight rates be based on the cost of service, no doubt will receive due consideration by those who are shaping the future policies of the transportation systems of the country. In addition, General Black would have a Department of Transportation, to exercise rigid control of all transportation systems, and aid in the development of the country by wise development of the rail, water and highway lines.

He was asked whether he favored government ownership of the roads.

"If we can obtain the result I demand under private ownership I favor private ownership, but if to obtain it, government ownership is necessary, then I desire government ownership," he replied.

ON THE transportation available depends the ability of our nation to secure for itself the maximum returns from the productivity of its wide-spread domain. Each part of our broad land must make its contribution toward the general well-being, and the sum of the contributions will attain a maximum value when each part of the land contributes that which it can produce best and most economically. Our conditions of living are a necessary result of our civilization and form of government.

Things which for a very large class of people one hundred years ago were unattainable luxuries are now recognized as necessities, not because of softness or degeneracy, but the reverse, because civilization has advanced, sharp demarcation lines between classes have been wiped out, and a good standard of living is recognized as a necessity toward intelligent citizenship.

Unless ample means of transportation are available and each class of transportation is used fully for the work for which it is best fitted, the necessary distribution of our country's products cannot be made. Localities will have to be supplied locally. The general resources of the land cannot be availed of. Economic loss must result and this economic loss must be paid for in cash and in want.

It is, therefore, incumbent on us as a nation to see to it that all our means of transportation are developed and are used—each in co-ordination with the others, so that the maximum and therefore the most economical results will be obtained.

If we consider the long-distance carriers, the transportation agencies must be limited to two only, that is, steam railways and water carriers. By the nature of the carrier, transportation by water must be limited to transfers between two points on the shores of the waterway. Any distribution from those points must be made by a carrier of another class. Railroads are free from this limitation and a railroad can theoretically extend its branches to each producer and consumer. Practically, it is impossible, so that we find collection and distribution for railway carriers must also be made by means of one of the other forms of carriers. Another disadvantage suffered by the railway carriers is the large amount of space required for main terminals, for the storage of cars and for the composition and distribution of trains. Difficulties from this increase as the cities in which these terminals are usually situated increase in size, and the congestion of these terminals is a cause of great delays in rail freight deliveries. So great is this disadvantage that the question of the removal of these terminals to greater distances from centers of collection and distribution is receiving serious consideration and the necessity of a closer co-ordination of rail and motor truck freight movement is constantly growing more pressing.

THE mere statement of the desirability of a close co-ordination and co-working of all these agencies for the movement of freight as necessary for the general prosperity would seem to be all needed to lead to a conviction, yet those agencies are not co-ordinated. For years past there has been destructive competition between the railway and the waterway carriers in which the railways have been so successful as to have driven their waterway competitors from the field in a great part of the United States, leaving the great highways formed by our navigable streams and canals almost unused.

The railways have been a most potent factor in the development of this country. The companies formed for railway construction and operation reaped a well-deserved reward, so great that others promptly entered into this field of endeavor and found the people at large ready and willing to subscribe the necessary capital. Railways were built along disadvantageous routes simply because the more advantageous routes already had been occupied. Other lines were built in excess of the needs of transportation.

At first, no limitation was placed upon the railway transportation charges. These were limited in amount purely to "what the traffic would bear," and the only limitation on this was the competition between the railways themselves and the competition with water carriers when such existed. Each railway company took whatever measures it deemed necessary to secure its own special prosperity with little regard to the general public interests.

This era of railway speculation came to an end because of the great financial losses involved, most particularly to the investors in railway stocks. Later the government, in answer to popular demand, undertook the partial regulation of railways and of rail rates. Finally, under the stress of war, the United States Government took over the control of the lines and eliminated still other features resulting from the original uncontrolled ownership and competition between the railroads. It now seems probable that the reforms made have come to stay. Can not these reforms be extended?

If the railroads be and are common carriers, given privileges and rights for the benefit of the public, should not these common carriers be compelled to follow lines which will co-ordinate them fully with common carriers of other classes and bring about the utilization of all transportation agencies?

The ultimate cost to the shipper will be the controlling factor of the agency to be used for shipments. It is, therefore, manifest that the prime requisite for the co-ordination of the various agencies shall be that transportation rates charges shall be based on the cost of the service rendered. In no other way can the advantages and disadvantages of each agency be weighed and real co-ordination be assured. Further, in no other way can be secured the desideratum that transportation in general is carried on most economically. It is notorious that the existing system of railroad freight rates is not based on this principle—the cost of service rendered being in some cases greater and in some cases less than the rate. The railroad freight rates of today are still based on other principles. The old rule of "what the traffic will bear" was a simple relic from the days of unregulated monopoly.

The natural laws of supply and demand will insure a full distribution without the aid of agencies whose aim is not philanthropy. If an article is needed it must be had and its cost must be met. If it is not needed, it should not be supplied.

Why should any corporation of private individuals be permitted to regulate commerce by regulating what articles shall or shall not be available? How does this become a function of a common carrier? It is the duty of the directors of a railway corporation, as trustees of the stockholders, to see to it, as far as lies in their power, that the total net revenues are in amount equal to the expense of operation and maintenance plus a fair interest on the money invested. To do this they must make a fair charge for the services they render. One rate of charge to one man and another rate of charge to another man for the same amount of service is unfair. This is taxation. One man is overcharged that another may be rendered more prosperous.

It is the same for communities. Why should one community be favored by railways more than another? What right has any set of private individuals to use powers granted by the people at large in an endeavor artificially to offset natural advantages of location? If one locality has such natural advantages that its earning possibilities are greater than another, why should it not enjoy them? There again natural laws will restore equilibrium. Production will be regulated by the needs of the people and being so regulated will not be subject to over-stimulation at times and starved out at others by the establishment or change of artificial conditions. The history of our country and of the world at large shows that when business is based on artificial conditions it is always precarious, always subject to panics and over-stimulation.

The contention that it is impossible to decide the cost of the service rendered is a reflection on the intelligence of the railway operators. If freight classifications be based on the care necessary for the safe carriage of the goods and the kind of equipment required for their transportation, the application of modern methods of analysis and cost-keeping will readily determine cost of the service for each class, or at least a practicable and reasonable approximation of such cost.

The further argument that certain classes of materials could not be carried at remunerative rates is also unsound. What commodity is of so little real value that to be used it must be offered at less than cost? Trade necessities always are met.

Then again, another basis for the fixing of freight rates is that the rates shall be lower to points where there is water competition. In other words, therefore, if the rates to such points be fair for the cost of the service rendered, the rates to points not having this water competition must be unfairly high, or, if the rates to points having water competition are less than the cost of the service rendered—always including in this phrase "a fair profit for the investors,"—then the deficiency must be made up by higher rates to the interior points.

The whole proceeding appears to me entirely contrary to our conception of the ideas of government. If rates be made low to a certain point and the deficiency in revenues then made up by higher rates to other points, the railroad company is developing the favored points at the expense of the remainder of the country. In other words, the railway is taxing one set of communities for the benefit of another set of communities.

It is exercising a right of taxation which in all free government has been delegated by the people only to their duly elected representatives. Further than that, if the railways are developing manufacturing and other interests of certain sections of the country at the expense of similar interests in other sections, then again they are exercising powers only intended to be vested in the duly elected representatives of the people.

The whole system is a distinctly selfish one, devised simply for the greater prosperity of the railroads and involves the exercise of power and of functions which have nothing to do with the fundamental reason for which the railroads exist, that is, as carriers of goods.

The development of the country and the fostering of manufactures are proper, but when paid for by the general public they should be done by the authority of the people exercised through their duly elected representatives. The railroads should be compelled to adhere to their function as carriers and to cease the exercises of the prerogatives of sovereignty.

LET us insist on a change. Let us demand that common carriers be restricted to their duty as common carriers; that the freight rates be based scientifically on the cost of service and that all agencies be co-ordinated and made to have proper arrangements for the interchange of traffic. Let us see to it that the powers granted are rightfully used, and that the expenditures for development are justified by proper service; that any route to be developed, railway, waterway, or highway, shall be worthy of development and when developed be used for the public service at rates which can be defended as representing the cost of the service rendered. Let the federal agency be truly an interstate commerce agency and not simply a regulator of railways.

Can we not learn a lesson from the war? Is there not a golden mean between the unthinking machine developed by autocracy and the extreme individualism of democracy? Have we not had proof of the necessity for concerted action where great public issues are involved? Is not the broad question of transportation such an issue? Must we not deal with it as a public question and not one for the unregulated and unsupervised activity of individuals whose primary motive will be self-interest? Is not the entire question worthy of study on broad lines with a single objective in view—the welfare of the nation?

Transportation forms a fundamental part of the foundation on which the business of the country is supported. If this foundation be firm and secure the superstructure may be shaken at times but is in no danger of destruction. If, however, the foundation be not secure, but is supported by temporary props which require constant attention and repair, business itself is rendered insecure and, there being a possibility of destruction, a panicky feeling at least is developed whenever any slight disturbance is felt. A system of freight rates resting on an arbitrary and artificial basis is such a prop. The constant calls for the intervention of the Interstate Commerce Commission show this. Changes in freight rates are of constant occurrence. Communities considering themselves prejudiced by a ruling agitate for a change—opposition is made by other communities and the railways and the commercial centers are in a continuous state of turmoil.

If the rates were based on a fixed principle such as that of cost of service rendered, once the cost is provided, the question will soon adjust itself. If the operating costs increase, rates must be increased. If the operating costs become smaller the rates must be lowered. The condition of railway finances for the past ten years and the constant efforts to obtain an increase of rates to meet a diminishing net revenue show also that the present basis for that revenue is not so clearly justified as to permit of irrefutable proof.

To insure the full benefits of transportation, all agencies must be worked together; to secure this there must be the same basis for charges for service for all, and to obtain a basis free from question the charges must be based on the cost of the service rendered.

Such a change must be made only after a close study of all objections. All kinds of arguments will be raised for and against it. But a proper basis can be reached if always the fundamental principle be kept in mind, that common carriers exist solely for the purpose of transportation, and that they exist solely for the benefit of the entire country. Individual interests may suffer temporarily by the change, but individual interests should receive light consideration in comparison with the permanent good of the nation at large.

Should we not have a Department of Transportation charged with the development and co-ordination of all the transportation agencies of the nation, and empowered to make such regulations and changes in existing conditions as a careful study may show necessary?

The necessity for railway, waterway and highway development is admitted—all should come within its activities. The task of such a department would be arduous, and time will be required to determine the steps necessary and the means for carrying them into execution. Is it not high time that the work is started?