

The Railroads and Their Relation to You

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THE latest general statistics show that American railroads own approximately 2,428,049 freight cars, 56,240 passenger cars, and 68,802 locomotives, operating over 252,571 miles of track. During the year 1919 the railroads carried 1,212,000,000 passengers and moved 1,190,172,967 tons of freight. Their total investment is about \$19,272,911,023, only two-thirds of which was on a dividend-paying basis. The number of employees was 1,909,017, whose wages were \$2,829,298,181, or more than half the total railway operating expenses of \$5,143,240,696.

When Federal control ended on March 1, 1920, under the proclamation of the President, the government, as a result of its experience in running the railroads, had appropriated approximately \$1,900,000,000. Of this amount about \$646,000,000 will have practically to be charged off as a war cost. There may be those who will say that this was an expensive experiment. So it was. And yet it was worth the price, because without the railroads during the war period transportation would have failed, and we would not have been able to supply our fighting forces with the necessities of life and of war. Thus the war cost that must be charged off is what we paid for the railroads' part in the winning of the war.

The end of Federal control, and the reversion of railroads from a war-time to peace-time business, offered many difficulties, legislative and financial, especially in view of the diverse interests claiming recognition.

The government decided to provide loans for carriers. The question has often been raised why the government should guarantee a proper return. The feeling seemed to have been that when Federal control ceased the guaranty of the government for a standard return should also cease. The reason was the financial condition of the carriers when Federal control ceased. It was necessary to create a revolving fund in order that the carriers might be able during the critical reconstruction period to borrow money at a reasonable rate of interest. The government charged six per cent per annum for moneys loaned from this revolving fund.

What was the situation? Prior to the war 60.38 per cent of the roads of Class 1 earned a dividend and paid interest. The remainder did not. During the period of Federal control only 57 of the 175 Class 1 roads earned their interest and only a few paid dividends. One hundred and eight of them did not earn their interest, and, of course, could not pay dividends, and many did not earn their operating expenses.

Guaranty Plan Not New

IN 1919, 108 Class 1 roads lacked \$60,000,000 of earning their interest and fixed charges. The net operating income that year was practically only half of the standard return which the government had guaranteed. Had these roads been thrust on their own resources on the first of March of last year without a Federal guaranty, one-half of them would have gone into receivership in a few months. Did the government want to do that? Ought the government have done it? No; because receiverships for railroads mean receiverships for industrial plants and all classes of business throughout the country.

The idea of a guaranty is not a new notion. It has been adopted by many nations in times past and it exists in some of them today. There are two forms of guaranty. There is what may be called a straight guaranty, where the government guarantees to the owner of the railroad property a certain fixed rate of return. Very frequently a guaranty of this sort leads to extravagance, leads to waste and inevitably leads to government ownership.

But there is another form of guaranty that is more appealing and, on the face, less objectionable. It involves the division of the country into certain regions or groups for rate-making purposes, and the roads in such regions or groups are to be valued, and they are to receive a certain fixed rate upon the average valuation of all the carriers within the region or group. This plan requires the government to fix a level of rates so as to produce a given rate per cent.

The Congress went as far as it possibly could to restore the railroads' credit and to put them on their feet so that they might again walk alone. But it did not believe that any form of guaranty was wise or could be a safe, conservative plan for the solution of this difficult problem. It decided that the rate-making power should remain where it now rests; with the Interstate Commerce Commission.

How Problem May Be Met

THE great trouble that has given difficulty to the Interstate Commerce Commission and to every regulatory body has been the fixing of rates on competitive traffic which will not allow one road to earn excessive income while another road on the same rate does not get a sufficient income. No formula has under existing law yet been discovered to meet that situation.

It may be met, however, in two ways—by consolidation of all carriers under one or more systems where there would not be the problem of the weak and the strong, or under the plan that provides that the valuation of all railroad property in a given district or in the country as a whole is to be made by the Interstate Commerce Commission, whereupon the commission then prescribes such level of rates as will produce, as nearly as may be, a five-and-a-half per cent return on such valuation.

It has been proved that capital will not invest in railroad securities on merely a declaration that the commission shall fix just and reasonable rates. Investors want something definite and fixed upon which they can reckon. The second plan gives that stability and standard which will encourage investment, but it is

objected that we are making a standard based on the rate of return on the value of the property. What is the value of the property?

Capitalization—please mark this—capitalization is not made the basis of valuation. It may amount to something or it may amount to nothing. The physical valuation as prescribed by the Act of 1913 is not available as yet, but much information is already available. The commission in determining the aggregate value, shall give to the property investment account only such consideration as is allowed under the law of the land.

What the valuation made by the commission will be is problematical. It will not be property investment account or the book cost, now estimated to be about \$19,000,000,000, for everybody knows that book cost or property investment account exceeds the capitalization. Prior to 1907, when the uniform accounting system was prescribed, these property investment accounts were no doubt padded, but since that time every dollar invested in railroad property is accounted for and can be found in the records of the Interstate Commerce Commission. It may be said, therefore, that neither the property investment account nor the capitalization will be the permanent standard of valuation. But the standard will be such as the commission will fix in the light of the information it already has and will secure as the result of the physical valuation act of 1913.

Capitalization and Improvements

IT HAS been stated that the railroads of the country are not worth more than, say, \$12,000,000,000, based on the tentative valuation of three or four small roads, such as the Kansas City & Southwestern, the Texas Midland, and a Georgia road, as these valuations amount to only 50 per cent of the book cost or property investment account. But this average may vary. When the valuation of the great trunk lines—the lines that do 90 per cent of the country's business—is completed, it will be found that their valuation in many cases will equal, and in some exceed, the capitalization. The Burlington & Quincy has a low capitalization; the Pennsylvania has a low capitalization. The latter road in the last 20 years has invested \$400,000,000, taken from its earnings, without adding this vast sum to its capitalization. This sum has been spent for betterments and improvements, thereby increasing the facilities of transportation and adding to the comfort and convenience of the traveling public.

But when the valuation shall have been completed, it does not mean that the government guarantees to every carrier a five-and-a-half per cent return upon its valuation, contrary to that belief. There is no such guaranty. It is up to the roads, through efficiency, economy and wise management to increase their earnings, and if they get up to 5½ or six per cent (one-half per cent being allowed for additions and betterments not included in capital account) they keep every dollar of it. When they get beyond that there must be a division. The government takes one-half the excess over the fixed return and puts it into a government fund for use in transportation.

What is the government going to do with this fund? Does it take money from one railroad and give it to another, as is generally contended? It does not. The excess will constitute a fund out of which the Interstate Commerce Commission can loan money to the needy carrier at six per cent interest or out of which it can purchase equipment for leasing the same to the carriers at a rental which will represent six per cent on the value of the equipment plus a depreciation charge.

It is not expected that the government will get much of a fund in the very near future, but in time this plan will develop a considerable fund to be used for the purposes enumerated. Commerce and transportation will be vastly stimulated by reason of it. The initiative of the carriers is not destroyed.

As to State Regulation

THE subject of so-called Federal incorporation has been often mentioned. It is not a new suggestion. The fundamental purpose of it was the elimination of the regulatory bodies of the several states. Of course there has been some justification on the part of railway companies suggesting Federal incorporation in seeking to be relieved from the conflicting and the varying enactments of the 48 sovereign states. I concede that some of the regulations of the states have proved unnecessarily burdensome to the carriers, without bringing compensating benefits.

But as far as the exercise of police powers on the part of the several states is concerned, there should be no interference by Federal authority. The states have a field peculiarly their own, here, and have occupied it and doubtless will be permitted to occupy it, but it seems to me that the time has not come to enact legislation that would practically wipe out the authority and control of the several states. It may come in time. It is possible that state control over the common carriers will be vastly lessened in the future. However, even though the trend is now that way, it is believed that natural processes should be permitted to have their course rather than that Congress should, by a revolutionary stroke and at a given time, wipe out the jurisdiction of the states.

The problem of consolidation, however, is more vital. Consolidations are not prohibited. But under the law, before a consolidation for the purposes of ownership and operation can be effected under the

permission of the Interstate Commerce Commission, there must be a revaluation of the companies seeking to consolidate, and under that revaluation the securities that can be issued by the constituent parts seeking consolidation cannot exceed the valuation as fixed by the commission.

Now, if there is any water in any road of the constituent elements there is an opportunity for the commission to use the squeezing-out process. This should have a salutary effect. The commission has the power to make a survey of all the railroads of the United States, with the view of putting them into a limited number of systems. No consolidation can be made hereafter unless it complies with the plan as prescribed by the commission. Consolidation, however, is voluntary. It has been felt that permissive voluntary consolidations, subject to the control of the Interstate Commerce Commission, will result in more economy and greater service.

There can be pooling of traffic, earnings, and equipment under the regulation of the commission that should be of benefit to the carriers. It is in this way that may be solved the problem of weak-sisters, the weak roads, and the so-called short-line carriers. One main cause of the so-called weak-sister has been the unrestricted right of railroads to be built wherever their projectors thought fit.

Permission to Build

HEREAFTER before a road or an extension thereof can be built it must get a certificate of convenience or necessity from the commission as a condition precedent to the building of a single rod of extension of the new line. That means that the commission must first investigate the situation; it must consult the shipping interests and producing interests and all other interests that might be involved and then determine whether or not it should issue the certificate. This, by the way, is not a new law; several of the states have this kind of law now and it has worked successfully.

Directly related to the railroad problem is that of inland waterway transportation. The last Congress, in the legislation which it enacted, has done more to promote inland waterway transportation than any other Congress in history. The Transportation Act of 1920 and the Federal Water Power Act, two of the most important acts of that Congress, will, in the near future, have marked effect on both rail and water traffic. The nation has been committed to the promotion, encouragement and development of water transportation service and facilities in connection with the commerce of the country, and to foster and preserve in full vigor both rail and water transportation.

During the war the President was given authorization to purchase, construct, or utilize and operate boats, barges, tugs and other transportation facilities on our inland, canal and coastwise waterways. As there were few of such boats, barges and tugs that were not old or obsolete, a program of construction was undertaken, especially for use on the New York Barge Canal, the Black Warrior and Mississippi rivers. Few deliveries, however, were made prior to the armistice.

As the government had committed itself to the expenditure of more than fifteen million dollars, a serious question as to what disposition should be made of this equipment was presented. There were those who urged that the government get out of the transportation business, both rail and water, and that the equipment on hand should be sold or otherwise disposed of. Congress, however, feeling that such a course would result in great financial loss and the termination of an experiment barely started, provided for the transfer to the Secretary of War of all boats, barges, tugs and other transportation facilities and newly acquired equipment, with directions to complete unfulfilled contracts and to continue operation.

Giving Water Routes a Chance

AT THE present time 40 barges, including several of the self-propelled type and four of the eight tunnel types of tow boats have been put in commission and are operating on the lower Mississippi and Black Warrior rivers. But to make the experiment in government construction and operation a success, Congress realized that something more than the mere floating equipment was necessary; that modern docks, wharves, loading and unloading devices and physical connection of rail and dock must also be provided. Until the floating equipments and exchange terminals are completed and in full operation it will be impossible to determine the success or failure of this experiment on the part of the government in water transportation. Time and a fair trial must be granted.

No water line, whether under government or private operation on our inland waterways can live on merely port to port traffic. There must be traffic to sustain it, which originates in the interior and is brought to a river port for transportation by water to the terminal, or which originates at a river port and is carried to a river terminal for transportation into the interior. In order that this may be done successfully, through routes, with joint rates and through bills of lading are necessary.

The water lines have been allowed a differential on the water haul of 20 per cent less than the rail rate. Whether or not the differential in force will be sufficient to sustain the water lines already established by the government remains to be seen. The greater the differential, the greater the encouragement will be for shippers to patronize a through rail and water line. Naturally, the rail carrier may not desire to establish a through route with joint rates, but the transportation act gives the Interstate Commerce Commission full authority to establish them.