

The Economic Club Of New York

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Address to the Economic Club of New York

by Howard Elliott

GREAT FUTURE FOR UNITED STATES

I am an optimist of the long future of the United States. I believe we are the eve of the most important fifty years in the history of this country, or any country, and that we shall accomplish wonderful results if we do not sit idly by and let good, hard common sense, and the eternal verities, be shunted to the background and waste valuable time and energy trying futile experiments.

PRESENT DANGERS

At the same time, I do not minimize the dangers and difficulties of the immediate future due in part to the results of the worldwide war. I realize the importance of handling these dangers and difficulties vigorously, promptly, and wisely, if we are to obtain all the benefits of the future for our population of 100,000,000, which, within the lifetime of many of those here, will be at least 150,000,000.

RAILWAYS MUST BE PROTECTED

One of these dangers is that the great railway system of the United States may not be protected sufficiently to prevent a financial collapse and so that necessary development will continue. During the readjustment of conditions arising from the war, the rate structure ought to be adjusted to meet the expenses they have increased during the war period. If not, many roads not paying dividends will not be able to continue them, and this will affect the bonds now held by

savings banks, and other roads will be unable to meet their fixed charges and will be forced into bankruptcy and the expansion of facilities will be checked, unless large and continuous appropriations are made from the National Treasury.

Some of the questions confronting the people of the United States, and upon the wise handling of which depends the peace, prosperity, and happiness of all are:

Five Basic Questions:

The making of a Just Peace:

A decision whether our form of Government shall be so changed that the state is to take the place of the individual in many activities heretofore handled by individual enterprise.

The checking of waste and extravagance in Government operation, National, State, County and Municipal, with the accompanying load of taxes, which is so burdensome, by the adoption of what are called 'business principle' through a suitable budget system.

A decision on the question of improved relations between that great body of our citizens who work for wages and that equally great body of citizen who have put their savings into enterprises which are the business bulwarks of our country.

The methods to be adopted for owning, managing and developing our system of transportation and communication by rail, water, air, telegraph and telephone.

I am enough of an optimist to believe we shall answer these questions rightly if we give our minds to them. They must be discussed and sound information must reach the people and they, through the force of public opinion, in the last analysis will decide. This may cause delay, and yet prompt action is most desirable because the greater the delay, the greater the danger of

uncomfortable and disastrous conditions before we reach the conclusion that will permit the country to resume its work of development.

Transportation and communication have a direct bearing upon, and are interwoven with, the extent to which the State shall take the place of the individual in industrial affairs, the amount of taxes, and the division of the annual wealth production of the country.

These questions must be considered by those who recommend remedies and by those who must make new laws relating to transportation and communication.

EXPERIENCE OF THE INDIVIDUAL

The conclusions that any individual may reach depend, of course largely on his or her point of view, determined by experience in life. You have complimented me by asking me to speak to you, and at the risk of being personal for a few minutes I shall recite briefly my experience, which has led me to form the opinions that I shall try to outline.

RAILROAD EXPERIENCE

After being educated as a civil engineer at Harvard, I began work in 1880 in the State of Missouri at \$15 a month and board. At that time the country west of the Mississippi River was largely underdeveloped, and the great demand was for rapid development, new railroads, which lead to vast expenditures. I lived in that country until 1913, when I came to New England to take

part in a difficult situation there, of which I will touch on later. It has, therefore, been my lot in life to see considerable of the development of the country between Chicago, St. Louis, the Rocky Mountains and the North Pacific Coast. I have seen the struggles of promoters and managers to build railroads and their efforts to sustain them physically and financially.

I have seen the growth of the labor unions, and happened to have had an active part in some of the great strikes and in some of the first collective bargaining between the labor organizations and the railroads. I have seen the public authorities obtain more and more power to regulate the methods, management and earning power of the transportation companies, and I have seen the conflict of laws between States and Nation.

EXTREME REGULATION

This regulation has, at times, taken an extreme form, because in the desire to correct obvious abuses the good that had been, and can be accomplished for the country by the transportation companies was lost sight of, and only the errors seen, and it was thought that human nature could, by law, be made perfect.

I remember a story told by one of the leaders of development in the West from 1860 to 1900. A committee from the legislature of a granger state came to him with elaborate proposals for curing all the faults incident to railroad building, managing, etc. He was a man of wide experience and good judgment, and they asked him what he thought. He said, "I think I can write a short bill that

will meet your views and on that will be much less complicated than the measures you have submitted to me.” They said “That would be very gratifying, we are sure, to our committee, and we shall be glad to have you proposed bill and discuss it.” So we wrote these words:

‘Resolved, that from and after January 1, 1887, everybody must be very, very good!’

I think you will all agree that if that plan could be carried out the world would get along very nicely!

THE AMERICAN RAILWAY SYSTEM

But in spite of the struggle, strike and errors and failures, we have the most wonderful transportation machine in the world, one which is the admiration of investigation from other lands; a piece of machinery created by private owners and which had, under private operation, furnished better services to the public, at lower rates, and paid the highest wages to employees than that in any civilized country. It represents 260,000 miles of single track railroad, - more than one-third, and almost one-half, of all the railroads of the world; the securities of which in the hands of the public are more than \$17,000,000,000, - almost the national debt of the country, - not owned by a few rich people, but widely scattered among many small holders, - held by insurance companies, savings banks, etc.; operated by more than 2,000,000 employees, or about 8% of the total voting male population; the largest single industry in the country except agriculture, and the greatest purchaser of iron and steel in the country. This great piece of

machinery carries a volume of business per mile of track far greater than that of any other nation in the world.

This is one of the great achievements of the American people and we ought to take the same pride in a successful, prosperous railway system that we take in a successful factory, commercial house, bank or farm, and realize that an unsuccessful one is bad for the country.

We can accomplish just as much in the future as we have in the past if the individual is allowed a chance to exercise his judgment, energy and ability and permitted to reap the reasonable rewards of success.

OWNERS MUST BE PROTECTED

The country, it should be remembered, elected to obtain its transportation through private individuals who did the work and who made enormous investments for that purpose which, under the Constitution and its amendments, and the decisions of the Supreme Court, must be protected. The Government having asked and permitted individuals to do this work, those individuals are entitled to complete protection of their property until the public may decide to buy the properties, at their fair value. It is inconceivable that the Government of the United States will confiscate these properties, either directly, by taking them from their owners at less than their fair value, or indirectly, by depreciating the property through a system of regulation,

control and management which has resulted in a maladjustment of income with outgo, which is taking away the earning power of these great properties. As the Supreme Court says: “The power to regulate is not the power to destroy.” Personally, I do not believe it will be done, and that the sober judgment of the American people and the wise statesmanship of Congress will find a way out of the difficulty.

GOVERNMENT OWNERSHIP

I do not believe that human nature and the art of Government have developed sufficiently to make Government ownership or operation successful, and I do believe that the experiment of Government ownership and operation involves a risk of disaster, not only to the railroad system of the United States, but to some of the fundamental theories of American life and effort which have made us a great nation.

RAILROADING IS BUSINESS

If the Government is not to own the railroads, then owning and managing them is a business just as much as owning and managing a bank, a coal mine, or a steel plant. I believe, therefore, that it is just as unwise to make the furnishing of railroad transportation a function of Government as to make the furnishing in peace time of money, credit, coal and steel a function of Government, and that satisfactory transportation can be given to the people at the lowest cost by admitting that the owning, managing and operating of a railroad is business.

VIEWPOINT OF RAILWAY EXECUTIVES

I am approaching the discussion of the subject from the point of view that railroading is a business, in common with many other men who have spent their lives in the service, and who, in trying to arrive at a wise decision, are deeply conscious of their duty to conserve and protect the interests of present and future investors, and who are also equally alive to their responsibility to employees and the public.

RAILWAYS EXECUTIVES' PLAN

The Railway Executives are trying to develop and suggest a plan that will in the long run conserve and protect the owners of securities of the railways, whether they are individual holders of large or small amounts (and the holders of small amounts greatly predominate; for example, there are 28,478 stockholders of the Northern Pacific with average holdings of 87 shares and 24,632 stockholders of the New Haven, with average holdings of 64 shares), or they are insurance companies, trust companies, savings banks, churches, colleges, charitable associations, etc.; that will be fair to the army of men who help to furnish the necessary service to the public; fair to the traveling and shipping public; and that will permit the additional growth of the railroad machine to serve the rapidly increasing population of the country; and, at the same time, will furnish the best transportation to the country at reasonable cost.

President Roosevelt, Taft and Wilson have all appreciated the seriousness of the situation and the very great importance of having the railroads so regulated and developed that they would be

adequate at all times to meet the public demands, and they have all expressed these views in various state papers and addresses.

The railroads, however, have been too long left to get along as best they might under the Interstate Commerce Law and conflicting state laws, - a system of regulation that was confused, complicated, not responsive, quickly to changed conditions, punitive, repressive, and gradually weakening to credit and without protection and development to the extent that was necessary.

WORK OF RAILWAY EXECUTIVES

Since 1912 the Railway Executives have been actively at work on their plan; when the armistice was declared they realized that the problem was more pressing than ever and they formulated suggestions during November and December, 1918, and January, 1919, which were submitted to the Senate Committee on Interstate Commerce, January 9, 1919. Their suggestions represent the crystallized opinion of men who have spent their lives in the business and who represent the earning power of more than 90% of the railroads of the country. These men are earnest, sincere and patriotic in their efforts to suggest a basis for the ownership, management, operation and regulation of the roads that will be just to owner, shipper, traveler and worker, and reflect promptly changed conditions, and keep pace with the growth of the country.

The distinguished Senator for Iowa, Mr. Cummins, who is to be the Chairman of the Senate Committee on Interstate Commerce in the next Congress, and who, happily, is with us tonight,

and who, moreover, is to be a very potent force in framing the bill to be presented to the Congress for the rehabilitation of the railroads of the country, in a notable address at Des Moines on March 27, 1919, named three fundamental principles which should be accepted in any new legislation:

‘First: The return upon the capital invested in railway securities should be made certain through Government undertaking.

Second: The railways should be consolidated into comparatively few systems, and by few I mean not more than eighteen.

Third: The railways should be operated by private corporations, organized under an Act of Congress.’

I hope with all my heart that Senator Cummins may find it consistent with his wide knowledge of the railroad problem now confronting the country, and his experience as an eminent national legislator, to accept the following additional principles to those to which he gave utterance to his Des Moines speech:

1. The owners of the railroads must assent to Federal control, but they should also have Federal protection and encouragement.
2. The great labor organizations must assent to some orderly way of settling disagreements over wages and working conditions so that the railroads will continue to serve the public pending the adjustment of disputes.
3. The Government in its policy of regulation must be more responsive to changing conditions and there must be protection of the railroad business as well as regulation, and there must be no ‘twilight zone’ between national and state authority.

The Railway Executives do not claim that their plan is perfect, or that it should not be changes or amended, but they do believe that the suggestions they laid before the last Senate Committee on Interstate Commerce provide a means for carrying out the principles above suggested.

A summary of their suggestion is:

Ownership, management and operation by private owners rather than by the Government.

Regulation as to all essential matters, including rates, both State and Interstate, to be by the Federal Government, which shall control in case of conflict with States.

Establishment of a Department of Transportation, with a secretary, who shall be a member of the President's Cabinet.

Placing in the Department of Transportation various executive duties, such as the enforcement of the Safety Appliance Act, the House of Service Law, etc., and relieving the Interstate Commerce Commission of all such duties except those relating to Accounts and Valuation, thus making it a quasi judicial body with ample time to deal with the great questions of discrimination, relations, and reasonableness of rates, etc.

State commissions to be retained with powers of local regulation except as to rates and securities. Regional Interstate Commerce Commissions to be created upon which will be a representative from each state in a region. This will enable prompt action by local tribunals near to each state and community for local matters. More important matters, national in scope, to be handled by the Interstate Commerce Commission and the Secretary of Transportation. The jurisdiction of the several bodies to be carefully defined and harmonized.

The rates, both State and Interstate, established by the Director General, to remain in effect until changed by lawful process. The establishment by Congress of the rule that rates shall be adequate to attract to the railroad business the capital needed to give the public the facilities and service they demand. Also requiring that, when it is in the public interest to have increased rates in order to have adequate facilities and service, the influence of the Administration, through the Secretary of Transportation, shall be used to that end. The carriers to initiate rates subject to suspension by the Secretary of Transportation and to review by the Interstate Commerce Commission. The Commission to have the power upon complain to fix minimum as well as maximum rates.

Amendment of the Sherman Anti-Trust Act so as to permit mergers, combinations and other agreements that will mean conservation of capital and service and elimination of waste. Such agreements, however, to become effective only when in the public interest and when approved by Federal authority.

Prohibition of lockouts and strikes until investigation and report so that public opinion can have a chance to express itself. Provision for an impartial board made up on an equal number of representatives of the public, of the employers and of the employees to report to the Secretary of Transportation upon the merits of any controversy which the parties are unable to adjust.

Exclusive Federal Supervision and approval of all securities issued by railroads. The funding for a term of years of railroad obligations now due to the United States.

Federal incorporation.

The power to rest with the Federal Government, when it is clearly to the general interest of the public, to:

Arrange for the distribution and re-routing of business so as to prevent congestion and blockades.

Arrange for fair distribution of cars between roads, regions, and shippers.

Arrange for the joint use of terminals when owning roads fail to agree.

Prevent waste and extravagance in construction of new roads, branches, expensive terminals and duplicate facilities.

Arrange a unification of the roads into a continental system in a national emergency, such as war.

The railway executives believe that with these principles embodied in suitable laws and with harmonious machinery for administering them, all the benefits possible under Government ownership or operation, or both, can be obtained and the obvious dangers of such Government ownership and operation avoided.

RETURN UPON CAPITAL

I cannot believe the people of the United States will be unwilling, when they understand the situation, to permit a fair return upon a fair value of the property that is devoted to the public use. Such return is absolutely necessary if we are to avoid disaster.

The suggestion has been made that the Government guarantee a certain percent, per annum upon a certain fixed amount of securities representing the railroads. If the owners could name the value of their property and the rate of return, and know that the guarantee would be permanent, this would be very satisfactory to them. But in the nature of things they cannot do this, and the arithmetic of the situation must be a compromise, and always downward, with the danger that the rate of guarantee and the principle sum would be fixed low and would be considered in due time a maximum figure as well as a minimum, and might be changed. The railway executives have felt that a guarantee in this form would not be for the best interests of the security holders in the long run.

They have also felt that such fixed guarantee would not be for the best interests of the country because it would tend to reduce initiative, retard efficient management, and brings about an increase in costs that would more than offset any possible savings in the cost of new capital; also that such a guarantee would inevitable lead to a divided responsibility and to a necessary

participation by the Government, as the guarantor, in the actual management of the properties which would, in due time, mean Government ownership and operation.

I believe the country should obtain its transportation through private ownership and operation, with reasonable and protective Governmental regulation; the other alternative is Government ownership and operation.

They have also felt that what amounts to a guarantee can be obtained if the railroads again are allowed to receive adequate rates and to have reasonable liberty to act; that under these conditions and with energetic and honest management and wise regulation roads that have been well planned and honestly financed can sustain themselves; poorly located, unwisely promoted, badly financed, or so-called 'weak' roads will have to be reorganized or combined with some of the larger systems.

RATES

As rates are the one vitally important part of the financial problem of bringing not only a return to the owners of the securities, but in creating conditions that will permit constant development of the properties, the railway executives have suggested that the railways should have the right to initiate their rates, or prices.

The roads should have this right in order to take prompt action to protect the country and patrons as well as the railways. The owner and manager of an enterprise is studying it more closely than anyone else. He desires to please his patrons, to develop his markets, and to improve his plant. He is in a better position than anyone to say what the price will be for the article or service he is selling. He knows what expenses, complications and difficulties he must meet and he is constantly looking ahead. Public-service corporations, however, must submit to some review of their prices, or rates. Hence, provision is made in the railway executives' plan for suspension of rates by a proposed Secretary of Transportation and a review by the Interstate Commerce Commission. This would provide an absolute safeguard against unjust discrimination or extortion and would protect the public fully, while permitting liberty of action, prompt decisions and business judgment between the railroads and the communities served by them. If railroads are to be managed as business enterprises it seems essential that they shall have the right to name their rates, subject to the checks described.

LABOR QUESTION

The other most important element in arriving at a satisfactory return upon the property is the amount paid for wages, and the working conditions of the large body of employees. Wages are taking directly more than 50% of every dollar of revenues, and indirectly, through materials purchased, a good deal more than that. To arrive, therefore, at any satisfactory net income, wages must be considered in connection with rates.

The labor question is, of course, one of the most serious and difficult confronting the whole world, the railroads in particular, and there must be a broad view of it and a spirit of 'give and take' by all classes of people. All good citizens desire to see wages and living conditions improve, but there is a limit to what commerce and industry can pay and survive. It is surely better to have reasonable wages and continuous employment than to force wages so high that industry languishes, for then to wage-earners themselves will suffer most of all. The Munn case was decided in 1876, and there are two interesting paragraphs in it. One reads as follows:

'Property does become clothed with a public interest when used in a manner to make it of public consequence, and affect the community at large. When, therefore, one devotes his property to a use in which the public has an interest in that use he must submit to be controlled by the public for the common good, to the extent of the interest he has thus created. He may withdraw his grant by discontinuing the use, but so long as he maintains the use, he must submit to the control.'

The other reads:

'When one becomes a member of society, he necessarily parts with some rights or privileges which, as an individual not affected by his relations to others he might retain.'

In legislation for public utility companies the doctrine laid down in the first paragraph has been followed with an increasing particularity, even to the extent of trying to Manage rather than to Control. But not so with the second paragraph,- yet in the interest of society as a whole the laws must reflect some control of those 'members of society' who work for public utilities.

The man who puts a dollar of his savings into the transportation business does so knowing that his dollar is subject to the power of the Government to make the rules and regulations governing

the business. The man who decides to earn his dollar by working for the railroads should be willing to submit to reasonable wages, rules and regulations, just as much as does the man who puts in his dollar already earned. It is in the public interest to have the dollar invested regulated reasonably. In a complex civilization like ours in the United States, and with great concentrated populations to be served with food, fuel, shelter, light, etc., there must be continuous service by the transportation agencies, just as much as a continuous supply of water.

We have recently seen New England without telephone service because of a dispute, and we all know that New York Harbor has been crippled for months because of disputes there.

To bring this about there must be some method devices for fair and reasonable Federal supervision and regulation of wages and working conditions, and such regulation should eventually receive the final approval from the same power that is finally responsible for the rates of fare and freight charged by the transportation agencies, so that the question of income with which to pay will be considered at the same time by the same final deciding power as the outgo to be paid. Just as the Government should have the power to vote the wasteful use of the railroad dollar to be invest upon which the public will be asked to pay a return through rates, so should the Government have power to supervise wages and conditions of service, which ultimately are paid for by the public through these same rates.

With the preservation of private ownership and management in individual systems of railroads there will be a better esprit de corps among the great army of railroad employees than if all became employees of the Government.

And if employees can one be satisfied what a fair and impartial tribunal is in existence to hear important complaints that cannot be settled promptly on the 'home road' between employee and employer, there should be no need of strikes, which are simply a form of war. The world has just lost millions of men and billions of treasure in a struggle whether force rather than justice and reason were to settle the affairs of the world.

Mr. Lincoln, on March 21, 1864, replied to a committee from the Working Men's Association of New York City as follows:

'No man living is more worthy to be trusted than those who toil up from poverty, - none less inclined to take our touch aught which they have no honestly earned.

The most notable feature of a disturbance in your city last summer was the hanging of some working people by other working people. It should never be so. The strongest bond of human sympathy, outside of the family relation, should be one uniting all working people, of all nations and tongues and kindred.

Nor should this lead to a war upon property or the owners of property. Property is the fruit good to the world. That some should be rich shows that others may become rich, and hence, is just encouragement to industry and enterprise. Let not him who is houseless pull down the house of another, but let him labor diligently and build one for himself, this by example assuring that his own shall be safe from violence when built.'

The words from one of our greatest Presidents should be weighed carefully by those considering the relations between labor and Capital.

Surely the United States, the most enlightened and progressive nation in the world can, if it takes up the question seriously, work out some plan for adjusting industrial disputes that will carry out the doctrine of 'live and let live' and save the waste, loss, sorrow and anguish that come to thousands of innocent people, a large proportion of whom are working people, who have no part or voice in the controversy or its settlement.

REGIONAL CONSOLIDATIONS

The railways Executives agree with Senator Cummins that there should be further consolidation of the railroads into a number of systems. They do not, however, believe in the so-called 'Regional Plan' under which all of the railroads in a given territory are to be merged into one system.

The present great systems have been built up in the last 40, 50, 60, 70 years, and are now a part of the industrial and financial structure of the United States. They are coordinated to themselves, to the communities they serve, to their connections and competitors as to tracks, equipment, terminals and other physical facilities; their financial structure is very complicated, and they should be allowed to preserve their identity and integrity physically and financially. It is to the interest of the country to have competition, especially as to service, because without it development and the introduction of the most improved methods of giving service to the public will be checked.

Without attempting to say how many great systems will serve the country best, it would be better, we believe, for the growth of the territory between Chicago and the Atlantic seaboard if several great systems are maintained that will be in friendly rivalry in serving the public and helping to build up the territory, and the same thing is true of the South, West, Southwest, and Northwest. Into these great systems of roads can be merged on some fair basis smaller and heretofore less strong systems of railroad that cannot live alone. These systems should not, however, be so large that the managing directors and officers cannot have personal knowledge and give personal consideration to all important matters and give prompt decisions about questions involving the welfare of the people served by the roads and the employees. There is such a thing as making a system so large that what is called 'Long Distance' management without the personal touch develops, - a condition that is not the most wholesome either for the people, the employees or the railroads.

Continuation of a number of great systems will develop a greater spirit of effort on the part of officers than if all competition were eliminated, and this spirit means much for the future development of the country, the railways, and greater satisfaction to the public.

THE IMMEDIATE FINANCIAL PROBLEM

The immediate financial problem is difficult and emphasizes the need for prompt action.

Here are some of the results for all of the railroads in the United States, for January, February, March, 1919, as compared with previous years and with the ‘standard return’, or the average of the so-called ‘test period’, the three years ended June 30, 1917:

	NET OPERATING INCOME			
	1919	1918	1917	Test Period
United States	\$39,875,000	\$72,018,935	\$179,396,348	\$172,798,000
Eastern District	\$3,671,000	\$16,155,469	\$5,211,338	\$63,185,000
Southern District	\$13,122,000	\$31,337,535	\$43,174,530	\$34,503,000
Western District	\$30,424,000	\$56,836,869	\$85,010,480	\$75,110,000

Here also are some figures prepared from Government reports, showing the result for the new England roads combined:

TEN ROADS OPERATING IN NEW ENGLAND	
Bangor & Aroostook	632 miles
Boston and Albany	394 miles
Boston and Maine	2,259 miles
Central New England	301 miles
Central Vermont	411 miles
International Railways of Maine	234 miles
Maine Central	1,217 miles

New York, New Haven & Hartford	1,992 miles
Rutland	415 miles
Grand Trunk Lines in New England	172 miles
Total	8,027 miles

	Income Account	Income Account
	Year Ended	Year Ended
Revenues:	<u>Dec. 31 1917</u>	<u>Dec. 31, 1918</u>
Freight	\$114,236,230	\$138,248,366
Passenger	67,566,643	74,840,380
Other	<u>23,736,791</u>	<u>26,804,059</u>
Total	\$205,539,791	\$239,892,805
Operating Expenses	155,867,171	215,414,255
Net Revenue from Operations	49,672,493	24,478,550
Taxes	8,052,083	8,215,987
Uncollectable Railway Revenues	16,057	24,015
Railway Operating Income	41,604,353	16,238,548
Rents	9,197,296	7,009,698
Net Income	32,435,057	9,228,850
Property Investment	736,725,844	770,000,000

Rate of Return on Investment	4.45%	1.20%
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And for the first three months of 1919 nothing at all was earned for the property.

The standard return for the roads is \$38,384,700., which has not been enough, as it is well known the New England roads have not been able to expand and improve as they should be expanded and improved and to pay suitable returns to their owners. To pay 6% on the property investment would take \$46,200,000., or \$37,000,000., more than was earned in 1918.

The property investment figure is very conservative, as it includes nothing for working cash capital and materials and supplies, and nothing for so-called 'outside investments' in trolleys, hotels, steamboats, etc. Tentative valuation figures already made indicate that the fair value of the property will be in excess of the figures given. So here are at least \$800,000,000 of property used by the public and only 4.45% earned in 1917, and 1.20% in 1918, and even a worse start was made in 1919.

There are about 100,000 employees on these roads, which serve a population of 7,400,000 with many large and crowded communities. There are about 70,000 security holders, and many securities are held by banks, trust companies, colleges, charitable organizations, etc.

With every desire that employees shall receive good and even liberal compensation for the services they perform, it does not seem right that the properties should not earn a fair return for the owners and sufficient to make needed additions for the users. There is an unfair adjustment here that ought to be corrected.

Turn to a road that is called prosperous, namely, the Northern Pacific, and the results for the first three months of this year, as compared with a year ago, and with the test period, are as follows:

	1919	1918	Test Period
Railway Oper. Rev	\$22,202,066.62	\$19,912,619.85	\$16,064,710.09
Ry. Oper. Expenses	17,043,200.89	14,478,277.13	9,496,112.83
Ry. Tax accruals	1,553,411.50	1,525,223.46	1,196,421.40
Uncoll. Ry. Revenue	2,932.93	1,774.73	2,354.53
Ry. Operating Income	3,602,521.30	3,907,344.52	5,369,821.33
Equipment Rents	73,422.32	612,414.38	227,797.02
Jt. Facility Rents	311,578.42	311,665.16	314,577.08
Net Income	3,987,522.04	4,831,424.07	5,912,185.43
Operating Ratio-	76.76	72.71	59.11

To show how expenses have jumped in the last two years, the payrolls of the Northern Pacific in January, 1917 were \$2,346,820.50, and in 1919 were \$4,156,011.89, an increase of 77.09%.

The payments for material and fuel were:

1917	1919	
\$2,482,002.93	\$3,445,628.78	an increase of 38.82%

These figures are given simply to show the great increase in costs as a result of the war, changed conditions, and partly of Government control. They emphasize the great importance of taking action at once to bring income more nearly up to outgo.

It is interesting to compare the increase in commodity prices since 1896 with the increase in freight and passenger rates. Using the figures of Dun's Index Number covering more than 300 commodities the comparison is:

Cost of Living Figures January 1, 1896		77.780	
March 1, 1919		217.037	Increase 176%
Freight Revenue per ton mile	1896	.806	
Last 6 mos.	1918	.900	Increase 11.6%
Passenger Revenue per pass. Mile	1896	2.019	
Last 6 mos.	1918	2.800	Increase 38.6%

It is admitted that the first three months of the year are not good earning months and that business has been slack but not, in my judgment, depressed enough to justify returns of only \$39,875,000 in 1919, compared with \$172,798,000 during the test period, indicating a large deficit for the Government to make up for the year 1919.

I believe it is better for the country to adjust rates so the roads shall be self-supporting rather than to adopt the plan of continuing appropriations from the Treasury. Business should not get into the habit of relying upon Government aid to meet obligations which ought to be taken care of by hard work, business skill, and honest methods.

A reduction of the earning power of the railroads impairs the rights and interests of the owners, and there is ample warrant for those charged with the duty of carrying on the railroad operations for the Government in taking every possible step to see what this earning power is preserved and if, because of the war, expenses have largely increased, a moral, if not a legal, responsibility rests upon the Government, to make a corresponding increase in earning power.

Any plan, therefore, for new legislation should carry with it an obligation upon the Government to maintain a property relation between income and outgo, and to protect the solvency of the railroad until that readjustment of earnings and expenses can be completed.

CAPITAL AND CREDIT

The result of the various forces operating upon the earning power of the roads for ten years prior to the war created a great feeling of uncertainty about railway investments, and capital has been turning to other fields. During the five years, from 1910 to 1915, there was approximately \$2,900,000,000 additional investment made in railway facilities. The net income of the railroads during each year of this period was generally less than it had been in 1910, and in 1915, after all of this \$2,900,000,000 had been invested in the properties, the return was only about \$8,000,000 more than in 1910.

New capital has been obtained very largely by increasing debt, and new money from partners or stockholders has been harder and harder to obtain. In 1900 capital stock exceeded debt by \$200,000,000, but in 1916 funded debt exceeded stock by about \$2,200,000,000—a most unsatisfactory situation.

Capital may be timid, but it was bold enough in the last 50 and more years to create our Great American railway system. I believe it will be willing to go on with the work if it can be assured that the policy of the Government will be to sustain the railroads in the legitimate conduct of their business and allow reasonable liberty of action instead of repressing and hampering that work. The credit of the roads will come back when people understand that Congress has laid down the rule that a reasonable rate is also an adequate rate, sufficient to reflect changed costs,

increased wages, and a fair return upon the property; when Congress insists that some reasonable method of adjudicating controversies over wages and working conditions shall be written into the law of the land; and when the nation insists that it is the duty of a President to preserve, protect and expand the transportation facilities of the country as well as Agriculture, Banks, Manufactures, Commerce, or other forms of individual activity.

SECRETARY OF TRANSPORTATION

Whether to leave all regulatory powers with the Interstate Commerce Commission, or to relieve that overburdened and overworked body by giving it help in the form of regional Interstate Commerce Commissions who will be nearer to the people and to the state commissions, and whether to recognize the great importance of the transportation business by having a Cabinet officer take charge of some of the executive work of regulations, and to watch and protect transportation agencies, are, of course, questions of individual judgment.

An alternate suggestion is that there should be a Federal Board, holding office for a long term, and that better results would be obtained in this Board should exercise the functions suggested for the Department of Transportation.

In any event, the Federal Government should be charged with the duty of protecting, as well as regulating, the railways.

The charge is made that this plan injects the management of the railroads into politics- unfortunately you cannot divorce politics entirely from the situation if you admit the principle of regulation by the Government, but in the long run, with the President and the Secretary of Transportation or Federal Railway Board directly interested in giving the country good service, it has seemed to us that the highest standard of political action would be attained.

The railway executives have no right to speak for other forms of transportation, but it is in their minds that a Secretary of Transportation, or a Federal Board, would supervise all forms of transportation and work to bring about the greatest development and cooperation between railroads, Inland Waterways, Coastwise Vessels, and our new Mercantile Marine Fleet, with a minimum of duplicate investment, and bring to the attention of the President and Congress the national needs for an adequate system of transportation.

CONCLUSION

I believe that the following statements are sound:

The American people elected to have their transportation furnished by private individuals, subject to Governmental regulations rather than by the Government itself.

The experience of the last sixteen months has confirmed them in that opinion.

The people having made that decision, the furnishing of Transportation is Business, and must be conducted as such.

The individuals who engage in it must be permitted, as those in other forms of business are permitted, to charge enough for that they sell, namely, Transportation, to pay all expenses, taxes and other charges, including a fair return on the value of the property devoted to the public use, and sufficient to attract new capital to increase the facilities necessary for the public welfare.

Regulation by the Government is necessary and desirable, but it should not attempt management and operation of the business but should be confined to those steps necessary to prevent unjust discrimination, extortion, or excessive profits; to provide for good service and the safety of the public; and for suitable living and working conditions and preventing abuses, should also protect the property owner and the credit of the companies and see that facilities are expanded in time to meet the constant growth of the country. It should also provide means for continuous service to the public when differences of opinion arise as to wages and working conditions.

As the railway system is national in its work and scope, regulation by the Federal Government must be supreme and not be weakened or set aside by state regulation.

Continuous amalgamation of various railroads into a number of larger systems must be permitted so that the whole country will be well served and there will still be the spur of self-interest and competition all the time so as to produce development and good service.

The income of the roads should be adjusted within a reasonable time to meet the necessary outgo, and until that readjustment can be brought about the Governments should protect the financial situation, not for the purpose solely of making a return to individual holders of securities, but to prevent a financial collapse that will affect the whole country.

Until the work of Federal Valuation can be completed, it might be assumed tentatively, and without prejudice as to the final valuation, that the standard return, now being paid by the Government, is a fair return on the property, and that, pending the final valuation, the Government shall not reduce rates until under normal conditions as to volume of business, the income exceeds the standard return.

It is better for the country to have the roads sustained by means of the rates charged for transporting passengers, freight, mail and express rather than to make up the deficiency, large or small, by appropriations from the National or State treasuries.

If these statements are sound, as I believe they are, a law can be drawn that will give effect to them. Many suggestions have been made, and I believe that it is entirely possible for the

statesmen in Congress, backed by the President and his advisers, to take the accumulated information to draw the bill and pass the law this year. That bill should not be a:

Railway Executives' Bill, or a

Railway Investors' Bill, or a

Bankers' Bill, or a

Labor Unions' Bill, or a

Shippers' Bill, or an

Interstate Commerce Commission Bill, or a

United States Railroad Administration Bill, or a

Republican Bill, or a

Democratic Bill

It should be the Nation's Bill, reflecting all conditions, and there should be no politics on it.

It is very important to come to a conclusion this year about the new railway legislation. All kinds of people are helping and will help, but those who represent the people must frame the law. It is their job. It can be done; it must be done; and it will be done, and done right. When done, and with reasonable financial protection until the readjustment between income and outgo is completed, our wonderful American railway system will start forward again on a period of development and service. These great highways, which are the arteries through which the commerce of the country flows, will be nourished and become elastic again. With cooperation

between the railway users, the railway employees, and the railway owners, and with reasonable liberty of action so that the American citizen can use his individual initiative and his tireless energy, the country will go forward to meet its great future better equipped than ever before.