

The Economic Club of New York

70th Meeting

The Future of our Railways and
Their Relation to the Government

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MR. ELY: there are two interesting things about this dinner. The first is, it is our 70th; the second is, that it is the first occasion on which our new President presides, and I am now happy to present Mr. Howard Elliott. (Applause)

Introduction

Howard Elliott, Presiding

Fellow Members of the Economic Club: As your Secretary said, we are Seventy Meetings young tonight. Your Club has had a marked influence in helping to give to the public the views of experienced men on subjects of vital importance to the welfare of the United States and of the World.

Your Executive Committee decided that the subject for discussion at this dinner should be “The Future of Our Railways and Their Relation to the Government.”

There has been much debate on this matter from the time railroads began. The country has tried a policy of no regulation; of extreme penalizing and crippling regulation by both States and Nation; of Government Control and Operation during the war period. The efforts to find a sound basis of regulation have been progressive and we now have the transportation Act of 1920, known as the Esch-Cummins Act; and the railroads have been operating under the provisions of that Act since March 1, 1920.

Since that Act was passed, world conditions, as a result of the Great War, have been dislocated. While important forward steps have been taken during the last four years, general conditions cannot yet be said to be normal and free from influences resulting from the war. So this last effort to adjust the Relation of the Railroads to the Government has not yet had as complete a test as it should have before passing final judgment on it. The Act has been criticized and condemned by various classes of people, shippers, labor organizations, owners, some managers, and efforts have been made to amend it or to repeal it entirely. Government Ownership has been urged as the best way to provide adequate railroad service for the people, but the last election seems to prove conclusively that the people do not want to adopt that plan at this time. (Applause)

The Transportation Act is the most constructive measure of regulation yet passed. It aims to continue private ownership of railroads with sane regulation by public authority, protective alike to public, employee and owner; to make the business one into which investors will be glad to put part of their savings, not as creditors or bondholders, but as partners or stockholders; and to avoid Government ownership with its difficulties that would flow in adding 2,000,000 names to the public payroll, and the complications of taxation.

In arriving at the present basis, a vast amount of work has been done by the Congress, publicists, political economists, railroad executives, students of our national policies and believers in the great future of the United States.

Along in 1912, the effect of the then system of regulation by nation and the 48 states was tending so to reduce the earning power of the roads that there was grave danger that railroad expansion would be stopped, adequate service would not be given to the public and financial bankruptcy might be the fate of important carriers with the consequent evil effect on our whole national industrial situation. A group of patriotic and earnest railway executives began to hold meetings to see what, if anything could be suggested to better the situation.

Discussions among these men and with others were had in 1913 and 1914 and a Committee called upon President Wilson on September 9, 1914, to show him how serious the situation was. Conferences continued and in December, 1915, Mr. Wilson sent a message to Congress outlining the matter and calling attention to its importance to the country. Congress created in July, 1916 a joint committee from the Senate and House, known as the Newlands Committee, because Senator Newlands of Nevada was the able and untiring chairman until he died. That Committee made a most exhaustive examination of the whole situation, continuing its discussions up to the time the Government took over the railroads at the end of 1917. Witnesses from all walks of life appeared before the Committee and a mass of valuable information was obtained. When the time came to return the railroads to their owners, there were many more hearings, much discussion and out of it all grew the Esch-Cummins Law or the Transportation Act of 1920.

In that group of railway executives our first speaker was and is a leader. Born and brought up south of Mason and Dixon's Line, he is a lawyer of parts and distinction. Long General Counsel of the Southern railway, he has had years of experience in the difficult problems confronting a road serving 16 states, with laws conflicting in many directions.

Although Mr. Thom's experience and training have been in the south, so long tenacious of the doctrine of States' Rights, he has grown to see that the Nation must have a national system of railroads; that, with just regard to the rights of each State there must be a supreme power of regulation lodged in the Federal Government for the protection of all interests in peace as well as in war; that there must be protection to this great business of producing transportation, as well as regulation; that the interests of the country, the travelling and shipping public, the employees and the owners are so closely interwoven that the rights of all must be considered in any system of regulation.

It has been my good fortune to be closely associated with Mr. Thom during all of this work and to understand his wise, patriotic and human viewpoint in dealing with the question under discussion. I know of no one in the United States more capable of giving an illuminating picture of our subject tonight than Mr. Thom.

I am glad, therefore, to present Mr. Alfred P. Thom of Washington, General Counsel of the Association of Railway Executives. (Applause)

Alfred P. Thom

General Counsel, Association of Railway Executives

Mr. president, Ladies and Gentlemen: to a society of your dignity and importance it cannot be without interest to consider the economic result of the latest action of the American people taken in their sovereign capacity. Nor can the problems connected with the future of our railroads and their relation to the government, the topic you have chosen for this evening's session, be adequately discussed without an appreciation of the effect of that action upon the business life and policies of the nation.

Of course, this discussion must proceed without a partisan or political purpose. But without partisan and political purpose it is essential for us to know the lessons of history. Ours is a government in which the people, proceeding in accordance with legally prescribed methods, are supreme.

On the fourth day of last month the majestic spectacle was presented of the sovereign rulers of the nation, from the Atlantic to the Pacific and from Canada to Mexico and the Gulf, resorting quietly and peaceably to appointed places in their several communities, selecting their representatives in the national government and declaring the principles on which their affairs must be conducted.

Perhaps never before were the issues which the people determined so essentially economic as in the plebiscite which has just taken place. The people were convinced that the public welfare would be promoted best by an economic structure, sound in principle, in which capital might be adventured without fear of governmental unfairness or hostility and could thus provide an adequate field in which those who labor, in any department of human industry, could find adequate employment and be assured of the legitimate fruits of successful effort. Their minds were thus busy and were predominantly concerned with the vital questions as to how to accomplish this result and to make certain that the vast array of American workers and the vast stores of our material resources would continue to be employed in creating at home prosperity and happiness and in advancing everywhere the welfare of the human race.

Fundamental questions relating to business were presented for the determination of this supreme popular arbitrament. The answer that was given should be accepted as conclusive.

Within the limits imposed by an occasion such as this, it is impossible to consider them all, but I shall take the liberty of mentioning a few which have special pertinence to the subject now under discussion.

1. The old demand for governmental ownership and operation of essential public utilities, especially as related to the railroads, was again brought forward and pressed insistently upon the

attention of the people. It constituted a fundamental and distinguishing principle of the new order that was advocated by one of the parties aspiring to public favor and endorsement.

It failed. The party favoring it received considerably less than four million and a half votes, while those not endorsing it received more than twenty-two and a quarter million votes.

In view of this emphatic and unmistakable declaration of the people's will, it is fair to consider the issue settled, with the inevitable corollary that private ownership and operation of these public utilities must be accepted as the basis of their relationship to the government and that the system of governmental regulation must be so ordered and administered as to safeguard and preserve this basic principle.

This is the second time that the American public has declared against government ownership and operation of the railroads. The first was when public opinion unmistakably condemned war-time Federal control and operation as a policy to be continued in time of peace, and, through the representatives of the people in Congress, defeated the effort to prolong it. In the Transportation Act, Congress, without regard to party, devised the means for resumption of private ownership and in good faith tried to make possible its success.

2. Another economic issue presented to the people on the fourth of November was the Transportation Act of 1920, commonly known as the Esch-Cummins Act.

One of the parties seeking public endorsement declared for and demanded “repeal of the Esch-Cummins Transportation Act” and “reduction of freight rates to substantially their prewar levels.”

Another demanded a “rewriting” of the Act and declared, among other things, that it had “failed to reduce the cost of transportation” and that “promised improvement in service had not been realized.”

The remaining party declared for a modification of the present regulatory laws, including the Esch-Cummins Transportation Act, only after “experience has shown the necessity therefor.”

The result of this submission of the issue to the sovereign will of the people is now a matter of history. Not merely by a plurality, but by a clear majority of approximately three million votes over the combined strength of those demanding the Act’s repeal and of those demanding that it be re-written, the advocates of the preservation of the Transportation Act as it is until it could be improved in the light of a larger experience, received the commission of the people and were established in power.

3. Another economic issue which has been settled is, in fact, a part of the proposal which has just been mentioned, but it was given such individual prominence in platforms and discussions as to justify separate mention. It is the question whether the public shall have or shall not have a voice

in respect to labor disputes which threaten to interrupt the continuity of transportation service and a voice in controlling labor costs, constituting, as the latter do, 60% of the direct cost of transportation, which must be provided for in the rates and charges the public has to pay.

The attitude of the several parties on this question has, in effect, been shown in stating their respective positions in regard to the Esch-Cummins Act, of which the existing statutory provisions in respect to labor are a part; but this attitude was emphasized and accentuated by the public declarations and pledges of the accredited leaders of two of them, who declared in substance, if not by name, in favor of the Barkley Bill, repealing the provisions of the Esch-Cummins Act relating to labor and excluding the public from any voice whatever in respect to the just settlement of labor disputes or in respect to levels of wages agreed upon by the parties, whether such agreement be voluntary or conceded in response to economic pressure.

Provisions which the proposed repeal of the Esch-Cummins Act would cover include, first, the repeal of the requirement of the present law that whenever a labor dispute seems likely to result in a substantial interruption of transportation, a tribunal on which the public is represented shall inquire into the facts and publish its findings on the merits of the controversy, thus making an appeal to impartial public opinion in support of the party found to be right; and, second, the repeal of the requirements of the present law that, in case the parties agree upon a level of wages, as a result of economic pressure or otherwise, likely to result in a substantial increase in charges

upon the shippers, this tribunal shall have power to suspend and modify the agreement and prevent any unreasonable imposition in rates and charges upon the public.

Two of the parties were opposed to these provisions of the existing law and, in effect, in their platforms or through their leaders, demanded that the two parties to such a controversy or to such an agreement – the employers and the employees – must be left free from the pressure of informed public opinion and from any and all public control of the labor cost of transportation which the public must pay, while the remaining party declared unequivocally in its platform: “Public opinion must be the final arbiter in any crisis which so vitally affects the public welfare as the suspension of transportation. Therefore the interests of the public require the maintenance of an impartial tribunal which can, in an emergency, make an investigation of the facts and publish its conclusions. This is essential as a basis of popular judgment.”

And it further declared for the maintenance, until and unless adequate experience should condemn them, of the provisions of the present law conferring power upon a public tribunal to suspend and alter agreements as to wages likely to increase unreasonable burdens upon the shippers.

Thus, not only as a part of the larger issue involving the continuance for more extended experience of the Transportation Act before its amendment should be undertaken, but also as a separate and individual issue, the proposal embraced in the pending Barkley labor bill was

submitted to the supreme arbitrament of the people and was by that high and final tribunal emphatically and conclusively rejected.

While it is impossible to appraise with accuracy or definiteness the influence of any single issue, where there are many, upon popular action, it seems fair to say that the existence of a sound economic structure and the importance of the matters hereinbefore mentioned relating to transportation, were so emphasized and made prominent, as to justify the conclusion that the people considered and delivered their judgment on them.

If, therefore, the platforms of parties, if the declarations of principles and purposes made by candidates, if the vote of the sovereign people mean anything, then the economic issues which have been mentioned, as well as others not here adverted to, have been conclusively and finally settled until the people speak again; and the public policy in respect to them now officially, unmistakably and authoritatively declared, cannot be departed from without flagrant defiance of the popular will solemnly expressed.

The thoughtful student will not marvel at the judgment, on these subjects, which the people, acting in their sovereign capacity, have thus delivered.

In respect to labor engaged in transportation, the people realize that in reality there are three parties to every controversy involving an interruption of service or involving a level of wages

which affects and controls the rates which the public must pay. These three parties are the public, the employers and the employees. It appreciates that if the employers and their employees may, without proper consideration for the third party in interest, agree on any scale of wages they may desire or that one may coerce out of the other, the interests of the public, which is the third party may at any time be completely sacrificed. The public is naturally unwilling to surrender the power assured to it in the present Transportation Act, which provided that, before a strike or a lockout shall be permitted to interrupt transportation, the facts shall be inquired into by an impartial public authority and made known in a way that will bring to the party in the right the effective support of informed public opinion, and is likewise unwilling to surrender the power, also assured to it in the present law, of changing or modifying scales of wages, agreed to by the other two parties in interest, in cases where the wages thus agreed to will result in a substantial increase in the transportation charges imposed upon the public.

Thus, as to labor, the cause for the action of the people was not far to seek. It lay upon the surface. The public could not tolerate the proposal that it be excluded from a voice in matters affecting the continuity of the transportation service and constituting 60% of its direct cost – two aspects of this essential instrumentality of our economic life in which the public is fundamentally and vitally concerned. The proposal constituted such a clear challenge of the right of the people to a voice in respect to essential aspects of public utility service as to be in reality a challenge of the whole principle of public regulation, which for nearly half a century has been a recognized function of our government. The powers of the people, while supreme in other departments of

the field of regulation, must, according to this proposal, stop at this crucial point. Here the people were to have no part and were not to be supreme. Of course, there could be no doubt as to the fate of such a challenge. It was fore-doomed to defeat.

Nor was the influence of the Transportation Act on rates a difficult issue to meet on its merits before the people. The recklessness of the attack upon it in this regard may be illustrated by the insistent demand of one party of its critics for a “reduction of freight rates to substantially their pre-war levels.”

The character and consequences of this demand were disclosed by Mr. Daniel Willard, President of the Baltimore & Ohio Railroad Company, in a communication to his employees, by the statement that if in 1923 the rates had been as they were before the war, or on the 1913 basis, the net earnings of the company in 1923 (the most prosperous year in the recent history of the Baltimore & Ohio) resulting from the volume of business actually handled, with wages, material costs, and taxes as they actually were, would have fallen short by more than \$52,000,000 of meeting operating expenses, with nothing for interest or taxes and no return whatever on the value of the property devoted to the public service.

The Baltimore & Ohio was not alone in this. The Delaware, Lackawanna & Western would, under such conditions, have fallen short of earning operating expenses by more than \$11,900,000; the Chicago, Burlington & Quincy by more than \$9,600,000; the Norfolk &

Western by more than \$16,000,000; the New York Central would have had a deficit of more than \$132,000,000 after paying operating expenses and taxes; while all Class I railroads of the United States, taken together, would have shown a deficit, after operating expenses and taxes, of more than \$1,200,000,000.

These figures indicate the utter ruin that would have fallen upon our second largest industry, and consequently upon the people themselves – for this industry constitutes the means of the public for distributing to the markets of the world the products of the nation's toil – if the policies of the destructionists had been or were to be put into effect. The people were not slow to see this and to repudiate the ruinous proposal.

Turning from this astounding demand to the charge of another set of critics that rates had not been, and could not be, reduced under the Transportation Act, the fact was shown to be that, since the increase in 1920 to provide for increases in expenses made largely by governmental agencies, there had been in 1921, 1922, 1923, and the first eight months of 1924 savings to shippers, due to reductions in rates, aggregating more than \$1,460,000,000 – and of this amount the savings on the products of agriculture, including livestock, aggregated more than \$358,000,000. Thus the assault upon the Act, based upon the charge that it constituted an insuperable barrier to the reduction of freight rates, was shown to be utterly without justification.

There still remained the charge, which one of the major parties had permitted itself to make, that, under the Act, “promised improvement in service had not been realized.”

While this statement was being promulgated, the record of the finest service in the history of transportation was being written by the American railroads. During the great years of 1923 and 1924, with production at its peak and with a volume of traffic theretofore unexampled, with weekly car loadings constantly making new and astounding records, the railways moved to market everything that was offered, without car shortage and without congestion, at the same time by wise foresight, and efficiency providing a reserve of nearly 100,000 cars and approximately 5,000 locomotives in good repair and immediately available for service.

AS to the character of the service being furnished by the carriers, Honorable Clyde Reed, formerly Chairman of the Kansas Public Utilities Commission and now Chairman of one of the western Regional Advisory Boards, on August 15, 1924, said:

“For five years I was a sort of clearing house of complaints from Kansas shippers. All of the grievances that they had usually came sooner or later to me, and I know it was our dread to approach the wheat crop moving season. We usually expected to run into a car shortage about the latter part of July that was more or less acute until the wheat crop had been moved off by the middle of November to the first of December. My information from the Public Utilities Commission today is that there has been substantially no complaint, even though this is the

second greatest wheat crop that Kansas has ever produced. That is a very fine tribute to the efficiency of the railroads serving Kansas and this southwest territory.”

Mr. Secretary Hoover, in the 12th Annual Report of the Secretary of Commerce, dated November 1, 1924 says:

“This fiscal year marks the first occasion since long before the war when our railway facilities have been completely equal to the demand of the country. There were no car shortages of any consequence. There was a speeding up of delivery of all goods. This complete reconstruction, expansion and growing efficiency in transportation facilities marks a fine accomplishment on the part of our railway management. Its economic effect is most far-reaching. Every car shortage is a strangulation in the movement of commodities which reduces price levels to the producer and increases them to the consumer. It disarranges the synchronizing of our industrial fabric and widens the margin all along the line between producer and consumer.”

And another high government official, having special knowledge of the subject, commenting on the service, recently said:

“Never before, anywhere in the world, at any time, under any circumstances and conditions, has transportation been so efficient as that exhibited at the present time by American railways generally.”

And yet the net railway operating revenues for 1923, under the Transportation Act, were smaller by \$78,000,000 than they were in the year 1916, before the Transportation Act was passed. This was not due to a smaller service in 1923 than in 1916, for the service in 1923, measured by the number of tons of revenue freight moved one mile, showed 60,000,000,000 of net tone miles greater than in 1916. The year 1923 was the banner year of service performed.

Nor was this result of larger and more important service, with smaller return, attained without the input of enormous sums of new capital. Since 1916, new capital to the amount of approximately \$3,900,000,000 had been invested in railway facilities, and yet in 1923, after this investment, the net railway operating income was actually less by some \$78,000,000 than in 1916, before the investment. Let those who charge the Transportation Act with responsibility for inordinate earnings answer why it is that under the Act there has been no return whatever on the enormous additional capital invested in producing railway facilities since 1916, measured by the return of that year, and also why it is that the return in 1923 was only 4.43% on investment in road and equipment, including materials and supplies and working capital, or approximately \$288,000,000 less than has officially been declared to be a fair return on that investment.

Of course, with such a record it was impossible to make a case against the Transportation Act which would stand before a just and discriminating people.

The time has long passed since there was any division of opinion as to whether or not there should be governmental regulation of essential public utilities, including the railroads. It is now universally conceded that there must be such regulation. The only question is what kind and what extent of regulation is wisest and best in the public interest.

As indicating the present extent of regulation, may I quote from a statement made by Mr. Festus J. Wade, an eminent publicist and banker of Saint Louis, in a recent address?

“With the rates fixed or controlled by the Government and not by the carrier; with the question of what amounts to ‘a fair return’ on the carriers’ transportation property determined by the Government and not by the carrier; with the value of the transportation property on which the ‘fair return’ is to be estimated fixed by the government and not by the carrier; with the question, as related to rates, of whether the management of the carriers is ‘honest, efficient and economical’ and ‘the expenditures for maintenance of way and structures’ are ‘reasonable,’ determined by the government and not by the carrier; with the amount of wages to be paid by the carrier to labor controlled by the government and not by the carrier; with the question of whether or not stocks or bonds are to be issued by the carriers, and, if so, in what amount, determined by the Government and not by the carrier; with all unjust discrimination and favoritism against, or in favor of, any of the carriers’ patrons strictly prohibited and prevented by the Government, can anyone reasonably contend that the carriers engaged in interstate commerce are now, under

existing law, strictly and completely regulated, or that any interest of the shipping public is not adequately recognized and protected?”

Nor must we forget that there are certain lessons which should be learned from what has happened in the recent appeal to the people.

The first is that it is most unjust and dangerous not only to the railroads but also in a larger and more important sense to the people themselves, that this great and necessary means of distribution of the nation’s products should be subjected to these fierce and unthinking political attacks instead of being treated as a legitimate and essential business.

The railroads, as a means – as the real means – of distributing the products of industry to the markets of consumption, are essential to the public welfare. It is necessary, unless the efforts of industry are to halt or to stop, that these facilities of distribution shall at all times be ready and adequate to respond to the public needs. This cannot be done among a growing and developing people without the constant investment of new capital. This new capital cannot be secured unless the carriers have sound and adequate credit, and credit is impossible without adequate earnings from operation.

So, in the highest and truest sense, adequacy of railway earning, as a basis for adequate railway credit, is more largely the interest and concern of the public than it is of the railways themselves.

As mere private investments, they might perish as other private investments sometimes do, but as essential instrumentalities of the people's business, their preservation, their adequacy and their efficiency become the primary concern of the public. They cannot be preserved unless the recent mandate of the people be respected that an existing system of regulation shall remain stable until condemned by enlightened economic experience, and that the basic principle of all regulation must be that the great railroad industry must be accorded wise business treatment and not be made the asset or the plaything of politics or of politicians.

May we not, therefore, declare these as cardinal articles of our economic faith?

1. We believe in the private ownership and operation, under wise, fair and adequate governmental regulation, of the instrumentalities of transportation, and we accept the mandate of the American people rejecting the proposal of government ownership and operation of essential public utilities.
2. We believe that railroads, which are the established and necessary instrumentalities for distributing the products of industry to the markets of the world, must, under honest, competent and economical management, have adequate operating revenues as a basis of credit to enable them to perform their essential public service.
3. We believe that in its largest and broadest sense adequate railway credit is a matter of highest economic concern to the public.

4. We believe that such credit cannot exist unless railroad problems as they arise are dealt with and settled as economic questions, which they are, and not as political issues, which they are not.

5. We believe that, as a means of stabilizing railroad credit, essential in the public interest, railroad freight rate and passenger fare adjustments should be left to the duly constituted governmental administrative authority, to the end that they may receive a full and informed consideration and adequate economic analysis, and not be made the subject of direct action of a legislative body, where complete knowledge and understanding of these business problems is manifestly impossible. We believe that mistakes on this important subject would be destructive of substantial interests of the people.

6. We believe that the wage relationships between the railroads and their employees are not matters in which they alone are concerned, and that the public, having a vital interest that transportation shall be continuous and uninterrupted and that the labor costs shall not constitute an unreasonable burden upon shippers, should, through an appropriate governmental tribunal, have a voice in the adjustment of labor disputes and in respect to agreements fixing the amount of the labor costs, and hence, largely influencing the rates of transportation.

7. We believe that within the just limits of government action the public interest is the supreme and final test of any proposal relating to the railroads.

With this creed dominant in our hearts, with its essential truth serving as a beacon light to guide our footsteps, let us press forward to the performance of our appointed tasks in the service of industry, justly afraid to attempt an economic wrong, and justly confident of security and success in following the paths of economic righteousness.

It is a cause of vital consequence to the public, and not a contention for private advantage or privilege, that we submit to your enlightened judgment. (Applause)

MR. ELLIOTT: One of the problems of life is to treat labor and capital both so that they will do the work necessary for the welfare of all the people, and obtain a just reward for work done; but at the same time, make labor and capital both realize that they cannot obtain more from society than society is able to pay. Our complicated civilization has developed great organizations of labor and capital. Labor Unions and Capital Unions are all right when they are so conducted that waste is eliminated they are efficient and economical instruments of society as a whole. When they cease to be that, their usefulness is gone. Our great railroads could not have been built, and cannot now be maintained, operated and expanded to give the needed service to all the people without cordial co-operation between labor and capital.

I have been in the railroad business all my life and have had intimate relations with officers and men in all branches of the service. They are as fine a body of American citizens as in any other walk of life – upstanding men and women, loyal to their country, their railroad and their families.

In the industrial uplift of the last 50 years there have been serious differences of opinion between labor and capital, resulting in unfortunate disturbances, or strikes, which have done great damage to the contending parties and to an innocent public.

In the complex civilization of the United States, with great concentrated populations to be furnished with food, fuel, shelter, light, water, transportation in countless forms, there must be continuous service by coal mines and transportation agencies, just as much as a continuous supply of water and continuous protection by policemen and firemen.

Society some time ago discarded the club, the sword and the pistol in the settlement of personal disputes and set up in their place tribunals of various kinds. Sooner or later I personally believe society will discard the strike as a weapon for settling disputes in the great public service companies because it is a cruel, uneconomical method and inflicts great suffering upon all the people.

One of the great labor unions is the Brotherhood of Railroad Trainmen, composed of men who help to make you safe and comfortable when traveling, and who have much to do with moving

the vast quantity of freight every day in the year. This labor organization has been fortunate in having for many years as a leader Mr. William G. Lee, a wise, human and progressive man, ably assisted by Mr. Doak, a student, a thinker and a citizen with a high view of his duty to the country as well as to his organization. He knows by actual experience the duties, difficulties and hazards of railroad service. He knows of the efforts made by men and managements to maintain the best relations so as to give satisfactory service to the public. The very human question of the welfare and viewpoint of nearly 2,000,000 employees of the roads is of great importance in considering "The Future of our Railways." I know of no one better qualified to discuss this whole question than Mr. William N. Doak, Vice President of the Brotherhood of Railroad Trainmen.

William N. Doak

Vice President, Brotherhood of Railroad Trainmen

Mr. President and Gentlemen of the Club: I agree thoroughly with what the other speakers have said as a result of the last Presidential election. (Applause) Having been with the majority I sympathize with the minority (Laughter and Applause), and for the reason that the people have by the only method they have of expressing their sentiments determined the question of public ownership and other questions, I shall devote the few minutes allotted to me to the question of cooperation.

The general transportation system of our country presents varied problems. None are of such importance, however, as is the question of cooperation among the interests making up this great industry. Included in the railroad problem is the public, whose cooperation is very essential.

The best time to consider controversial questions is before conflict arises. The best place to discuss problems of public interest is in the public forum in a deliberate way. The time, the place and the interests are here represented to such an extent that we should be from the outset sure of a sympathetic hearing. It is, therefore, proposed to state conclusions frankly as they now occur after more than 20 years of study of railroad problems especially that phase of the subject dealing with labor relations between men and management, and the relation of management and employees with Government: Federal, State and Local.

Through cooperation and exchange of views we reach understandings which in turn mould public opinion, therefore, the future of our railways is what we make it. We, the people, constituting as we do the public, have it in our power to either build up the rail carriers or to wreck them, all depending upon our treatment of them.

The railroads and their employees may present many problems of grave concern but none can doubt what the ultimate outcome will be. We, in America, have our own peculiar way of doing things but in the end that which is done is usually for the best.

The most important problem at present is to assemble the facts upon which to base conclusions. If we direct our efforts in the right direction we have every assurance of success in the end. We may proceed always on the theory that our people are fair and will deal justly with any problem when they know the truth.

In the outset, in the interest of the public good, capital, labor and management should be assured of adequate protection.

Transportation needs are not academic questions; they are every-day practical problems. To believe any large numbers of informed people do not believe in adequate transportation facilities misstates a fact. Every person in America is interested in our transportation lines to a greater or lesser degree, dependent upon his knowledge of the subject.

In times of peace our rail carriers are decidedly the greatest contributors to our advancement and progress. In cases of war or invasion these carriers are our chief lines of defense. The development and general good of our country is so interwoven with our various modes of transportation that we cannot separate them even remotely. All must recognize the important part transportation plays. Our distances and broad expanse of territory make the very life of our nation dependent upon prompt, efficient and adequate transportation.

Those who give serious thought to our national welfare at once arrive at the conclusion that there is need for understanding of transportation problems. It is inconceivable that anyone would advocate a plan which would wreck our rail lines by experimenting with untried methods and then claim to be honestly sympathetic with them or our Government.

Railroad transportation will be supplemented by other methods of transportation as occasion demands, but any attempt to supplant it by other or even by a combination of all other known methods at this time or for many years to come is entirely out of the question. Then immediate attention should be directed to the best means of aiding and perfecting these agencies of commerce.

The need for the immediate future is a broader understanding of the general subject. A campaign to disseminate hard, cold facts about the various railroad problems is badly needed. In this campaign of education a square deal must be accorded to all. The plain unvarnished truth must be told about finances, management, employees and service. With propriety we may even suggest the teaching of transportation in our schools, colleges and universities and that at the very least, students be instructed in transportation fundamentals. It also does not appear amiss to suggest that advanced courses from time to time be added. In teaching transportation the investors' interest should be fairly presented, problems of management made plain; and the rights, interests and needs of the employees set forth in the most favorable terms.

Our half century of one-sided presentation of facts by the respective parties has brought us no lasting benefits because the presentation has been made usually under the claim that one interest was paramount to all others. No good can ever come from such a short-sighted, selfish policy in dealing with any transportation problems. Great good will come from fair recognition of our various transportation needs and through cooperation.

We have had too much agitation in an attempt to influence public opinion erroneously when we should have had unity of effort to give the public exact facts. Cooperation is the order of the day. Neither sympathy nor quarter should be given those who disseminate false information. Agitation by half-truth methods against either the railroads or the employees should be condemned.

The three factors upon which the future success of the American railroads depends are: Management, including investors and officials; employees, and the public. Each must cooperate with the others for the general good of all.

By arousing sympathetic public sentiment a broader understanding of the needs of both roads and employees will result. A comprehensive study of present financial conditions and future needs of the carriers will prove valuable and should be made.

The railroads must have more consideration from the public than that which comes from a reduction in rates. Progress need not be expected while the carriers' finances are bad. Neither will we get very far by a system of theory as to the employees' rights. The best guarantee for advancement is applied common sense.

If there should be the slightest grounds for charges of financial manipulation or mismanagement, these should be immediately removed, thereby clearing the way for a new start in the right direction.

Public or Federal boards, commissions or courts for the adjustment of labor disputes have usually been found unsatisfactory. More good has come from understandings reached in conference than by other means. Great good would come from the establishment of an agency of the Government whose duties it would be to study labor in its various phases, anticipate any approaching discontent and offer suggestions to the parties for the adjustment of their differences.

Labor relations, finance, management or other railroad problems are susceptible to the same rule of reason as are any other human endeavors.

Railway organizations of officials and employees should be encouraged. There is need for a further joint organization, one of investors, management and employees. Its object should be

encouragement of mutual respect and good-will. Such an organization would be able to command complete public confidence concerning transportation problems.

The importance of an institution such as the transportation system of our country should be more generally reflected by the public mind. Transportation problems by the average individual are seldom understood. They are more often misrepresented than any other important public questions. Of those informed, a large percentage know only one or two phases of the situation, and these are either indifferent as to the other factors or thoughtlessly disregard their welfare. Unfortunately selfish interests too often preclude broad liberal treatment of any general subject. Those who are interested only in rate reduction many times lose sight of the requirements of the service or the needs of the employees. Great pressure is often brought to bear upon both management and men in an effort to have them disregard the needs of investors. Exact facts should be stated from all angles. If rates are too low they should be increased. If salaries are inadequate they should be raised. If wages and conditions of employment are improper these should be readjusted properly. Unity of effort among investors, management and employees should prevail, and jointly they should ask of the public fair treatment for transportation.

Something should be done to assure public support and which would at the same time guard against the half-hearted, unfair methods of the past in dealing with this industry.

Our people are fair and will see that the railroads receive justice. In the adjustment of railroad rates, wages and conditions of employment our efforts should be free from bias and devoid of the alarming features which usually follow in the wake of such proposed movements.

Representatives of respective interests have too often contended for their own particular demands and have not always present all the facts. This course has brought opposition from other interests, not because the demands were unjust but because consideration for the others was not given at the same time. In these campaigns many harsh things have been said, sometimes to such an extent that the public gained an unfavorable impression of all concerned.

There is no need for friction and warfare. Frank conferences and unity of purpose will solve all of our problems. Strikes and other forms of industrial war will cease in proportion as employers and employees approach an era of mutual respect and good will and when supported by the public in their efforts. An oppressive employer is just as bad as an unreasonable employee. Both are wrong and none can afford to apologize for the acts of either.

Capital expenditures must be made each year in order to meet service requirements, the demands for improvement of service and new methods of operation. New safety devices and modern equipment must be had. These require the trained services of expert officers and skilled workmen. Railroads must keep well abreast of all industries in efficiency and initiative.

Advances in wages of employees should be generously made commensurate with the high class of service performed.

Progress demands advancement and denounces pernicious activities. We must either go forward or retrograde. Advancement ceases if all activities are in the direction of criticism which fails to provide remedies for the situation. In dealings with transportation problems either from an operating, legislative or regulatory standpoint one should never act on assumption nor be governed by malice. Neither prejudice, animosity nor the desire to further selfish ambitions should influence action in dealing with questions of such magnitude.

Employees should advocate a policy of fairness for the railroad that employs them. Operating officials should insist, as a matter of propriety, on good wages and proper working conditions for the men employed under them. Owners of railroad securities should demand of their patrons adequate returns to meet interest charges, wages and salaries. Each of these groups should stand firmly together for the interest of their industry.

Unfortunately, however, there are some who hold to the antiquated theory that an alliance between employer and employee is unholy and unjust. Just such theories have caused innumerable industrial ills. Railway officials and employees do not become contaminated by dealing jointly with each other. Neither do directors nor investors become less important by rubbing elbows occasionally with men and management. There is another dangerous malady that

each would do well to avoid, and that is the infection of the professional demagogue. (Applause)

Nothing yet has been so fatal nor has so many wrecks to its credit as has the industrial quack who parades along life's highway in the guise and under the cloak of a public benefactor. Those who deliberately engender strife between employers and employees should receive public condemnation.

A plea of "good intentions" should not be accepted as an excuse for industrial blunders. Public men, like all others, must be discreet in their utterances especially on important questions.

Excuses for misstatements of facts must not be accepted. Deliberate utterances of half-truths must receive merited rebuke.

Our industry and labor must be handled in an American way. To copy after any other system or plan so far devised in the world spells disaster. This is particularly apropos of the railroads and their employees. Our own transportation methods are so far ahead of all others that no comparisons can safely be made. Labor relations on the railroads in the United States excel those of any country and we should hesitate to substitute any other for ours regardless of name or style. We could so much more profitably employ our efforts in correctly adjusting our own affairs, industrially, socially and economically, to more fully conform to American ideals. Investigation has developed the fact that foreign or so-called industrial democracy does not fit in with our form of government; therefore, industrial misfits are no more comfortable than social or commercial ones.

By earnest effort and sincerity of purpose industrial peace is obtained. In some of the branches of transportation the carriers and their employees have gone a long ways in demonstrating what can be accomplished in labor relations through mutual respect and confidence. This should not only be continued by should be broadened to include all branches of the transportation system.

The economical waste, to say nothing of hardships and inconveniences, resulting from the policies which have lacked general cooperation should convince anyone of its fallacy. We can have fairer returns on investments, better service, more favorable wages and conditions of employment when each learn that we are friends and brothers in the business. (Applause) Never should we think of placing any element at a disadvantage; to the contrary, give each a square deal by better understanding his case.

In general transportation in its relations to our government, to the public, and with its many factors, should be treated as a necessity and not as a plaything or a theory.

Neither public ownership, restrictive government regulation nor interference means success for the railroad nor for the Government in dealing with them. The rights of railroad employees cannot best be served by government ownership; the most efficient transportation will not accrue thereunder nor may we expect the necessary development of transportation to meet our rapidly growing needs under any plan of public ownership or operation. (Applause)

Undue interference by governmental bodies, either legislative or regulatory will not produce a healthy transportation system. A broad liberal policy of giving encouragement by sane, helpful legislation, would insure the greatest measure of freedom in operation and development, and make for success.

The public demands good service; employees are insistent upon having good wages and wholesome conditions of employment; management is concerned in producing successful operation and investors are solicitous of proper returns on investment. These constitute a group with mutuality of interest of such magnitude as to at once command proper legislation. Desirable legislation will not come through a selfish or exacting position on the parts of either of these interests.

Consolidations are necessary in order to link up the transportation lines in groups of proper size and advantage. They will be accomplished by voluntary methods, assisted by proper permissive legislation. Compulsory consolidations seem unworkable from many angles; most particularly the financial problems present almost insurmountable obstacles. These consolidation problems must have the sympathetic public support, devoid of every tinge of selfishness.

Legislation giving proper protection to that great corps of employees engaged in the transportation business must be encouraged. Human life and the protection of employees from

injury must never be given secondary consideration. The public must support a liberal policy of law enactment and insist on the strictest law enforcement so far as employees' protection is concerned. Not only should law enforcement in this particular be stringent but safety first methods should be widely encouraged by all, through a campaign of education and instruction in safety principles.

May we not repeat that the entire railroad situation is so completely dependent upon cooperation among all interests that it cannot be handled without the fullest measure of confidence and good will? Therefore, again, I say the future success of the railroads, as effective agencies of transportation, and their successful relations with Government, will be just what we make it, by honest dealing with them and through cooperation among ourselves. (Applause)

MR. ELLIOTT: You have heard from Mr. Doak who understands the viewpoint of the men who, by their personal service, have helped to make the railroads the great aid to civilization and progress that they are.

Wise, human and able direction and management of the railroads are also essential to the development and use to the country.

For adequate service by the railroads, there must be money to create and add to them; men to build, maintain and operate them; and vision, brains and honesty of purpose in the management.

This Club is fortunate in having as one of the speakers tonight a man who has spent his life working for the railroads; a man who began work as an axe-man in an engineering party on the Chicago & Northwestern Railway, one of the great roads of the country. His ability, industry and high character brought to him positions of increasing importance in the engineering, operating and administrative departments of that great property until he became President in 1916. He remained in that important position until he was selected by the United States Government in January, 1918 to be Regional Director of the railroads leading west from Chicago, 130,000 miles of road. Later, in June, 1918 this vast responsibility was divided among three men, and Mr. Aishton became Regional Director of the roads, Chicago to the Pacific Northwest, via the Twin Cities, about 50,000 miles of road. His service in that difficult position was able, successful and acceptable, not only to the Government, but to the owners of the properties taken over by the Government, to the country and people served by the railroads, and to the officers and employees. So wide is his knowledge of all the details of railroad construction, operation and maintenance, of the just relations between regulating bodies, the public, of the employees and last, but not least, of the owners for whom all railway officers are trustees, that he was selected as President of the American Railway Association in 1920.

This is an organization that is efficient and progressive in trying to obtain by cooperative work of all the railroads the maximum of what the Transportation Act describes as “honest, efficient and economical management.” Recently he has been elected Chairman of the Association of Railway

Executives, and with Mr. Thom, the General Counsel, is devoting his time and attention to perfecting the methods of managing and operating our great American Railroad system and of obtaining the most practicable system of regulation so that the roads can continue to give in the future the unrivaled service to the public that has been given since the Government returned the railroads and they have been managed and operated by their owners under the present system of laws regulating them.

I present to you Mr. Richard H. Aishton of Chicago, President of the American Railway Association and Chairman of the Association of Railway Executives. (Applause)

Richard H. Aishton

President, American Railway Association

Chairman, Association of Railway Executives

Mr. President, Gentlemen of the Economic Club of New York: when I was listening to the long biographical sketch that your worthy President gave, I was wondering all the time what I was in for now. You know there is a whole lot in that history that I have been trying to forget without much success.

I don't know just what I can say tonight without endeavoring or attempting to touch on any one of these larger phases of the railroad question which have been so ably presented to you by Mr.

Thom and Mr. Doak tonight. I don't know that I can do any better than just to confine my remarks to you and I will take but a very few minutes in doing so, to some phase of the operating problem as they have come under my direct observation during the past few years.

I will only go back two short years; two short years and eight months. What was the railroad problem two years ago that was uppermost in the minds of the majority of the people in the United States, the people that use the railroads? It was not consolidation; it was not valuation. It was not the Labor Board; it was not 15-A. As I heard it, and I traveled the length and breadth of this country and came in contact with all kinds of people, the dominant question that I got was, "Can the railroads provide adequate service for the needs of this country?" that was question No. 1. There was another question and that was this: "Are the railroads being efficiently and economically operated?" Those were the two great questions that the farmers in the Northwest, the cotton-growers in the Southwest, the fruit-growers in California, the steel industry, the cement industry, every great industry in this country was talking and thinking about.

Now, I am one of those who believe the answer has been found to both of those questions, and I do not believe there is very much question in the minds of the public as to what that answer is, nor as to the correctness of the answer. First, as to adequate service, what has happened in the last two years? In 1923, as Mr. Thom told you, the railroads of these United States were called on to move a greater volume of business in 18 months than had ever been moved by the transportation companies of this country in any period of similar length. What was done? Why,

the traffic was moved. It was moved without congestion, without chaos, and so far as I know, to the entire satisfaction of every branch of the shipping public. If a farmer had a car of grain to ship, the car was there ready for him any time of the day or night he wanted to ship. The car was in front of the elevator to move his grain. He did not have to lose his market. He could take advantage of every fluctuation of the market that was to his advantage. He did not have to wait a minute.

Now, what has happened in 1924 and right up to the present moment? Well, it is true that the volume for the entire year has not been equal to 1923. There have been weekly periods when the peak of traffic was in excess of any peak that occurred last year. Throughout the length and breadth of this land, whether in the vineyards of California, the apple orchards of Washington or New York, the grain fields of the Southwest and the Northwest, the cotton fields of the South, whenever a car was needed it was there ready to take the business.. It was promptly moved, and at the same time, as Colonel Thom told you, and I won't repeat his figures, but there always was a substantial amount of both cars and locomotives ready to meet any demands that might be made upon the railroads.

In addition to this, as you know, at this time of the year we always have a set of hysterics up in the far Northwest about people going to freeze to death because there isn't any coal up there, or because there is not sufficient coal.

Up here in New England we do not have hysterics (Laughter), but we have something worse sometimes than hysterics. But both last year and this year, never a murmur. The coal is up there and it was promptly moved, in addition to moving all this other business; so much for adequate service. I don't think there is a question today in the minds of anybody but that the railroads have handled and can handle and will handle any load that may be placed on their shoulders adequately and to the entire satisfaction of the American people.

Now, what brought these results? In the first place there were capital expenditures made of approximately \$1,000,000,000 a year for the last two years, and they are being made by the railroads for equipment and for additional facilities increasing the capacity of the railways. This was made very largely on borrowed money and on faith, faith in the continuance of the policy announced in the Transportation Act of 1920 as a measure of reasonable protection to investment in railroad property, and faith of the railroad in the desire of the American public to insure a measure of reasonable protection to investment in railroad property.

Now, as to the other question, as to whether the railroads were economically and efficiently operated, what have the railroads done in the last two or three years? I am not going to quote a lot of figures and statistics. I won't do that, but I want to give you just two figures to think about. One is the decrease in operating expenses of the railroads in 1923 as against 1920, which amounted to \$932,500,000. (Applause) those figures are beyond any criticism. They are taken directly from the records of the Interstate Commerce commission and are not equated to indicate

what would have been saved for the increased tonnage handled. In other words, those savings were made, and at the same time there was an increase in tons of freight handled by the railroads of approximately 6%.

Now, you are particularly interested in what became of that money, I know. Shippers are generally, Mr. Thom indicated to you, and I am just simply repeating it because it was in my paper and I did not know he had it in his, and I wanted to give it to you, but in that same year that there was a decrease of \$932,500,000 the public received a direct benefit of \$657,000,000 of this amount through reductions in freight charges on traffic carried below the rates paid in 1921.

In other words, through economics and improved methods that have been put in effect since 1921, a period of two years and eight months, the eight months being in this year, there has been a saving to the public in reduced freight charges by reason of the lower level of freight rates of \$1,373,000,000, and that does not take into account the savings that occurred in the latter part of 1921 which would add a good many million dollars to that amount as the total saving to the public in reduced freight rates from the high peak of the early part of 1921.

I am not going into a lot of detail to show how this economy was accomplished. I could talk learnedly to you here about car loading, car movement, net ton miles and car ton miles and all that kind of thing, but I am not going to worry you with it. Some part of it was due to the lesser cost of materials. Some of it was due to lower rates for labor. But the great bulk of it was due to

improved methods of operation rendered possible by the large capital expenditures, plus the intelligent cooperation and working together of Federal and State regulatory bodies, shippers, employees and management, in tackling the problem not as a legislative one, but as a purely economic proposition, as it is, in the good, old American way, through the exercise of individual initiative, enthusiasm and cooperation. (Applause)

Mr. Doak talked to you about cooperation. That is the whole thing. I am with him 100%, and the railways are with him. You know this word “cooperation” is a much abused word. It had remained in the last year and a half for the railroads and the shippers of this country to provide one of the most outstanding indications that I know of the practical value of real cooperation, and I am referring to the work of what is known as Shippers’ Regional Advisory boards. That is an awful title for a Board to go by, but they got there just the same. (Laughter) Ten of these have been established in active operation and are functioning today in various sections of the country, working cooperatively with the railroads and the car service division. These Boards are composed entirely of shippers. Their function is to form a common meeting ground, just exactly what Mr. Doak talked about, between shippers, local railroads, and the carriers as a whole, as represented by the car service division for the for the better mutual understanding of local and general transportation requirements and to analyze transportation needs in each territory and to assist in expediting car requirements. In addition, their function is to bring to a settlement differences by conference, rather than by conflict. The result of this cooperation has been that complaints to regulatory bodies regarding car supply and service on the railroads have been

entirely eliminated. It is needless to say that that has been with the greatest of satisfaction to the railroads and the shippers, and also of the Interstate Commerce commission and the various State Commissions. This was, in my opinion, one of the most notable steps towards better understanding that has ever been taken in any industry.

What is the principal problem today in the minds of the public with regard to this situation? Are not, after all, these two questions the things that really count? One, can the railroads continue to provide adequate service to the people of this country the same as they have in the two past years? Two, can the railroads continue to add to their efficiency and the economy with which the railroad properties are operated?

It would be presumptuous of me to endeavor to answer that question, but speaking with the experience of, well, Mr. Elliott gave you the experience, it is 45 years, I say unhesitatingly to both these questions, the answer is “Yes,” (Applause) and I say it, having in mind the continual desire as expressed by the results of the Election last November, of the continued desire of the American people to insure a reasonable protection to investment in railroad property and to treat the subject as an economic one rather than a legislative one.

I wonder how many of us, when we go down to one of these great railroad terminals, whether it is here, Chicago, St. Louis or Kansas City or New Orleans, wherever you may go, and you see a great bulletin board up there in the station and you will see marked on it “Train No. 14 will

arrive on track No. 12 on time.” How many of us really realize just what is involved in just that little chalk mark on that bulletin board, and how much individual initiative, not in management alone, but individual initiative of employees and management working together, has brought about that result?

You know the labor on a railroad is unlike that of almost any other industry, in that it is working in small units, each independent, by itself, yet all working toward a common purpose, away from observation in many cases, trusted with responsibilities in the conduct of that particular part of the transportation machine which, if it fails, results in a breakdown of the machine. Yet, day after day, and night after night, under adverse conditions of weather and continually fighting with the elements they have produced what, I say without hesitation, is the most perfect transportation machine in the world.

The railroads make no claim to having attained perfection. They have no more right to do so than any other industry, but, for adequate service, honestly, efficiently and economically performed, and for a continual striving toward greater economy, they today are in a position where they at least stand abreast of, if not entirely leading, all other industries. I thank you. (Applause)

MR. ELLIOTT: I hope you will not go, because our last speaker has come all the way from the west of the Missouri River to address you, and he has an interesting message.

In 1870, ten years before the next speaker was born, there lived west of the Missouri River only 2,310,000 people, now nearly 22,000,000; there were 5,502 miles of railroad; now nearly 90,000; there were raised 92,000,000 bushels of corn, wheat, oats and barley, less than 6% of the total in the United States; in 1923, 1,773,000,000 bushels or nearly one third of all produced in the country.

There is an Empire between the Missouri River and the Pacific Ocean, with a virile people, a beautiful and productive country, fine cities, great universities, churches, hospitals, and all that makes for comfortable homes, good living and thinking. And the future of that empire will be even more wonderful than the past. This marvelous development could not have taken place without a combination of the vision and work of strong, able men and women and the building of Railroads.

Mr. Taylor was born in Nebraska and has lived all of his life west of the Missouri River, much of it in Lincoln, Nebraska, which is almost the geographical center of the United States, and, as the population of the west grows, approaching each year nearer to the center of population of the country. He has seen the impressive growth of that country.

He has been a newspaper man, a publicist, a State Railway Commissioner, and when he was invited to speak, he was President of the National Association of State Railway and Utility commissions, only retiring from that important office in November. He brings to you a personal

knowledge of the great West which is so important to the welfare of the whole country and particularly to the industrial East. He brings experience in the regulation of the railroads by the States, and of the relations between State and Federal regulation that is most valuable. We are most fortunate in having him speak to us and I have great pleasure in presenting to you Honorable H. G. Taylor, of Lincoln Nebraska, State Railway Commissioner of Nebraska. (Applause)

The Honorable H. G. Taylor

State Railway Commissioner of Nebraska

Mr. President and Members of the Economic Club: I discover that there are distinct disadvantages in being the last speaker upon a program of this character. Not the least of those disadvantages is that the preceding speakers have the opportunity of saying everything that the last speaker expected to say. When Mr. Doak was talking I was afraid you might think, when I proceeded with my remarks, that he and I had collaborated and that I had permitted him to may my speech, and then when Mr. Aishton began to talk he took the rest of what I was going to say, and I am left absolutely without a word of anything new, except, perhaps, as it may bear upon the question of regulation. So, as I proceed, I shall, for your benefit, and perhaps to your great peace of mind, eliminate the more obvious repetitions.

At times I am led to wonder whether we who are so familiar with the operation of our great system of transportation give proper credit for the place it has occupied in the unparalleled

social, commercial and political development of the United States. The passing of freight and passenger trains into and out of the communities in which we live has become so much a part of our daily existence that we little think of their importance in our national life. Like many of the achievements of the past hundred years familiarity has bred indifference. We are laggard in recognition of transportation's contribution to our country's progress, but speedy in condemnation of its failures.

The noted English writer, H.G. Wells, in a comparatively recent article expressed the opinion that without the railway systems "the United States – this vast continental nation – would have been altogether impossible." Without railways, he added, it would certainly have dropped to pieces before now. This union, for which the forefathers had such high hopes and for which they planned with such remarkable foresight is today a living reality, notwithstanding it has expanded in area and population beyond the wildest dreams of its founders. Covering the sweep of a vast continent, and made up of 48 governmental subdivisions, we remain one nation, undivided and inseparable, speaking, thinking and acting harmoniously. The railroads, keeping pace with the advancement of the frontiers, have made the hundred and twelve million people of America neighbors, friends and citizens. Without them it would be easier to administer California from Peking than from Washington.

For 200 years civilization was confined to a small section on the Atlantic seaboard. Travel was limited. Men and women lived and died within the confines of a county. Of necessity they were

self-sufficient. Life had to be exceedingly simple. Even in the days following the American Revolution the forefathers found their greatest problem in reconciling the jealousies and petty rivalries arising out of the provincialism of the colonies. When the Constitution was finally adopted there was less of real national unity among the 13 States which adopted it than there is among the 48 today, extending as they do from the Atlantic to the Pacific, and the Great Lakes to the Gulf of Mexico. Commencing with the first railroad in 1828, however, the expansion of this country was unparalleled in the history of the world. It was a period of construction. New lines were projected in all directions but kept constantly reaching westward. The conquest of a continent had really commenced. The building of an empire had begun. Defiant nature was about to be subdued. At that time it was not a question of who should build and own the railroads. The burning question of the day was how to get the railroads. Rich rewards were held out to citizens to tempt their daring. It is a romantic page in the history of our country. At the rate of approximately 1,000 miles per year the building progressed until, with the opening of the Civil War, about 30,000 miles had been completed. Following the interruption of that War, the development was resumed and became almost feverish in its intensity. Today America boasts 265,000 miles of main track mileage and 400,000 miles of all tracks.

From the construction period we passed to the second phase – that of promotion and abuse of power. The lavish rewards offered to railroad pioneers, and the freedom from restraint permitted, led inevitable to greed and selfishness and ushered in a traffic era. The popular enthusiasm was quickly turned to the advantage of the unscrupulous promoter. High financing and commercial

thimble-rigging was practiced on a magnificent scale. Great properties were wrecked to satisfy mad ambition. The vast power vested in the railroads soon began to be used for personal advantage. In the rivalries between great systems cities were built or throttled; politics was invaded and the very functions of government usurped. Ultimately it became a question as to whether the railroads were bigger than the government or the government bigger than the railroads. That question could be answered in only one way, and the struggle over its solution ushered in the third phase.

The enthusiasm of the sixties and seventies and the early eighties over the rapid expansion of the railroads was turned to antagonism and bitterness by the abuses just described. Gradually there developed a demand, particularly in the Middle West, that finally became clamorous for Government restrictions. In the early nineties this demand culminated in legislative action by the States and by Congress. Regulatory laws were passed and regulatory commissions were set up. Just as the promoters took advantage of the fine enthusiasm for railroad building, the politicians have taken advantage of the clamor for punishment and remedial legislation. Legislatures and Congress have been steadily grinding out restrictive laws until today the railroads are obligated and handicapped beyond all reason. The pendulum of popular opinion has swung too far in the opposite direction.

Undoubtedly the clamor for punitive and regulatory legislation has gone too far. The initiative of railroad executives has been blanketed. The fine constructive efforts of the old days have been

thwarted and discouraged. Not only has the projection of new lines been almost completely stopped, but the development of modern facilities has been retarded. We are face to face with the problem as to how that initiative, so characteristic of American genius, can be given free play, without the attendant abuses that come from its unlicensed exercise. This suggests the necessity for creating and maintaining a fine balance between the desired initiative and adequate and satisfactory public service. It is gradually dawning upon the public and the railroad executives that there must be a more whole-hearted and effective cooperation. We have sounded the depths of opposite extremes and found them unsatisfactory.

We have pointed out the interdependence of the country and the railroads. To continue the hostile attitude between the public and the transportation systems and expect a happy and prosperous nation is as foolish as to expect a happy family to exist where there is a hatred between its members.

Regulation, stripped of the punitive element, is an intelligent effort to retain the advantages of individualism, or private ownership and operation, and at the same time prevent the excesses and abuses in which, unfortunately, we humans are prone to indulge. Like all other activities of human life, it must justify itself. It cannot continue inefficient and cumbersome and expect to hold a place in the social order. Notwithstanding its governmental aspects, it is subject to the same economic obligations as the industries over which it exercises supervision. It is a product of modern civilization.

But we need a re-baptism of common sense in this country. We need to learn over again the lesson that government is not a good fairy or a rich uncle. It is merely ourselves. It can do all we can do but no more. It performs no miracles, except those that are the product of our own efforts. There may be good government and bad government, but it is no better or worse than its citizens. Too much government usually means bad government, since it indicates that the citizen is shirking necessary duties and evading personal obligations. That is the reason for our bad government today. Like the pampered child of doting parents, we claim as our “right” the pleasures of life without the willingness to assume the inevitable obligations that go with them. In my opinion, government in all departments needs two things – simplification and decentralization. Applied to the regulation of our transportation systems of this country, these two essentials stand out predominantly.

Due to a tendency inherent in all governmental agencies, the multiplying of activities prompts a standardization of methods and administration. This facilitates the disposition of the mass of work thrust upon the regulatory body. A code of rules and precedents is established and their application turned over to a corps of subordinates. It follows that such rules must be uniform and rigid. It follows, also, that subordinates, lacking the discretion of their superiors, administer these rules literally, and being responsible only to their chiefs, and out of direct touch with the persons affected, make a fetish of uniformity to the serious impairment of substantial justice. This occurs in spite of the best intentions on the part of the officials responsible. It is one of the vices

inherent in all over-large organizations and particularly prevalent in government when it attempts too much.

If we are to persist in the present endeavor to regulate our railroads to the point of super-management then it would seem that some diffusion of the regulatory power must be accomplished if we would avoid a breakdown. I have a positive conviction that 265,000 miles of railway serving 112,000,000 people cannot be successfully managed or regulated from Washington. It is not a question of legislative machinery or administrative procedure, nor even the most perfect sort of co-ordination of the various tribunals. The simple fact is that the Government has attempted too much. It has become a trespasser in the field of management. It has invaded the province of a private business and substituted bureaucracy for individual initiative. This is not intended as any criticism of the members of the Interstate Commerce Commission. The men now composing the Commission have distinguished themselves for their grasp of the transportation problem and have been indefatigable in their efforts to meet the burdens thus imposed upon them. Any criticism of results is directed at the system and not to individuals. A faint conception of their monumental task is gleaned from the statement that in 1923 the Commission conducted 1, 183 hearings and took approximately 248,383 pages of testimony. If the eleven Commissioners had devoted themselves exclusively to the reading of testimony and had worked every day, including Sundays, they would have had to average 680 pages a day in order to have completed the task. Of course, they made no such attempt. In the three weeks ending February 2nd, this year, the Commission promulgated reports and orders in

130 formal docket cases and put out 26 reports proposed by its examiners. No court or administrative body endowed with quasi-judicial functions, it is believed, ever approached such production of decisions. These figures do not take into account the vast volume of administrative matters imposed by the act to regulate commerce. Among the more important of these are the valuation of railroads, the supervision of securities issues, the recovery of excess railway earnings and loans made therefrom to railroads, supervision of the Bureau of Accounts and Statistics, locomotive inspection and administration of the safety provisions, consolidation of railroads and telephone companies and a number of others. Upon direction of Congress the Commission has also conducted several extensive investigations. The resultant situation is tedious, expensive and unwieldy.

These are largely mechanical difficulties, however, and are by no means as important as the infirmity incident to the long distance administration of the law. That intimate touch with people and conditions, that personal knowledge of local affairs and that background of tradition and understanding so essential to full-handed justice are impossible. Railroad regulation, like everything else, needs the human touch. It cannot be reduced to the cold hard limits of a formula. Opinions of the Commission are today ground out on the production basis. It is not surprising; therefore, that many of them lack a full appreciation of local atmosphere, that they are inclined to distort local conditions so as to make them fit general requirements.

The national character of our railroads cannot be ignored. This fact has been much stressed. I agree that it is entitled to paramount consideration in any scheme of regulation. Local self-government in regulation, however, is equally essential. There should be a happy balance between the two. Establishment of broad policies of general application is the natural function of a national authority. Local interests, adverse to such policies, must of necessity give way. But railroad operation is a business of infinite detail. Action is rapid. Expedition is the ruling purpose. Remedies must be quickly applied by men familiar with all circumstances. Judgments, in most cases, should be made by those on the ground. Authority should be kept close to the fields of operation. In my opinion, the road to improvement does not lie in the direction of further experimentation with paternalistic theories. We have had too much of what has been called “papa and mama” government.

First of all, there should be eliminated from the law those provisions that interfere with essential managerial and executive functions.

Let me add, by way of explanation that in this suggestion I am not asking for immediate action. I think we would do well to follow Colonel Thom’s suggestion that experience is the best teacher, and when the patient is running a high fever and has just recovered from prostration, is no time to perform a major operation. The suggestions that I offer are those that intended to be made at a time when it can be done safely, when the popular mind is ready to accept the conclusion.

As an example, I refer to the power now possessed by the Commission to extend or withhold approval of extensions, new lines or abandonment of existing lines. The status of railroad development today is such that the free play of natural economic forces can be trusted to prevent unwise or improvident construction. Likewise, the section relating to consolidation should either be eliminated or so modified as to permit volunteer mergers. Compulsory consolidation is almost certain to be abortive, and at the least, cannot be otherwise than a disturbing element during the lengthy period it will be under consideration. The Commission should be relieved of the impossible task of insuring “honest, efficient and economical” management. These qualities of satisfactory service and successful operation are not the products of inquisition or mandatory orders. They come from the development of initiative and the stimulation of an esprit de corps in the organization. While it was discussing a somewhat different phase of the question, the comment of the United States Supreme Court in the Southwestern Bell Telephone Company case expresses the correct philosophy; “It must never be forgotten that while the State may regulate, with a view to enforcing reasonable rates and charges, it is not the owner of the property of public utility companies, and it is not clothed with the general power of management incident to ownership.”

With these features of over-regulation eliminated further effort should be made to simplify the plan of regulation. Entirely aside from those matters involving conflict of jurisdiction there is a wide field for action by state commissions. The enormous mass of detail now handled by the Interstate Commerce Commission should be shifted closer to the point of origin. It has been

suggested that Federal Regional Commissions should be created to handle such matters.

Personally, I prefer some such plan as that suggested by Judge George W. Anderson of the Massachusetts Federal Bench, and a former member of the Interstate Commerce Commission, which he presented in an address to the National Association of Railroad and utilities Commissioners in 1920. As a substitute for a further extension of the Federal organization he would cloth State Commissions with Federal authority and provide for the necessary appeal to the Federal Commission. To those of you not familiar with his proposal I commend a reading of his address which is to be found in the report of the 1920 proceedings of that Association. Either that or some similar plan is essential of regulation of railroad rates and service is to continue a success. The development of this plan would relieve the Interstate Commerce Commission of a great mass of work and free it for a more intensive and searching study of transportation problems, reserving to it at the same time full power to maintain the national character of transportation. It would add only slightly to the work of the State Commission, since they are today employed with the regulation of State rates, and, through cooperation, have much to do with Interstate matters. It would follow, of course, that their work as advocates before the Interstate Commerce Commission would have to cease. Each tribunal could thus function in its appropriate field and if the spirit of cooperation continued to permeate the relations of the two jurisdictions the net result should be greater efficiency in regulation, with a corresponding improvement in the morale of the railroads themselves, through the restoration of their opportunity for initiative and independent action.

I have said there should be less of regulation rather than more. I believe that policy is fundamental to the future well-being of the railroads of this country, and when I refer to the well-being of the railroads I have in mind, of course, the well-being of the nation as a whole, because the two are inseparable. Beyond the restraint necessary to check abuses the Government should not venture. In this connection, and illustrating the point, it is significant that the outstanding accomplishment in the railroad field in the last two years has been without governmental aid or intervention. The two parties directly concerned, the shippers and the carriers, got together at last. The process of reconciliation is not yet complete, but the possibilities of a mutual understanding have been so splendidly demonstrated that the effort is certain to continue.

Perhaps before the members of this club it is not necessary to recite in much detail the incidents leading up to what I regard as one of the greatest achievements of the last half century. A brief reference, however, is essential to an understanding of what I have in mind. I am sure those who were active participants will pardon a repetition of what to them is familiar history.

In April, 1923, the executives of all the railroads in the United States met in this City for the purpose of planning a program for the ensuing year. Many of them felt they were facing disaster. The public was aroused over the poor service of the recent past and the executives realized that with another failure in 1923 further restrictive legislation was inevitable, with government ownership as an impending possibility. They took counsel of desperation. Plans for cooperative action, many times discussed, but never previously realized, were put into concrete form. Not

only did they set high standards for repair of motive power and freight care, they arranged for the most complete coordination of the national transportation machine. In the succeeding months they put their plan into effect. It was a magnificent program, remarkable for its scope, and, in the light of the obstacles to be overcome, almost audacious in its assumption of success. There must have been railroad Jeremiahs who were skeptical of the outcome and who, no doubt, voiced their misgivings within the councils of their organizations. I know there were shippers and even State Commissioners who had their doubts. But I am happy to say the great undertaking was successful. The last of necessity is a great stimulus. Like the turtle that climbed a tree when the crocodile pursued it – they did it because they had to. Somehow and somewhere the money was found with which to buy the needed locomotives and cars and to repair the old ones; somehow old rivalries and jealousies were submerged in the fine effort to make many railroads function as one system; somehow there was re-awakened an esprit de corps in 1,600,000 employees. Within 30 days the improvement became manifest and within 90 days it was in full swing. It was an achievement to challenge admiration, a typical American accomplishment.

But the credit is not all to the railroads. It would have been far less a success without the splendid cooperation of the shippers. At about the time the executives were holding their council of war, or perhaps a little before, certain shippers' organizations in the northwest set on foot an inquiry as to the causes of the impaired railroad service, and developed proposals for relief. After numerous conferences among themselves and with representatives of individual railroads and the American Railway Association, there emerged an organization which was called the Northwest

Shippers Regional Advisory Board. This was followed shortly by the Trans-Missouri-Kansas Board, the Central Western Board and two or three others. Evidently shippers throughout the United States were awaiting these boards, because the movement took form quickly and today there are ten such organizations serving every section of the country. Membership in the boards which is limited exclusively to shippers is composed of the representatives of commodities moving in the territory. Their major purpose may be described as follows: To form a common meeting ground between shippers, local railroads and the carriers as a whole, for the better mutual understanding of local and general transportation requirements, and to analyze transportation needs in each territory, and to assist in anticipating car requirements.

Perhaps it would be better to say that it is a sincere effort to substitute a peace basis for a war basis in the relations of the public and the railroads. Thus far the effort has been signally successful. Indeed, the results have been little short of amazing. Within a year the warlike attitude of both parties were transformed. Hostilities have been suspended, and the parties are dealing with each other in good temper. The success of the plan has exceeded the expectations of its sponsors. The harmony and good feeling generated has been a remarkable demonstration of the fact that friction and conflict cease when men with a common purpose and mutual interests turn to the simple code of fair play that has been the only law between gentlemen from time immemorial. To some this exhibition of psychology may seem commonplace and unimportant. To me it is an ever-recurring miracle, equaled only by the fact that we forget it tremendous possibilities as fast as we see them demonstrated before our eyes.

The operation of these boards has, of course, not been without its difficulties. Much of skepticism and prejudice had to be overcome. Shippers with long standing grievances against the railroads were slow in the beginning to accept the movement as sincere. In the frank interchange of information and opinions in the joint meetings with the railroad representatives, however, their suspicions have been disarmed and in most instances they have become enthusiastic supporters of the plan. On the other hand many railroad men have been reluctant to endorse it. Some saw in it a possible interference with their own prerogatives. Others were fearful that it would prove but another piece of regulatory machinery that would interfere with rather than improve the operation of the roads. Still others resent the suggestion that shippers should be permitted to invade the province of management. They have sat about the council table, however, witnessed the reawakened fairness of the shipper, caught a viewpoint of his problems that they never had before and a new conception of their obligations to the public which had never previously dawned upon them. The feeling of harmony and good-will has been contagious.

Mr. Aishton has told you the remarkable results that were accomplished by this cooperation among the railroads themselves, among the railroads and the employees, and among the railroads and the shippers. I shall not repeat what he said, but it is an example of what men can do when they stand on their own feet and unflinchingly face their responsibilities.

And as I pointed out a moment ago, it is an achievement entirely independent of governmental assistance. It is an example of what men can do when they stand on their own feet and unflinchingly face their responsibilities. In such situations government retards rather than promotes success.

As the Regional Boards continue to function and mutual confidence between the parties is firmly established, greater results may be expected. The essential thing has been demonstrated. There is no inherent conflict of interest between the shippers and the railroads. Their problems are common. Direct contact and informal negotiation beget a wholesome understanding in which controversies dissolve and so-called problems disappear.

Mr. President, like all other citizens of this country, I am concerned with the successful operations of the railroad. The remarkable “come-back” of the carriers, which, of course, I have only been able to sketch, holds for me an intriguing interest. Not long ago I sought the explanation of it in the statistics compiled by the Car Service Section of the American Railway Association. Although I made comparison of car miles, locomotive miles, average car loadings, etc., the statistics revealed only a part of the secret, and the full answer had to be sought for elsewhere. There has been improvement in the physical machine, to be sure, but as I pursued the inquiry further I was constrained to the conclusion that it was the mobilization of the human element that made the thing a reality. Rails, cars, engineers, bridges, terminals are only inanimate agencies after all. Lacking the touch of the human hand and the direction of the mind of man

they are impotent and useless. The constructive genius of mankind cannot be captured and measured by statistics.

A great national task had to be done and men, hitherto hostile and antagonistic, suddenly found themselves working together to do it. Therein lay the secret of the achievement.

The Bank of the Manhattan Company of this City recently issued a little booklet entitled “The American Way” and the author thus explains what he means by the title:

“It can be summed up in two words – voluntary cooperation. This means that a free people have learned how to work together and to work successfully without surrendering the individual freedom of its members. It seems that the Government exists for the citizen, not the citizen for the Government; that an American is free to choose his own work and is protected in the enjoyment of the fruits of his labor. Our American civilization, based on the idea of voluntary cooperation through private initiative and enterprise, has advance steadily and successfully while other civilization, based on paternalism, dictation and other forms of enforced cooperation, are going backward or have come down in ruins.”

Perhaps some of you may feel that I have overstressed the value of cooperation, but I feel profoundly that the future of the United States will be determined quite largely by the capacity which its citizens develop for working together. America is a restless, ambitious multitude of

over one hundred million people scattered across the expanse of a great continent and living under widely divergent conditions. They cherish, however, common ideals and common aims. They are in a spiritual, as well as in a political, sense of united people. The challenge of the hour is that they shall still further perfect this unity, and at the same time accord to the individual the fullest possible opportunity for the development of his own powers. We are making progress. If we have patience and courage and if we keep the vision we will make surer an approach to that “one far off divine event toward which all creation moves.” (Applause)

MR. ELLIOTT: Gentlemen, one moment. For you, for the Executive Committee of your Club, and for myself I tender our heartfelt thanks to Mr. Thom, Mr. Doak, Mr. Aishton and Mr. Taylor for their interesting and illuminating addresses.

The meeting is adjourned.