

The Economic Club of New York

Howard Elliott

Transportation: It's Importance to the
World's Market

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Mr. President and Members of the Economic Club:--

As you observe from looking at the head table, there are a great many ex-presidents here, or what you may call, if you like it, “Ex-Its”: I thought as we ex-presidents were all “Ex-Its”, and as all of you have heard from us many times before, we would be excused from speaking. But Mr. Ely, our delightful, efficient and positive Secretary, told us that we must talk on this Twenty-first Anniversary of the Club, and that I must speak on “Transportation” and “Its Importance to the World’s Market”. He is subjecting the “Ex-Its” to some risks, which I can best describe by telling a story about a banquet in Lexington,-

The morning after the banquet a man rushed into the County Court House, in a great state of excitement, and asked where the Sheriff’s office was. He was directed to that office and upon entering said to the Sheriff that he wanted to give himself into his custody. The Sheriff asked, what was the matter. The man replied, “I shot an after-dinner speaker this morning.” The Sheriff, who had been at the banquet the night before, said, “You have come to the wrong office, you ought to go to the County Auditor’s office as that is where they pay the bonuses”!

However, within the short time allotted to me, I will try to talk on one or two points about “Transportation” and “Its Importance to the World’s Market”.

Service Rendered to the Public

The American railroad owner has created the most remarkable rail transportation machine in the world and today better service is being given than ever before, and at lower rates than in any other country and lower than at any time since the great war. In order to continue this fine service, the country must pursue a policy that will sustain the railroads.

In the complicated, comfortable and, in many cases, luxurious civilization enjoyed by our 118,000,000 people, there is produced and consumed a very large amount of transportation. The unit with which the railroads measure their freight service is a ton hauled one mile. In 1926, 468 billion tons of freight were hauled one mile, and slightly less in 1927. This means that more than 4,000 tons of freight were moved one miles each year for every man, woman and child in the United States; or about 11 tons of freight one miles per day per person.

You can more readily visualize this when I tell you it is equal to handling 2-1/2 tons of freight every day in the year for every person in the country from the Bowery to Central Park.

The enormous expenditure of energy must be continued if our country is to continue to grow and our people are to have the same standards of living as at the present time.

In addition to this great freight business, there is a very large amount of passenger train service, transporting passengers, mail, express and milk.

During 1926, this great volume of business was handled without car shortage, without congestion, with dispatch, and with regularity- a service which the American people should appreciate and be thankful for.

Population

We are almost in the year 1928 and in only 22 years from now, or in 1950, census people estimate the population will be 150,000,000 or 32,000,000 more than we now have. To feed, keep warm, house, clothe and furnish the comforts and pleasures that so large a proportion of our population enjoy, more than the people of any other nation in the world, a complete and adequate system of transportation is needed. Our population will increase 32,000,000 in only 22 years, and thoughtful men must look forward. If this added 32,000,000 people find it necessary to have the same amount of transportation as the present population, the railroad system must be prepared to furnish 128 billion more tons miles per annum, or near 25% more

than is now being produced and consumed. To do this it will be necessary to make constant and very large additions to the present plant and this will require a great deal of money.

How Is It to be Provided?

- A) By the Government? No, the nation after its experience with government control during the war turned away from government ownership, control and management, and I do not believe they are ready to go back to it.
- B) By Borrowing? Yes, to a certain extent this will always be done, but you cannot always manage a business successfully if you are constantly increasing your debts and there will come a limit some day to the borrowing capacity.
- C) By sale of stock or obtaining new partners? Yes, this is the wisest plan and the best plan if private ownership and management are to continue. To adopt this plan it is necessary, of course, to make the business attractive enough so that investors will seek to buy railroad stocks and become partners in the greatest transportation system of the world, and in this way furnish the funds to maintain, increase and improve the really remarkable railroad machine.

Regulation

There have been several period of phases of regulation of the railroads before the great war; regulation by both status and nation developed with very drastic, preventive, restrictive, and somewhat destructive tendencies—as if the people’s railroad system was something to be feared, chained and chastised, instead of something to be strengthened and made more useful.

Result of that Policy

The result of this attitude was the capital and the highest talent was not attracted by the railroad business to the extent that its magnitude required. For a few years before the Great War, the additions and betterments to some of the great railroad systems were not sufficient to meet the growing needs of the country; particularly was this true east of the Mississippi and north of the Ohio rivers. West of the Mississippi River and south of the Ohio, the facilities were adequate because they had been developed in advance of the population. The result was the when the war came, the burden upon the railroads was very great and there was congestion and difficulty in certain parts of the country.

Railroads War Board

War was declared April 6, 1917, and on April 11th, the railroads of the United States organized and put their affairs into the hands of a committee of five, consisting of Messrs. Fairfax Harrison of the Southern Railway, Samuel Rea of the Pennsylvania, Hale Holden of

the Burlington, Julius Kruttschnitt of the Southern Pacific, and Howard Elliott representing at that time the New England roads. The railroads gave this War Board full power to do anything and everything they could under the law to support the efforts of the Government in carrying on the War. That Committee sat from April 11th until December 31, 1917, and did work for which it was complimented by President Wilson.

An interesting incident in their work was this—there was a bad congestion around Pittsburgh and the War Board mobilized engines, regardless of ownership, and sent a committee of expert operating officers to Pittsburgh with order to use any road's engines, route freight in any direction regardless of the owners' requests. The next day the War Board received a letter from the Attorney General of the United States, calling attention to the fact that we were violating the Sherman Anti-Trust Law and taking us to task! We then suggestion to President Wilson that he put his own representative on the War Board and put the power of the President's office back of the Board, under which plan we thought the necessary results could be accomplished without the drastic plan that was being discussed at that time of seizing all of the railroads. We had a long interview with the President on this subject, but it seemed very clear from his conversation that he had made up his mind to take the roads, which he did by a proclamation late in December of 1917.

Government Operation

As you know, the Government had charge of the roads from January 1st, 1918, to February 28th, 1920. During the period, the world was in great crisis and things had to be done to win the war. As a result, wages were raised, costs of every kind mounted, revenues were raised somewhat, but not sufficient to meet the increase in wages, and when the railroads came back to their owners, a critical situation existed.

Transportation Act of 1920

The people decided after their experience with Government operation that they did not want Government operation or ownership, and the Congress passed a new law known as the Transportation Act of 1920. This law declared as a general principle that an adequate system of transportation must be maintained and that rates must be sufficient to pay a fair return on fair value, so that capital and brains would be attracted to the business and the rail system at all times be kept complete and adequate for the needs of the country. Based on the pledge that the law gave,—that regulation would be constructive and protective—there was put into the railroad business in the years 1920 to 1927, inclusive, nearly \$6,000,000,000 of new money,—which enormous sum created facilities which made possible the remarkable service now being given.

The Transportation Act declared that the general basis of rates should be produce a return as nearly as may be on the fair value of the property devoted to the public use to an amount to

be fixed by the Commerce Commission, and they fixed 5-3/4% a year. This return, however, has never been obtained by the railroads as a whole, and this year, in spite of all the really remarkable work done and the enormous added investment of the last eight years, the rate of return for the first nine months is at the rate of only 4.61% per annum for the roads as a whole, and only 3.89% for the roads west of the Mississippi River.

It must be remembered that 5-3/4% is the maximum, and all over that is taken over one-half by the Government and one-half placed in reserves not available for the owners for distribution. Also there is no provision for making up any deficits if the 5-3/4% is not earned, nor can a good year or years be offset against a poor year or years.

Spirit of Transportation Act

If the spirit and apparent intent of the Transportation Act when it was conceived and passed could be carried out in good faith, the investor would probably be attracted, and new money be forthcoming from partners or stockholders, instead of from bondholders or creditors, and what is equally important, the business would be made more attractive to the best brains and talent in the land, many of whom hesitate to go into a business that is so restricted and where initiative is checked.

There are, however, signs of a recurrence of the old feeling—that the great railroad system of the country is to be crowded down again—a national policy fraught with danger to the future, when the country has 150,000,000 people in 1950, and possibly 220,000,000 in 2000

Valuation

There is a strong tendency to make the valuations upon which the rate of return will be measured unfairly low, allowing little, if anything, for the increase in values of the properties due to the higher prices of everything now in use, and allowing very little for “good will”, “going concern value”, and “readiness to serve”, all being the results of half a century of earnest efforts, education and training of officers and men. These elements are given consideration in all other forms of industry and should be considered in arriving at the value of the railroads.

Rates

There are also increasing signs that when business is in distress from any cause, only one way to cure that distress is to reduce the freight charges on the commodities involved. The so-called Hoch-Smith resolution is one evidence of this, by which Congress directed the Interstate Commerce Commission to reduce rates on agricultural products to the lowest possible point consistent with maintaining an adequate rail service. The Commission have an

impossible task and have been working on it for some years. A more recent case is the California grape rate case, where rates on grapes from California were arbitrarily reduced because of an over-production of grapes.

Careful studies of the prices of many commodities and the rates charged there on show very clearly that the freight rate is a minor factor in the making of the price and that the prices on difference commodities vary widely even on the same day with identically the same freight rates charged.

The tendency, the moment the railroads show a little bit of prosperity, to reduce rates and to correct economic disturbances in other forms of business by taking away railroad revenue, is already frightening capital and if continued will certainly have the effect of checking initiative and the expansion of facilities which must be created each year to meet our growing population.

What Can We Do About It?

An intelligent body of men like this audience can give thought to the subject and try to influence and guide public opinion, so that the law-making, regulating, rate-making bodies will realize that if the country is to keep this great railroad machine up to the mark, and avoid

government ownership and management, there must be protection and compensation with reasonable regulation and without reasonable restriction.

Mr. Hoover has pointed out on several occasions that the loss to the country from car congestion, inadequate facilities and poor service runs into many millions—if not billion--of dollars in carrying on the people's business—far more damage than can be made up to the people by reducing the rates.

A 10% reduction in freight rates would stop dividends of most of the railroads in the United States and throw many of them into the hands of receivers. A 5% reduction would stop dividends on many railroads, throw some into the hands of the receivers, and check the needed additions and betterments to the property.

There is an old saying—"A merciful man is merciful to his beast", not because he loves the beast, but because he wants the beast to do good work; and another saying is, "The laborer is worth of his hero". Why? Because everyone wants a good contented workman.

More and more is the spirit of those two old saying being practiced in modern industrial life, and the people should take heed and impress upon their law-makers, regulators and rate-makers that the same consideration must be shown to our great railroad machine that is

shown to the “beast” and to the “laborer”; not because they love the railroad or the owners of railroad securities, but because they want and must have good service.

This great railroad machine, after all, is the primary and essential form of transportation without which the United States could not have developed and cannot continue to develop. Electric railways, waterways, motor transport, air transport are all important and will play a part in our economic development, but without adequate and successful steam rail transportation, we cannot take care of our internal commerce, nor can we expand and take care of our foreign commerce so as to take our rightful position in the World’s Markets.