

# A NATIONAL TRANSPORTATION PROBLEM

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ADDRESS

BY

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BEFORE

THE ASSOCIATED TRAFFIC CLUBS OF AMERICA

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PROBLEM

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Address by William H. Day, Manager Transportation Bureau, Boston Chamber of Commerce, before the Associated Traffic Clubs of America, at the Palmer House, Chicago, May 6, 1931.

The introductory remarks of the Toastmaster prompt me to preface my talk with the explanation that while I have the honor of being President of the National Industrial Traffic League, I appear here in a purely personal capacity. The worthy President of the Associated Traffic Clubs of America has expressed the hope that such remarks as I might make could be interpreted as the viewpoint of shippers at large. It will be readily recognized that this would be a most difficult task. However, I have discussed the matters I propose to touch upon with shippers' representatives in various sections of the country, and my remarks may be interpreted to express in a general way their views as I understand them.

The subject allocated to me for discussion indicates that, in the judgment of those arranging your convention program, there is a national transportation problem confronting us. Apparently the foundation for this thought is the "Declaration of Policy" adopted at the meeting of the Association of Railway Executives held at New York City on November 20 last, which has aroused national interest and merits most careful consideration by the public at large. It will be my purpose to deal largely with what I consider to be the most im-

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portant conclusions reached by the railroads in this report.

During the World War, when the transportation system of the United States was placed under Federal control, many railroads were in a deplorable condition both physically and financially, due primarily to steadily increasing operating expenses without corresponding increases in revenue. Throughout the war the railroads were intensively used. In the judgment of many, neither road beds nor equipment were maintained in a creditable way. Following the war and the return of troops and equipment, traffic fell off to an alarming extent. This condition caused both carriers and the public real concern, particularly from the standpoint of the future of our rail transportation system. There was some apprehension that many railroads could not function efficiently, if at all, under private management. Upon termination of Federal control, the railroads accepted this challenge and demonstrated in a convincing way their ability efficiently and and profitably to carry on. The comeback which the railroads staged is freely admitted to have been a most remarkable achievement, even considering that it was accomplished during one of the most prosperous decades this country ever experienced.

As recently as 1929, we found railroad officials wearing a contented smile, and why not? New records in earnings were constantly being made and traffic of every description was moving in such quantity that their real problem was satisfactorily to handle the tonnage offered. I speak from personal knowledge when I say that, during this period, it was most difficult to convince the rail carriers that changing business practices were rapidly forc-

ing the shippers to seek more efficient and economical transportation and that there was need for modernizing their plant if they desired to keep pace with the march of progress. Then came the depression; traffic fell off to an alarming extent; the railroads, in company with business in general, were forced to practice strict economy and go out and sell that which they had to offer. Then for the first time, apparently, many railroad officials learned that the sort of service they had to sell did not carry its former appeal and the reason therefor was decided to be that other transportation agencies, unfettered by regulation, were able to indulge in transportation practices which placed the railroads at an unfair disadvantage.

With this, as a premise, they sought a solution of their difficulty and apparently satisfied themselves that they had found it in the recommendations based upon their conclusions, some of which I shall touch upon, necessarily, briefly.

The Executives, in their "Declaration of Policy" present a tabulation showing that, for the year 1921, their average receipts per ton mile reached a high point of 1.275c and, during the succeeding years, gradually declined, reaching a low point of 1.076c in 1929, a reduction of 15.6%.

This tabulation also shows, for the same nine-year period, the difference in dollars and cents between the freight revenue actually received and that which would have been received, provided the traffic that moved produced the 1921 average ton mile earning. If this comparison is intended to convey the impression that the revenues of the rail carriers suffered a reduction, it is misleading, because for the years 1922 to 1929 inclusive, the aver-

age annual increase in freight revenue over 1921 amounted to 16.33% on Class I railroads.

The rail carriers frankly admit that the average receipts per ton mile represent many factors and, consequently, cannot be taken as a precise guide to rate reductions. With this conclusion I am in entire accord, but I disagree absolutely with their assertion that average ton mile earnings are conclusive as showing the trend. No proof has been offered to show that during the years 1922 to 1929 carriers' gross or net revenues would have been increased under the rate structure of 1921, which was inflated by the horizontal increase of August, 1920. When this increase took effect it was generally conceded by all parties of interest that many readjustments would be necessary to preserve long-established relationships and, further, that the rate level prescribed would not under normal conditions move the traffic.

The downward tendency of average ton mile earnings, as evidenced by the carrier tabulation referred to, demonstrates the soundness of this contention. In other words, if the 1921 rate structure had remained intact throughout the past decade, instead of being cut here and there, as found necessary, I venture the opinion that the carriers would have suffered a substantial loss in revenue rather than the further gain they picture, because the traffic would not have moved to the extent that it did.

#### THE RATE SITUATION

The railroads allege that their failure, during the past decade, to earn the rate of return on their property investment permitted by law is traceable in part to reductions in freight rates, which it is stated

began in 1921 and have continued up to date. I submit that such reductions as have been ordered by the Interstate Commerce Commission have been the result of exhaustive investigations and necessary to comply with the law. On the other hand, such reductions as the carriers have voluntarily made either to meet competition or to encourage the development of industrial enterprise must have been justified, in their judgment, or else they would not have been made.

It is suggested by the railroads that there be a respite from rate reductions and suspensions by regulatory bodies and legislative efforts that will adversely affect rates. If the first statement is intended to convey the thought that administrative agencies should ignore our national and state laws, which are formulated to protect the public interest I call attention to the fact that the assumption of such attitude upon the part of the regulatory bodies would clearly constitute a deliberate violation of their oath of office. As to the second statement most shippers have persistently opposed legislative rate making and can be depended upon to continue such policy.

#### **CAN FREIGHT RATES BE INCREASED?**

Considerable has been said of late by railroad officials to the effect that if traffic, which they enjoyed, is to be diverted to other transportation media, then, so long as the railroads continue under private ownership, the traffic which remains on the rails must contribute sufficient revenue to assure profitable operation.

If the inference to be drawn from such a statement is that rates might be further increased I sug-

gest in a most friendly spirit that, in view of the character and extent of the competition confronting the railroads, such action should be approached rather cautiously. High rates do not always produce high revenues. There is a point beyond which rates cannot go, and move the traffic in volume, and that is what means prosperity to the railroads. Already, the freight rates on many basic commodities moving in carload lots substantially exceed the value of the commodities themselves. An outstanding illustration is bituminous coal, the movement of which has fallen off to an extent that may well cause the railroads concern.

I believe that during recent years insufficient consideration has been given to the ability of business to absorb increases in freight rates and profitably carry on. This situation has unquestionably stimulated the development of more economical methods of transportation and in some instances has forced industries to establish branches adjacent to growing centers of population, thereby localizing distribution and to that extent depriving the railroads of revenue ton miles they once enjoyed.

#### WATER TRANSPORTATION

The railroads allege that a contributing influence toward their ills is the unregulated port to port water transportation and as a remedy they suggest the passage of legislation extending the jurisdiction of the Interstate Commerce Commission to cover such form of transportation. Previous efforts have been made to bring about this result but Congress has steadfastly declined to place the regulation of such transportation under the jurisdiction of the Interstate Commerce Commission. In my opinion

there is no real public demand for such legislation as the carriers propose, and many shippers believe that the inevitable result thereof would be unduly to inflate port to port rates to the detriment of the public at large. Joint rail and water rates are now under the jurisdiction of the Interstate Commerce Commission and whenever during recent years their reasonableness has been at issue, there appears to have been a tendency to give too much consideration to the establishment of such rates as would enable the all-rail routes to participate in the available traffic and too little consideration to the lower costs of water transportation, with the result that many shippers have been deprived of rate advantages that they previously enjoyed and, in some instances, have been actually barred from markets where they previously enjoyed a substantial business. If port to port rates are placed under the jurisdiction of the Interstate Commerce Commission many believe a similar result could be expected to the disadvantage of the public, because considerable of the traffic now moving by water never did move by rail and never could so move profitably under such rate structures as now prevail.

The railroads further propose that they be permitted to enter the field of water transportation wherever and whenever they want to, without the restrictive limitations imposed by the Panama Canal Act. While on the surface this proposal may appear to be a reasonable request, its propriety is questioned by some of those who are familiar with the questionable practices which led to the enactment of this legislation, as well as the disclosures resulting from investigations by the Interstate Commerce Commission into the practices of the railroads



in connection with their operation of steamships on the Great Lakes.

These experiences are still fresh in the minds of those who pay the freight and naturally cause them to view with concern any modification of the present law that might permit a return of the conditions previously encountered. It might be argued by the rail carriers that a return of the former conditions would be impossible under such regulation as they propose, but those of us who are opposed to the regulation of port to port rates cannot accept such an argument as justification for the carriers' proposal.

#### PIPE LINES

The railroads suggest "that pipe line common carriers be subjected to the same restrictions as to the transportation of commodities in which they are interested, directly or indirectly, as the railroads now are." Presumably, the railroads' justification for this proposal is their statement that pipe lines are a contributing factor toward their decline in traffic.

Prior to 1906 there was no prohibition against the railroads engaging in the production, transportation and sale of commodities, and some carriers, either directly or through agencies, actively engaged in such pursuits. Eventually, so many questionable practices developed, all of which are a matter of record, that, in the public interest, Congress so amended the Interstate Commerce Act as to make it unlawful for any railroad to transport any article or commodity other than timber or products thereof, when manufactured, mined, or produced by it, or in which it had an interest directly

or indirectly, except when intended for its own use in the conduct of its business as a common carrier.

In substance, this is the sort of regulation that the railroads would impose on common carrier pipe lines, although no evidence has been offered to show that such corrective measures are necessary and no public demand exists for such restraint as Congress found it necessary to impose on the railroads.

#### HIGHWAY TRANSPORTATION

I venture the opinion that during the past decade the upward trend in railway revenues tended to obscure the vision of railroad executives as to the importance of changes taking place in highway transportation through the building of good roads and the multiplication of motor vehicles on these roads. Available statistics indicate that in 1925 a highway transportation system had been created which exceeded the national railway system in extent as well as in investment. By 1930 it had grown until it consisted of 660,000 miles of surfaced highway or nearly three times the total railway mileage. In addition, there are 2,400,000 miles of secondary highways. It has been publicly stated, by those who should know, that there are 24,000,000 passenger carrying vehicles, 97% of which are engaged in private use for business or pleasure, and 3,400,000 trucks, of which more than 90% are private or non-common carriers. The investment in highways and highway vehicles is said to exceed \$35,000,000,000, while that in railways and equipment represents approximately \$25,000,000,000.

Unquestionably, the passenger miles of travel on the highways greatly exceeds the railroad average, but it has been stated by a prominent railroad

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executive that the highways handle less than one-tenth as many ton miles of freight as the railroads handle. Presumably, this ratio will increase appreciably as time goes on.

The "Declaration of Policy" adopted by the railway executives alleges that the truck is a contributing factor toward their decline in growth, as measured by average receipts per ton miles and as a remedy therefor it is suggested:

- (1) That there be adequate taxation of all motor vehicles using the highways for hire or profit, so that they might properly participate in the construction and maintenance cost of the highways;
- (2) That motor trucks should be subjected to regulation, and
- (3) That the railroads be permitted to enter the field of truck transportation on an equal footing with independent operators.

Frankly, I do not feel qualified to pass judgment on the inference of the railroads that motor vehicles using the highways for profit are inadequately taxed, but I am able to inform you what, according to reliable sources, such vehicles are paying, and you can draw your own conclusions.

Special taxes on motor vehicles, as a whole, increased 500% between 1921 and 1929. In the latter year license fees and gas taxes jointly produced \$779,155,062. To obtain a clear picture of the situation there should be added to this total personal property and municipal taxes, which it is estimated will exceed \$100,000,000. I am informed reliably, I believe, that in 1929 trucks and busses, which constitute 13% of the vehicles, paid approximately

27% of all motor vehicle taxes. The average tax per private passenger car was \$25.52. The average tax for a privately operated 3 ton truck was \$161.00, or 6 times the average passenger car tax. The average for a common carrier 3 ton truck was \$458.00, or 18 times the private passenger car. The average for a common carrier bus was \$575.00, or 22 times the private passenger car.

In answer to those who picture the government as making tremendous expenditures for highway construction and maintenance from general taxation I would state that while Federal aid to the various States has, so far, amounted to \$819,452,000, this has been more than compensated for by the excise tax on motor vehicles, which has amounted to more than \$1,120,000,000. It has been publicly stated on several occasions by those who should know that in 1929 the various States expended for highway construction and maintenance approximately \$799,000,000, or approximately \$20,000,000 more than was collected in State motor vehicle taxes.

While there are over two and one-half million miles of county and township roads that act as feeders to the main highways and to the railroads, which are largely paid for by property taxes, generally speaking, competitive highway traffic moves largely over so-called State highways.

Coming now to regulation: Transportation service of the type enjoyed during recent years has brought buyers so many transportation days nearer the seller that they have been able to effect drastic changes in business practices, typical of which are smaller inventories, hand to mouth buying, and shopping around for merchandise needed, with

transportation service and rates often the determining factor where orders will be placed, other things being equal. These changes have tended to stimulate competition between individuals and localities for control of consuming markets and have forced shippers to adopt the most efficient and economical method of transportation procurable.

Unquestionably, the motor truck with its ability to go anywhere, any time, with anything, expeditiously and economically, has substantially contributed toward this end. It has become an essential part of our business life and I believe it would be a step backward to surround it with legislative restrictions that will unnecessarily retard its usefulness.

For years the railroads were permitted to expand and develop unfettered by regulations. In 1887, as the outgrowth of abuses the Interstate Commerce Act was passed by Congress; its purpose was to protect the public interest. From time to time this Act has been amended to meet changing conditions. Apparently, the rail carriers would now impose similar regulations on the motor truck, irrespective of the public demand therefor, or the possible effect thereof upon such form of transportation. I am unwilling to concede that such a step is desirable or necessary at this time.

Safety and convenience of the vehicular and pedestrian movement on the highways has already made it necessary for the various states to impose certain limitations upon motor vehicles. Some states have seen fit to impose regulations on common carrier trucks engaged in intrastate transportation. Presumably, this practice will grow and eventually I believe both the intra and interstate operations of

common carrier motor trucks will be regulated, but when it comes it should be in response to a public demand for the correction of demonstrated abuses, as in the case of railroad regulation and not for the purpose of better enabling some other transportation agency to command the field.

I realize that the motor truck is rapidly growing in popularity with the carload shipper, as well as the less-carload shipper, to the detriment of the railroads. I also appreciate the influences that have contributed toward this change and I repeat here what I have several times said to railroad officials that if, as is apparent, the trucks afford a more economical and efficient service than they are able to give, they owe it to themselves, as sellers of transportation, as well as to the public that they serve, actively to engage in the trucking business. In my opinion this field is as open to the railroads as it is to any one else. They can create subsidiary companies and compete with the independents on a basis of absolute equality. Some railroads have already seen the light and frankly admit they have found the experiment very profitable.

A short time ago it was my privilege to read Chauncy M. Depew's "Memories of Eighty Years," which brings to light that when Alexander Graham Bell invented the telephone he met most determined opposition, particularly from the Western Union Telegraph Company, which felt that the telephone would deprive it of business. It is alleged that every possible obstacle was placed in the way of the development of this invention but the telephone represented progress and the public refused to be deprived of the benefits it offered.

Looking back we can all see that the fears of the Western Union were groundless, because they, like the Bell Telephone, have survived, expanded and prospered. If the Western Union in the early days had viewed the telephone as it was destined to in later years, namely, as an auxiliary which placed the Western Union in the average person's home, I venture the opinion that its interests as well as those of the public at large, would have been better served.

As I see it, those who are disposed to manifest a hostile attitude toward the motor truck may well profit from this experience. The motor truck has effectively demonstrated its ability to contribute in a substantial way toward the efficient and economical distribution of materials and supplies. It represents progress in the field of transportation. Its enemies may retard its development and, consequently, temporarily restrict its usefulness, but no one can indefinitely stay the hand of progress.

#### GOVERNMENT SUBSIDY

It has been suggested by the railway executives that the Government of the United States refrain from aiding forms of transportation that compete with the railroads. Some interpret this language to imply that the railroads should be in a preferred class. However that may be, let us consider what has been done along the lines complained of.

The old Post Roads are a reminder of what was done to aid the stage coach. The canal boat would not have become the transportation factor it was in the early days without governmental encouragement. The construction of modern canals by the Federal Government and both Federal and State aid

in making navigable inland waterways, as well as in dredging harbors on the seacoast for deep draft vessels, are indicative of the aid furnished to water transportation. The Government pioneered in the construction of modern highways as an aid toward the development of motor vehicle transportation.

Now, what about the railroads: Millions of acres of land were contributed to them in their pioneer days by the United States Government and, in addition, both land and money in substantial amount were contributed by State and municipal governments. As indicative of how substantial some of these contributions were, I want to quote briefly from an advertisement of the Northern Pacific Railroad, which appeared in the June, 1871, edition of "Manufacturers and Builders," a magazine published in New York City:

"The average land grant for the whole length of the road and branch is over 23,000 acres per mile, and the total exceeds 50,000,000 acres. Governor Stevens, who repeatedly passed over the route, estimates that over four-fifths of the Northern Pacific grant is good for cultivation or grazing, while much of the remainder is in the mountain belt, and is covered with valuable timber, or filled with precious metals. With the road built through the midst of these lands, what is their money value? At the rate of only \$2.50 per acre, government price, these lands will build and equip the road, leaving it free of debt, and place a surplus of \$25,000,000 in the Company's treasury."

While on this subject, it is interesting to note that Secretary of War, Patrick J. Hurley, speaking before the Mississippi Valley Association at St. Louis, November 24, 1930, is reported to have said while discussing land grants,—“As a matter of fact, our railroads would never have survived without such assistance. More than any other form of transportation they leaned on the kind shoulder of a friendly government and a far-sighted people.”



Federal, State and Municipal, to encourage, in a substantial way, the development of transportation facilities, and I seriously doubt if the public could be convinced that such contributions were not in the public interest or that the time has arrived when such aid is unwarranted.

#### CO-ORDINATED RAIL AND TRUCK SERVICE

One of the problems confronting the railroads is their terminal costs of handling less carload freight. It has long been contended by railroad officials that such traffic is unprofitable and I assume this situation has been aggravated by general business conditions and competitive forms of transportation. In other words, certain facilities must be maintained and, as the volume of less carload traffic decreases, handling costs necessarily increase. If, as many railroad executives agree, any further increases of less carload freight rates will simply make a bad situation worse, it seems necessary for the railroads to turn to their present methods of handling such traffic for a solution of their problem and I suggest that they explore thoroughly the possibilities of co-ordinated rail and truck transportation, both from the standpoint of speeding up their service and cutting down their overhead.

One outstanding New England railroad has somewhat extensively substituted motor trucks for peddler trains between branch line stations and main line concentration points and, as a result has speeded up the service materially and at the same time effected an annual saving in operating costs amounting to approximately \$1,000,000.

As further indicative of what can be accomplished in this direction the New Haven and Pennsylvania Railroads have recently introduced a new fast freight service which assures a twelve hour run between Boston and Philadelphia and a fifteen hour run between Boston and Baltimore. Through the medium of a subsidiary trucking company the New Haven Railroad has made this expedited service available to shippers and receivers at more than 200 freight stations on its line which are not directly served by the train in question.

As an extreme illustration of the possibilities of such co-ordination, a shipper located in the interior thirty-five miles away from Boston is able to deliver merchandise at the local freight house any time during the forenoon, with assurance that it will be in Baltimore the following morning shortly after 7 o'clock. To maintain this service, a truck haul of thirty-five miles is necessary from origin point to Boston and a rail haul of four hundred and forty-five miles from Boston to Baltimore, including light-erage across New York harbor. While this service is still in its infancy, it is fast growing in popularity and clearly indicates what can be done.

Presumably, there are instances where the higher rate level prevailing on the railroads will prove to be an insurmountable obstacle in returning to the rails less carload traffic that formerly moved in that manner, but such co-ordination as I have outlined permits a quality of service that forcefully appeals to the shippers and is sure to bring back considerable traffic which had drifted to other transportation agencies.

If, perchance, some railroads are not disposed to enter the trucking business I suggest for their con-

pendent trucking companies. Such a plan would permit store door pickup and delivery service and, through substitution of the truck for rail service to and from main line concentration points, substantial economies might be effected and, at the same time, service would be materially improved. Presumably, Federal legislation would be necessary to bring about such arrangements, but this should not prove to be an insurmountable obstacle if all parties of interest wholeheartedly co-operate.

It is generally conceded that the various transportation agencies to which the railroads refer in their "Declaration of Policy" are contributing factors toward the decline in traffic growth which has taken place, but from the shippers' viewpoint this is a legitimate and economic development and the railroads admit that the public is entitled to the best transportation at the lowest reasonable rates. Recently Interstate Commerce Commissioner Eastman, in a letter to the Governor of Massachusetts, which has been given wide publicity said: "I think it is not unlikely that the railroads will find it necessary to introduce quite radical innovations in both service and rates, and to co-ordinate with and utilize these other agencies of transportation to some considerable extent. If the problem is to be worked out in the best way with a minimum of destructive competition and a maximum of improvement in the sum total of transportation and the charges therefor, public co-operation will be needed." I am in entire accord with this statement. There is no real public demand for the sort of legislation and regulation the railroads advocate, but there is a need for the co-ordination of existing transportation agencies and shippers can be

depended upon wholeheartedly to co-operate in bringing this about if and when the railroads are disposed to take the initiative.

Personally, I believe the possibilities of co-ordinating the new forms of transportation with the railroads offer a field for transportation expansion which should not only meet the needs of business in cutting costs, but should also be reflected in more stable and satisfactory returns upon the capital invested in all forms of transportation.

#### ECONOMIES

We all know that during the present depression the railroads have been obliged to practice strict economy and in a spirit of fairness I want to pay them the tribute of having performed a real job. However, I believe they can do more in some directions without discommoding the public and with profit to themselves. I have in mind particularly the unnecessary and wasteful passenger service maintained by rival railroads between certain large centers of population. As illustrative, it is not uncommon to see so-called de luxe trains operating into and out of Chicago daily with not more than a half dozen passengers in some cars. In my opinion the present assortment of service could be pared down considerably without causing real inconvenience to anyone.

Another situation worthy of attention is the so-called consolidated car service. While familiar with the rumors afloat as to the interest of some railroads in the consolidated car companies, I must confess that I have viewed with surprise the growth and popularity of such service. These transportation agencies seem able conveniently to establish themselves on railroad premises and then proceed to offer to the

public through the medium of consolidated cars, more attractive services and cheaper rates than the railroads themselves offer. To be sure under such an arrangement the railroads avoid the costs of handling, but they also shrink their revenues to the extent of the difference between the carload rate paid by the car companies and the less carload rate which the traffic would take if handled by them. If the car companies can profitably operate such service on the margin of difference between the carload and less carload rates, the railroads should be able to; otherwise there is something wrong. If, perchance, the answer is that existing regulations enable others profitably to do on the railroads that which they cannot lawfully do themselves, then in my opinion the time has arrived when the carriers and shippers should join hands in an effort to correct the situation.

Before I conclude, may I, in all earnestness, suggest that while the diagnosis of the railroads' ailments, as presented by their "Declaration of Policy" may be partly correct, I cannot agree with their prescription of a remedy. They prescribe certain "respites." As I have stated, it is my opinion that the application of these respites is impracticable. However, certain respites or abstinences can well be practiced by the patient himself, which I believe will go far to restore his health and vigor. I refer to respites from the fostering of legislation hostile to so-called competing forms of transportation and from the advocacy of changes in existing law. For the patient's diet let me urge that he indulge himself in a frank recognition of the fact that these so-called competing forms of transportation constitute agencies, which the trend of times requires and which meet the public demand.

After all, that is the paramount consideration. It is universally recognized that common carriage of goods and persons is clothed with a public interest. Over and above that there is a mutual selfish interest as between shipper and carrier. Their goal is the same. They both want the best transportation which it is possible to secure. That involves giving as well as taking, sacrifice as well as benefiting, in order that the desired end may be achieved.

I feel that I can with assurance offer the support of the shipping public in any manner not too inconsistent with their best interest.

