

The
Highway-Rail Controversy

An Answer to Railroad Propaganda

BY

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In addressing the sixth annual convention of the National Association of Motor Bus Operators, I feel that while there are many important problems affecting the passenger bus industry which I should like to discuss here in detail, the limited time at my disposal permits only a brief review of those that may be classified as outstanding, with some general conclusions on the present situation.

With that thought in mind I have selected for specific reference the following topics:

- I. Some aspects of railroad propaganda.
- II. Regulation.
- III. Taxes.
- IV. Subsidies.
- V. Unsound railroad operating policies.
- VI. General conclusions.

SOME ASPECTS OF RAILROAD PROPAGANDA

During the past year the passenger bus industry has struggled with many difficult problems, some inherent in the industry and many, apparently, brought on us by well-meaning but misguided people outside of the industry. Nevertheless, in meeting the changing conditions of today, I feel that we have one thing in our favor and that is, the fresh viewpoint of the pioneer possessed by most of the executives of our industry. This has enabled them to take prompt cognizance of changes and to proceed with rapid and progressive steps in adjusting the industry to varying conditions insofar as practicable.

Unlike other transportation agencies, however, we have had no great aggregation of outside interests, as holders of our securities, to wage our battle before the public. The press of the country has not featured to any great extent the answers we have made to the unfair attacks directed against us by prominent railroad executives and which have been featured as front page news. Our task has been to work and persistently fight for the right to exist, of which right we are threatened to be deprived by these same interests, upon the theory, apparently, that this methodical harrassment of the industry will result in its complete extinction and react to the general benefit of the rail lines.

* From an address delivered at the Sixth Annual Meeting, National Association of Motor Bus Operators, Chicago, Illinois, September 29-30, 1932.

A cursory analysis of the numerous facts and figures relating to the decrease in rail passenger business is all that is required to understand that the mass of the propaganda being put out by the railroad interests in their attacks on our industry is without foundation and can not be substantiated. An example of this is to be found in the following excerpt from an editorial in the September 17, 1932, issue of *Railway Age*:

"The passenger earnings of the Class I railroads in 1920 were \$1,289,000,000 and in 1929, also a year of prosperity, only \$874,000,000, a decline of \$415,000,000. Comparing two years of depression, they were \$1,154,000,000 in 1921 and only \$551,000,000 in 1931, a decline of \$603,000,000." * * *

Taking their own figures as a basis of analysis it may be readily seen that in the nine-year period (comparing two prosperous years) the annual passenger revenues of the railroads fell off only 32 per cent. In the same period, the automobile, acknowledged to be the chief competitor of all commercial passenger carriers, including the motor bus, increased its registration 187 per cent. In other words, during this period, approximately 43,173,755 people (computations based on registration increase of 17,269,502 vehicles and an average of 2½ persons per car) dependent prior to 1920 upon commercial carriers for transportation, arranged to transport themselves. Considering this great increase in the capacity of our private transportation facilities, is it any wonder that the annual rail revenue declined 32 per cent.

A further brief reference to the same editorial should prove enlightening as an illustration of the utter inconsistency of our opponents' contention as to the competitive status of the passenger bus. Commenting on "air-conditioned trains versus automobiles," we read, "It (air-conditioning) promises to be a very important means of helping the railways in the future to meet the onslaughts of their most formidable competitor for passenger business, THE PRIVATE AUTOMOBILE."

In considering the loss to the railroads of a certain amount of passenger revenues during the 1920-1929 period, we should bear in mind what was taking place in our country in the way of development and growth.

Rail passenger losses to highway vehicles were certainly offset in those nine years by the gain in freight revenues due to the carriage of road construction material and automotive freight. The materials required in constructing thousands of miles of highways provided the railroads with millions of tons of freight, while the millions of automobiles manufactured, involving as they do a high percentage of the steel, lumber, glass and other materials produced in this country, brought in millions of dollars annually in freight revenues.

The carload traffic resulting from the transportation of raw material and the finished automotive product, as well as gasoline and oil, should clearly indicate to an impartial observer that the railroads are better off with the automotive industry as a freight revenue producer than they would be without it, notwithstanding the competition it has brought to them.

With the advent and progress of the depression there came about a marked decline in the production of raw materials and in the output of all manufactures. There likewise came about a cessation in the movement of individuals from place to place over the country. The natural result of the trend of these controlling economic factors was that all industrial enterprises and the railroads suffered together and in practically the same degree. Bus revenues declined as well as rail revenues.

In this connection, a fair indicator of the general decline in business is seen in the enormous loss in revenues of the electric railway industry. Representing as it does an investment of between five and six billion dollars, that industry has not been assured of any legislative action or public demand that the assets of its investors will be protected or preserved.

II

REGULATION

It has been repeatedly stated by public speakers and in the editorial columns of the press, in behalf of the railroads and their investors, that the bus industry is at present unregulated and that regulation should be provided in order to equalize the competitive situation between it and the railroads. This oft-repeated misstatement calls for a very positive challenge at this time.

In every state in the union except one, namely, Delaware, passenger bus operation is regulated as to its intrastate business.

Beginning with the year 1926, the passenger bus operators of this country have been ably represented before each Congress in an earnest and honest effort to obtain fair, equitable and just regulation of interstate bus operation. In the seventy-first Congress a bill regulating the operation of interstate buses was passed by the House of Representatives, and, upon reaching its final reading in the Senate, seemed sure of enactment. At this stage of its progress, however, through the adoption of a motion to recommit, the bill was killed.

Commenting on this action of the Senate, Senator Couzens stated from the floor of the Senate that this legislation had been killed through the influence of the railroad interests. To the best of my knowledge, this

statement went unchallenged and I think, therefore, it is safe to assume it was true.

The passenger bus interests of the United States, as represented by this Association, favor equitable and just regulation of interstate buses, providing, of course, such regulation is designed to protect the public interest.

Therefore we can not help but resent the insinuation that the absence of regulation is our fault or that no attempt has yet been made to provide regulation of interstate passenger carriers, when, as a matter of fact, for six long, weary years we have earnestly endeavored to obtain such regulation and have been prevented from getting it by railroad interference.

Quite an interesting sidelight on the subject of regulation appears in as Associate Press dispatch from Washington under date of September 24th, relative to the recommendations of a special committee of the Chamber of Commerce of the United States for less government regulation of the railroads. The following is quoted from the press release:

"The fact of the matter is that wise, economical and efficient management is not advanced but hindered by a rigid regulation.

"The wisest, most economical and efficient management with railroads as well as other business organizations, is where the responsibility for the operation and the earnings of a property rest upon the management, whose responsibility may not be shifted to some regulating commission."

III

TAXES

It has been charged that the bus industry pays no taxes for its use of the highways and that it is a subsidized, unfair competitor of the railroads.

I shall take up the question of taxes and subsidies separately, but necessarily they must be considered together so that we may have a clear conception of just what buses we are talking about.

It must be borne in mind that out of a total of 90,000 buses in operation on our highways, more than half of these are school buses, operated by or for public and private schools throughout the country. These buses have made possible the replacement of inadequate school facilities with high class consolidated schools and have thus added considerably to the educational and cultural advantages of the communities served.

It is not my purpose to deal with our educational system, but merely to point out the fact that in considering the number of buses operated on our highways approximately 50,000 have to be eliminated from the category of public carriers. This leaves roughly 45,000 buses in operation as common carriers, of which about 12,500 (having either supplemented or re-

placed electric rail operations) are in city and suburban service. Accordingly, we have for consideration, in round numbers, 32,500 common carrier buses in what might be termed intercity operation.

It seems impossible that this number of common carrier buses, representing such a small proportion of the 26,000,000 motor vehicles operated in the United States, could in any appreciable manner be responsible for the destruction of railroad revenues. I honestly feel that if all the inter-city buses in the United States were to disappear the resulting increase in traffic to the railroads wouldn't be noticeable.

By the same token, it does not seem possible that anyone could seriously advance the idea that an increase, no matter how large, in the taxes levied on these 32,500 buses would materially increase the tax revenues of the States. Therefore, we can only believe that any advocacy of increased taxes for motor buses is due to a desire to hamper motor bus operation more than it is to help state revenues or appreciably increase that part of the State income which is devoted to highway improvement.

The rate of increase in our tax burden from year to year is startling, and, unless some means are employed to bring clearly before the public and the legislators that these taxes are rapidly approaching confiscation, and, that rather than being further increased, they should be reduced in many cases and brought to a level that is fair and equitable, the main objective of our rail adversaries will be accomplished. Our costs of operation will then become such as to make it impossible for us to operate in any part of the country except between the great centers of population, thus depriving those of our citizens who have no other means of transportation of the convenience of this indispensable utility.

According to statistics compiled for the year 1931, the annual tax bill for the motor bus industry has now reached a total of \$36,825,000, of which over \$31,000,000 is charged in the form of special taxes and fees for highway use.

While this tax bill for the year 1932 will not be much increased by reason of any State legislative action, due to the few Legislatures in session this year, the fact that Congress in its efforts to balance the national budget found it necessary to reimpose excise taxes in somewhat the same form as they were imposed during the war means that our yearly tax payments have been increased by over \$8,000,000.

This reference to taxes is not intended as an answer to the charge of subsidy. Even with an average high tax per bus collected from our industry, the total amount of taxes in the aggregate is, of course, too small to meet the cost of providing the highways, over which we operate less than

1 per cent of the total number of cars and other vehicles. My only intention is to show that considering our highway use in rendering a necessary public service, we are paying a very high rental fee.

IV

SUBSIDIES

The question of subsidy is not one which can be raised with reference to any one particular class of highway users.

The highways have been provided at public expense and should be utilized to the fullest extent if the public is to get an adequate return on its investment. The question of whether or not the construction of highways for all classes of our people and the promotion of commerce involves subsidy cannot very well be answered here in the brief time at my disposal. It seems obvious, however, that unless there was a direct return to the public generally our voters would not, from year to year, so cheerfully acquiesce in large appropriations for highway improvement.

Our highway system links up many communities which are not served by rail transportation. These highways bring close together many communities which heretofore have been remote from each other due to inadequate railway facilities. This is true over a great part of our country. To individuals fortunate enough to own private automobiles these highways have opened up new avenues of travel, while to those not so fortunate, the opportunity for enjoyment of the same roads is best afforded by the passenger bus.

It seems to me that no one can reasonably question the fairness of giving to that part of the public which is without private conveyance the right to enjoy highway travel through the use of public passenger vehicles such as we operate over roads which belong to the people or the public.

No fairminded person can doubt the value of improved roads to the economic and cultural life of a country. Going back into history, the military value of improved roads has been demonstrated time and again. One of the greatest contributing factors to the dominance of the Roman empire in its time was its policy of constructing great highways for the free movement of commerce and the expeditious movement of military forces and equipment. These highways were constructed by the Romans hundreds of years before railroads were even thought of.

Even in our own day the value of these ancient highways was clearly demonstrated when in France, during the World War, it was necessary to make tremendous movements of men, stores and *material*, from place

to place to meet the emergencies of that great crisis. The wisdom and foresight of the Roman rulers in the construction of these highways was particularly evidenced in the defense of Paris, and, was even more impressive, when considered in relation to the traffic borne by that section of the road between Bar-Le-Duc and Verdun. This particular section of road, which is approximately one yard in thickness, withstood not only an almost unbelievable volume of traffic but a continuous shell-fire.

In the light of such experience, it is not likely that the military authorities of France or the French people as a whole would ever protest the construction or improvement of highways on the ground that they should not be built out of public funds but from taxes collected from some particular body of highway users.

A little thought will show that the charge of subsidy, as directed against highway construction or highway use, cannot stand the test of reasonable analysis. As a matter of fact, and, considering their own history, it is with rather bad grace that the railroads and their spokesmen dwell at all on the subject of subsidies.

The records of the national government, as well as those of State governments, can disclose enormous land grants and other contributions to the railroads of our country. Coming down to more recent years, we have the spectacle (following the return of the railroads to private operation after the war) of the taxpayers of the country paying to the railroads over \$1,100,000,000 as a rental fee for the use of rail facilities during the war emergency. Our Reconstruction Finance Corporation, with its loans up to date, presents a more modern picture of how the railroads can call for aid and get it when a crisis arises.

Because of its particular relevancy to our own situation, I would like to emphasize at this time the matter of the subsidy that the railroads are getting from their freight traffic to carry unprofitable and wasteful passenger service.

A study of 51 of the largest railroads of the country, that is, those having annual operating revenues above \$25,000,000, for the years 1930 and 1931, shows that 45 of the 51 carriers operated passenger service during the year 1931 at a deficit amounting to over \$113,000,000. During the year 1930, 40 of the 51 showed a deficit in their passenger service of over \$84,000,000. The total net deficit for all 51 carriers for 1931 was over \$70,000,000. Passenger revenues for these carriers in 1931 showed a decrease under the 1930 figures of \$222,000,000. The decrease in passenger revenues for all steam railroads in the country in 1931 from those of 1930 amounted to \$216,000,000.

It is obvious that the 45 carriers showing an aggregate deficit of \$113,000,000 must necessarily depend upon freight revenues to make up this loss. Therefore, if these and other large railroads are to continue, year after year, to show a deficit in their passenger operations in anything like the amounts shown for the year 1931, no one can deny that to meet their obligations and to remain solvent they must collect enough excess in freight revenues to cover the passenger deficit.

If the passenger service, as between railroads, were being operated on a reasonable basis and there was not so much duplication of schedules between competitive points, it would seem that the yearly passenger deficits could be cut very materially, if not eliminated entirely. During the past year or two, from our observation of the number of passengers using the more expensive trains, a cut in service or a pool arrangement between competitive rail carriers would seem not only desirable but absolutely necessary from a good management standpoint.

V

UN SOUND RAILROAD OPERATING POLICIES

Touching on the subject of doubtful management, I think it is in order to mention the rail policy of inaugurating freak rates for certain days on specific schedules between designated points.

While the cut rates as filed with the Interstate Commerce Commission and with the State Utility Commissions are in the majority of cases labeled "Special Excursion Rates," the effect, especially on round trip travel, has been to shake down the whole passenger rate structure to a much lower level than the standard of 3.6 cents per mile.

So many of these special rates have been filed as to make a perfect jumble of rail passenger tariffs, with no one exactly sure of what rate can be had for particular trips any two days in succession. Surely, such practices are not conducive to stability in transportation, nor are they fair to the public as a whole.

In the absence of any direction from a regulatory agency with the necessary authority to compel compliance, and, with an apparent lack of desire to voluntarily revamp passenger service so as to bring it in accord with the times, we can not escape the conclusion that the American public, through the proportion of freight rates it must absorb in the purchase of all its commodities, is unwillingly or unknowingly subsidizing rail passenger transportation.

This is a form of subsidy which can be considered just as direct an expense on the public as a tax levy, a portion of which might be expended for rail or other relief.

VI

GENERAL CONCLUSIONS

I have no intention of engaging in a lengthy discussion of the apparent faults or mistakes in railroad development and organization or the short-sightedness of present-day railroad management.

We know that the railroads are great and important institutions. We sympathize with the plight they are in at the present time, just as we sympathize with the plight of agriculture and with the plight of the steel industry, the automotive and allied industries and the coal industry. Other industries which, in the aggregate, have many times the number of employees used in railroad service, are today suffering and have been suffering from the general depression just as much or more so than the railroads.

An entirely separate problem and one with which our association has no direct connection is that of the railroads' loss in freight traffic to high-way trucks.

I feel, however, that it is proper to say that in the ordinary progress of the development of our country this new unit of transportation has come into being and is in many ways of great value to the railroads. To mention one direct benefit, it is my understanding that the railway express agency is one of the largest users of motor trucks in the United States.

All things considered, it would appear that the railroads would be infinitely better off if they would make an earnest and intensive effort to apply this new instrumentality of transportation to the solution of some of their own problems instead of holding it up as the evil responsible for most of their difficulties. This step has been taken by some of the more progressive railroads and with results that indicate success.

Without question the railroads are over-taxed and over-regulated and this condition constitutes one of their major problems. I want to add that the bus industry is also over-taxed and that our members should make a determined effort to bring this fact home to the public and to our legislative bodies.

The bus industry, as I said before, welcomes constructive regulation designed to be in the public interest. This Association, as representing the bus industry of this country is entirely in accord with the principles expressed in the recommendations of the special committee of the Chamber of Commerce of the United States heretofore referred to. Nevertheless, it is far from being logical, just or fair for an industry which is suffering from over-taxation, over-regulation, or any other economic ill, to strive to impose upon a competitive industry the ills with which it is itself beset.

This form of reasoning is comparable to the case of the Arkansas farmer whose hogs were drowned in a flood. He was very despondent over the situation until, upon meeting up with one of his neighbors, he learned that all of the hogs in the neighborhood had also been drowned, whereupon he remarked, "Well, I suppose things ain't so bad after all."

Such reasoning can lead only to economic disaster. It should be apparent that a legislative policy of penalizing one business to protect the earnings of another, regardless of well-meaning but misguided theories, is a trend towards chaos in our business and social life.

The destructive attitude of the railroads towards the bus industry over the past two years can not be viewed in other than a short-sighted and reactionary light. It seems to me that instead of continuing this campaign of annihilation, it would be better for all of us who are interested in transportation to engage collectively in an honest cooperative effort to solve the general transportation problem.

Warfare, whether because of business conditions or because of political expediency, has always been expensive, both to the contestants and to the public at large. At times of general business depression, such as these, to invite trouble on top of the difficulties which have come to all of us through the operations of natural economic laws is simply ruinous.

I should like, in concluding my remarks, to express the hope that it will be possible for representatives of this Association to meet with the railroad interests for a discussion of legislative policy so that a common ground may be established and thus avoid the destructive policies carried on in the past two years, and, what seems to be certain, a more bitter fight in the future.

I earnestly recommend that this thought be given serious consideration at this meeting to the end that some definite proposal may be evolved which will react to the benefit of all transportation agencies and to the public.

MR. WAKELEE: Before we pass the President's report I should like to make a motion that the Association have that report printed as a separate document, for distribution to members of the Association. I do not make that motion with any idea of hostility to the railroads. I feel that the final recommendations of our President offer the true way of getting at and settling these questions. I think it only fair to say that when the railroads took such action in Washington as resulted in the defeat of the bus bill which passed the House I do not believe they took that action because of objection to motor bus regulation but because of harmful amendments inserted in the bill. I want to say that in the neck of the woods where I come from we have done exactly what the President recommends. We have conferred with the railroads and have agreed on policies. We have

worked with the railroads and they with us and we have had no hostile legislation introduced in our State against the bus industry and I believe that if that policy were carried out in all of the States much trouble could be avoided.

MR. MARKEL: I second Senator Wakelee's motion.

MR. MAXWELL: I want to especially commend the closing remarks of the President's report.

MR. MARKEL: I seconded the motion of Mr. Wakelee because I thought it would be important for bus operators generally to have the information contained in the President's report. Since, however, Senator Wakelee gave as his reason for making the motion the fact that by doing so we might be committed to a policy about which I may not agree I want it understood that my purpose was merely to furnish the information. I think this convention will be presented with other facts in the course of today and tomorrow and it will be unwise in my opinion, without mature consideration, for this convention to adopt any motion to endorse a policy which, after further deliberation, might be deemed unwise. With respect to the activities of the railroads in forty-eight States I am unwilling to follow the conclusions of Senator Wakelee, although I am willing to concur in what he has to say with respect to national matters. I feel, therefore, that I would like to make my position clear. I think we ought to call a spade a spade. I think the operators ought to know what the facts are and then act in keeping with their best interests. It is a very excellent paper, Mr. Chairman.

MR. HILL: The motion was merely to have the address printed and circulated among the members of the Association. If there is no further discussion I shall now call for a vote on the motion.

Motion carried.

MR. HILL: The next order of business is the report of the Traffic Committee. Mr. Koller, Chairman of the Committee, is ill and Mr. Ristow of Cleveland will make this report. The report will consist of a series of recommendations which are so important I am wondering whether the meeting wouldn't prefer to take them up one at a time. What is the pleasure of the meeting as to taking these up one by one.

MR. SMITH: I think we should do that.

MR. HILL: The Chair will rule that that be done.

