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RAILROADS AND THEIR FUTURE IN THE AMERICAN ECONOMY

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CONTENTS

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GENERAL McKINLEY: Ladies and gentlemen, I take great pleasure today in introducing to you Mr. Robert R. Young, who is chairman of the Board of Directors of the Chesapeake and Ohio Railway Company. He will talk to us on "Railroads and Their Future in the American Economy."

I am particularly pleased to have Mr. Young with us today because, as I told him, he stands for advanced thinking in the railroad game as we like to think we do in military education. It is an extreme pleasure to present to you Mr. Young.

MR. YOUNG: Ladies, gentlemen, and General McKinley: I feel very much at home here today because the General greeted me by saying that one of the reasons he wanted me here today was that I am something of a Bolshevist and so is he. Perhaps in the present circumstances, instead of calling ourselves Bolshevists, we had better call ourselves rebels. But I felt doubly at home because he reminded me very much of our Commander in Chief as he looked ten years ago, when I first came into the railroad business in 1937 and bought the so-called Van Swearingen Empire.

The first official act I did was to receive, one hour later, a subpoena from the Truman Committee. I went down to Washington on the very day on which I signed the check, and continued under examination there for three or four days. Presently, Mr. Truman wanted to know what I was going to do with the financing of these railroads, and I very naively, like a young boy just out of Texas, knowing nothing about the big East, said I was going to open it up to competition--and I did, and I have been having trouble staying in the C&O ever since. So if I have made any progress in the railroad industry at all it is because of the leadership of our Commander-in-Chief as he inspired me with it on that occasion. Except for that leadership, I would not have been invited here today by General McKinley, but Mr. Faricy would probably have been invited here. So when Mr. Wallace or anybody else tells you the President is in league with Wall Street, he may use the Wall Streeters, but you may be sure he will not join them.

Transportation has been called the core of military strategy, and adequate transportation must also include speed and continuity. We have been so far involved in two wars where transportation played a part second only to the part played by the Army and Navy. World War I brought out distinct weaknesses in our transportation machine, the inadequate sidings, inadequate yards, inadequate signaling. There was a shortage of cars at that time, but that shortage of cars was primarily due to bad dispatching and the holding of munitions at ports for badly scheduled connections between the rails and the ships.

As you all know, we got through World War II fairly well so far as freight is concerned. There were a few bottlenecks and difficulties at terminals. The fault, if any, in World War II transportation was in the passenger field; we came very near having to ration passenger travel because of the shortage of passenger equipment. But by and large we got through those two wars awfully well. The railroads and those in Government connected with our transportation machine have heaped laurels on the railroads for their performance. But the great danger in that is that we will be led into complacency about our transportation machine, so I am here today to try to impress upon you that we cannot continue to be complacent about it.

There are two new factors that are being introduced into World War III, should it come. One is that we unquestionably this time are going to have the factor of destruction. We do not know how far that may reach, but we know that in World War I over 50 percent of our war traffic moved out of New York Harbor, which was a very bad concentration and a dangerous concentration. In World War II, 25 percent of it moved out of New York Harbor. When consideration is given to the fact that only one-half of one percent in World War II moved out of Boston in contrast with 25 percent out of New York Harbor, you get some idea of the lack of proper utilization of our port facilities.

If all the equipment in the New York area were suddenly made radioactive, you can see what a strain might be put on our railroad system. Or if several bombs were dropped on ten great centers of population simultaneously, either from inside or without the country, you can see what would happen to available equipment, to say nothing of the astronomical increase in the necessity of transportation service occasioned by suddenly taking 35 or 40 million people and making them homeless, foodless, and clotheless. So atomic energy may very well have weakened the American defense instead of strengthening it, because ten atomic bombs here might be the end of America, whereas with ten atomic bombs in Russia probably 90 percent of the people wouldn't even know they had been dropped. They are much more self-sustaining than we are .

Now let us take our present railroad situation and see how it meets the needs of peacetime. Let us forget wartime. I am not going to tell you what our present railroad situation is because the AAR would come out and give you their version of it. You have probably read their version of it, and what is that there are adequate transportation facilities today.

But here is what Kiplinger said in his last issue, "Don't be optimistic about real relief from the freight car shortage, even though glimmerings of hope have appeared from time to time in the press. The chief facts of the situation are these:

"A large part of our freight cars are pre-World War I."

I might say at that point that we were discussing the average age of our freight cars driving over in the motor today, and General McKinley said, "That is the first time I knew that freight cars are of the female sex." I said, "What do you mean?" He said, "Well, Mr. Wenneman here just said that the AAR, when it reports the age of its freight cars, does not report their age when they get to be over 25 years of age."

"A large part of our freight cars are pre-World War I. Railroads must continue to retire them rapidly.

"Car builders have just reached the point of making enough new cars to replace those scrapped every month.

"The shortage of cars is somewhere between 150,000 and 200,000. ....

"During 1947 between 15 and 20 percent of the goods they (shippers) wanted to move simply didn't move by rail because of the car shortage. What did move sometimes moved in curious ways: wheat in coal cars, high-class dressed lumber in open gondolas, and sewer pipe in cattle cars. But the shippers made the best of it and more. In 600 communities, car efficiency committees of shippers put pressure on anyone who delayed freight movements."

Now, that is in peacetime, and it shows how rapidly the standard of living in this country has advanced. In 1947, we moved more freight for peacetime than we did at the peak of the war.

Now, going back to the first prewar year and taking the difference between our freight car requirements in that year and the peak of World War II, we found that we needed 400,000 more cars in wartime than we did in peacetime. So now we are moving into World War III where we are also going to have the factor of destruction and the factor of displacement of civilian personnel, and we are starting out, not with a surplusage of 400,000 cars, as we had in 1940, but with a shortage of 150,000--and with a minimum wartime requirement of an additional 400,000.

Now, what do we have in our freight car inventory today? In 1925 we had 2,300,000 cars of all kinds. Now we have 1,700,000. So in approximately 25 years, when our population was going up 26 millions, our freight cars declined one-fourth, or 600,000 cars. It is true that some of these cars are bigger than those cars were, and it is true that they are being handled faster, but it is also true that they are much older. At that time those cars perhaps averaged 20 years of age; today they average at least 27 years of age. If you look back at any passing freight train you see some of them leaning over this way and some leaning that way, and if we had to increase the speed of those cars, we would radically increase the accident factor.

Now, in the passenger car field: In 1926 we had 48,000 passenger cars of all kinds; today we have 26,000. You know how congested travel is today on the railroads if you want to make a reservation in a sleeping car, particularly in a private room.

The Pullman cars in 1926 aggregated 8,000; today there are only 5,000. Of those 5,000 cars--they average over 25 years of age--1,200 are air conditioned by ice, 100 are not air conditioned at all, and, of course, many of our coaches are not air conditioned. So that is not a situation to be complacement about, either with respect to freight equipment or passenger equipment.

The motive power situation is adequate, but the tendency recently has been to replace our coal-burning locomotives with Diesels, and you all know what has happened to the oil situation. So there are things in the transportation system that are not healthy.

Why has the railroad equipment descended to this deplorable state of affairs? When it comes to the question of passenger equipment, I can say that it has been almost a policy of the American railroads to discourage passenger travel. There is a feeling among railroad men that passenger trains interfere with the movement of freight. They feel that they do not make any money out of it, and I think that most railroad operating men today would be very happy if they had no passenger trains at all. Now that may be all right from the money-making standpoint and from the standpoint of the convenience of the operating men, but we know that is a very dangerous state of affairs for our national defense.

Let us stop and look at our total transportation and see who has been rendering the service; who has been encouraged by the Government and who has been discouraged. In 1946 of all the ton miles carried, the railroads carried 68 percent; the trucks moved 7½ percent; the waterways, including the Great Lakes, moved 13 percent; the airways moved one-tenth of one percent; and the pipe lines moved 10 percent. In the passenger field, the railways moved 66 percent of all passengers; buses moved 25 percent; waterways, 2 percent; airways, 6 percent; and, of course, the pipe lines, one.

Now, first, the airways and the highways are dependent upon oil and they are dependent upon rubber; we know how dangerous those two things are to depend upon at the present time. The railroads are rendering this great service without asking any subsidy of any kind from the Government, as contrasted with the fact that the waterway subsidy runs up to the billions of dollars over the last few decades. The airways subsidy we estimated at around 3.5 billions in the last few years, and the highway subsidy may run anywhere from 10 to 20 billions over the last few decades, depending upon how we figure it.

The railroads, instead of being subsidized, have paid 14 billion dollars into the treasuries of the States and the National Government in taxes. So from that angle this arm of transportation, which is doing the most for the country, is not only asking nothing of the country but is contributing to it in taxes.

Let us see how that vital arm of transportation, which is second only to the Army and Navy, has been treated by the Interstate Commerce Commission, which was created by Congress to foster a sound transportation system. Let us see what they have been doing for the railways in the form of rates.

We find that in 1946, when the railroads rendered a bigger service to the Nation even than they did at the peak of the war, the railroads earned 2.3 percent on their net worth, which contrasts with nearly 9 percent which the electric power and gas industries were permitted to earn by regulatory authorities, and nearly 7 percent which the telephone companies were permitted to earn.

Now, that 2.3 percent wouldn't be so bad if it reflected but one year, but it reflects a habit on the part of the Commission. If you go back over the 17 years, back to 1930, you find that the average rate of return the Commission has allowed the railroads on the Commission's own valuation of the railroads is 2.7 percent. That is a starvation wage from any point of view. When you can afford 20 billion dollars for the Marshall Plan, and in a city like New York, when you can afford to pay out in a year of high prosperity, such as we had last year, in unemployment relief as much as all the real estate taxes on Manhattan Island, then it seems to me that you can afford a few pennies for those railroads to enable them to buy some freight and passenger equipment.

Let us take the two biggest railroad units in the industry and see what they were permitted to earn last year. The Pennsylvania earned six-tenths of one percent on its net worth and the New York Central earned about four-tenths of one percent on its net worth. Those two railroads probably represent 20 percent of our entire freight industry and probably 35 percent of our passenger industry. So when I now analyze the passenger equipment situation for you, please do not blame railroad managements too much, but put the responsibility over on the Interstate Commerce Commission.

As I said, we had 48,000 passenger cars in the country when our population was 26 million less than it is today. Today we have 26,000 passenger cars. Those passenger cars average more than the age that the Commission recognizes in its own tables. They say when a car gets to be over 25 years of age, it is completely depreciated and it ought to be in the scrap heap. Well, all of these 26,000 passenger cars average over 25 years of age.

It is nearly three years now since VJ-day. Let us see how rapidly under this fostering that the Commission has been giving the railroads the railroad managements have set out to replace this obsolete, rattly junk. We find that in the past year there have been ordered less than 150 passenger cars. Divide 150 into 26,000 and you find that it will take you something like 150 years at that rate to replace it, if you can get deliveries.

Well, now, that is an alarming situation, and the reason for that is this: We in the C&O placed an order some two or three years ago to replace every one of our cars on our main lines, our passenger cards, and within the last six months we have considered buying an additional fleet of cars to rent to these other railroads who we know are going to be begging for them. We went to the Pullman Company and explored the situation. They can't tell us yet when we are going to get delivery on those cars we ordered two or three years ago; and while we have sat there looking and waiting, the cost of those passenger cars has gone up from $80,000 a unit to what will probably be, so Mr. Bowman tells me, $170,000 a unit by the time we get them.

Now, $170,000 for a Pullman car is, to my mind, utterly ridiculous. That is about four times as much per pound as an automobile. Think how much more intricate an automobile is and how much greater value is built into an automobile per pound than is built into a Pullman car; and also taking into consideration that a passenger car in 1900 cost only $10,000 and now it costs $170,000, and that the fare a railroad gets from a passenger today is 2.5 cents a mile, while in 1900 when the car cost only one-seventeenth as much, you got a 3-cent fare. So that is why you got only 150 cars ordered in 1947, and you probably won't get anything ordered in 1948, because under my instructions Mr. Bowman decided not to order the additional cars. One hundred percent replacement for the C&O is enough. We don't intend to pay $170,000 apiece for cars to rent to other railroads.

Freight cars have gone down in price since 1946 because we called attention to the fact about a year and a half ago that a freight car consisted of 150 patented items, all of which were specified by the railroads. The manufacturer had to take what the engineers of each one of these railroads specified. One of these manufacturers of railway patented doors, ends, and sides died a few years ago; he left an estate of 30 million dollars, of which five million went to some 15 or 20 railroad presidents. But when the C&O got into the picture and called attention to these 150 patented items that were going into our freight cars, the Pullman Company got busy and delivered us some all-welded freight cars on which we specified absolutely nothing, for $3,600, when they were charging $4,000 for these patented cars.

I am happy to say that the Wall Street Journal of 16 January reports: "The new freight cars with the component parts, such as roofs and sides, formerly purchased from other manufacturers, are now being engineered and built by the company. Through this process, cars are easier and cheaper to manufacture and the company always is assured of enough parts to maintain maximum production. A car can be produced at a cost saving of about 10 percent. Since the end of 1946 prices per freight car have dropped from over $4,000 to around $3,600."

So while Pullman equipment on passenger cars was going up from $80,000 to $170,000 under the old-fasioned methods of catering to the whims and fancies of each individual railroad, your price of standard freight cars has gone down in spite of rising material and wage costs. That is just a sample of what can be done if the railroads just get together on modernization and standardization the way an automobile company goes about it instead of allowing this helter-skelter system of purchasing railway equipment to go on.

There was a time when we could be blasé about the waste of material and the fact that the Pullman cars and the locomotives kept getting so heavy that railroads had to keep building heavier bridges and structures to take care of the equipment. We in the C&O think the trend should go the other way. We are presently designing a light-weight passenger car which will weigh one-fourth as much per passenger as present passenger equipment. It will be three feet lower at the roof. It will be two and a half feet lower at the rails, due to the fact that all of this junk that goes under a passenger car--which incidentally is very expensive--is put up in the head-end car to service the whole train. The center of gravity will be a foot and a half lower than in the present cars. Since the car will be shorter coupled, it will be six inches wider. That six inches in bedrooms is important. That car can travel with the same safety at 150 miles per hour as present trains travel at 90 miles per hour. It will take only one quarter as much horse power to draw it at 90 miles per hour as present trains, and, since it is so much lighter and requires so much less motive power, it can go over grades and around curves that presently will have to be straightened or reduced to take care of presently existing trains.

We hope to have such a light-weight unit on the rails by 1949. We think it is going to completely revolutionize passenger travel in this country if the railroads and the Government want it revolutionized. Maybe they don't. I don't know. But we are going to give them the chance. That is important from the standpoint of materials if nothing else.

The C&O is doing exactly the same kind of research and development in the motor power field as it is doing in the passenger car field. We are developing a coal-burning gas turbine. That gas turbine will do everything that a Diesel will do and more. It will not burn oil; it will burn coal; it will go a thousand miles without refueling; it will weigh about one-half to one-third as much as a Diesel weighs. We think it is going to do the same thing to motive power that this light-weight train will do to passenger travel. This light-weight train will be very cheap to manufacture because it can be built on an assembly line like an automobile body or an airplane body, and it will not cost four times as much per pound as a complicated automobile.

Now, in the freight field, that light-weight train has the same possibilities for fast freight. Many of you may have read the C&O Rip Van Winkle ad which pointed out that all railroads west of the Mississippi today run on six-day schedules from the west coast to Chicago at the rate of 18 or 19 miles an hour, when before the war they operated on five-day schedules. We urged the railroads to resume these five-day schedules to relieve the box car shortage that was so critical last year. But no action was taken.

I think with this new light-weight car we can move freight, not at an average speed of 18 or 19 miles an hour, but we can move that freight at passenger train speeds, so that the passenger trains won't be interfering with freight movement or freight movement won't be interfering with passenger movement. They will all be synchronized.

I would like to see these long-range trucks taken off the highway and relegated to their proper function, which is as feeders to the railroads; to have one of these light-weight cars synchronized with the truck, so you would just take the truck body at Chicago and lift it off the packer's truck onto the light-weight, flatcar and move it down to Palm Beach, Florida, at the same speed that the Breakers Hotel gets its meat over the highway. That is important from the standpoint, not only of consumption of oil and rubber and the safety of people who use the highways, but it is important from the standpoint of manpower. It takes one hundred men to move by truck what it takes five men to move by rail. That gives you an index of how important it is to you in your manpower studies.

Now, when it comes to the physical plant, in 1916 we had 244,000 miles of railroad; today we have 227,000 miles. So as our population goes up, our rails go down. That again is a reflection of the rate situation.

You must wonder, I am sure, how this situation developed in the railroads, how this important adjunct of our national defense could have gotten into such a pitiable state of affairs. Let us review the history of railroads for just a few minutes.

In 1830, we had 140 miles of railroads, and even then the progressive Yankee was talking about the building of railroads to the Pacific Coast In 1853, the United States Army engineers had started on a survey to ascertain the most practical and economical route to the Pacific. By 1869, the Union Pacific had joined the East and the West. From 1869 to 1879 was the good old era of the railroad baron, when competition was unbridled and they fought with guns for passes through the mountains. Those were the days of Vanderbilt, Drew, Fisk, and Huntington. In 1879, the railroads had gotten a little too obstreperous and the Hepburn Committee of the House of Representatives investigated and discovered that the New York Central alone had indulged in 6,000 rebates to the oil, beef, and steel trusts. It was developed that A. P. Stewart, the founder of John Wanamaker, had established his fortune by getting all sorts of rebates on merchandise.

It was not until 1887 that the Interstate Commerce Commission was created by Congress for the purpose of fostering competition, prohibiting rebates, and giving everybody an equal rate. Well, that move by the Government was immediately countered by a move by J. P. Morgan, the elder, who wrote a letter to all railroad executives and invited them to a conference in his library. In that conference he reprimanded them severely for their competitive practices and told them that was very bad for business and bad for the security markets, and that they, the bankers, would have none of it. Even if the Government wanted competition, they did not. The railroad executives countered and said, "We have to agree against competition because you bankers are making it so tough for us by building these parallel lines." So Mr. Morgan said, "We will agree not to build parallel lines if you fellows will agree to put us on your executive committees." Well, that agreement was reached and that was the end of free competition as we knew it in the old free enterprise sense, and that was the beginning of government regulation on the one hand and banker usurpation on the other.

That was in 1889. Then in 1894, the Pennsylvania and New York Central got together in an agreement to protect each other as against all other railroads. Although we don't know that the agreement is still in effect, we think that perhaps the only change in it is that it probably includes the Union Pacific. That may be--I don't know--the answer to why we had such a hard time getting a hog through Chicago without changing cars. It may also be the reason that 50 percent of the freight in World War I went out of New York and none out of Boston, and in World War II, 25 percent went out of New York and a half of one percent out of Boston. I don't know. I think that is an unhealthy situation and I think free competition would clear it up. I think if the C&O were allowed to acquire the New York Central, as it has been endeavoring to do to further consolidation, we might improve the national defense position by taking some of that dangerous concentration away from New York City.

Then in about 1896, the railroads got together and formed something which was called "The Joint Traffic Association," consisting of 32 eastern roads. Almost at the same time, there was one called the "Missouri Traffic Association," which represented the roads west of the Mississippi, and by a coincidence there suddenly appeared a southern association. The purpose of those three associations was to agree on the solicitation and distribution of traffic. The Supreme Court outlawed that in 1898.

The railroad industry moved on, and in about 1906 the New Haven sold at $200 a share and the Milwaukee and St. Paul sold at $190 a share. That was the golden age of the railroads, but from then on they began to go downhill. The old ownership interests began to be squeezed out by that time and you had a combination of the government interest and the banker interest, neither one of them having a direct interest in earnings. They both had their own political considerations.

Now, you wonder what political consideration the Government had. Let us look at the rate proceedings which have recently occurred. We find that, although the cost of the railroads for labor and supplies and fuel between 1929 and the war years doubled, the first application the railroads made for a rate increase was in 1941. We find that while that rate increase was being debated by the Commission for five years--it was not finally concluded until 1946--there had been in the meantime two or three more wage increases. So they were still debating in 1946 wage and other cost conditions as they were in 1941.

Now, in those proceedings there were 1,500 and some odd interested parties who came in to oppose rate relief for these railroads, and included in those 1,500 parties were three agencies of Cabinet rank, the TVA, and 55 state agencies. The other 1,450 represented people like Sears, Roebuck and Co., who earn 50 percent return on their capital and whose chairman sits on the Illinois Central Board; and the bus industry, that earns 20 percent return on its capital--I beg your pardon, the buses didn't intervene against the railroads on the rate increase, but they earn 20 percent on their capital. The motor industry was there intervening against this two-thirds of one percent for the New York Central and the Pennsylvania, although they earn anywhere from 50, 60, 70, and 80 percent. I know; I used to work for them. Some of those divisions earned around a hundred percent on their capital. And yet a company like

Chrysler comes down and burns the midnight oil to keep the railroads from earning 2.3 percent, even though Chrysler is dependent on freight cars and passenger cars. I can't understand it. Maybe you gentlemen can.

Now, let us see what the railroads said about this kind of rate treatment. Mr. Faricy, in spite of the fact that the Pennsylvania and the New York Central earned nothing last year, the greatest year of service they ever gave, Mr. Faricy came down and patted the Commission on the back a few days ago with these words: "The Commission has shown itself realistically aware of the critical need of the railroads for additional revenue to meet increases in cost which have already taken place, and at the same time it has allowed itself ample time to complete its study of the voluminous records before it." That is what Mr. Faricy said, representing 130 railroads and 130 banker managements, who have no interest in the railroads and who, as I say, are more interested in the shipper's point of view than they are in the railroad's point of view, because directorates of the railroads are not made up of owners of railroad securities; they are made up of people who ship. You will find that Mr. Chrysler used to sit in the New York Central Board. Obviously, the president of the New York Central, with Mr. Chrysler there determining his salary, isn't going to be anxious for rate increases if Mr. Chrysler is opposed to them.

Here is what we think Mr. Faricy should have said about it. I am talking now about this five-year hearing of the railroads' petition. Remember now, costs have gone up to 100 percent, and freight and passenger rates are still less than they were in 1930, when the Commission is devoting 5½ years to the taking of testimony and the airlines came down here and got a rate increase in three days. In the light of the records in these ICC proceedings, it is a travesty; I should say it is almost criminal negligence. Here is what Mr. Faricy should have said: "The net result of the foregoing is that the Commission is presented with an impressive array of government agencies, including Federal officers of Cabinet rank, urging the commissioners to deny railroad rate increases because of alleged injurious effects of those increases on portions of the economy which the government agencies in question believe it to be their special duty to foster and protect. In none of these proceedings has any arm of the Federal Government urged before the Commission the paramount necessity of protecting national security nor shown from the public standpoint the close connection between adequate railroad revenue and the national security. If government agencies are going to continue to appear before the Commission, then their appearance should not be confined to agencies that represent only a part of the Government's interest. Other agencies that have just as great an interest should make their position known."

Under the National Security Act of 1947, the National Security Resources Board, of which the duty is to advise the President, is in effect the liaison between the National Military Establishment, which is also responsible to the President, and the industrial structure of the Nation, of which the mobilization and organization is one of the corner stones of the national security. In view of the above circumstances, it is suggested that it is not only proper but positively the duty of the National Security Resources Board to keep the Interstate Commerce Commission currently advised of the requirements which the national security imposes upon the railroads, and especially the need in the interest of national security of the revenue necessary to maintain a strong railroad system. On occasions when committees of Congress are considering transportation legislation, similar representation by the National Security Resources Board would be equally appropriate."

In addition to the rate problem, some agency of the Government should not only interest itself in--thank Goodness we have men like Mr. Forrestal, Mr. Harriman, and Mr. Truman, in office today, who are aware of the situation and are beginning to stir the Commission up--but it should also interest itself in such questions as railroad consolidation, because railroad consolidation is the surest way to bring up these standards of maintenance of these secondary routes.

Under this fostering of our national transportation system, which the Commission has done, we were able to make up the shortages in our railroad equipment during the 1920's, the new era, because we did raise about five billions of new capital to give you these sidings, and yards, and signals, but since 1930 under this starvation diet that the Commission has allowed the railroads there has been no new capital to come into the railroads to cover that. Where our transportation system is coming from, I do not know, unless something is done about rates.

The Commission likes to retreat into the defense that "This is all the traffic will bear." But Mr. Kiplinger says here that 20 percent of the people of the country did not move their freight last year--and the Commission says the rate is all the traffic will bear. Everybody else gets rates. Why don't the rails? Is it a part of a plan to reduce our railroads to the state of New York subways and make them a political football so that eventually people will be handled like cattle on the railroads, as they are handled in the subways and on the Long Island Railroad?

Now, on the question of consolidation, you can strengthen these secondary routes which we may have to depend upon if destruction does fall on any of our big city terminals. Right here in Washington, the terminal is typical of terminals throughout the Nation. They are trying to run 20-car trains in 18-car terminals. It just can't be done. It would take only ten million dollars to straighten out the Washington bottleneck and enable trains to move through there without delay. The last time I came to Washington there were six or seven passenger trains stalled over in Alexandria three and four and five hours late; that is, in peacetime. If they drop a bomb on Washington, we will need some secondary routes.

The Rutland Railroad in New England, under this Commission fostering of our railroad industry, is today selling, all its securities, for 14 percent of the roads quick-scrap value, putting no value whatsoever on structures or on the road bed. That is figured on taking up the rails. The spikes will pay for taking up the rails.

The Central of Georgia, which is performing a vital function down there, is selling for but 54 percent of its quick-scrap value. The Rock Island, one of our greatest and most modern transportation systems, the link between the great industrial East and the great industrial California, is selling for 75 percent of its quickly salable equipment, the scrap value of the rails if you take them up and sell them to Russia. This is when our railroads are rendering two or three times as much service as they were designed to render.

The Commission itself sold all these securities and put their stamp of approval on them, then said, "These securities are in the public interest." Two or three years later the Commission came along and wiped them out. So you have the same agency of the Government that has the power to sell these securities having the power to come along and wipe them out. It settles down to the point that either the Commission will have a complete change or you have a government agency of Cabinet rank to protect this great transportation system of ours.

One solution to keeping the rates down and satisfying the politicians' desire for an unhealthy rate system is to encourage consolidation. That is what the C&O is trying to do in the New York Central-C&O consolidation. The Commission has already turned us down, although it approved exactly the same kind of interlocking between the Pennsylvania and the Norfolk & Western, between the Lackawanna and the New York Central, between the Erie and the New Haven. They let the bankers do the very thing without hearings that they made a progressive group like the C&O undergo hearings to do; then they turned us down. So I am a great believer in the democracy of fair and equal treatment, and I think a Texan ought to be treated just as well as a banker.

GENERAL McKINLEY: I know we are going to have a lively question period here. I want to start it out by asking a question about your new squatty, light-weight, fast train. You said all that stuff that goes underneath will go in a car up front. Does that mean that individual braking will be done away with?

MR. YOUNG: Oh, no, the individual braking will be there. That means that the air conditioning, heat, water, and all that looks like junk, will be moved up front.

GENERAL McKINLEY: You still will have individual air brakes on each car?

MR. YOUNG: Yes. As a matter of fact, this train will stop at 90 miles an hour in two-thirds the distance that the present train will stop.

MR. BOWMAN: They have electrically controlled air brakes.

GENERAL McKINLEY: That sounds like a good train to me.

MR. YOUNG: The AAR won't like it, though.

QUESTION: I remember as long as 20 years ago hearing the same argument with reference to the different treatment accorded highways, airlines, pipe lines, and waterways by means of government subsidies that are being denied the railroads. Your argument sounds extremely logical. If the Government is going to subsidize other means of transportation, it ought to subsidize the railroads. Whose fault is it that the Government hasn't done that, if it is logical? Do you know? Why in the world hasn't it done something about this, assuming the Commission is honest and wants to do the proper thing?

MR. YOUNG: Well, all I can say is that there are no votes in it. If you have 1,500 people down there against rate increases, including three Cabinet offices and TVA, and you have railroad managers who are only half-heartedly in favor of rate increases--not even they are wholeheartedly in favor of them because they have the Chairman of Sears, Roebuck and Co., who wants low rates sitting on the Board--you will never get them. In other words, private enterprise can drift into a bureaucracy just as badly as the Wall Street bankers say government bureaucracy can. I am afraid that our railroads have drifted into that state of bureaucracy.

Let me say this: The Commission, which in 1887 was formed to preserve competition, just last week in its annual report to Congress urged the passage of the Bulwinkle Bill, which legalizes the end of competition in the railroads, and such things as the western railroads were caught doing, each agreeing not to install air conditioning. That is one of the dozens of things they agreed, in writing, to do, which the Department of Justice says is a violation of the antitrust laws. I am sure President Truman will veto this bill if it passes because I know how President Truman feels about competition. Yet the Commission is sponsoring that Bill.

In the same way the Commission opposed me on through service; they opposed me when I put in the Rip Van Winkle ad, trying to get those western railroads which travel on group schedules to go back to five-day schedules. The Commission took the side of the railroads, and the Commission today is urging Congress to remove competition in the railroad field. Once that is done, I get out. So far as I am concerned, the modernizing of the C&O and the improvement of our railroad system are hopeless if that bill ever passes, because there will be nothing I can do then. There is very little I can do now.

QUESTION: Mr. Young, in the light of what you have just said, do you think the railroads are in bad enough shape to be nationalized?

MR. YOUNG: No, sir, because I think that would be worse--if that can be possible. I think that the answer for the railroads is to break up the AAR, to make them subject to the antitrust laws, and I am sure that is what President Truman wants. Once that is done, once these railroad managements can feel free to put a new idea into effect, there will be improvement. There are 131 railroads in the AAR, and you ought to get at least 131 new ideas a year. One railroad president should be good for one new idea. But today I have actually had them tell me, "I will lose my job if I do anything progressive which the AAR opposes." That, I think, is a very unhealthy situation and one which the ICC should not foster.

QUESTION: Mr. Young, what is your view on the question of differentials in freight rates between the North and the South, that were apparently against the interests of the eastern bankers, that they are trying to put through.

MR. YOUNG: I think that is going to be a long step forward. There again I think if the AAR can be broken up and the Bulwinkle Bill defeated, we can make further progress in the direction of rates which will build up competition and disperse this highly concentrated setup which is so dangerous to our national defense.

QUESTION: Mr. Young, do you believe if you do get increased rates, it will be an inspiration for the brotherhoods to ask for increased wages and start a spiral?

MR. YOUNG: That is an interesting thing. Before the Commission finished the 1941 proceedings, there had been three wage increases, not only granted, but encouraged by government agencies. This last increase, which the Commission is still debating, while it is still pending, the railroad brotherhoods have come in and said they want six days pay for five days work. That is 30 percent, including overtime. So before we catch up with the five or six increases previously granted, they are talking about a new one.

QUESTION: Then you are against it.

MR. YOUNG: After all, if you want to give Sears, Roebuck 40 percent and General Motors 50 percent, and everybody else 30 or 40, rather than the New York Central's four-tenths of one percent and Pennsylvania's six-tenths of one percent, if you think that is good for national defense, let us have it. I am in favor of majority rule.

GENERAL McKINLEY: How much was it you said the Pennsylvania and the New York Central hauled of the total volume?

MR. YOUNG: I would say 18 to 20 percent on freight trains and 30 to 35 percent on passenger trains.

GENERAL McKINLEY: Carrying that big volume, if they only made four-tenths of one percent and six-tenths of one percent, then eliminating that part, what did the rest of them earn which will make it more than that?

MR. YOUNG: The whole industry for 17 years has averaged 2.7 percent.

GENERAL McKINLEY: But I say, taking their chunk out, what did the rest of them earn?

MR. YOUNG: The Pennsylvania and the N. Y. Central earned 2.7 percent over that 15 years also. It was only later on that they began to be pinched. On the average they perhaps did better over the 15-year period than the other railroads.

GENERAL McKINLEY: Was that the average railroad or do you mean that the average was 2.7 percent?

MR. YOUNG: Either way. Last year, I would say the industry, without the Pennsylvania and the New York Central, earned four percent.

GENERAL McKINLEY: Because they are such a big chunk of it.

MR. YOUNG: That is right. But that is only one year. For 17 years they have had 2.7 percent and you can see what has happened to equipment.

GENERAL McKINLEY: In financing, when you are figuring their net worth, do you figure the equipment trusts and all those things?

MR. YOUNG: I am figuring on the valuation which the ICC said was a sound valuation based on 1913 values. Now, values are two or three or four times that today. So if you figure it the way the motor companies figure their valuation, on today's values, it might not be more than one percent

GENERAL McKINLEY: What was going on there for 15 years? If you are financing new equipment with equipment trusts and figuring all the payments in, with the amortization and interest payments going in as expense, the percentage of earnings that you reported as 2.7 doesn't have to finance your equipment, does it?

MR. YOUNG: In the final analysis new equipment has to be financed either by the Government or by earnings or by new capital. Now for 17 years there has been no new capital coming into the industry at all. For the ten years after the late war we were able to build up the railroads by virtue of some five billion dollars of new capital which was raised in the twenties. But, now, for 17 years, under this fostering by the Commission, we haven't been able to find anybody foolish enough to buy railroad securities. You cannot finance a railroad today. You cannot finance the expansion of this terminal here today except by bonded debt. You can't finance it by venture capital. Everybody is through with railroads. Why should they put money into railroads when they can put it in buses and airlines that get rate increases through in two days?

QUESTION: Mr. Young, I am a little bit hazy about this car shortage. At the present time we have a car shortage because we have a period of prosperity. But supposing next year we had a depression, then apparently we wouldn't have a car shortage. If war came along, we would immediately have a car shortage again. What I would like to know is whether car shortages actually are figured on an over-all basis over a period of years of having a minimum or a maximum number of cars available; and also whether during a depression the Government should either purchase direct or subsidize the building of freight cars so that in any emergency we would have them available?

MR. YOUNG: I would say this: One of the most certain ways of getting a depression is to deprive the railroads of rates so that at the least sign of declining business railroad managements will lay off employees, which they will have to do in order to meet their pay rolls. So the surest way to get a depression is to deprive railroads of rates. The surest way of having reserves of equipment to meet a national emergency is to make the railroads healthy, so that they are willing to create reservoirs of cars to meet an emergency situation.

Even there the AAR is backward. I don't know whether you followed those per diem proceedings last year in Congress, which created a lot of publicity, but the car rental per day which one railroad charged another for the use of its car when it was off line was a dollar a day. That was back in 1920. When we entered World War II, although the cost of taking care of that car had gone up a great deal, it was still $1.10 a day. The C&O, having been forehanded and built up its car supply, was interested in getting a fair rental for its cars. It urged that it would stimulate the ordering of cars by these railroads that were short of cars by these railroads that were short of cars if the per diem were raised up to the economic cost of carrying the car, which we figured was a minimum of $1.60. Finally, after a great deal of pressure from Congress, the Commission raised the rate to $2, which would stimulate railroads to build up their car supply because that was somewhere near a fair rental. But the AAR group of railroads is out to spike that now. That factor alone would help stimulate the purchasing of cars--and the Commission had to be forced by Congress to do that and the AAR had to be forced by public opinion. I think the AAR is against it today.

Now, I am not talking about subsidies. I am not asking for subsidies for railroads like airplanes, buses, trucks, and waterways. All I am asking is that they be given a halfway-decent break. I am not even asking for a whole break. Give them that and these railroads will go out and buy equipment. They will go out and protect this country in an emergency. They will have surplus equipment. They will maintain their secondary lines at a higher standard than they need for routine business. But they are not going to do it today. We are having today communism by confiscation. I thought we were fighting communism, but apparently we are not.

GENERAL McKINLEY: Mr. Young, you didn't disappoint us at all. I certainly want to thank you very much indeed for all of us.

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