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DOMESTIC TRANSPORTATION IN WARTIME

9 June 1948

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9 June 1948

LT. COLONEL TEMPLE: Gentlemen, we have as our guest this morning, Mr. William T. Faricy, President of the Association of American Railroads, who is going to lecture to us on the development of the organization for the control of transportation in wartime, where the railroad industry stands today, and what it requires. Mr. Faricy.

MR. FARICY: Colonel Temple and gentlemen of the Armed Forces: To an old Army man like myself there is no greater pleasure and no greater privilege than to meet with a group of men of the Armed Forces. Whenever I get on a military post it just seems like yesterday that we had the events of World War I. When I come to a school like this, it takes me back to the school at Fort Snelling, Minnesota, in the early summer of 1917, or the Infantry School of Arms at Fort Sill in the early fall of 1917, or the Third Corps School at Clamecy and the Division School at Gondrecourt in France in 1918.

The importance of transportation in a war economy, of course, cannot be overemphasized. I think we could sum it up in the words of Colonel J. Monroe Johnson, head of the Office of Defense Transportation, by saying, "You have no more of anything than you can haul."

My talk will deal principally with rail transportation, first because that is the type of transportation with which I am more familiar than I am with other types and, secondly, because it was rail transportation which had to bear the brunt of the transportation load in World War II and presumably will have to do it in World War III, if we are so unfortunate as to have a World War III. This, of course, is not to belittle at all the tremendous importance of other forms of transportation.

We have in the railroad plant 28 billion dollars invested as of now. It is interesting to note that in streets and highways in the last 25 years there has been a 40 billion-dollar investment made. We have, of course, the finest system of highways anywhere in the world, just as we have the finest systems of railroads in the world. It is interesting also to note that in the field of inland waterways two billion dollars have been spent in the last 30 years. In airways, including airports, we have spent a billion dollars in the last quarter of a century. We now have a great network of pipe lines, on which a billion dollars have been spent. And yet in World War II, it was the railroads that were called upon to handle 90 percent of the war freight and 97 percent of the organized military travel. Even today the railroads are handling two-thirds of all of the inter-city transportation of freight.

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unimportant factor; that service is the paramount thing. So our experiment does not end just with the comparison of the cost but extends to a comparison of what you men as members of the Armed Forces are most interested in and that is the relative service. But here again we find a tremendous contrast between the two wars.

All of us who are old enough to remember World War I will recall the chronic congestion and delay that we had in our freight service particularly. Two mistakes were made in World War I in the handling of freight transportation. The first mistake was that the right to issue priorities was given to an awful lot of people in the Armed Services. By their mere fiat they could issue priorities for anything that they thought should be given preference in movement.

Now, that resulted in a tremendous amount of congestion. Any time you get into the kind of priorities where you have more than one source or one agency issuing the priorities, you are going to have different viewpoints reflected in what should be given preference and what should not. That is something not limited at all to war operations. I recall that in February of 1937, I believe it was, when I was with the Chicago and Northestern out in Chicago, we had an unusually severe winter and all our yards got tied up, not only ours but our competitors' yards. A lot of our shippers got panicky about particular cars that were tied up in the middle of big yards with a lot of other cars. Our management at that time was responsive to pressures from important shippers who wanted their cars moved, and they started issuing orders that car number so-and-so would be gotten out of such-and-such a yard as a matter of priority.

Well, you should have seen what happened in those yards. When a car is in the middle of a yard, the crew has to pull the track, has to pull one car out and shove the others back, and you just get that yard all tied up in knots. That happened to us there in February of 1937 to the point where for that month we had an operating ratio of 102; that is to say, for every dollar of revenue that we took in we spent a dollar and two cents just handling the freight. That is the kind of thing you get into when you have priorities, and that is the thing that happened in World War I.

I said there were two mistakes. The other mistake was that freight was sent to the ports, particularly the congested Atlantic ports, without any prior assurance that a ship would be available there to handle the freight. There was no assurance before the stuff was shipped that it could be promptly unloaded at destination. The result of that was that tens of thousands of freight cars stood at the ports and in sidings and yards, backed up from the ports under load for long periods, being used as warehouses, instead of being promptly unloaded and sent back to

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You will recall that shortly after Pearl Harbor, when the German submarines began sinking tankers off our southeastern coast, the normal movement on the Atlantic seaboard of tankers came to a sudden stop. There wasn't any Big Inch or Little Inch pipe line in existence to take over at that time, and the railroads were asked whether they could handle as much as 200,000 barrels of oil a day to the Atlantic seaboard. My predecessor, the late John J. Pelley, said that the railroads could do that and would do that.

One particularly highly placed critic of the railroads, a cabinet officer, openly snorted his disdain at any such assurance and said that the railroads couldn't possibly do that. It is a matter of history that before we got out of that movement the railroads successfully moved a million barrels of oil a day to the Atlantic seaboard, to the salvation of that part of the country.

I cite that because it shows the resiliency that there is in this railroad industry. You can't judge railroad performance or what you are going to be able to do merely on population statistics of numbers of cars or numbers of locomotives or things of that type. You never know what you can do until you have to do it. That oil movement was organized on what we call symbol trains, where a solid train would go through with all the speed with which you can move a freight train safely. Most of the empty cars would move back the same way over the railroads. Every railroad had the same symbol and knew exactly what the train was and why it had to be given expedited movement.

Now, so much for those two laboratory tests, which to me bring the inescapable conclusion that the thing for our country to do in the event of a third world war is to have the railroads operated by their owners and not by the Government. That is not to say that there should not be some agency in the Government to supervise this whole matter of transportation. There should be. Looking again for the answer to the experience in World War II, the Office of Defense Transportation did a magnificent job. Its representatives did a particularly good job in the later years of their work, after they got a chance to sift down their organization and get some experience.

We would recommend that for the next war we have the same type of organization that the Office of Defense Transportation had at the end of the late war. That means a rather small but pretty thoroughly experienced staff of people, people who are accustomed to dealing with the existing agencies of transportation, people who are accustomed to working with the Interstate Commerce Commission, people who are accustomed to working with the Association of American Railroads and the American Short Line Railroad Association, both of which associations were availed of a great deal by ODT in World War II.

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Of course, nobody in the railroad industry made any complaint about that, because we recognized perfectly well that after Pearl Harbor the big problem was to get the steel into tanks and guns and bayonets, and that it was just our job as transportation men to get along with whatever could be spared to us after the requirements of the Military had been met. So we had to go through the war with a pretty small supply of freight cars. We didn't get many new cars. We did get some. We didn't get so many as we would have liked or what we thought we ought to have.

At the end of the war we had a great deal of difficulty in building up this freight-car fleet. As a matter of fact, we junked more freight cars than we built since the end of the war. That is a natural and inevitable result from having run the wheels off our equipment in World War II. At a time when we could not get adequate replacement we kept every car in service that we could hold together with baling wire, figuratively speaking. We kept everything running that could safely run. After the war, the necessity for junking a lot of those worn-out cars was tremendous. We have lost about 30,000 cars in unit capacity since the end of the war.

It was not until last November that the number of new cars being delivered exceeded the current rate of junking of old freight cars. Since that time we have been making up lost ground at the rate of some three thousand freight cars a month. We have been getting about nine thousand cars a month and junking maybe about six thousand cars a month. The number varies. Some railroads will junk more cars one month and less the next, but it will average out something like that. So we are gaining around three thousand cars a month now.

We would like awfully much to see this freight car program stepped up. We have on order more than a year's business with the car builders at their present rate of production. We have nearly 135,000 freight cars on firm orders, counting the ones where they have been placed in the railroad shops to be built as well as those we have given on contract to the car builders. We think that in the national interest this program ought to be stepped up.

We have not been able to make much headway in convincing either the steel industry or people in the Government other than Colonel Johnson that this program should be stepped up. Colonel Johnson thinks, and he has been very vigorous in his assertions, that we should get that up to 14,000 a month. We haven't been able to reach the much-heralded program of 10,000 a month. I don't think we are going to reach that 10,000 cars per month under the present way that the program is being handled.

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Then, of course, under the spur of necessity you learn how to get more use out of your cars when you haven't as many of them. One way or another, whatever comes, these railroads are handling it. They will handle it without strain and without car shortages if they have an adequate supply of steel for new freight cars in the months to come. They will handle it with strain and with a car shortage, but they will still handle it, if they do not get the adequate supply of steel that we feel we ought to have.

Now, on this rail question, we had some under-maintenance during the war. We are trying to get at that now. We haven't so much rail as we think we ought to have. But that situation is improving. The rights of way are not in too bad shape now, and they will be better by the end of the current summer.

On the oil question some uneasiness has been expressed in many quarters about the trend toward dieselization of railroad equipment, the fact that we are using more Diesel oil. As time goes on, planes are using more gasoline and other components of our industrial structure need more oil. It is interesting therefore to know that the Diesel fuel consumption on the railroads, notwithstanding all the dieselization that is taking place, takes less than one percent of our consumption of petroleum in this country. On the basis of last year's operation the amount of railroad Diesel fuel used was less than one percent of the petroleum consumption in this country. Keeping our perspective on this, the amount of oil used for household heating and other types of heating took 15 percent of all our consumption, or 15 times as much as the railroad Diesels took. And if the railroads were entirely dieselized--we think that would take about 15 years more--we would then be using only about two-thirds of the amount of petroleum that is used right now for the household and other heating.

Another interesting thing about this dieselization is that if the railroads were completely dieselized, if we did away not just with the coal-burning locomotives but with the oil-burning steam locomotives, the railroads' consumption of petroleum would not be any more than it is now and might conceivably be less. The reason for that is this: An oil-burning steam locomotive burns five times as much fuel as a Diesel in terms of the gross per ton traffic that it is able to haul. The Diesel is so much more efficient in its operation. It has that ratio of one to five or five to one, whichever way you want to put it, as against the oil-burning steam locomotive. In other words, the oil-burning steam locomotive takes five times as much oil as does the Diesel to handle the same number of car-ton miles of traffic.

So we think that the railroads, never large users proportionately of our petroleum resources, should be allowed in the event of another war to have access to a fair portion of the petroleum resources. The

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Now, on the third thing, revenues, of course you can't buy steel and oil and you can't pay your manpower if you don't have adequate revenues. The railroads can't levy taxes and they can't print money. They have to pay their bills out of what they take in at the gate.

You may be interested in some figures. Since 1939 wage rates have gone up in the railroad industry, as they have in practically all other industries and occupations, I should say, except in the Armed Services, 75 percent. The cost of the things we buy has gone up 90 percent since 1939. John Snyder over here is printing a lot of two-dollar bills now because it takes two dollars to buy a dollar's worth of stuff. Now, as against that increase of 75 percent in wage rates and 90 percent in the cost of what we buy, our freight rates in terms of ton-mile earnings--and that is what counts with us--have gone up 34 percent, and our passenger fares 25 percent.

Now, just get the contrast between those two sets of figures--wage rates up 75 percent, what we buy up 90 percent, on the one hand; and on the other hand, freight rates up 34 percent and passenger fares up 25 percent. That is too much of a disparity to be made up by the simple process of tightening our belts. We simply have to have a higher freight rate structure. It should be one that recognizes this paradoxical situation which everyone knows does not result from anything but war and postwar forces beyond the control of these railroads.

We have some hope that that is going to be done. There is a freight rate case still pending before the Interstate Commerce Commission. We have had three interim increases in freight rates. They are still holding the case and watching developments. We are very hopeful that we will have some better breaks than we have had before.

Our rate of return in 1946 was about 2.75 percent on our net investment. Last year we got that up to 3.40 percent on the basis of the interim increases. We think that this year, assuming no further cost increases or wage increases, on our present volume of traffic it will be up to about four percent. But, of course, that is not enough. There isn't any reason in the world why the railroads should not have the same six percent that is recognized as proper in the utility industry and other types of things.

I come now to the part of the Association of American Railroads, which I have the honor to head, in our plans for the next war. You had a gentleman here on 27 January named Robert R. Young. Mr. Young is more noted for his vociferation than he is for his factual accuracy. He took the position that the Association of American Railroads ought to be broken up. Through the courtesy of the Commandant I have read a transcript of what Mr. Young said. One of the things he wanted was to break up the Association of American Railroads.

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You might be interested in why this article was hitherto unpublished. Mr. Young has an organization called the Federation for Railway Progress. They publish a magazine called "Railway Progress."

They hit on the bright idea last year of asking General Gross, in the light of his great experience in World War II, to write an article under the title "The Importance of the Railroads to National Defense." General Gross said he would be delighted. He did write that article and sent it in.

The issue of the magazine in which it was to have appeared came along and no article. The General let another month go by. Still no article. So he made inquiry as to what had happened to his article that they had wanted. They told him that there were two paragraphs in that article that they would have to ask him to delete if the article was to be published. He said that, while, of course, he had no objection to editorial changes in language, he was not for one minute going to stand for emasculation of his article by taking out something that he thought material to the story; and they could either publish it all or none of it.

What were the parts that they wanted him to take out? I would like to read to you the parts that Mr. Young's organization wanted him to take out. I quote now from General Gross's manuscript, with his permission:

"Although the American railroads had less equipment in 1941 than in 1917, it was better equipment. Their physical plant generally was greatly improved and as an industry they were much better organized to meet the emergency. In particular the establishment of a strong central organization, the Association of American Railroads, was a noteworthy improvement. This organization, which had broad authority to act for its members, maintained headquarters in Washington, so that cooperation between the Army Transportation Corps and the railroads was greatly simplified. As a matter of fact, the Association's Military Transportation Section was located in the Pentagon and functioned as much as an agent of the Army as the railroads. This same close cooperation existed between the representatives of the Association of American Railroads and the Transportation Corps throughout the country.

"In conclusion it may be said that the American railroads fulfilled their transportation mission so well that the full war might of the United States as a nation in arms was brought to bear on our enemies to achieve overwhelming victory. They took in stride the ever-expanding load clear through to the end.

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The turn around time is the elapsed time between the loading of a freight car and the time it is ready for the next load. The railroads had to speed up the movement. If they had not set a new record, the job I just mentioned could not have been done. That is why I say again, you just can't measure what is going to happen in railroad performance by thinking of figures of car population or locomotive population.

Let me say for these railroads to you men of the Armed Services that we pledge ourselves again, as we did before World War II, that we will do our utmost if we have another war to see that nowhere in the world will the military might of America be lessened or its striking power diminished by any failure of railroad transportation here at home. Thank you.

Now, I may or may not be able to answer your questions. If I don't know, I will tell you I don't know. If I do know, I will answer.

LT. COLONEL TEMPLE: In your discussion of manpower you made a statement to the effect that you got down to the point where you didn't even have crews to man the switch engines. I am wondering how much of that came about through restrictive labor practices.

MR. FARICY: I would say, not very much, if any, because in the yards we don't have the same type of basis of pay that we have on the roads. On the roads the men are paid on the number of miles run or hours worked, whichever gives them the better break; but in the switch yards the men work 48 hours a week, that is, 6 days of 8 hours each. They do that in wartime and in peacetime. They get no overtime until after eight hours in any one day. I don't think the restrictive labor practices had much effect in the yards and terminals situation.

QUESTION: I can't recall all of Mr. Young's speech. Why is he mad at you?

MR. FARICY: In order to get the answer to that, you have to see Mr. Young in action. If you could do that, he would furnish some of the answer to your question. My impression of Mr. Young, gained from watching him in action, is that he is more interested in the limelight, in making startling statements, in fantastic publicity, than he is in anything else. We at the Association, on the contrary, are not so much interested in words and promises as we are in deeds and performances.

Mr. Young criticized us severely because we don't have enough publicity, enough public relations work. Maybe he is right. Maybe we ought to have more than we do. But if we do have more, it will be for the purpose of acquainting the American people with our needs and trying to get their backing than it will be to glorify any particular individual.

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President of the United States appointed a board of three disinterested, distinguished, experienced citizens to look into that dispute and see whether there was anything about the situation of those three unions which in any way justified their refusing to accept a settlement on the pattern that had been set for these other unions by the arbitration.

That board had on it Professor Leiserson, who used to head the National Mediation Board, one of the best friends that railroad labor ever had. It had on it Professor Wirtz of Northwestern University, who was at one time the chairman of the National Wage Stabilization Board; and Chief Justice Bushnell of the Supreme Court of Michigan. The board held meetings for 33 working days and heard anything that anybody on either side wanted to present. At the end they came in with this recommendation: that the 15½ cents an hour increase was a fair settlement for these people, with some adjustments in working rules.

Now, some of those adjustments we didn't like. They were expensive. We thought we ought not to have to make them. But the President's board had investigated them and said what ought to be done; and we didn't know of any better way to settle a labor dispute, that affects every man, woman, and child in the United States, than to have the President appoint a disinterested board and have them hear both sides and say how this thing ought to be settled. So we said, "We will do what the President's board has said ought to be done. We will take the bitter with the sweet. We will take the parts that we don't like as well as those we do like. We will go along with that settlement."

The brotherhoods said, "No. We won't do that." They have been ever since trying to put the heat on us, running to the White House to try to get that board's report repudiated and to strong-arm a settlement for a greater amount of money than the board said was fair to our employees and to us as employers and to the public who pay the bills. We have been standing pat on that, because this Railway Labor Act got off the track back in 1941, when President Roosevelt went beyond the recommendations of the board under the same circumstances. President Roosevelt at that time tossed the board's report out the window; and these men got the idea, quite naturally, that the thing for them to do always is to refuse to take what the board says and come marching down to the White House, particularly if it happens to be a political year, and try to get something better. Roosevelt did that same thing time after time.

Now, be it said to the credit of President Truman that he is trying to get the Railway Labor Act back on the track where it belongs. I think it is manifest from his actions that he is trying to do that. He takes the position that he is not going to step in and put the heat on the railroads to pay more money than his board said was a fair settlement.

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till about the time Roosevelt derailed the thing in 1941. I think by getting these settlements back within the framework of the act, which we are trying to do, or by an amendment which would make the findings of these boards mandatory, you would have the remedy, in my judgment, for these bad situations.

Now, I know you run right into opposition when you speak of making the findings of the board mandatory, because they will say, "Oh, this is compulsory arbitration." There is something about that phrase that people don't like. And I will admit that outside the utility field, outside the railroad companies, water, telephone companies, and maybe coal, strikes are the best cure for strikes. But when you get into the utility field and the railroad field, it is entirely different. I don't think that labor has any inherent right to strike against the people of the United States any more than you gentlemen have a right to strike who are in the Army. I would say right now that you should not take away a man's right to strike without safeguarding his position by giving him some adequate machinery to get the right wages and all that sort of thing. But you have that machinery in the Railway Labor Act.

My answer would be that I would rather see you either get the present act back to where it was originally designed to operate and where it did operate successfully until 1941, or pass a law that puts teeth in the Railway Labor Act. We have all these waiting periods right now in the Railway Labor Act that they have in the Taft-Hartley Act.

QUESTION: I am interested in the disparity between outgo and income. How do these railroads manage to keep running? Are you operating on your life insurance?

MR. FARICY: That is a very good metaphor indeed. What we do is that we use what money we do make--of course, we make some; last year we made 3.4 percent on our net investment--we take that money and instead of giving it by way of dividends to the people who have their money invested in the railroads, we give them only a third of it and we take the other two thirds and plow that back into the property in the form of new cars, hoping and expecting that by that process of furnishing adequate transportation facilities, by keeping everlastingly at it on this matter of rates, we will get them up.

Of course, we are making some progress, Mr. Young to the contrary notwithstanding. He told you gentlemen that last year our rate of return was 2.7. As a matter of fact, it was 3.4 last year; and, as I say, we hope it will reach 4 percent this year.

Now, we get by also with our "life insurance" or depreciation money. We can use depreciation of old cars. We write them off; we set aside a portion of their cost as representing the use of our "life insurance." Many railroads have mandatory requirements in their charters that a certain amount must be set aside for the purchase of government bonds.

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MR. FARICY: I would certainly be glad to comment on that. That resolution that the Railroad Labor Executives Association passed some two weeks ago, which was widely publicized, calling for government operation, was simply a tactical move, and a rather blundering one at that, in the present wage case. The three unions which are causing the trouble got their brother union men to join them in the passage of that resolution, thinking that that would scare the everlasting daylights out of the railroad owners and managers. Of course it didn't do any such thing. We know perfectly well that those railroad unions don't want government operation any more than we do. All they need to do is take a look at the railway mail clerks, the post office clerks, and compare their lot working for the Government with the lot of the railroad men in wages and working conditions, and they will get their own answer pretty quickly. So frankly we don't take that too seriously, knowing as we do from private talks with many of these same men who signed the resolution that they just don't mean it at all; that it was just simply a tactical move.

The inconsistency of what they themselves have done is apparent. 90 percent of them had settled and then comes this resolution from the same people. The story I get over there is that this is just a way of trying to help the three unions out a little bit. It hasn't had that effect either.

IT. COLONEL TEMPLE: We certainly thank you very much.

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