# RAILWAY OPERATION DURING MOBILIZATION

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Mr. William T. Faricy, President, Association of American Railroads, was born in St. Paul, Minnesota, in 1893. He was graduated magna cum laude in 1914 from the St. Paul College of Law. He served as a lieutenant and later as captain in the 350th Infantry in France in the First World War from May 1917 to July 1919. Following graduation he became a member of the legal staff of a subsidiary of the Chicago and North Western Railway. He acted as general attorney from 1920 to 1924 when he became commerce attorney for the Chicago and North Western; in 1942 he was made vice-president and general counsel. While continuing in his capacity as general counsel for the North Western System, he also was chairman of the Western Conference of Railway Counsel from 1944 to 1946, and chief of counsel of the Carriers Conference Committee, 1945 to 1946, representing Class I carriers on matters of wages and rules. In the latter year he was elected a director of the Chicago and North Western. In 1947 he was elected President of the Association of American Railroads, a position which he still holds. He was the first chairman of the Civilian Components Board, serving from 3 August 1949 to May 1950.

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GENERAL HOLMAN: Gentlemen, to those of us in the military services who are concerned with logistics, it seems as though everything is always in the wrong place. The proof of this is the fact that during the period of active operations we must be concerned with the movement of most of our supplies and all our troops all the time. The conclusion is that transportation is a very valuable resource. We must learn to use it with intelligence, precision, and economy; wherever we can increase the rate of our supply system, we can therefore decrease the volume that we have to store at strategic points.

This morning we are going to have a close look at railway operation in a mobilization period. Our speaker is the President of the Association of American Railroads, Mr. William T. Faricy. Mr. Faricy has spent a lifetime in railway management and operation and I know of no one who could come here today who would give you a better look at the military aspects of railway management problems.

Mr. Faricy has honored us by addressing previous classes and we feel greatly privileged to have him with us again this year. Mr. Faricy.

MR. FARICY: Thank you, General Holman, for that gracious introduction. We railroaders in a sense are gypsies. We get around the country quite a bit. In my own particular job I do a little speaking here and there. There is no place I go to which I look forward more than I do to these annual lectures before the Industrial College of the Armed Forces. You of the armed forces are partners of the railroads, so to speak; you were in World War II; you will be again if we have the trouble that seems to lie ahead. In fact, we are working in pretty close partnership right now. You are the biggest shippers; you are our best customers; and in these little informal talks of mine I want to lay all the cards on the table. At the end of my remarks I invite any questions that may occur to you, and I will do the best I can to answer them.

Railway operation during mobilization, of course, looks to the distinct possibility that out of mobilization will come war. There is no other assumption that is a safe one for us in the railroad industry to make any more than there is any other safe assumption for you in the armed forces to make.

There are five main questions that must be considered in connection with railway transportation during mobilization or during the war that

mobilization may lead into, and those five questions I shall first summarize, then discuss in some detail, and at the conclusion of that, I will have a few remarks to make about our present situation. How do we stand today, for instance, as compared to how we were at the time of Pearl Harbor? Those five questions, which seem to me to be the important ones to be answered in connection with railway transportation and mobilization are these:

First, for the period of mobilization and for the war that may follow, shall we have on the one hand government operation of the railroads or shall we have private operation of the railroads? Which is in the best interest of our country? That is question number one.

Second, if it is decided to continue with private operation, then what kind of government organization should be set up to take care of those problems which only the Government can take care of during a war or during an intensive mobilization period?

The third problem--and a very important one it is currently--is, what shall be done to see that the railroads, as an essential transportation agency in such a period, have access to the critical materials they need to do the job?

The fourth question--somewhat akin to the third--is what shall we do to see that the railroads have the manpower they need to do the job and at the same time not interfere with the requirements of the military, which, of course, must come first in any manpower consideration.

The fifth question--the last one and one that can't be overlooked if we are to continue with private operation--if we are to continue the private enterprise way of doing things in this business, where does the money come from?

Now taking each of those five questions in order, the first one is: What type of operation is best for the country, government operation or private operation of the railroads? Fortunately, for the answer to that question we have a basis of experience. We have what might be called the best of reasons for the conclusion we reach which is the test of experience because in this country we have had two World Wars, in the first of which we had complete government operation and in the second, we had private operation. So here we were with two World Wars substantially alike, with one type of operation in one war and the other type of operation in the other war. We can, therefore, compare the results of operation of those two periods and get some rather persuasive reasons as to what is the thing to do come World War III.

Comparing those types of operation, we find that in World War I when the Government completely took over the railroads, paid the owners of the railroads a rental for the properties, kept the revenues and paid the expenses, the Government wound up with a loss of two million dollars a day for the period of operation--some 26 months, I believe. We find also as to the freight--rate structure in World War I that the freight rates had to be advanced very materially during the war. As to the service, we find in looking back that there were congestions and delays in World War I far beyond anything that we experienced in World War II.

Now in World War II, it was decided to have the railroads do their own operating with only such government regulation as could help do their job in private enterprise. The financial results, first: Of course, under that type of private operation there was manifestly no deficit to be paid by the Government. If there had been a deficit, it would have been a deficit of the private companies operating the properties. But there was no deficit. The railroads paid into the Government three million dollars a day in taxes out of that operation. So if you contrast the two million dollars a day loss in World War I with the three million dollars income to the Government in World War II, you have a difference to start with of five million dollars every time the sun goes down.

Getting to the rate situation in World War II, we came out of the war with a freight-rate structure no higher than that which we had at the beginning of the war; in many respects it was a lower freight-rate structure. We had temporarily, between about March 1942 and May 1943, a small freight-rate increase, but in May 1943 the Interstate Commerce Commission, much over our protest, took that away from us. So I say again, we came out of the war with a freight-rate structure no higher than the structure we had when we commenced, and there again we have quite a contrast with the World War I situation.

As to the service, those of you who went through World War II will realize, I believe, that by and large the job was pretty well done. Certainly it was much better done than the World War I job where we had at times as many as 200,000 cars of freight loaded and backed up from the ports because of the lack of coordination between the loading at the ports and the loading of the freight cars, a subject that I want to speak about a little more at length.

The causes of that World War I congestion were largely in two categories: First, in World War I there was altogether too much use of priorities. Almost anybody in uniform could put a priority tag on a freight car and of course that makes a mass transportation operation

very difficult indeed. When you have to pick particular freight cars out of a large yard and give them special handling, you impair the efficiency of your mass transportation operation. That was one of the two things.

The second cause for congestion was that freight cars were loaded without any advance assurance that when they arrived at their destination the facilities were there for unloading. That is what backed up these large numbers of freight cars from the ports and from such places as Hog Island where the large shipyards were operating.

In the interval between World War I and World War II, Mike Gormley, who was assistant to the president of the Association of American Railroads, had been invited over here in much the same way that I have had the honor to be invited each year to address your classes, and in that interval Mike pounded away at those two things. He said, "If you have World War II, don't have the priorities or the right to have priority tags put on freight cars--don't diffuse that; have it centralized in some one person or some one agency, and be very sparing in its use. Second, don't load freight cars unless you know before you load them that when they get to their destination they can be unloaded promptly and therefore can be used as vehicles of transportation and not as warehouses.

Those admonitions of Mr. Gormley were accepted; they were well taken by the military and when World War II came, all in the armed services who had to do with transportation cooperated with railroads in those things. In my judgment those two things were probably the most important things that enable the railroads to do the World War II job so much better than it was done in World War I. If I may suggest, if there is nothing else you remember out of my remarks today, just bear in mind those two things if we get to World War III and you will make a great contribution to the ability of the railroads to carry through successfully. Those suggestions came as the result of experience. Somebody has well said, I think, that experience is the name we give to our mistakes. Those mistakes of World War I were not repeated in World War II and they were material factors in enabling us to do the job.

Now just to summarize the results of the World War II operation: With one-fourth fewer men working on the railroads in World War II than in World War I, with one-third fewer locomotives than we had in World War I, with one-fourth fewer freight cars, and one-fourth fewer passenger cars, the railroads handled 74 percent more freight and 100 percent more passengers than they had been handling in World War I, and that notwithstanding that in the interval between the World War I and the World War II experiences, our Nation had spent 40 billion dollars on streets and highways; we had spent two billion dollars on inland waterways; and we had spent a billion dollars on airports and airways.

Yet it remained for the railroads, when this test of World War II came, to handle 90 percent of the military freight and 97 percent of the organized military travel in World War II.

So I think from those figures and statistics we can say with a good deal of confidence that we are right, that it is much more in the interest of the country to have the railroad operation continue in private hands through the mobilization period and through any war into which that mobilization period may lead. At the moment we are technically under Army control, as I believe all of you know. The Army is technically operating the railroads. Secretary Bendetsen, who is in immediate charge, has had the good sense, like the brilliant man that he is, to leave the day-to-day operation in the hands of the railroads themselves. This is under an arrangement by which we waive all claims for compensation for the taking of our properties in return for which we assume the obligation; we keep the money; we pay the expenses. That arrangement is temporary, and it will last only until such time as this very troublesome wage case with the switchmen and other operating employees can be gotten out of the way.

Just a word about that case--it started as a movement on the part of yard employees for a 40-hour week with 48 hours' pay. The nonoperating employees of the railroads--that is the clerks and the maintenance-of-way people, shopmen, who comprise 73 percent of the employees of the railroads--had gotten the 40-hour week a couple of years ago with 48 hours' pay. At that time the men who run the trains and these yardmen didn't want the 40-hour week but instead got a wage increase. So when this case became deadlocked, the men claimed that they ought to have 48 for 40 because the nonoperating employees got it. The railroads claimed if they were to have the 40-hour week, they should go back and figure it as it was before this increase in lieu of the 40-hour week had been put in.

It went to the board appointed by President Truman and the board made a decision that gave the men a substantial increase but not so much as 48 for 40. The railroads accepted the board's decision; the men refused. Whereupon it went to the White House and John Steelman--who is probably as good a mediator as there is in America--suggested a deal that we sweeten up the pot a little bit and settle up on the basis of 23 cents instead of the 18 cents that the men had gotten.

That was accepted by two of the unions but it was rejected by the larger union. Then there was some trouble, a threat of a nationwide strike, and the Government took over the railroads in August. The case rocked along until we had the wildcat strikes in December. Then there was a meeting around the clock at the White House, and we wound up with what we thought was a deal where we would sweeten up the pot again.

We don't like to do that when you have a board because it destroys the machinery of the Railway Labor Act. Each time you go beyond one of these board decisions you just make trouble for yourself in the next case. President Roosevelt started all that back in 1941. Up to that time these board decisions were accepted by both sides, but just before Pearl Harbor President Roosevelt took one of these decisions by the neck, added some more, satisfied the boys, and ever since we have had trouble under this law.

Well, anyway on 21 December 1950 at the White House this contract was signed to raise the pay some more, and we all honestly thought we had a settlement and the White House thought so. Well, it turned out after the boys got out of the White House and got to thinking it over they didn't like it as much as they thought they did over there, and they didn't recommend it to the men, so the men wouldn't ratify it. Then we had that wildcat strike again week before last, the results of which you are familiar with, and the Army is now ordering half the increase agreed upon in the contract, and the negotiations drag on.

The railroads take the position that the purpose of negotiation should be to carry out the contract that was agreed to at the White House, and the men say they won't do it; they must have more. There we are, and how it is all going to end or where it is all going to end, I just don't have any idea.

Now don't let anybody kid you that these wildcat strikes are spontaneous because they are not. They are a well-considered, well-directed pressure maneuver. The technique that I understand is used is that there is some kind of code word each time, and when the appeals are made to the men to go back to work by their leaders, those appeals are given some support or they are not, depending on whether the particular code word happens to be in there. That is what I understand to be the technique of these things. We are all hoping some way or other this other thing will work out. The Army is just as anxious to give us back our railroads as we are to get them back. But this agreement was made on 21 December. All steps were made ready to turn back the railroads. We would have had them back right after the first of the year, but when trouble started, manifestly it is better for everybody to have the Army keep the properties until the trouble is over, just in the interest of keeping the railroads going, because the country can't stand very much railroad tie-up at this time. I digressed a little to describe that because I thought you might be interested in knowing just what that temporary situation is.

So much for the first question, which, I think, we need ultimately to answer that the operation should be private operation.

That brings us then to the second question: If we are going to have private operation, what kind of government organization should be provided for such emergency measures as might be needed? In World War II we had ODT, Office of Defense Transportation, which, I believe everybody concedes worked well. It was an organization headed originally by Joseph B. Eastman, a distinguished member of the Interstate Commerce Commission, and after he died in harness in the middle of the war--died pretty largely from overwork--he was succeeded by Colonel J. Monroe Johnson, also a member of the Interstate Commerce Commission. Both Mr. Eastman and Colonel Johnson believed in the type of handling where decisions were made quickly, a one-man show in each case where one man could decide. They believed in the minimum organization consistent with seeing that the job was done. They worked largely through the existing organizations that the defense as well as transportation had.

Take our organization, the Association of American Railroads--we represented all the Class I railroads. Well, they would talk with us if they wanted anything done. Instead of dealing with 132 properties, they would just deal with us here in Washington; we are connected by teletype with all large centers. We would send out their instructions, their requests, and their suggestions. They would work the same way with the short lines, through the American Short-Line Railroad Association; the same way with the truckers, the American Trucking Associations; and then with the bus people--they have an association, as do the Inland Waterways people. In that way they were able to get by without having too large an organization of their own.

I think everybody who had to do with any planning for this period of mobilization recommended that the organization for World War III be substantially the same as the ODT organization of World War II. We have such an organization now, and it is called the DTA this time. They always change the letters. You just can't keep up with what these different organizations are. DTA is Defense Transport Administration. It is modeled after ODT, but it has one very important difference. I am not too sure that is going to prove to be too wise a difference, which is that, whereas, ODT reported directly to the President of the United States, as the Interstate Commerce Commission reports directly to the Congress, they put DTA in as a subordinate part of NPA, National Production Authority, which in turn is again a part of DPA, Defense Production Authority. They are also using a committee in the Department of Commerce which, you know, has regulation of all forms of transport except the railroads.

That procedure channels a lot of these railroad things of ours over into a committee representative of types of transport other than ours. I am a little apprehensive that because of the way things have been going,

that--without any criticism of personalities involved here at all--that type of organization tucks the railroad transport off in a pigeonhole just a little bit too much. It is too early to make firm criticism of it, but I am not fully convinced myself that it wouldn't have been wiser--might not still be wiser--to have this very important field of transport by rail and by highway, by waterway, all of which come under DTA, have them report directly to the President as was done successfully in World War II.

That leads me to the third question, which is that of materials, because that is one of the most important questions that DTA is dealing with. Manifestly, the railroads must have access to critical materials and, particularly, steel--steel for cars, steel for locomotives, steel for rail and fastenings.

With respect to freight-car steel, in 1942 there was a mistake made in the War Production Board--or whatever the predecessor was of the War Production Board. We had a freight-car program rolling along pretty well at that time that had started under the urging of General Marshall, then Chief of Staff--back in 1940-1941. It was rolling pretty well after Pearl Harbor. Then all of a sudden in 1942 an order was issued putting a stop to the construction of freight cars that were half-finished.

Well, the railroads took it; they couldn't do much else. They realized at that time that steel was badly needed for ships and for tanks. So they did the best they could with what they had. They were given enough steel to keep in repair the fleet of cars they already had and they did get by. But it was only because in 1943 the error of that 1942 decision was realized, and a top-flight railroad man was brought down here and put right over there in the War Production Board to help allocate that steel, and we resumed our freight-car building program. So we just got by. But the reason that I can say that we got by and no more is that the car shortages appeared right after VJ-day. Their timing just brought us through. If the war had gone on a little longer, we would have had a lot of trouble with freight-car shortage. We had trouble anyway. We had trouble all through 1946 and 1947. So as I say, the 1942 mistake could have been very costly. It was rectified in the nick of time and the railroads got through.

When I look at what is going on now, I think of that poem of Kiplings--you remember after World War I when everybody thought that we weren't going to have any more wars and nations were going to work together a little better. Then we all began to be disillusioned, and Kipling wrote a poem--I believe one of the last ones he ever wrote--and the couplet I am about to recite from that poem was indicative in his mind of the way we just never seem to learn anything in some fields.

He said, "So the dog returns to his vomit, the sow goes back to her mire, and the burned fool's bandaged finger is poking again at the fire."

The reason I quoted this is that we are supposed to have a program for steel for 10,000 freight cars per month. The understanding was that this would go up after we got it rolling. We junk about 5,000 cars a month--you know they wear out. Yesterday the "powers that be" cut that freight-car program from 10,000 cars back to 9,000 cars per month, beginning with the month of May. Now I say to you gentlemen if a mistake of that kind is not rectified and rectified pretty soon, you are going to see real trouble with rail transportation in this country. You won't see trouble handling the military traffic. No, we will handle your traffic whatever comes, but what is left for civilians? There will be trouble.

Why in the world can't the men who made that decision see that you have no more of anything than you can haul, that you just must have this freight-car fleet kept up, that we have fewer freight cars now than we had when the Korean War broke out because we have junked more cars than we have been able to build! It is a short-sighted decision that will just have to be revised. It is in Mr. Wilson's hands today.

Take our locomotives--there again we must have steel. We had a program for locomotives recommended by DTA--as the 10,000 freight-car program was recommended by DTA--1,200 new locomotives per quarter. That was reduced to 1,000 per quarter, and the information I received yesterday was that it is now 900 a quarter. Well, we can get by with 300 locomotives a month, 900 a quarter, but it does cut back a program of expansion planned long ago that was progressing very, very nicely.

Of course, you must have the power just like you must have the freight cars. There again we are going to have to fight for everything that we get. The question of oil for the Diesels has been raised in some quarters in the services. Our Diesel locomotives take about 2 percent of the country's petroleum production. Now to keep perspective, bear in mind that 15 percent of the country's petroleum production goes into heating--household heating and industry heating. So our use of petroleum doesn't look so big when you keep it in perspective by looking at other things for which petroleum is used.

If we were to completely Dieselize the American railroads--a process that would take about 12 more years--we would probably wind up with a smaller percentage of the Nation's petroleum output than we use without Dieselization, and that for the reason that we have a tremendous number of oil-burning steam locomotives in the West and in the Southwest. Those locomotives are so much less efficient than the Diesels; they use five times as much petroleum for the same amount of tractive effort as

do the Diesels. It is a different kind of oil. It is a bunker oil rather than the Diesel fuel, but nevertheless it is a striking fact when you consider the total petroleum resources and look at the beautiful job these Diesels do and the economy of fuel as against the oil-burning steam locomotive. It just seems to us to be foolish to consider--as has been considered in the past and may be considered again--making the railroads operate with a less efficient type of power than that to which they are pretty well committed now, which is the increasing Dieselization.

Now, of course, we may never completely Dieselize these railroads. Your opportunity for savings by Dieselization is a big opportunity on the basis of Dieselizing just the main line, heavy domestic traffic, but to get over on a branch line, you don't have the potential for the saving. You see and read about all the experimentation going on all the time with powdered coal in the steam turbine type of locomotive. If they should be successful some day that might make a big difference. For all we know in 10 or 12 years we may have atomic power. Nobody can see it yet, but you can't tell what will happen.

Mr. Forrestal, during the time he was Secretary of Defense, had some strong representations made to him by the people who manufactured steam locomotives. They took the position that the railroads should not be permitted to go through with the Dieselization program because, they said, the steam locomotives were coal burning--were in the East at least--and they shouldn't be permitted to take on such a percent of the country's petroleum, looking toward another war. And they got up a presentation on that. It was not wholly selfish. They simply said they had these facilities in existence to make steam locomotives. Should they junk them or should they keep them? Here was their side of it. Well, Mr. Forrestal was enough impressed by this that he wrote me a letter giving a tentative blessing to that theory.

We felt it would be a big mistake for the reasons I have tried to outline to you. We asked Mr. Kettering of General Motors, probably one of the greatest scientists alive today to go into that and make a study of it; he came up with an answer that completely satisfied Mr. Forrestal. So the idea of making us cut back our Diesel program was rejected by him at that time and has stayed dormant until just recently. We have seen currently some indications of it bobbing up again but perhaps the demand of the petroleum industry shouldn't require that the railroads be made to use a type of power inferior to the Diesel. We are ready to answer that any time, anywhere, and I think we can answer it.

But it is a thing that is going to have to be watched because the efficient use of power couples right up with the amount of use you get out of the freight-car fleet. Of course, if you are going to have less efficient power, you are going to have more freight cars, and that means more steel.

On manpower, the railroads in World War II had 350,000 railroad men in the armed services. That is about one-fourth of all that we had. The railroads, as a policy, didn't ask much in the way of deferment of the men in World War II. I know some big railroads that, as a policy, said flatly they wouldn't ask for a deferment for anybody. The obligation or the privilege of serving in the armed services in time of war is one that should be available to everybody, and everybody should do so. If every industry asked for deferments, it could make General Hershey's job ewen tougher than it is. So the railroads tried to get by without asking very much in the way of deferments. There were places where they had to ask it--some critical bottleneck yards; some places in some of the sparsely settled western states where, if you took the railroad men out, there wasn't anybody left there to run the trains. But by and large we contributed an awful lot of men to the armed forces.

This time we are probably going to have to ask for a little more in the way of deferments. One example of that is this Dieselization operation. Pretty good mechanics are essential to keep Diesels going. I think the mechanics have to be a little bit better than the mechanics we had to have for steam locomotives. Now if we can't keep our apprentice system going any further for these mechanics, we are likely to get into trouble. As a matter of fact, we are short of mechanics right now. We are going to have to ask for some help on telegraphers and train dispatchers.

It has rather surprised me, even though I have been in the railroad business more than a third of a century, to find that so many of our train dispatchers--a very important category of employment on the railroads--are young fellows. You think of the railroad business as being just old guys. You get on a train and see these old conductors; you don't realize that most of the fellows sitting in these different offices dispatching these trains are young fellows of draft age. So we hate to lose those boys. They are performing a tremendously important function.

But we realize that it is an awfully bothersome question to try to balance between the needs of the armed forces for men and what you have to do to keep your industries like the railroads going--which are essential to the operation of your armed forces. I have no suggestion on it. I think it simply has to be decided in one place by General Hershey and his staff. Of course you farm it out to the local boards. Sometimes I have wondered if a little more over-all direction as to particular critical classes might not be better, but I don't know enough about it to have an opinion worth considering. They seem to feel it is better to leave it to the autonomy of the local draft boards,

but I just have one word of caution--you can't strip the railroads down too far and expect them to do the job that must be done by these railroads come World War III.

The fifth and last of these questions which we have to consider if you are going to have private operation unsubsidized is: Where does the money come from? Of course, in our business we can't levy taxes; we can't print money; we have to live out of the "take" at the gate. Since 1939--I pick that year as the time the trouble started in World War II--wages are up 112 percent in our industry, that is the wage levels; what a particular fellow gets. That doesn't include what may come out of the ruckus now going on or the materials that we use.

Our prices are 126 percent above 1939, but the freight rates that we collect are up around 57 percent, or 36 percent, depending on the way you want to figure it. The authorized increases, if you take what has been allowed and assume that, when the Interstate Commerce Commission allows it, all the states allow the same thing for intrastate traffic--which I assure you they do not--it would figure a theoretical increase of 57 percent. But when we actually see what the revenue per ton really is--that is what we get--that is only up 36 percent as against 1939.

Now the 36 percent is not a perfect figure. I don't want to give the impression that it is. That has two distortions in it. First, if you have shifts in the composition of your traffic, don't you see, where you run fewer refrigerator and more coal cars, you get away from your higher-rated traffic and you handle more low-rated traffic. That has a tendency to drop down your ton-rate earnings.

Another thing is the length of the haul. It is an axiom in railroading that the longer the haul, the less your ton-mile earnings because on the short haul you have the expense of the terminal operation at both ends and the fewer number of mileage units which can defray that cost. So those two things do distort to some extent that ton-mile figure of 36 percent. Yet in my book it is a better figure than some theoretical figure, such as 57 percent, which assumes things that we know are not so. Many of these State Commissions which are responsive to political pressures, just don't give us those rates on traffic within their borders to conform to what the Interstate Commerce Commission gives us. While the Interstate Commerce Commission has power, after long, tortuous proceedings, to make the States do it, it takes years to do. Anyway if it is 57 percent, contrast that again with the figure I just gave you of 126 percent increase in the prices we pay, 112 per cent in the wages we pay, and you can see what our predicament is.

Passenger fares by the way have gone up 34 percent or 38 percent, again depending on how you figure it. Curiously enough, the figures there will just operate in the reverse of what they do in the freight rates. The low figure there, 34 percent, is the amount of the authorized increase by the passenger-rate hearings which turns out passenger-mile earnings which are a higher figure, 38 percent. Why? Because more people, relatively, are riding now in the higher-priced travel rate Pullman cars, and fewer in the lower-rated coach travel. That makes a difference and the distortion is just the other way.

On mail pay, we got 48 percent above 1939 up to the first of this year by a settlement in a case now going on. Currently we are only getting 25 percent above 1939, but we confidently expect in a case shortly to be heard by the Interstate Commerce Commission that the obvious inequity will be corrected to some extent. Our rate of return for the five postwar years, gentlemen--during which we have had the highest level of traffic in any five consecutive peacetime years in the history of American railroading--has been only 3.5 percent on our depreciated investment, and, of course, that is just not enough to get by.

It is curious the reaction about railroad freight rates and passenger fares that you bump into. People go to a football game in the fall on a special train and find they are paying a third more for railroad transportation than they paid 10 years ago. They like to grouse about it. They may be grousing about it in a good-natured way, of course, but nevertheless they exercise the good prerogative of beefing a little about that increase in rate and still not saying anything about the fact they pay twice as much for the football ticket to get into the game after they get there. So we feel we are behind the procession on the revenue end.

We have a case that starts before the Interstate Commerce Commission next Monday, where we are asking a 6 percent increase in our freight-rate structure. That amount of 6 percent will have to be raised if, out of this labor fracas that is going on, there is any increase--and of course there is bound to be some because we have made this offer, in that 21 December 1950 agreement. That is included in the 6 percent we have asked for, what we have already offered these men. Of course, as to the other 73 percent, we have a case in the mill that will probably come out with something obviously within the limits of this stabilization order that was issued last week which caused the labor representatives to walk off the board. If they should get the amount authorized, well, that will mean they will get--for each one cent an hour--about 37 million dollars a year; if they get another 10 cents, you can see it is 370 million dollars a year. That freight-rate increase therefore will have to be raised.

The necessity of keeping the railroads healthy is something that can be realized if you look at the relative economy of mass transportation, and that is what you must have in time of mobilization and what you must have in time of war. Here are some of the figures that might interest you. Suppose you were to undertake to transport 100,000 tons of freight from coast to coast. To do it by rail, it is going to take 90 tank cars of Diesel fuel. Suppose you were going to do that same job by truck. It is going to take 250 tank cars of Diesel fuel or nearly three times as much. Suppose you are going to do it by airlift, it would take 2,700 tank carloads of aviation gasoline or 30 times as much.

Now coming to manpower, again let us take our problem of moving 100,000 tons of freight from coast to coast. To do it by rail, it is going to take 3,500 man-days of train crew time, but if you are going to do it by truck, you are going to have 90,000 man-days of truck-driver time; if you are going to do it by airlift, you are going to have 50,000 man-days of plane crew time. Now to this Nation, facing some day the overhanging threat of a showdown with Russia--which has manpower resources numerically superior to our own and which has on its borders all this oil in Iran and all the satellite states around that they will certainly grab at the first sign of real trouble or at least they will try to grab it--this economy of manpower, this economy of fuel consumption in the rail method of transportation can be of tremendous importance.

Just a few words now as to where we stand today as compared with Pearl Harbor. We have more freight cars--1.25 percent more. That isn't very many more but it is some more than we had before Pearl Harbor. They are, however, better freight cars. Our total capacity is about 6 percent more of freight car capacity than it was at Pearl Harbor time. Our average capacity per car is about 4.4 percent above what it was before Pearl Harbor. Our bad order situation, we are getting under pretty good control. We were caught in rather bad shape a year ago with our bad orders. We had that coal strike and weren't taking in any money. We didn't have need for all the cars we had a year ago.

We had actually a surplus of 200,000 freight cars a year ago now. So what happens when a car goes bad under those conditions? You stick it on a side track and leave it there. So we were caught last spring with a bad-order percentage of between 8 and 9 percent. Of course, we got after that pretty fast, on June 27 and afterwards. That is down now to about 5 percent, which is considered normal for the bad-order percentage of the rail industry. We are going to do better than that. We are going to have to do better than that to get these cars that are essential to do the job. We will have to get that down to something

like 3 percent. We did do that, you know, in World War II. That is one of the things that got us by in World War II.

Now on locomotives we don't have so many as we had on Pearl Harbor day. I wish we did have. But the locomotives we have are far better locomotives than the Pearl Harbor product. The aggregate capacity of the locomotive fleet we have now is 7.7 percent above the fleet at the time of Pearl Harbor. That is to say, since the average locomotive now has 25 percent better tractive effort than did the locomotive of 1941, even though we have fewer of them, we wind up with a power potential of 7.7 percent above what we had before Pearl Harbor.

Probably more important than those figures is the fact that the Diesels have greater availability than steam locomotives. You run a steam locomotive just so far, then you have to stop and put in water; you put in coal; you have to clean out the ashes; and you don't get the mileage and the utilization out of them that you do with the Diesel. You run the Diesels as you do your automobile. You keep on running. You put in gasoline, oil, water, and away it goes. So that gives you some comfort in this situation.

But we need more locomotives just as we need more freight cars. By the way, on freight cars, our order book is the largest it has ever been in the history of the railroad business. We have 144,000 freight cars on firm order right now, and, at the present rate of production, that is a 2-year backlog. Even if we get up to our hoped-for 10,000 cars a month, you can see there is pretty near a 15-month backlog on that basis.

We have a good order book on our locomotive orders, too. It is becoming a question of getting the steel to do the job. The reason I say I would like to see more locomotives is this: Although with these powerful Diesels, with this increased power and greater availability, you can move these long trains that we like to move, come a war, when there will be a lot of emergency movements, we will have to get the stuff out without waiting for full trains. That means we will need a lot of units for emergency jobs.

As an example of that, shortly after the Korean War broke out, we were asked to transport some cars of hot stuff out of Toledo to San Francisco and get it there "right now." Well we moved that stuff and got it out there in three days, which is faster than we used to move railroad passenger cars from Toledo to San Francisco. Of course, we stand ready to do anything like that any time. Anytime the armed services want a job done like that it is going to be done. But I would just like to see a few more locomotives with which to do it. The Lord helps those who help themselves. We stopped scrapping

locomotives after the Korean trouble broke so we are engaged in building up a little reserve supply there if, again, we can get the materials to take care of them, to fix them up.

And the physical plant, I think, in the railroad industry is better than it was before Pearl Harbor. It is certainly better in the large amount of CTC--the centralized traffic control system. A single track railroad can be made to do almost the same job as a double track railroad through having one centralized control of the trains over 100 or 200 miles and by sending a train coming this way on a passing track at the same time the train goes by the other way, without either one having to stop. It was a wonderful system. I have oversimplified it, of course, but that has helped the railroad trains tremendously. We have done a lot of that, gentlemen, since 1941. I am not really worried about our physical plant.

On passenger cars we don't have quite so many as we had at Pearl Harbor time. We have about 1,800 fewer cars. Just to keep perspective on that, our passenger-car ownership prior to Pearl Harbor was about 24,086; now it is about 22,285. We made representation to the Secretary of Defense immediately after Korea broke suggesting that the armed forces had better get started quickly toward building again those troop sleepers that you had in World War II, that proved so useful, and more of these kitchen cars. Nothing has been done on it concretely. I don't mean no planning effort, but the cars aren't under construction. Anyone having anything to do with that program, who can expedite it, will be doing the country a service, to get things going because come M-day, we are going to need them, gentlemen.

We feel that type of thing should be the obligation of the armed forces rather than ours. They are cars that we never consider going into except in military emergency. We feel the armed forces ought to build them and ought to get going with it. We have some old tourist sleepers which we set out on side tracks at the request of the armed services two years ago. We have been trying to convince somebody in the Pentagon that it would be a good idea for the Army to fix those up and use them and have them available for troops. Well, so far nothing concrete has developed, but either you ought to fix them up or we ought to fix them up. We ought to have them to transport these boys whom we may need one of these days. We are trying to organize that and are working pretty hard to get it done.

We thought we had an agreement with the military and then it got into General Services and its people had different ideas. I don't mean they are not all for doing it; they are; but we squabbled about the basis on which it should be done if it is done by somebody other than us. We ought to fix some kind of a mileage rate or something. If we put up

the money, we want to be sure that we will get something back. I hope something will come out of that before too long. In my opinion, we are certainly going to need those cars, but there again if trouble starts tonight, if the balloon goes up, we will handle the military stuff. We will do it. What will happen will be that the civilians are going to suffer because the armed services will have first call on that equipment. Of course, by taking that out of the civilian travel, we can do any job that you may want done in the movement of troops.

Now against those better things that we have, those better freight cars, better locomotives, and better physical plant than we had at Pearl Harbor day, we must bear in mind that we have 18 million more people in this country than we had at Pearl Harbor. At that time we had 134 million people. Now we have 152 million people. That means you need more plants of all kinds; more people have to be housed; more people have to be fed, clothed, and so on. Also--and this is terribly important--we now have a 5-day week in industry. I see that General Marshall is prescribing a 5½-day week or 6-day week for some of you gentlemen and if industry generally would only go on a 6-day week for this mobilization, we would just be tickled to death. The loss of that extra day's work is just like subtracting 175,000 freight cars from the fleet. The cars just stand around from Friday to Monday morning, and that is another reason why, if we are going to have a mobilization that is going to be guns and butter both, and that is what it looks like it is going to be, then we must have more and more to offset that factor of having cars stand around on industry sidings from Friday to Monday morning.

Another thing, we haven't the heavy loading orders now we had during World War II, where cars had to be loaded to capacity. That helped the car supply, but at the finish cost more in loss and damage. Our loss and damage bill went up from 21 million dollars in 1939 to 30 million dollars in 1948, not all, I must say, attributable to heavy loading but some of it was because when some commodities are loaded, the top commodities get so heavy they do something to the stuff down at the bottom.

I think another factor that is important in the present situation, and the reason we can't get more use out of the freight car, is that we have had no public-shocking event such as Pearl Harbor to get the American people sold on the fact that this business has to be done. You gentlemen get around a good deal and so do I. I don't know what you think about it, but my opinion is that the country as a whole isn't sold at all on what has to be done here in this country, and because they are not, we have things such as the wildcat strike a couple of weeks ago; we have automobile production going merrily on. You know they are producing just about as many passenger automobiles right now as they ever did. That hasn't been cut down. They talk about cutting

it down in the future. I have the automotive reports right here with me today. I was going to read them, but for lack of time, I won't. It was just to show that the country is going right along. It has to stop if we are going to have steel for freight cars, tanks, and ships. But it hasn't been stopped yet, or at least it hasn't been cut down very much. We have today a freight-car shortage of 26,000 freight cars, the second largest freight-car shortage for this time of year in the last 27 years. In the face of that fact, the authorities cut our program from 12,000 to 9,000 freight cars. It just doesn't make sense, gentlemen.

One word about bomb damage--a lot of people ask me this question: "How will the railroads fare if we have bombings here?" Of course, we don't like that prospect any better than anybody else, but I suspect that we will be able to put the rail plant back in operation a lot quicker, a lot more effectively in the event of bomb damage than highways or other forms of transportation can be put back into operation. I will tell you why. Bomb damage with us isn't any different from slides, washouts, and interruptions that we are accustomed to in the month by month operations of the railroads. We have ways of getting things done quickly, and above all, we have diversion arrangements by which we go around them on other railroads. There are contracts already executed and in existence whereby railroad "A," if it is bombed out, uses railroad "B." Somebody moves the traffic around over another route. The experience we had in the 1937 floods shows what can be done. In 1937 every crossing north to south between Hagerstown and Memphis was out because of the high water, and yet the South got along. The stuff was delivered through Potomac Yards here on one side and then back out of Memphis on the other, and we got by.

Another thing to bear in mind in the event of bomb damage is that movement by railroad is a disciplined, controlled movement. We don't have people flocking out as you do on highways where a bunch of people, each one a rugged individualist goes out for himself. You don't have the kind of congestion you see around the University of Maryland when you go to a football game. You don't have that on the railroads because you have a centralized control. So in the event of bomb damage I think you will find, as the English found, that it will be the railroads that you will have to depend on more than any other form of transportation.

Gentlemen, I will be glad to answer your questions.

QUESTION: What would happen, sir, if the modern rate structure were to run so high that the freight traffic will become less and less of a load so as to put you in a more competitive situation, with the trucks skimming the cream?

MR. FARICY: Wouldn't it be just the opposite? You mean to lower the higher-rated traffic rates on the stuff that is competitive with trucks and get that down to where it makes it awfully tough for them to compete and then take it out of the fares that have to stay with the rails.

QUESTION: As I understand it, your present freight structure on your valuable cargo carries a higher rate because it was based on a monopolisitic sort of deal and therefore some types of stuff are almost carried at a loss or very close to one. Suppose you equalize those rates to your cost situation and bring the higher tariff stuff at a lower rate?

MR. FARICY: Exactly that has been advocated by some important segments of our industry. We find in examining the report of the truckers to the Interstate Commerce Commission that their average revenue is about five cents per ton-mile against our cent and a third. A lot of our people feel that if we put our rates on that highly rated traffic to be competitive with them, we would make it terribly tough for them. We did something like that on steel last year.

Effective May 1, we reduced rates of steel by 15 percent under the rates that we were authorized by the Interstate Commerce Commission to charge on steel; as a result we did get back a lot of steel business that was going to the trucks. Whether the Interstate Commerce Commission would ever permit us to put those rates down to the point where it would hurt the truck operators, to the point where it would put some of them out of business, I don't know. After all, we are really not trying to put anybody out of business either. We do think these trucks get by with too heavy loads on the highways; the highway people think so, too, now by the way, and we think they don't pay as much as they should for the use of the highways. But we do recognize that they perform a very legitimate function, particularly in the short-haul area. I am sorry I can't give you as direct an answer as you would like and it isn't because I don't want to give you a direct answer. It is just because it is a pretty profound question of rate relationships.

I may say that our association doesn't handle rate matters. The Department of Justice doesn't like the idea of our association handling rate matters and so to keep peace in the Nation on that front we don't handle them. But I would think that the railroads to the extent the Interstate Commerce Commission would permit it would be well advised to cut the rates on the things they have to cut them on to keep the business and without carrying the other side of it too far to where you just make it too tough for the guy that has to stick with you because he has no alternative; just get what you have to get out of that to make a decent living in the business.

QUESTION: I understand, sir, that the breakdown of the income of the railroads has shown that you have made money consistently on your freight but lost money consistently, that is in the last two decades, on your passenger and mail and other revenue contracts of that nature, on business of that nature. If that is true, what is your management doing to eliminate these portions of your load that you lose money on instead of carrying it on so that you perpetuate that loss?

MR. FARICY: That is an excellent question. That loss doesn't go back two decades, but you are absolutely right as for recent years. We make money on freight and we have had very large passenger losses ranging up to 600 million dollars a year. These so-called losses are not out-of-pocket losses. The Commission divides the expense of the ways and structures, the general offices, things like that, and allocates some to passenger and some to freight, so if you went out of passenger business entirely--if it were possible to do that, which it isn't--you wouldn't cut anything like the amount of that so-called loss, but you would cut a good deal.

Now what are the railroads trying to do about it is your question. Manifestly a great portion of this loss is attributable to what we call the head-in traffic, that is, largely mail. We have had for years the rawest kind of deal on mail pay from the Government. Two railroads in the East alone figured their loss on mail for one year was pretty near 40 million dollars. Up until this little settlement which was put through a couple of months ago we were operating at the same rates for carrying mail as we were in 1925. That is a big portion of the loss. The Government ought to pay more money for carrying the mail. You see we get less money for transporting 94 percent of the mail intercity than the airlines get for transporting 6 percent of the first-class letter mail.

Another thing that is tough about this passenger business is that you can't take off passenger trains in states without the consent of the different state commissions, and they just won't give it to you. You can try to make them do it; the railroads have had some success in that and some failures. If you want to run a railroad through three states and one of those three states won't let you take if off under its laws, you are just stuck. I know of trains that cost the individual railroads losses of three, four, five hundred thousands dollars a year, and of course that adds up when you consider all those branch-line trains.

What else have we tried to do about it? We are trying to make it more attractive to get more business and of course you know if you have been traveling by rail in the last few years that the service is much better than it was just a few years ago; the equipment is better; and

things are better generally. But we have to overcome that mail deficit. We have to find some answer to the branch-line passenger service by taking off the losing trains. We are just not allowed to do that without public authority saying we can; you always have political thinking in these state commissions and, frankly, you have that in most of them. The Commissions are responsive to the local pressures of the towns through which the trains go. Whether they ride the trains or not, they like to have the trains stay on even when they don't have any business.

QUESTION: Mr. Faricy, I wish you would enlarge a little on the Diesel program versus the retention of the coal-burning locomotive in view of the fact that the impact of petroleum resources by the military services will be so much greater in the coming war. The POL requirements in World War II will be chicken feed compared to what our requirements are going to be. What is going to be the fate of your favorite Diesel program versus the retention of the coal-burning locomotive?

MR. FARICY: I will say again, you must consider that we now have a good deal more than half of our passenger service, a great deal more than half of the switching service, about half of the freight service, by Diesel, and we still use only 2 percent of the country's petroleum production. It just seems to me that, if you look at the railroad operation as one of the essentials to the fighting of a war that you just can't get along without, you should allocate to the railroads the relatively small part of the petroleum operation for the sake of saving the much greater amount of steel. You will have to have many more freight cars and many more locomotives. You have to get and keep a balance.

Of course you do have this tremendous resource of unlimited coal and you might say, "Why not make them use coal?" Well, now, it is not so simple as that. If you do, you might have to set aside enough steel for 20,000 freight cars instead of 10,000 freight cars per month!

I am director of an oil outfit that I have been with for many years, a privately owned company, and if you will look at these oil resource figures, you will find that the petroleum production in this country is pretty well going to keep pace with the needs. Look at it now compared with years ago. Of course, we were told 30 years ago that we were going to exhaust our supply of reserves. They are bigger now than they were then. So I would not start out and concede that we have too tough a problem on petroleum. The amount of oil used in Diesels is very small compared with that used for heating and yet nobody suggests that those persons shouldn't be allowed to heat their houses with oil, that they should be made to go to natural gas or coal. They were, of course, encouraged to go to coal during the last war.

I just don't see why one should pick on the Diesels in the petroleum field. Rail transportation is the thing that lies next to your tanks, guns, and planes as the most essential thing you are going to need finally. If it got so tough you couldn't have your planes and Diesel railroads both, I don't suppose anybody in this day and age would say that we would just have to do what we could with what we have. I don't think it is that tough.

MR. HILL: Mr. Faricy, the time has come to close this session in spite of the fact that there are many questions which could be given to you for your very careful and adequate handling. May I express to you, sir, the grateful appreciation of the student body and the faculty for coming down and giving us this most helpful talk this morning.

(6 July 1951--350)S.