

TRANSPORTATION

*Lecture delivered before O.I.C.
By Maj. J. Van B. Wilkes 3/2/29*

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The next subject

1. The subject of transportation is an immensely broad subject of which, no doubt, many of you know more than I do. I do not think, therefore, that it would be at all helpful for me to try to cover it all in one talk. I am going to confine myself to railroad transportation. I am not going to touch on the transportation in the Theatre of Operations or any other matter in which the Assistant Secretary has no particular interest. All other forms of transportation are more or less subsidiary to railroads and I have no doubt that in the next war we will see truck trains being used to relieve the load on important terminals by collecting L.C.L. shipments and by handling short hauls and air planes carrying important machine parts and other valuable freight and making deliveries to points, where for some reason, other means of transportation cannot go.

2. There are between 1,400 and 1,700 railway companies in the United States of which less than 200 are in Class I. The relationship existing between any two railroads is usually obscure and hidden from outsiders, but influences their dealings in a determining manner. In the report on the New Haven failure by the Interstate Commerce Commission, it is stated "The New Haven System has more than 300 subsidiary companies in a web of entangling alliances with each other many of which are seemingly planned, created and manipulated for the purpose of concealment and deception. The organization described

for the New Haven is typical of most railroad systems and I believe it very probable that there are complicated relationships existing between many railroads generally considered independent of each other.

3. Railroads are corporations existing ordinarily under state charters. The charter may be held under a state far removed from the territory served by the road. The Southern Pacific for instance, is composed of two parent corporations, one chartered in Kentucky and one in California.

4. Railroads that are not related to one another are likely to be bitter rivals. There is nothing more keen in the business world than the competition of a railroad for tonnage. This is due to the small actual cost of hauling a ton of freight compared with the heavy fixed charges such as maintenance of way and equipment, interest on investment, payments on bonds, salaries of officers and agents. Increase in tonnage hauled increases receipts greatly as compared with the corresponding increase of expenses.

5. Railroad officials owe their loyalty to their employers. They cannot surrender these interests without consent of the employer on account of patriotic feelings of their own or for any other consideration no matter how laudable in itself.

6. A railroad has a dual nature and function. Primarily it is a corporation having as its mission the financial profit of its stockholders. It is also a public servant, performing a vital service. These two services are not easily coordinated. On the one hand we have the fact that railroad stocks and bonds

are the foundation of almost the entire financial structure of the Nation, forming as they do, the basis of trust funds and the reserves of insurance companies, banks and other business organizations, on the other hand railroad transportation in time of peace is so essential that it cannot be allowed to be discontinued regardless of profits to the owners, and in time of war must be performed efficiently or at the risk of a national disaster. All the great nations of the world have solved the difficulty by means of Government ownership and operation of railroads except England and the United States. An indication of our drift is given in

"In the case of the Kansas City Southern, which was argued before the Supreme Court during the present term, counsel representing the Department of Justice, when defending, in their brief, the action of the Commission, their position therein may be summarized as follows:

Railroads are private property only in the sense that the title is held in private ownership, but that the investment, whether in money or in property, is dedicated to the performance of a governmental function and is to be treated as nearly as may be as if the government itself had made the investment and had issued and sold to private parties the securities representing that investment. The exercise of a governmental function by a private agency can

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only be justified and continued if we enforce with practical wisdom the closest practicable analogy to government ownership and operation".

7. The greater part of the United States was settled since railroads assumed their dominance. In the past railroads exercised more than governmental powers and more or less arbitrarily determined the destinies of the localities they served. Now freight rates from an intricate whole intimately associated with commercial and business interests so that even the most insignificant change is likely to produce far reaching results. It is therefore required that a proposed change in rates must be submitted to the Interstate Commerce Commission for consideration thirty days before it goes into effect and the Commission may suspend its operation up to 7 months so as to have time to give it thorough and careful consideration with a view to safeguarding all vested interests from injustice.

8. The intensely competitive nature of the railroads is the strongest influence in compelling good service to the public, but in times past the railroads had a tendency, as this competition became unbearable, to form associations, bureaus, committees, etc., and to pool profits with a view to getting the financial rewards without giving such superfine service. These tendencies have been limited by law and one of the most important duties of the Interstate Commerce Commission is to see that reasonable service is rendered and that all shippers are treated fairly and that no undue preferences are shown.

9. The Interstate Commerce Commission is a unique organization charged with both administrative and judicial duties. It consists of eleven commissioners appointed by the President of the United States and of fourteen bureaus. The commissioners are organized in six divisions, three assigned to each division. The divisions are each charged with responsibility for specific classes of cases by order of the commission. Each division has by/^{law}the full authority and jurisdiction of the Commission over the cases assigned to it and may order, certify or report as it judges best and the seal of the commission is the seal of each separate division. Procedure before the Commission is very formal and is modeled on that of the Federal Courts.

10. The Bureau of Formal Cases consists of a board of review and a corps of examiners who act along lines similar to masters in chancery in preparing the immense amount of data necessary to the consideration of the important formal cases that come before the Commission. The examiners hold public hearings when necessary, either in Washington or elsewhere if more convenient and submit a tentative report and recommendation to the Commission, copies of this report are furnished parties at interest and they may submit their objections to the Commission. The final decision is of course with the division of the Commission having jurisdiction.

11. The Bureau of Informal Cases serves as an intermediary between complainants and railroad companies in adjusting complaints without resort to the formal process of litigation. One section of this Bureau examines all voluntary settlements made by railroads

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with complaints so as to make certain that no unlawful rebates are being given. The decisions of this bureau are not necessarily final as either party may demand a formal hearing. On account of the great difference in cost, however, a great many cases are thus settled to the mutual satisfaction of both parties. In 1927 there was thus settled 7,576 cases and 9,393 voluntary settlements were reviewed.

12. The Bureau of Service was created in 1917. It is concerned with the use, control, supply, movement, distribution, exchange and interchange of locomotives, cars and other equipment especially in times of emergency. It has demonstrated its capacity for action several times since its creation.

This bureau is normally skeletonized, but is so organized that it can be readily expanded by the organization of a headquarters in each of the 15 zones into which the country is divided with trained agents in all important terminals and transfer points. The pressure of this bureau on the Car Service Commission of the railroads was of great importance in 1917 in enforcing reasonable car service rules. The normal peace time organization is sufficient to handle any ordinary emergency.

13. The other Bureaus are, Administration, Law, Accounts, Statistics, Finance, Valuation, Traffic, Inquiry, Safety, Signals and Train Control and Locomotive Inspection. The Commission has about 2,000 regular employees and can be expanded to any extent necessary in time of war or other emergency.

14. The Interstate Commerce Act gives the Commission complete

control over the railroads. The following are some of its powers.

a. Car service and per diem rules are filed with the commission; they must be fair and reasonable. The commission may give these rules the force of approved rates at any time.

b. The commission may in cases of emergency suspend car service rules. It may transfer temporarily or permanently, the cars, locomotives or other equipment from an owning railroad to another railroad. It may compel the joint use of terminals or other facilities including portions of main track. In these cases it has the power to determine the fair terms of compensation between the interested parties.

c. The Commission in times of emergency may give preference or priority to specified traffic, enforce embargoes, etc.

d. In time of war, the President may certify that it is essential that certain traffic shall have preference. And the Commission shall then have the power and authority to order such preference.

e. If a railroad for any reason is unable to handle the traffic, the Commission may order a diversion of any or all of it to another road and may fix just terms of compensation.

f. The Commission may compel any carrier to provide itself with adequate facilities and equipment.

15. The railroads in spite of their highly competitive character have many interests that require concerted action, such as arranging through train schedules, exchange of cars at junction points, repair and maintenance of cars when off owners line, settle-

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ment of damage claims, creation of through routes and prorating charges thereon, between interested roads and a great many other matters. The organization and operation of the various bodies created to effect these purposes would be of great interest to the Assistant Secretary of War who has the duty of coordinating so many almost independent agencies, but unfortunately the details are almost impossible to discover.

16. The Association of Railway Executives was founded about 1911 when government control was beginning to be felt by the railroads. The association is composed of the executives of Class I Railroads. It was formed originally to advise Congress with regard to prospective legislation and to furnish a convenient forum for the consideration of railroad matters. It is not certain how far this association can speak for the properties represented, but the importance and personality of its members is bound to give its views great weight. Its counsel, Mr. Thom, is prominent at every hearing before committees of Congress, considering railroad matters. It is the source of most railroad propaganda.

17. The American Railway Association is a voluntary association of steam railroads. Any railroad operating 100 miles or more of line, except mere plant facilities, is eligible for membership. Each member is entitled to one vote. A member may terminate his membership at any time by formal notification and payment of dues to date. Failure to pay dues for two consecutive years automatically cancels membership.

The object of the Association is stated in the articles

of agreement as "by recommendation, to harmonize and coordinate the principles and practices of American railways with respect to their construction, maintenance, and operation". The recommendations of the Association are not binding on any member until duly ratified by him. It is the principal research organization of American railways.

18. Its organization is very loosely connected. It is controlled by a board of directors elected by the members. The officers are, a president, two vice-presidents, a secretary and a treasurer, appointed by the directors. An executive committee and a nominating committee have the usual duties. The work of the association is performed under seven divisions, operating, transportation, traffic, engineering, freight claims, mechanical and purchases and stores. Each division is composed of a variable number of sections and subsections coordinated by a general committee. It determines its own method of procedure, has its own annual meeting, may permit persons not members of the association to meet with it as associate members, etc.

19. The American Railway Association is thus a typical trade association. There has been added to it, since the war, an organization of a peculiar character known as the Car Service Division, composed of permanent personnel not on the payroll of any individual railroad, but serving the association as a whole. The headquarters of this division is in Washington but it has a field organization distributed over the country as I shall presently describe. The Car Service Division has been assigned the follow-

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ing powers and duties by the Association.

a. Supervise the operation of Car Service and Per Diem rules. The division has nothing to say as to the making of these rules or as to their interpretation.

b. In an emergency to temporarily suspend the rules or to establish temporary rules to control specified types of equipment.

c. To transfer equipment from one line to another with due regard to ownership. The Car Service Division naturally cannot move cars away from the owner except by his permission and consent.

d. To require submission of such reports as are necessary to ensure compliance with the rules and to give a clear knowledge of car service conditions.

In case the Car Service Division finds any railroad violating the car service rules or otherwise not cooperating, it can only report the details to the directors of the Association for such action as they may be able to take.

The Car Service Division acts as a joint agent of all railroads in the association in some cases where competitive conditions are not very acute as in military movements and to receive service of certain orders from the Interstate Commerce Commission.

20. The Car Service Division has divided the country into 14 districts in each of which, except one, is a district manager with a few car service inspectors. In each district the shippers have been induced to organize a shippers Advisory Board that meets once

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a quarter for discussion of matters relating to car service. The Board is organized into commodity committees and a contact committee of representatives of the railroads serving the district meets with them. In normal times the board merely serves as a get together and an opportunity for the issue of railroad propaganda for prompt and clean unloading and, heavier loading of cars and for other matters which are of advantage to the railroads. In time of emergency, however, the boards are of great value. The individual railroads apparently are jealous of too much interference by the boards and no complaints are considered until they have first been submitted to the railroad and no redress has been obtained. The boards have nothing to do with rates, schedules or demurrage claims.

21. Railroads are required to provide enough cars to carry the freight normally presented to them for shipment. They are not required to provide an excess of equipment to meet unusually large demands. Car shortages are almost certain to happen locally for short periods during heavy traffic movements. Usually they are not serious and are quickly reduced as there is a surplus of cars elsewhere. Even in November, 1917, the car shortage was only about 140,000 cars which is less than is frequently loaded in a single day. A surplus of 11,000 cars and an average accumulation of loaded cars in terminals of about 100,000 was reported for the same month.

22. It is essential that cars moving loaded from the owners line be returned to him from time to time to provide for their proper maintenance. The owner should also be paid for the use of the cars by other lines and should be able to get them for his own use in

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times of heavy traffic. These objects are secured: (1) By charging a per diem rental for all cars on foreign lines. Shippers pay demurrage for the time cars are held for loading beyond the free time. (2) By a system of car rules agreed to by all car owners. These rules require that foreign cars will be used in preference to home cars for off line shipments; that empty cars may be returned to owner via the lines over which they moved loaded; that foreign cars may be directed loaded to destination via owning railroad or to a destination in the direction of the owner. If the owner desires a more speedy return of his cars he may request that they be routed back to him at once without waiting for a load by the shortest available route. He then pays 6 cents a mile for the empty movement. (3) In times of emergency the Car Service Division may issue orders supplementary to the Car Service rules which will expedite the return of the cars. For instance a standing order was in existence for a long time that coal cars belonging to the L. and N. railroad were not to be loaded but were to be promptly returned empty to that road.

23. This chart shows the revenue tons of freight loaded in the United States during the last three or four years. Please note the degree of correlation indicated. It has been found that surprisingly close estimates of seasonal tonnage can be made by using a ratio based on current trend corrected by experience during the earlier month of the year and by the observed condition of the industries originating large tonnage. Reliable predictions can likewise be made by individual railroads and it is their duty to prepare beforehand to meet the peak loads thus computed either by corraling their

cars on their lines or by renting equipment from their connections. The Car Service Division stands ready to render assistance in case of need. The Interstate Commerce Commission need only intervene in very unusual cases.

24. There are certain traffic movements in which many railroads participate which are seasonal in character and run to a sharp peak. It would be very unjust to require the originating railroads to maintain sufficient equipment to meet these heavy demands. The other railroads which participate in the profits from these movements should furnish part of the equipment. The Car Service Division is given special responsibility to assist in collecting cars for these movements, the wheat harvest, the grape movement from California and the shipment of other perishable fruit crops from the west and south.

25. When terminal facilities at any point become jammed with traffic, it is necessary to control the number of incoming cars in order to give an opportunity for clearing the yards. This is done by embargo. The Interstate Commerce Commission has the authority by law to enforce an embargo and has done so on occasion. The railroads have no such right by law but have placed embargoes in a number of cases where necessity has justified them. In an embargo the railroad fixing the embargo refuses to accept cars from its connections consigned to the terminal affected at a greater rate than that specified. This restriction passes back through connections to the originating roads which will refuse freight consigned to or through the affected terminal except under permit. The granting of these permits is a delicate matter and has caused trouble in the

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past. In 1925 the real estate boom in Florida caused the shipment of great quantities of building materials and general merchandise into the state from all parts of the country. Much of this freight had not been sold before delivery and a serious congestion of all terminal facilities resulted. An embargo was established by Florida railroads during the latter part of October. Considerable dissatisfaction resulted from the distribution of permits. It was claimed that rank favoritism was shown and that permits were secured by shippers who thus were granted a part monopoly and were able to hold up the builders and merchants in Florida. The Car Service Division was finally called in to assist in clearing up the matter. The state was divided into a number of terminal districts in each of which the receivers of freight were organized into commodity committees. Each commodity committee made up periodically an estimate of the number of cars that could be unloaded by its members during the next succeeding period. These estimates were consolidated by a terminal committee formed of the chairmen of the commodity committees and the approved estimate was certified to the railroads serving the district. The total number of cars that could be handled by the railroads during the period divided by the estimated car needs gave a ratio that the railroads were obliged to apply to all requests for permits received from the dealers without any discretion whatever. Requests for permits, distinct from the estimates were made by individual receivers direct on the railroad which served them. The plan went into effect January, 1926. Its operation was supervised by the Florida Section of the South Eastern Shippers Advisory Board. The

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situation was cleared up by June, 1926. The principle of thus divesting the railroads of all discretion in the allocation of permits or of cars in cases of car shortage is sound. It has been applied in the California Grape plan and in other instances. The allocation of coal cars to mines in case of shortage is made by application of a ratio to the mine ratings determined by disinterested boards. No discretion being left to the public carrier.

26. Railroad terminals are the most sensitive points in any system. A typical terminal contains receiving yards, classification yards and departure tracks, besides an engine house, team tracks, freight houses and other facilities. A train which is to be broken up in the yard is divided into cuts according to the classification in vogue. Trains are made up and dispatched from the yard when sufficient cars have been collected or on schedule for special freight.

27. An article which appeared last year in the Railway Age describing installation of the Pennsylvania Yard at Crest Line, Ohio, gives a very interesting example of the close connection between the yard design and its operation. The yard at Crest Line was to take the place of the East-West part of the Fort Wayne Yard. It was intended to classify as much freight as possible and arrange it into trains with a view to expediting its movement through Chicago terminals to the industries to which it was consigned. Each Division Superintendent and yard master was called on to submit a list of the classifications which he thought ought to be made. When these lists were received it was found that the number recommended was more

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than twice as many as there were classification tracks available. An actual traffic count was therefore taken at three hour periods, of the cars passing through Crest Line based on the recommended classifications. As a result of this count, it was decided that excellent results could be gotten with 15 classifications. There were only 13 tracks available, but the count showed that two of the tracks could each be used for two classifications without serious trouble. As the classifications involved details of operation in the Chicago terminal 260 miles away, and affected the service to large industries, the details of which could not possibly be known to the Crest Line yard force, a selected number of experienced men under charge of an assistant yard master were sent from the Chicago terminal district to work at the Crest Line yard for a while after it started to get things properly coordinated.

28. It is apparent that a small change in method of operation of a yard such as that described might cause serious confusion either there or at one of the adjoining yards. Indeed very serious trouble has often been caused by a new, though thoroughly experienced yard master simply holding cars in the yard to get heavier trains or by some other slight departure from accustomed practice. A terminal ceases to operate when all its classification tracks are full of cars. It is then impossible to break up trains entering the yard for dispatch of cars to different destinations. There are only two ends to each track and cars can only be shifted in order through these ends. A car out of place is practically buried.

29. As the result of the confusion at Tampa during the Spanish American War, a scheme for marking cars loaded with military supplies

by red, white or blue tags to indicate their relative priority was worked out. It was first applied in the movement of troops to the Mexican border and apparently functioned fairly well. Upon our entry into the World War, the same system was applied indiscriminately to the immense shipments of materials and supplies connected with the procurement program. There is no question but what this system had a great deal to do with the persistent jamming of terminals which took place. Mr. Walker D. Kines attributes most of the trouble that the railroads experienced to this cause. If these labels were actually obeyed the railroads would have been obliged to have completely changed their methods of operation at every terminal and yard.

30. The Quartermaster Corps is charged with the transportation of the Army and its supplies. In other words it is charged with the procurement and issue of transportation to the Army in the same way that the Ordnance, for instance, is charged with the procurement and issue of ammunition.

There is probably an advantage in having one branch charged with the settlement of transportation accounts and with the business connected with transportation. The Quartermaster Corps cannot possibly furnish enough officers to place one convenient to each of the hundred thousand factories, etc., that will be shipping materials and finished goods for the use of the Army in a great war. The inspector or other agent of the branch dealing with the factory will probably have to be made an acting quartermaster for the purpose. He will make out the bill of lading including the routing in accordance with the regulations issued by the Quartermaster General.

31. Priority should only be shown in car supply. After freight is once loaded in cars it should move without interference, to destination. The use of priority tags should be strictly prohibited. Shipping directions should not be given to the factory until definite arrangements have been made to unload the freight upon receipt or, at need, to reconsign it to some point where this can be done. The factory management should request spotting of cars as it does in peace time directly from the railroad which serves it. Requests for cars to be loaded with military stuff should state in certificate form, the priority assigned the shipment as Class I, Class II, etc. It is the responsibility of the branch procuring the supplies that military priority is not abused and that only cars actually to be loaded with military material are included in a priority request. The railroads are required by law to furnish cars to fill military requirements before meeting other necessities. Cars not covered by military priority will be allocated in the same way that cars are allocated in times of car shortage by shippers Advisory Boards under whatever coordination may be found necessary.

32. Priority will be in accordance with the four classes of the Preference List, except that movements of troops and the supplies immediately accompanying them will take precedence of all traffic whatsoever.

33. The Appropriation Act of August 29, 1916, authorized the President in time of war to take possession and control any system or systems of transportation. This act is still in force and has

been strengthened by reference to it in the Transportation Act of 1920. There is no question but what the President can, when he deems it necessary, take action under this provision without any further action of Congress. Both Great Britain and the United States found it necessary to take possession and control of their railroads in the last war. Great Britain took control of its railroads immediately upon declaring war. The United States permitted the railroads to go it alone until it was demonstrated that they were incapable of escaping from the limitations of their nature and the need of stronger control and financial support was shown.

34. The United States Railroad Administration has been pretty severely criticised since the war and has been held up as an instance of the shortcomings of Government owned enterprises. Careful consideration of the facts show, however, that instead of being a case of the Government taking control over a private enterprise, it was actually a private enterprise invested with Government authority without being charged with the corresponding responsibility. Almost without exception, the management and operating officials of the Administration were selected from and by the railroads themselves, and if any incompetence was shown, it was shown by selected railway personnel. Under the Administration rates were fixed by order without adequate study or investigation of the results on the shippers. In the lesser rate adjustments, interested shippers were in many cases, not even given warning of the impending change. The complicated rate system of the United States was ruthlessly thrown into

confusion which has only recently been brought into order. The representative of a large association of shippers speaks feelingly of his predicament when he found that he must present his arguments against certain proposed rate changes before a board composed entirely of railroad men whom he had frequently opposed in very similar cases before the Interstate Commerce Commission.

35. Claims for damages were very difficult to satisfy as the suit had to be brought against a Governmental organization in federal courts. Damage claims awarded by the courts against railroads and unsettled at the time of Government taking control, were absolutely uncollectible during the dominance of the Administration. A great many services ordinarily rendered by the railroads were abandoned, rates and fares were increased and the very discontent and ill feeling caused thereby was of value to the railroads as propaganda against public ownership and presumably not therefore particularly disagreeable to the management of the railway administration.

36. Now none of these things noted above have any direct bearing on military necessity or helped greatly to win the war. In England the passenger rates were raised 50% when the railroads were taken over and were not again changed, freight rates remained stationary during the entire war.

37. I believe that when the railroads are taken over by the United States in the future, they should be directed to operate as in peace time as far as possible, each railroad responsible for the service to its own territory. The necessary coordination of

the railroads should be secured by a railroad board similar to the association of Railway Executives and it should be made evident to all that any deficiencies noted are due to the railroad management and not to public ownership.

36. The railroads should be guaranteed while under control a reasonable operating profit. The Interstate Commerce Commission should supervise their accounting. No changes should be permitted in freight rates except in accordance with peace time methods of procedure. Pay of labor and changes in salaries should be determined by a federal labor board. There should be a war board of control, not composed of railroad men, who should be given power to order any changes in service and any new facilities including trackage necessary for war reasons. The cost of such changes should be paid by the United States. All other construction should be supervised by the Interstate Commerce Commission to see that railroad expenses were not unduly padded.

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GVBW/emf
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