

THE ARMY INDUSTRIAL COLLEGE
Washington, D. C.
Course 1938-1939

THE RELATION OF AMERICAN RAILROADS
TO INDUSTRIAL PREPAREDNESS

by

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April 25, 1939.

AIC 234 (5/10/39) 4h

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TO INDUSTRIAL PREPAREDNESS

One of the delights that I have is talking at the War College and talking to you gentlemen. One of the reasons I like to talk to a group of this kind is that I know you wouldn't be here if you weren't interested. I can make this talk about two and a half hours long or twenty-five minutes long, and I am going to try to make it twenty-five minutes. It will be a little sketchy.

As I understand it, you gentlemen are charged with the study and the preparation of plans in case of future war in which this country would be involved. I am assuming that in your studies you have considered what took place in the last emergency and possibly what ought to be done to prevent such difficulties in the event of another war of the same magnitude.

While this country was not in the war until 1917, the railroads really were confronted with the war several years prior to that time, due to the large purchases of materials, war materials and supplies of every kind and character ordered by foreign countries. Never having had an experience of that kind theretofore, it was not unnatural that many things occurred that ought at any future time be prevented in the light of the knowledge gained during that period.

So far as the troop movements are concerned, I think little need be said about that, as that part of the job was handled in an entirely satisfactory manner. That being so, it is assumed that the same plan of procedure would be followed in case of another emergency so far as the troop movements are concerned. The outstanding reason for this is that troop movements are under complete control, they are not started from a camp unless another camp or embarkation facilities, in case of foreign transport, together with the ships, are available for the movement. The lack of such control was the real reason back of the tie-up in transportation.

There was no difficulty during the war so far as the domestic transportation was concerned, except as it was interfered with by the congestion caused by war materials and supplies for export. In other words, they did not know then that the main principle in transportation to avoid difficulty should be to not permit the loading of a car until there is a place where it can be unloaded. Transportation is a mobile thing and not a

storage facility. By reason of many thousands of cars being loaded for which there was no place to unload them, the railroads, particularly those east of Chicago, were turned into storage houses instead of transportation facilities.

There was no real lack of capacity of the railroads during the last war to definitely handle the traffic if it had been properly controlled. The control was entirely lacking and that is what caused the tie-up in transportation, particularly in the Eastern territory. There is no lack of main line capacity and, in fact, no lack of terminal facilities for the movement of a traffic greatly in excess of anything that this country has ever seen, provided an accumulation of that traffic is prevented. I have seen figures indicating that at one time 60,000 cars were tied up in the Eastern territory and could not move a wheel for the reason that there was no place to unload them. A strange thing in connection with that, as has often been stated, is that if those cars had even been loaded to capacity, the number tied up would have been reduced by 15,000.

The question now is what would or what ought to be done under similar conditions that may exist in the future? For purposes of illustration, let us assume that we had repeated again the same major conflict as existed before and that the same transportation problems were involved. In my opinion, what you need, in the first place, is a coordination of procurement to avoid any conflict between the Army and the Navy and various lesser branches in the various districts in which supplies are to be acquired.

I am assuming that the absence of such a coordination which caused a great deal of difficulty in the last war would not be permitted to occur again.

The next question is how to prevent the loading of a car until it is known that there is a definite place to unload it. In the last conflict there was a great glut of material at the seaboard for which there was no disposition. Therefore, I believe that what ought to be done to prevent a congestion is to establish through the Association of American Railroads an embargo immediately upon a declaration of hostilities and only permit cars to be loaded to the Eastern seaports and other likely places of congestion under a permit - the direction for the permit to be given by the officer in charge at the embarkation points and the handling thereafter to be under the jurisdiction of a representative of the Association of American Railroads who would handle all of the details.

In order to avoid delay for necessary materials, it would probably be necessary to establish what, for a better term, I shall designate as control stations and to give a concrete example we will assume that Harrisburg, Pennsylvania, on the Pennsylvania Railroad, is established as a control station. Material would be permitted to accumulate there so as to be readily accessible for movement to New York for export. Here again you would have to establish an embargo control at Harrisburg to prevent that point being congested. The general handling of this would be under the jurisdiction of the Car Service Division of the Association of American Railroads, directly under the supervision of the Vice President of Operations and Maintenance of that Association.

There are thirteen district managers of the Association, located at strategic points throughout the entire United States. This organization can be readily expanded to cover the seaboard and all of the larger manufacturing points and heavy traffic movements, to work directly with the procurement officers whom we assume will be in charge of all procurement in the various larger manufacturing plants.

There can be no question whatever of the ability of the railroads to handle any war load that may exist, if we are certain that they will be used as transportation mediums and not for storage purposes. I have delivered so-called lectures at the War College for the past fifteen years and this very question has been the principal theme of my various addresses. It is my understanding that the War Department generally is so much in agreement with this opinion that they have now written into the Army regulations rules that specify that transportation is for that purpose alone and not for storage purposes, and, therefore, supplies and materials should not be loaded on cars until it is definitely known that they can be promptly unloaded upon arrival at destination.

The embargo method is constantly in use by the railroads in accordance with the plans that have been in existence for many years and as outlined in my address to the War College on December 3, 1937, it is constantly in use by the railroads in times of heavy traffic to prevent congestion. As an example, we will assume that some concern in New York is in the export business or in manufacturing where the unloading of cars can not be done promptly upon arrival. Immediate investigation by a railroad representative might indicate that it was impossible for the accumulation to be relieved within a reasonable length of time and, therefore, an embargo is issued by the railroads which is transmitted to all lines and prevents the movement

of cars to that point, except under a permit. Such a permit would not, of course, be issued until such time that cars loaded for that point could be unloaded promptly.

This same principle would apply to places like Pittsburgh or any other heavy manufacturing district where the accumulation of raw materials might also make such an embargo necessary. However, one part of the embargo regulations contained in a "Note", reads as follows

"It is illegal to embargo freight consigned to the United States Government, its authorized agents or officers. Mention of government freight in exemptions to embargoes is therefore not necessary, it being understood that no embargo will apply to this class of freight."

This should be changed and the railroads should have the same right to embargo government as well as any other freight because, generally speaking, government freight is just as responsible for the congestions as is the movement of private freight.

Someone has asked the question about priorities for the movement of certain classes of freight. To my mind, a priority is the first indication of a breakdown in transportation. It most certainly indicates that there is not transportation enough to move all of the freight and, therefore, we have to discriminate as to the use of transportation between different classes of traffic. No priorities are needed in transportation if the control method I have referred to is in effect. In other words, the use of transportation as a transportation medium and not as storage facilities. I can well understand that you might require priorities in the matter of manufactures but that would not apply to transportation unless we ourselves make necessary by a failure to follow a control method.

It is appreciated that the importance of the war load can not be over-emphasized but there is a great lack of knowledge as to what the war load really means. You probably will be surprised if I should say to you that we have fluctuations in traffic from one season to another and one year to another that are greater than the total war load was at any time during the war. We have seen fluctuations from one year to another that were many times the total war load. Many times since the war the railroads have handled traffic that greatly exceeded that during the war.

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Discussion following lecture by

Mr. M. J. Gormley
President, Association of American Railroads

The Army Industrial College
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Q Mr. Gormley, somewhere in my reading I have run into the statement that the years 1929 and 1918 were comparable from the railroad's standpoint, and you have brought out the bad situation during the war period of the traffic congestion utilizing the railroad equipment for storage purposes. In 1929 when you had your other big year, was that situation evident to any extent?

A Not at all. 1923, 1926, 1927, 1928, and 1929 were all larger than 1918.

Q Is the explanation for this condition not existing because it was spread all over the country whereas in the war there were natural points where the congestion occurred and production was more centralized and the ports of embarkation naturally fewer?

A That didn't have a thing to do with it. The difficulty in 1918 was entirely a question of lack of control. That did not exist in 1929. We had some embargoes against industries that would order beyond their capacity to unload, but they were embargoed. We knew that all the time. Of course you have your principal manufacturers in the eastern district, but that need not make a bit of difference if you will not use the plants for storage purposes. It is just a short haul from anywhere in the east to the seaboard. Some of those cars, you want to remember, were under

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load for over six months, and I think some longer. Unless it is stopped the next time you have a conflict of that kind, you are going to run into the identical condition. That is the reason why I have great encouragement of what you are doing. You are planning on a thing in advance, planning what you can do.

Q I think that in this school there is an impression that the condition of the railroad equipment, the maintenance, is such that the railroad equipment is depreciating to an extent they would be hard put to it if we increased the load fifty to sixty percent. I would like to have your ideas upon that situation.

A In 1937, which was our largest year since 1929, that is, the top of the depression, some railroads even handled more business in 1937 than in 1929. We are now running close to 600,000 cars. In 1937 we had 860,000 as a peak. I imagine with our equipment today - repair work can be carried on pretty fast - that could all be cleaned up in an emergency under six months - you could build a lot of new cars. Yes, we will take 50 percent and in less than six months, which is quicker than you can produce it and handle it.

Now, that means spending a lot of money for repairing equipment lying on the sidetracks and not working simply because we have no use for it, and then have free enough money around to repair and then after spending the money put them on the sidetrack to wait for business to come up. That can all be cleaned up. The difference between 1923 and the condition existing today so far as car repairs are concerned is that there have been

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retired since 1923 of the obsolete cars about 1,500,000, so that what you are dealing with today is a different car in bad order than in 1923. There you had the old and the obsolete cars. Today those cars in bad order are not old and obsolete to any great extent. That is what a part of this \$8,000,000 went for, buying new equipment. There were over 125,000 new cars put in in 1923. The average since that time up to the depression was about 75,000 cars a year.

It is a fact that we own probably 700,000 cars less now than at the high point of ownership in 1925. We will take the 1929 traffic today and handle it from 300,000 to 400,000 less cars than required during that period due to the increased efficiency of movement, and everything of that kind. That gives you a fair picture of it.

Q Do you think with the experience of the World War behind us and assuming proper initial approach to the problem that we can avoid the necessity for a railroad administration in another major emergency?

A That is a hard thing to say. It depends.

Q If this country itself were in war and assuming a bigger war than the last time?

A I think there would have to be some kind of control. A good many laws would have to be broken and the Government itself would have to do it. That control, however, as I understand it, in the War Department, at least those I know don't expect to do the thing the same as last time and take the handling of the railroads out of the hands of the owners. It isn't necessary to do it at all. It is merely acting as considerately as they can through the Association of American Railroads, which has

control over the entire situation, and if they were backed by someone in the War Department who had the authority to disregard all kinds of laws and everything of that kind, that would work all right.

Now, it might be on the question of movement and things of that kind. You might take a lot of traffic away from some railroads and give it to others, interfere with their earnings and some financial arrangement be made if that was done. There is a plan over there that carries that out. I hope they don't forget it when it comes time to consider it. That is a funny thing about the War Department. You know one administration goes in and the next comes along and they can't find them. There is a very complete plan in the Office of The Assistant Secretary of War that provides just the answer to the things you talk about.

There is another thing - take the last time. It was more of a financial condition than anything else, that is, for most of the railroads in the country. In the eastern territory it was a question of an abnormal rise in wages of the industry which took the skilled workers away from railroads. The railroads didn't have money to pay the increased wages. Government did after they took them over. There would have to be some Government control to prevent skilled workers being taken away from the railroad. I don't see how it can be done by anybody else. There should be an administrator to authorize the railroads to act, but it ought not to be taken out of the hands of the individual railroads to operate. That is just the primary principle.

Q. If putting the railroads in first-class operating condition means about six months of rehabilitation, where would you get the labor

and materials to do that rehabilitating if the country is not in a normal condition but under the stress of war, or at least have greatly accentuated industrial activity in all lines?

A Probably eliminate the W.P.A. and we wouldn't have much difficulty.

Q Are generally skilled men required for that?

A That car repairing isn't-a very skilled individual can make car repair in thirty days. I don't believe you would have much difficulty - you might if the munitions industry absorbed your skilled labor. To have wholesale enlistment or drafting of skilled workers from the railroads, your main branch of defense, is bad and just should not be done. If that is not done, I don't think you will have a great deal of difficulty.

In the first place, you have thousands of unemployed skilled workers around these locomotive and car building plants. Given six months you could reach a pretty high peak in transportation.

Q Would you indicate a little further as to just what form you think this constructive legislation should take. Then, if the Government is going to ante up for some of the money, isn't the tendency to assume more control and get around Government control of ownership?

A I don't think so. Senator Wheeler on the Town Hall meeting this morning was asked that same question about government ownership. He said he had thoughts about it one day himself, but after watching very carefully the operation of most of the new bureaus around Washington he doubted if the government could do anything well. The railroads are not asking for any subsidy. What they ought to do today is loan any railroad that wants it, I don't say "give" it, for the repairs of all this equipment they have been forced to defer, loan it to them and to be paid back

without any interest. On new equipment - take the equipment trusts for their value, sell them on the market, hold them themselves, or anything of that kind. Jesse Jones says he has made a fine profit. I saw an equipment trust voted the other day on a railroad in bankruptcy for less than 3 percent. Now, if they can do that there is still a good investment there. That is all they would have to do today, just give an unlimited loan for new equipment and take the equipment trust for security. Loan the other for the repairs of the equipment, to be paid back as soon as it can be done. Don't forget that the Government loaned the railroads after they came out of the war, as I recall it now, around \$600,000,000. They got every cent of it back except from one railroad, and incidentally, made about a \$60,000,000 profit on it, the difference between what they had to pay for the money and what they had loaned to the railroads. There is no better security in the world, and talking about unemployment, I don't know of an easier way to do it than just that. But don't surround it with a lot of ideas - let them do it their own way. I don't think that would bring them anywhere near Government ownership. I think the people generally have the feeling that the Government is about up to its neck now.

Q You mentioned 13 regional officers of the A.R.A. for controlling traffic. Would those agencies be equipped to control the traffic on all classes of railways, the first, second, and third class?

A You mean on the question of rights?

Q On the actual carloading of traffic, at the shipping point by permits in order to assure that it would be unloaded in time.

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A A permit originates from destination, and unless the condition at destination justifies the loading of the car, then it cannot be loaded. Nobody has any control over that except the man at the point where the embargo is issued. Nobody can counteract that order. If a man in New York City along side of an Army officer simply says "Here is what we want and here is our record of where it is bought." He immediately issues the permit, the railroad on which it is to be loaded. The cars are furnished for that. That man at the loading point has no control over it whatever.

Q You have the complete machinery and organization to handle that even in a maximum peak load?

A We could expand that to handle it. For instance, in Pittsburgh is an example. The reason I asked the question about the coordination between Army and Navy is because of that. Would there were a place at Pittsburgh where the railroad representatives could have a view of the demands on manufacture from all over that district so he would know exactly what to do in case of congestion trouble. If they were going to transfer their orders he could be in touch with it. We would have a representative in the plant of our own and know every day what is going on, working in connection with our district manager at Pittsburgh. The same thing is true at destination.

Q You mentioned the matter of six months in connection with equipment. Do you think that the railroad equipment industry is adequate today to meet the demands of the heavy maintenance load as of a peak operation load?

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A I suppose under pressure they could turn out probably 150,000 cars in a year, possibly a 100,000 and not be under pressure.

Q Locomotives also?

A Oh, yes. I don't believe you would get any load that the railroads couldn't meet faster than you produce it. You are not going to show much for ninety days. You really won't be going any reasonable rate under six months. I think we would be up with you at that time.

Q If called upon, could the Association submit the name of an individual fully qualified to assume the duties of administrator of transportation in war?

A Yes, give you eight or ten.

Colonel Jones: I don't want you to leave here with a wrong impression in your mind from the line of questioning that has been put up to you. If I didn't know anything about it, I would assume that our plan was lousy and we were going to be in a pretty bad shape. We have a transportation plan and that plan was worked out with you. I am the custodian of it. It has been worked out with you. The Quartermaster General is the director of transportation of the Army, and it is planned on M-day to issue an emphatic order that no car will roll until there is in the hands of the man who started the rolling a telegram, a letter, or a verbal message that that car can be unloaded within twenty-four hours at destination.

Mr. Gormley: I think I mentioned that that was true, that that was in Army Regulations.

Colonel Jones: I don't think that has sunk in. It should be in the

minds that that is a part of the plan. The next part of the plan is this, that the 13 regional directors will be used, and so far as the plan is concerned it is not contemplated to set up any railroad administration but that the Quartermaster General's Office, which is working right with your office today, is properly equipped and if necessary in the plan for the director of transportation he will have tied in with him such authority that if you people who are handling the shipment say the law has to be broken, it will be broken, with impunity.

We have got the plan, we have worked it out with the people who know how to work it out. But with all these if we don't get the right man in authority, God help our plans. I hope

Mr. Cornley: I hope they don't forget there is a plan.

Col. Jones: If we adhere to it and stick to the thing and let people who know how to run it for us, but if we try to run it ourselves we are sunk, that is all there is to it.

Q In case of war and recruiting went on, what proportion of your labor could you afford to lose and still not hinder your operations? In other words, what proportion of your labor is skilled?

A A very small part of it, and that would have to be selected. That ought to be done by each railroad, each determine for itself what skilled labor it can let go without interference to its operation. We realize that you would have to have a certain number, just like your engineers and transportation regiments that you had before. You cannot recruit those from anywhere else. That would be from the railroads, from the officers down. You will pick out the officer and all the

rest all the way down the line. I had something to do with picking three or four of them myself. I had to translate the name of a railroad worker into his name in the Army, figure out what he would be called in the Army after he had a uniform compared to what he was now. We had no difficulty with that. That can be done by a process of selection and will have to be done. What I am talking about is the machinist and the skilled crafts that keep the locomotives in repair, not the car fellow. That isn't such a finished job, as repairing locomotives and keeping those in trim.

Q What proportion would you say they constitute?

A I wouldn't even give you a guess on that, but I would certainly say it would be the last class I would pick on, if ever.

Q You brought out, Mr. Gormley, that part of our trouble in 1917-18 was due to lack of management. Another contributing factor was the status or condition of the rolling stock and rights of way of the different railroads. Could you give us any comparison as to the relative condition as compared with 1918 of our railroad systems?

A I would say they are very much better. On account of the large amounts of money spent during the period 1923 to 1930 the plants were put in first-class condition. You had your locomotives under repair down to the lowest in the history, and the same with the cars. During these periods you have been living on built-up maintenance. In 1918 you had already fallen back on your maintenance, and largely for the same reason you are up against it today. Your earnings were just too

close to your outgo.

Q In other words, we have had about ten years neglect of maintenance to date. How many years of neglect of maintenance before 1918?

A We haven't had ten years of maintenance neglect today. We have eliminated about 1,350,000 of those old cars. You didn't have that kind of a condition to start with in 1918. The cars that we have today, with few exceptions, on account of these heavy retirements, are pretty fair and can be easily repaired for at least a few years' service. You didn't have that in 1918, and so I say that your condition confronting you today is very far superior today than it was in 1918 when you went into the war.