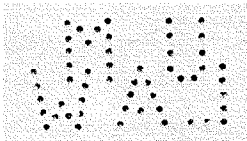


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**A SOLUTION OF THE
RAILROAD PROBLEM
IN SIGHT**

WILLIAM W. COOK
General Counsel of
The Mackay Companies,
Postal Telegraph-Cable Company,
Commercial Cable Company,
and author of
"Cook on Corporations"



A SOLUTION OF THE RAILROAD PROBLEM IN SIGHT

Out of the experience of the American people during the past year and a half with government control of the railroads, and out of the myriad-tongued discussions in Congress, legislatures, platforms, press and organizations throughout the land in reference to this all-absorbing topic, a few fundamental principles and conclusions have evolved themselves.

CONSOLIDATIONS

Practically all now agree that the great trunk lines should absorb the small lines, and that even some of the trunk lines should be consolidated. This involves the consolidation of some 162 railroad companies into some number between 5 and 22 systems. Four years ago I advocated 5 systems. Senator Cummins, the Chairman of the Senate Committee having this subject in hand favors 18 systems. Mr. Willard, the President of the B. & O. R. R., proposes 22 systems. Mr. Hines, the Director General of Railroads, proposes 6 systems.¹ The difference in opinion as to the number of systems is due

¹ My original plan in 1915 proposed five districts as follows:

- (1) New Haven and other roads in New England not controlled by any other railroad system.
- (2) Pennsylvania; New York Central; Erie; B. & O.; C. & O., and other roads in that territory not controlled by any other railroad system.
- (3) Southern; Illinois Central and other roads in the Southern States not controlled by any other railroad system.
- (4) C., M. & St. Paul; C. & N. W.; Northern Pac.; Great Northern and other roads in that territory not controlled by any other railroad system.
- (5) Union Pac.; Atchison, Topeka & Santa Fé; Southern Pac., and other roads in that territory not controlled by any other railroad system.

Mr. Willard, on February 19th, 1919, suggested the following districts (Record, pp. 1299, 1252):

- (1) New Haven.
- (2) Boston & Maine.
- (3) Pennsylvania.
- (4) New York Central. (Continued on next page.)

to the desire to perpetuate competition in service, even though competition in rates no longer exists. The railroad companies themselves favor a considerable number of separate systems

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- (5) Erie; Delaware & Hudson.
 - (6) Lehigh; Lackawanna; Nickel Plate.
 - (7) Baltimore & Ohio; Western Maryland; Philadelphia & Reading; Central Railroad of New Jersey.
 - (8) Chesapeake & Ohio; Norfolk & Western; Virginian.
 - (9) Seaboard Air Line.
 - (10) Atlantic Coast Line; Louisville & Nashville.
 - (11) Southern.
 - (12) Illinois Central.
 - (13) Southern Pacific.
 - (14) Atchison.
 - (15) Gould Lines.
 - (16) Rock Island.
 - (17) Burlington.
 - (18) Chicago & North Western; Union Pacific.
 - (19) Chicago, Milwaukee & St. Paul.
 - (20) Soo Line.
 - (21) Great Northern.
 - (22) Northern Pacific.

Mr. Walker D. Hines, the successor of Director-General McAdoo, said at a hearing of the Senate Committee on Interstate Commerce on February 4th, 1919:

"My feeling is that on account of the different characteristics of traffic in various parts of the country an administration of these railroads of the sort that I suggest would be more successful than an effort to administer all the railroads together. I think also that even if you had only six railroad companies in the country you would develop through those six companies certain standards of relative service which would be very stimulating in the management, whereas a permanent management with only one company might lose that to some extent, although, even then there would be a stimulus between the managers of the different parts; and I believe that is an element of distinct importance. I should say that the greater administrative success attending a division of the country, say, at least into six railroads, and the greater stimulus to excel in the service rendered to the public—and even with as few as that there would be a great deal of effort in competition—there would be reasons for having not less than six, instead of only one, corporation. * * *.

"I believe that with the provision of not less than six companies you could subdivide the country so as to give a local touch between the managements and the public which would be very important, and which would be more successful than any local touch that could be maintained if there were only one company." (pp. 909, 910.)

Mr. Hines further said:

"Of course, now any given railroad is, to an extent, a complete monopoly in its own territory, and yet there is a great deal of competi-

so that every important trunk line may be operated more or less independently of other trunk lines, thus increasing competition in service.¹ There is no objection to this, even though such competition may not reach expectations.

Whether these separate trunk line systems, each absorbing

tion in service, and under such a plan as I suggest there would be decided competition in service. For example, it is easy to use our existing regions for the purposes of illustration. Suppose we had a Northwestern Railroad Company corresponding to our present Northwestern Region, and embracing the present Great Western, Northern Pacific, and St. Paul systems, and a Central Western Railroad Company, consisting of the Union Pacific, Denver & Rio Grande, the Santa Fé, and some others, there would be very great competition between those two railroad companies. In a sense each would have a monopoly in its own territory, and yet there would be a very great degree of competition on all sorts of traffic. Much of the trans-continental traffic would be competitive. * * *

"My thought is that the plan which would, in the long run, be most successful, and which would keep most closely in touch with local sentiment and local necessities, would be a plan which would be a territorial grouping, with, say, a northwestern railway, a central western railway, a southwestern railway, a southeastern railway, and then you might have a New York Central group and a Pennsylvania group in eastern territory, preserving as far as practicable territorial grouping." (pp. 916, 917.)

Mr. Hines further said:

"I think if this plan of a few large companies be adopted and they be arranged by geographical groups, the result would be that the competition you would have would be between the few large companies. For example, if in the territory north of the Ohio and Potomac Rivers, and east of Chicago and the Mississippi River, you had two big companies, one with the New York Central as its fundamental feature, and the other with the Pennsylvania and Baltimore & Ohio as its fundamental feature, you would have competition between those two groups; but the roads that were merged with the New York Central, of course, would not compete with the New York Central, and the roads that were merged with the Pennsylvania would not compete with the Pennsylvania. A competition would be preserved, but it would not be a competition between all the existing roads." (p. 953.)

¹In the record of the hearings before the Senate Committee, on p. 588, the following is found:

"Senator Kellogg: Do you think the competition in service between the lines of railroad in this country, between competitive points, should be preserved?"

Mr. Kruttschnitt: Unquestionably, we do. That is the keynote or keystone of our plan."

Mr. Kruttschnitt represented the railroads. He also said (p. 598):

"One very important thing—and perhaps the most important—would not be accomplished by the plan you suggest. A common ownership

all the small railroads in its locality, be called "regional railroads" or trunk line systems of railroads, is immaterial. The term "regional railroad" has been criticized as dividing the country into *geographical* regions instead of into *trunk line* regions. That criticism is ungrounded. The regional railroad idea was originated several years ago and divided the country into trunk line regions and not into geographical regions. No one advocates geographical regions, because that would cut the trunk lines in two.

However, aside from all these details, the important point to be here noted is the first great fundamental principle which all agree to, namely, that *all of the railroads shall be consolidated into from five to twenty-two separate systems.*¹ The

would absolutely eliminate competition; there would be no object whatsoever, if one road owned the four lines, or if the United States Government owned the four lines, to give any improved service whatsoever. Without wanting to criticize in a hostile manner, I think the consolidation of train service during Government control, which was done for war necessities, has deprived the public of a great many accommodations which were highly appreciated and which it wants. I saw this morning in the paper that the Director-General, in an address, says that the passenger men must get together and arrange to give the public back these accommodations again, of which they were deprived during the war.

"Under Government ownership or common ownership, the incentive to compete would be lost. In answer to Senator Kellogg's question I stated, taking the hypothetical case that he put, that if the Great Western were allotted a certain percentage of this traffic between Chicago and St. Paul, say, on the 1st of January, 1919, it would immediately, looking to its future welfare, begin to plan how much it could increase its share of the traffic between those points, because the Interstate Commerce Commission's allocation of the earnings would naturally be proportionate to the traffic that each railroad could control, and it would begin to endeavor to increase its traffic, so that in one year or two years it could go to the commission and say, 'Your award of our percentage of the total traffic might have been all right on January 1, 1919, but on January 1, 1921, it is all wrong. See how much traffic we are now carrying,' and if they were controlling a larger proportion of the traffic, the commission would necessarily have to change their percentage and to raise it. There comes in the spur of competition, which would be totally absent under Government ownership or common ownership."

¹ At the hearings before the Senate Committee, Commissioner Clark, of the Interstate Commerce Commission, said (Record, p. 243):

"Now, giving full significance to the idea which has underlaid the legislation heretofore, that it is unwise to permit any suppression of com-

detail of just how many, will work itself out. Each stronger system will absorb the weaker railroads in its region.

COMMON USE OF CITY TERMINALS AND DIVERTING FREIGHT TO THE SHORTEST ROUTE

The war has demonstrated that this is feasible and of great public benefit. All admit that it should be continued. The consolidations mentioned above will bring this about. For

petition, it seems to me, as to the majority of my colleagues, that no possible public harm can come from those absorptions of such lines so long as the Government holds its regulating hand upon the charges which the company may make to its patrons.

"The Chairman: And so your proposition to operate these roads under a properly regulated control system necessarily, in the main, would eliminate competition, and would decide what was the proper compensation for the service rendered?"

"Commissioner Clark: That is our idea exactly, and it is a great deal easier to regulate one large, well-organized corporation than it is to regulate half a dozen poorly financed and poorly organized corporations that do not care how they go into bankruptcy, whether this way or that way [indicating]."

"Senator Gore: Is it not your thought that under certain regulations the Government should encourage these mergers?"

"Commissioner Clark: Yes, sir."

"Senator Gore: I was not here when you began, but it is my understanding that you think that the Clayton Act should be extended so as to permit mergers under the jurisdiction of the Interstate Commerce Commission?"

"Commissioner Clark. Yes, sir; our idea is that sound public policy would permit the consolidation of lines, even though they are, in some degree, competitive, or there is a possibility of competition between them, whenever that consolidation is approved by the proper Federal authority to which that power has been delegated, after a full investigation and public hearings."

On p. 254 the following is found:

"Senator Watson: That is what I wanted to come to a little later on. Mr. Commissioner, as I understand the report of the commission, you are in favor of the elimination of all competition; is that right?"

"Commissioner Clark: Except the competition of service."

"Senator Watson: How do you distinguish between 'competition of service' and other kinds of competition, if you would have the railroads operated as a unified whole?"

"Commissioner Clark: Our suggestion is not so complete a unification as exists at the present moment. Our suggestion is for the elimination of unnecessary and wasteful competition; and, speaking only illustratively, it has not been my thought at all that if the commission were

instance, at the present time, the terminals of the Pennsylvania Railroad in New York City are used by several railroads. If the Pennsylvania absorbs those roads, as contemplated, they will all have the benefit of the Pennsylvania terminals. So also as to routing freight. The shortest and most economical route will be selected by the railroads themselves. Long, roundabout hauls, in order to retain the entire tolls, will disappear. All agree that *great economies and great public convenience will result.*

GOVERNMENT GUARANTY OF INCOME OR OF RATES

One class of thinkers favor government holding companies, which will issue their stock with a guaranty of dividends by the government, such stock to be issued to acquire the stock and bonds of existing railroad companies, and to furnish necessary fresh money for extensions and improvements. For over ten years I have advocated that plan. Another class of thinkers favor the government fixing railroad rates high enough to pay, say 6 per cent. on the present investment, and enough more to make railroad credit sufficiently high to attract fresh money for extensions and improvements. The same principle underlies both plans, namely, government backing. All agree that *government backing is necessary.*

GOVERNMENT REGULATION

All agree also that if the government backs the railroads, the government should have full power to regulate them. There is a wide difference of opinion as to how this regulation should be exercised; whether it shall be by full control through the above mentioned holding companies with a Federal Railroad Board, or whether it shall be through an enlarged Interstate Commerce Commission, or whether it shall be by re-

endowed with the power that is here suggested it exercised it to the extent, for example, of permitting a consolidation or merger of the New York Central system and the Pennsylvania Railroad system; but there may be a good many small roads between them, connecting with one or the other of them, which it would be in the public interest to have one or the other of them absorb and make it a part of a big, healthy member of society"

storing the *old* system of the railroads running themselves, subject to check by Congress and the Commission. All agree, however, that *whatever the government demands in the way of regulation must be granted.*

NO GOVERNMENT OWNERSHIP

Here too there is almost unanimity of sentiment and public opinion. Government ownership is discredited and buried, beyond possibility of resurrection in this generation.

NO MORE GOVERNMENT OPERATION

This too is discredited utterly. The experience of the last year and a half has convinced the American people that our form of government is not fitted to operate our vast system of railroads as a unit, or in any other way. It is unnecessary to dwell on the details. High rates, poor service, extraordinary increase of expenses, a government deficit, taxes to foot the bills—all tell a lamentable tale.

THE FIXING OF RATES AND THE RESPONSIBILITY FOR EXPENSES MUST GO TOGETHER

When the Interstate Commerce Commission fixed the rates but was not responsible for railroad expenses, the railroads faced financial ruin. The Commission put an iron hand on rates, but no hand at all on expenses. Revenue and expenses must be joined to balance. The power to fix rates goes with the obligation to pay expenses, interest and dividends. If the Government is going to regulate or to control the railroads through holding companies, the Government must assume responsibility for expenses by providing rates high enough to furnish sufficient income for expenses, interest and dividends. If, on the other hand, the railroads are left to pay expenses, interest and dividends, they must be allowed to fix the rates, with some check or other to prevent the abuse of excessive rates. All agree to this. The old plan and theory that the government may fix the rates and let the railroads do the best they can to pay expenses has gone into the discard.

FEDERAL INCORPORATION

Here too there is practically no dissent. It is recognized that our vast system of railroads has transcended state boundaries, and that the subject is of national importance, to be dealt with by Congress through federal railroad corporations. There is a difference of opinion as to how federal incorporation is to be brought about. Some favor compulsory federal incorporation, but the constitutionality of this course is doubted and its practicability is still more doubtful. Others believe that voluntary re-incorporation of existing state railroad companies into federal corporations should be brought about. This too is doubtful. The simplest plan is to organize federal railroad corporations with power to purchase the stock and other securities of the existing railroad corporations and gradually bring about complete federal control of all the railroads of the country; then if desired the physical properties could be turned over. However, practically all agree that *federal incorporation is a necessary part of any solution of the railroad problem.*

LABOR

All agree that railroad wages should be high—as high as is consistent with the welfare of the nation. Whether the recent extraordinary advances are fair will depend on industrial developments the world over. Excessive railroad wages mean excessive railroad rates, and excessive railroad rates mean high cost of living, because the consumer pays the freight in the end. Excessive railroad charges will cripple exports, because exports must be sold in competition with the world. Excessive railroad charges must be deducted from export prices and the farmer or manufacturer has to be content with the remainder. If his share is too small, railroad rates and railroad wages will face a demand for a reduction. The railroad labor problem will be worked out on equitable lines by the farming interests, the manufacturing interests, the clerical classes, the consumer and the railroad classes themselves. People will bear self-imposed railroad burdens more cheerfully than the burdens imposed by the Government or by financiers. The welfare of the nation will be the final arbiter.

The foregoing principles and conclusions go far towards formulating a definite plan to solve the railroad problem. At this point it will help much to arrive at a correct solution if we outline the views entertained by leaders who have given most thought to the subject.

SENATOR THOMAS' BILL

This was introduced in the Senate December 7th, 1915, and re-introduced with a few changes December 3rd, 1918, and a third time on May 20th, 1919. I drew that Bill and hence am prepared to defend it. The plan is simplicity itself. A Federal Railroad Board, not incorporated, but the members nominated by the President and confirmed by the Senate, would control five railroad companies, incorporated by the same Act of Congress. These five federal railroad companies (one for each of five districts into which the railroads of the country would be divided) would then acquire the stocks and perhaps the bonds of the present existing railroad companies in any one or all of three ways, namely by exchange or purchase, or by condemnation.¹ The Federal Railroad Board would fix the basis, from time to time, on which the exchange would be based or purchase made. The federal railroad companies would sell their own capital stock to the public from time to time, as money would be needed to buy the existing railroad stocks and bonds, or to provide funds for extensions and improvements. The federal railroad companies would also have power to acquire existing railroads themselves, the physical properties, by purchase or condemnation. The federal railroad stock would be made salable and desirable to the public as an investment by a rate of dividend varying according to the going rate of interest generally at the time of issue, such dividends being guaranteed by the Government, and by a possible additional dividend, if earned, up to

¹The assertion that condemnation of stock must be at the legal domicile of each stockholder is not the law. For such purposes stock is located where the company is incorporated. *Re Jellenik v. Huron, etc., Co.*, 177 U. S. 1; *Matter of Bronson*, 150 N. Y. 1. 17. *Holmes v. Camp*, 219 N. Y. 359; *Blake v. Foreman Bros., etc., Co.*, 218 Fed. 264. Under the usual condemnation statute, all of the stockholders could be joined in one proceeding. *Re Prospect Park, etc., R. R.*, 67 N. Y., 371; also 75 Hun., 590, *aff'd* 150 N. Y., 562; 30 App. Div., 5.

six per cent. All profits in excess of six per cent. would belong to the Government, to be used exclusively for railroad purposes. All financial operations of the federal railroad companies would be directed by the Federal Railroad Board. All railroad rates would be fixed by that Board. It will be noticed that this plan is not Government ownership. The Government would not own any of the property, either stock, bonds or the railroads themselves. The Government would merely name the Federal Railroad Board and guarantee the dividends. The Federal Railroad Board appointed by the President, and confirmed by the Senate, would be governmental in its origin, but not governmental in its work. The Federal Reserve Board in control of our banking system is much the same. The Federal Reserve Board is governmental in its origin, but non-governmental in its control of the banks. It is an ideal system of public control without government or political control. The Interstate Commerce Commission is another instance, it being appointed in the same way, and no one has ever claimed that it has been political or partisan in its control of the railroads. A Federal Railroad Board would be equally safe. It would be public control without governmental, political or partisan control, and it is ideal in that it places full responsibility not only for the establishment of rates, but also for the regulation of expenses, and the railroads would continue to be operated by railroad men, just as our banks continue to be conducted by bankers under the Federal Reserve Banking plan. This is of fundamental importance because it avoids the inevitable evils of government ownership. As stated above, the Thomas Bill, incorporating five federal railroad companies, can easily be expanded into a larger number of companies so as to keep the trunk railroad lines separate and give competition in service, or, at least, an opportunity to work out such competition in service, if it can survive.

SENATOR CUMMINS' PLAN

In an address delivered by Senator Cummins, the Chairman of the Senate Committee on Interstate Commerce, and one of the ablest men in the Senate, before the General Assembly of Iowa, on March 27th, 1919, he adopted the plan of a

government holding company, and of a government guaranty of dividends, which is substantially the plan of the Thomas Bill. Senator Cummins said that the return to capital should be made certain; that the railroads should be consolidated into systems, not more than 18, and should be operated by private corporations organized by an Act of Congress. He said there were various ways in which this result could be brought about, "but preferably it will be put in a positive guaranty. It may be worked out through the securities as they now exist, but the simpler plan would be for a government corporation to acquire all the properties, or all the securities, and issue or substitute new obligations." Senator Cummins further said that the problem could best be worked out "by providing for a corporate ownership of the several systems into which the country should be divided, each corporation, with a capitalization representing the actual value of the particular system, and the establishment of rates which will produce not only the cost of maintenance and operation and the guaranteed return upon capital, but a reasonable sum in excess of the guaranty; the excess to be divided between the stockholders and the workmen."

REPRESENTATIVE DEWALT'S PLAN

On January 11th, 1919, Representative Dewalt, in the House of Representatives at Washington, adopted the Thomas Bill almost in its entirety and exact words by introducing a similar bill in the House of Representatives, and advocated it on the floor of the House, on January 14th, 1919, where he courteously recognized the origin of the plan. Mr. Dewalt, however, added a new feature, namely, an inspecting commission and minor inspecting commissions. Now of commissions the American people have had a great sufficiency. Their use is very limited. They are being swept aside for some more efficient public control. This is no time to talk about a railroad inspecting commission and minor inspecting commissions. The Interstate Commerce Commission might well be displaced by a Federal Railroad Board such as is contemplated in the Thomas Bill.

WALKER D. HINES' PLAN

Mr. Hines is now Director General of Railroads as the successor of Mr. McAdoo, and hence his views are of the

greatest importance. He gave his views before the Senate Committee on Interstate Commerce on February 4th, 1919, and advocated practically the plan of the Thomas Bill, as will be seen by the extracts from his testimony given in the notes below.¹ He favored governmental guaranty of income for

¹ Mr. Hines said at a hearing of the Senate Committee on Interstate Commerce on February 4th, 1919:

"It may be said that my observations necessarily lead to Government ownership and operation. I do not think so. I believe that all the objects which I think must be achieved in order to obtain a permanent solution can be accomplished through the creation of a comparatively few railroad companies, which will have capitalization equal only to the real value of the property, and which will have a moderate guaranteed return, with the right to participate moderately in any additional profits. In this way I believe it would be entirely practicable to preserve whatever advantages there may be in private management and at the same time meet the difficulties which I have already pointed out, and which must be met in order to get a permanent solution." (p. 903.) * * *

"Senator Robinson: Now, assuming, for the sake of argument, that Congress should consider it desirable to proceed upon the plan which you have suggested, let me ask you how would you compel the consolidation of the railroads of the country into six corporations? How would you proceed to accomplish in practice the plan of reorganizing the something more than 100 railroads of the country into six distinct corporations?"

"Director-General Hines: There are different ways, I believe, in which that could be accomplished. I think, in all probability, that the Government's reserved power to condemn the property would have to be back of the plan. For example, the Government might constitute a tribunal first to decide on how these railroad corporations should be made up; that is to say, what lines should be included in each separate corporation, and to provide a plan for exchange of securities. I think in all probability the certainty which would grow out of it would be so attractive that there would be a voluntary exchange to a very great extent, and there could be provision that in the event there was not an adequate exchange of securities in any case, the Government could condemn the property and itself put that property into the corporation. There have been various methods worked out by men who are experts in the problem of railway organization, and I do not undertake to recommend any plan on that important detail, but I think there are ways to get at it which would be successful." (pp 912, 913.) * * *

"My thought is that while there would be, perhaps, an infinite number of ways of working out such a plan, broadly the plan would be to create a tribunal which would decide the total value of the properties that come into the new company. That would decide the total capitalization which could be issued for the new company. That tribunal would decide as to what character of securities ought to be issued, and in reaching that decision it naturally would undertake to provide securities which would

a moderate amount, with the right to the stockholders to participate in any profits in excess of the guaranty.

FRANCIS H. SISSON

Mr. Sisson is Vice President of the Guaranty Trust Company—the greatest trust company in the world. In an address delivered by him before the American Bankers' Association in

appeal to different zones of investors. Some investors want a very low rate of return with a greater element of security, and others want a greater rate of return with more of a speculative security; and it would be well to fix a plan of securities which would appeal to the different groups of investors. Now, when that plan had been worked out this tribunal would then have to decide the basis of exchange which would be offered to the old security holders in the old companies—what they could get in exchange. That is what is done whenever there is a reorganization of a railroad company; the securities of the old company are relinquished by their holders in exchange for the securities of the reorganized company upon a given basis of exchange. My thought is that a similar plan could be worked out in some way to carry out the general idea I have put before you." (p. 915.)

Mr. Hines further said:

"It is a scheme for private ownership and management under a Government guaranty and Government participation in the profits; and it is, as you say, entirely different from the present plan of Government operation of all the railroads as a single system." (p. 929.)

Mr. Hines further said:

"* * I think the whole thing would have to be worked out by a tribunal appointed for the purpose, and I would not advocate now any particular method of working that out. I would suggest, though, that such a tribunal probably would find that the expedient way to evolve this system would be to take systems practically as a whole and put them into a region, even though it involved a penetration into other regions." (p. 955.)

Mr. Hines further said:

"Of course, the situation would be that a plan of exchange would be offered, just as is the case whenever there is a reorganization of a railroad company under private auspices, and a large part of the stock in all probability would make the exchange, because I anticipate that the exchange would be proposed on terms that would make the stockholders feel that it was to their interest to make the exchange. * * *

"But my thought is that almost without exception such a large part of the stock would come in as would control the situation. There would be very few companies where such a large part of the stock would stay out as to prevent the reorganization plan succeeding, and in those cases where the bulk of the stock did refuse to come in, then you would have the power of condemnation in reserve to control or purchase that stock,

Chicago on September 24th, 1918, he practically endorsed the plan of the Thomas Bill, as will appear from the extract from

but I anticipate it would be very seldom that you would need to do that.
* * *

"Any tribunal that worked this out could propose a basis for exchange, just as any reorganization committee now does—a basis of exchange for securities of different sorts in the same corporation; and these voluntary reorganizations succeed very largely in getting the reorganization carried through without any power of compulsion back of it at all; so I believe this would work out to a very large extent without resort to acquisition by the Government." (pp. 956, 957.)

Senator Cummins, speaking of the above, said (p. 966):
"your plan or the plan that you have suggested here is not Government operation, and has none of the incidents of Government operation."

Mr. Hines, in an address delivered in Pittsburgh March 26th, 1919, further said:

"We cannot go back to unrestricted private management, and we ought not to go back to a method of regulation that proved unsuccessful. The condition of railroad regulation prior to Federal control was so far from satisfactory as to be almost hopeless. This indicates that there was something fundamentally wrong, and therefore we cannot expect an adequate solution without fundamental changes.

"The object which any successful plan of regulation must accomplish is to attract adequate capital for the great development which must yet be brought about in order to meet the wonderful expansion which the commerce of this country is likely to have. No plan which fails to accomplish this result will successfully deal with the situation. There is no use in urging some makeshift treatment when we are forced to admit that such treatment will fail to accomplish the result. * * *

"Whenever you get to the point of prescribing a standard of return which must be realized you have created a sort of a Government guaranty. To my mind, the great problem is whether to have this guaranty certain or uncertain. Of course, the more certain the guaranty, the less initiative on the part of the management. On the other hand, while a less certain guaranty stimulates initiative, it also is less promising to capital and tends to defeat the ultimate objective, which is the attraction of adequate capital into the business. * * *

"My own view is that a moderate guaranty on capital should be prescribed, so as to give a reasonable assurance to capital; and that there should be a right to a participation in any profits made in excess of that guaranty so as to furnish the needed stimulus to provide initiative. * * *

"I do not believe these fundamental changes can be successfully carried through except by the construction of a comparatively few great railroad corporations, each of which will so combine the prosperous and unprosperous roads as to present a fair average result and get away from the hopeless diversity in earnings which has existed in the past; and upon each of which it will be practicable to have ample Governmental representations."

his address given in the note below.¹ As pointed out above, the so-called regional railroad system, referred to by Mr. Sisson, is identically the same in principle as the system advocated by Senator Cummins and others, namely, a division of the country into districts, corresponding to trunk railroad systems, without any arbitrary *geographical* lines which would cut any great existing railroad system into two parts.

SAMUEL DUNN

Mr. Dunn, who is the editor of the "Railway Age," endorses unqualifiedly, in the last ten pages of his book on "Regulation of Railways," the plan of federal regional corporations based on existing railroad trunk lines and a Government guarantee of dividends connected therewith; in other words, the Thomas Bill plan.

HENRY W. TAFT

Mr. Taft in an article in May, 1919, approved the plan of the Thomas Bill without referring to it. Mr. Taft said:

"1. Let some governmental agency divide the country into regions with reference to existing currents of trunk-line traffic, and in such a manner that competition shall exist between groups of roads in one region and those in each contiguous region.

"2. Create in each region a Federal corporation with one class of stock and one class of bonds, and under contract with the Government to acquire, by the issue of these securities in

¹"A regional railroad system based on natural traffic divisions would meet the tests of economic operation and of economic utilization of railway capital. In the development of such a system we should be able to retain all the advantages that come from individual ownership and operation, to retain the advantages that would come from co-ordination of railway facilities under Government ownership and operation, and at the same time avoid the evils that would undoubtedly develop from either Government ownership, or of a continuation of the old competitive system. It would lay a sound basis for the development of a wholesome territorial competition in industry, supervised by regional commissions acting as regulating bodies under one central commission.

"It should be planned to have the ownership of these companies under Federal incorporation rest in the hands of individual holders, who at the time of transfer would represent the owners of the existing railway system. In taking over existing securities of the railways, and in consolidating them with the regional system, a broad viewpoint of value based on fair, average market prices, should be taken. In any plan of reconstructing our railways it must be assumed that the rights and

exchange for those of existing companies, or by the exercise of the right of eminent domain, all of the roads within the region.

"3. Let the Government guarantee (a) interest on the bonds at such a rate that the bonds may be sold at not less than par, and (b) dividends on the stock at 4 per cent. Subject to a readjustment after a fixed period of years, the stockholders shall also be entitled to receive additional dividends, if earned, of 2 per cent., and to share equally with the Government any net earnings in excess of an aggregate of 6 per cent. on the stock.

"4. As a result of the foregoing, the Government will necessarily participate more than in the past in the fixing of both rates and wages."

If Mr. Taft had added a Federal Railroad Board he would have had the plan of the Thomas Bill complete. However, Mr. Taft's discussion of the details of carrying out the plan is interesting, informing, and will be of material aid in carrying out the plan if adopted.

VICTOR MORAWETZ

Mr. Morawetz adopts the Thomas plan of a Federal Railroad Board, with from ten to fifteen federal regional railroad corporations, and in his latest application of that plan Mr. Morawetz makes a valuable contribution as to the mode of putting it into effect. He suggests that the value of any particular railroad shall be ascertained from its income for the three years taken under the Federal Control Act, with variations in special cases. He proposes the issue of stock and bonds by the federal railroad corporations, the interest on the bonds to be not over 5 per cent. and the dividends on the stock not over 6 per cent.; the excess of earnings to go one-half to the stockholders and one-half to the Government. The bond interest is to be not more than 60 per cent. of the profits of the road, ascertained as mentioned above. The stock issued shall be limited by the remaining 40 per cent. of income capitalized at 6 per cent. The Interstate Commerce Commission is to fix rates high enough to pay the interest and dividends, and if there should happen to be a deficit in the interest the Govern-

equities of the present holders of railway securities will be recognized. In effecting the exchange of securities a Government commission should take cognizance of these claims and make proper adjustments for them. Some plan providing for guaranteed dividends and a profit-sharing arrangement with the Government above the guarantee, together with Government representation on directorates, would cement public and private interests in this consolidated enterprise."

ment is to pay it, to be repaid only after 5 per cent. cumulative dividends have been paid on the stock. The federal railroad corporations are to acquire the railroads by fixing the price of the stock and bonds, to be divided as the board of directors of the railroad itself proposes, and if two-thirds of the stockholders accept the exchange, the federal railroad company is to condemn the railroad; otherwise that particular railroad is to be left out. There are many valuable suggestions in Mr. Morawetz's article in the way of details in actually applying and carrying out the Thomas Bill plan.

Let us now consider the plans of those who are opposed to the above idea of a government holding company and a government guaranty.

S. DAVIES WARFIELD

Mr. Warfield represents an association of railroad bondholders and stockholders. He does not believe in the above plan. He says that such concentration of railroads would check industrial development in sparsely settled parts. He says that to acquire present railroad stocks would be protracted and litigious. He says why not have one Federal railroad corporation instead of five?¹ Mr. Warfield proposes that "excess" profits of any railroad shall be used to make up deficits of other railroads in that particular district (three districts altogether), and then if there is still an excess profit in that district taken as a whole it is to be paid one-third to the employees, one-third to the railroad itself, and one-third to a sort of general railroad fund for the protection of investors and the railroads themselves. The "excess" profit is to be what is left after paying 6 per cent. on the property investment of the particular railroad; also after providing a reserve to protect railroad secur-

¹ There is force in Mr. Warfield's suggestion that there might be one railroad holding company for the whole country. But the American people do not like a single powerful corporation, just as they did not like the idea of a single United States bank. They prefer the present regional bank system. And, again, this is such a vast country, and conditions in different parts vary so greatly, that a single management would hardly understand or satisfy local conditions, and hence regional railroad corporations are more likely to give the best results.

ties; also after providing for maintenance and appreciation; also after providing a fund for "unusual railroad or traffic conditions * * * or for other purposes." Under this plan present railroad rates are to continue until modified by Regional Commissions upon which the railroads and shippers are to be represented. The railroads themselves are to raise future monies by issuing securities approved by the Interstate Commerce Commission. The keystone of the plan is that rates are to be high enough to keep railroad credit high. Mr. Warfield's second statement to the Committee on February 14th, 1919, devoted much more attention to the Thomas Bill plan of control, thus indicating that it could not be lightly brushed aside. He said that the crucial point of all plans was to allow a rate which would attract capital.¹ He thought that the regional plan means Government ownership, but did not explain why.² He thought there would be long delay in the exchange of securities,³ and asked what would become of those stock or bond holders who did not turn in their securities,⁴ and he asked whether the basis of exchange would be physical value or earning power in connection with physical value, and how different classes of outstanding securities would be dealt with,⁵ and he said that the federal reserve bank system was different.⁶ He again advocated his original plan.⁷ On cross examination, however, Mr. Warfield's plan did not look so well. Senator Cummins pointed out that any such plan of rate making would increase immensely the profits of the prosperous railroads.⁸

The trouble with Mr. Warfield's plan is that to re-establish railroad credit the railroads would have to raise rates so high the people would revolt. It contemplates high railroad rates without any workable method for determining what is a reasonable rate. Mr. Hines criticises the plan on the ground that the railroads would be free to charge high rates and make high profits, and that it would be practically impossible to determine what was a reasonable return for the

¹ Record, p. 1139.

² Record, p. 1140.

³ Record, p. 1141.

⁴ Record, p. 1142.

⁵ Record, p. 1142.

⁶ Record, p. 1143.

⁷ Record, p. 1149.

⁸ Record, pp. 1157, 1158.

railroads to earn, because it would be so low as not to attract capital, or so high as to be unfair to the public.¹ Mr. Morawetz says that no court, and no commission, and no railway man has ever furnished any definite or practical standard for determining what rates are reasonable, or adequate, or fair.

¹ Mr. Hines, in an address before the Chamber of Commerce of the United States, at St. Louis, in April, 1919, said:

"I would put first among the difficulties of the old form of regulations the fact that there was an entire absence of standards by which the regulation could be governed. There was a general concurrence of views that the railroads ought to have a fair return on the fair value of their property, and no more, but nobody knew what the fair return ought to be; nobody knew what the fair value of the property ought to be, so it was unending debate all the time. We had a condition which, in my opinion, made successful regulation under the old conditions utterly impossible, and that is what I wish to mention as the second point in my catalog of fundamental difficulties with the old form of regulations. That second point is the wide disparity between the weak roads and the strong roads.

"We had about 180 railroad companies in this country, with revenue of a million dollars or more every year, and we had several hundred companies with operating revenues of less than a million dollars per year. That great number of companies presented every possible variation from a degree of exceptional prosperity to the degree of exceptional adversity, and yet every one of these railroads represented a necessary instrument of public service. Broadly speaking, the rates had to be the same for the weak roads as the strong; to a very large extent the scale of wages had to be the same, regardless of the strength of the particular railroad, because the cost of supplies was practically the same for the weak and the strong. So we had a condition that whatever might be done through fixing the rates or through establishing a wage scale, the result was that some railroads would prosper, while other railroads could not prosper at all, so that, however any question of broad railroad importance was disposed, the result led to discontent on the part of the public and to discontent on the part of the owners of the railroads."

Mr. Hines said at a hearing of the Senate Committee on Interstate Commerce on February 4th, 1919:

"This country has settled down to the definite conception that railroads ought not to receive more than a reasonable return, and also that they ought not to receive less. Theoretically, this appears to be a reasonably definite standard. Practically, the standard is impossible of application under the proposed plan of private management. No matter how carefully rates may be fixed, they are more likely to vary either above or below a fair return than to produce the fair return, and no more and no less. A prosperous year may produce too much, and before the rates can be changed the exceptional prosperity may have disappeared. Of course, one company may get more than a fair return and another less. If the Government adopts the proposed plan it will be doing a vain thing. It

There is no doubt, however, that bankers and investors are exerting a powerful influence for the adoption of the Warfield plan. It looks like an easy way out. It is a revival of the old fetish of commission rule with a mandate from Congress to make the rates high enough to please everybody. It would result in permanent higher rates with conflict and confusion. It does not furnish the machinery for a gradual reduction of rates which the welfare of the public absolutely requires.¹

Further, Mr. Warfield's plan has a fantastic way of dividing so-called excess profits of the prosperous railroads, and, in fact, contemplates confiscating the surplus profits of such railroads for the benefit of less fortunate railroads, the

will be proceeding on the idea that it is insuring the public the performance of an adequate transportation service for a fair return, but it will be providing machinery that never will, and never can, provide the desired fair return. * * *

"It is recognized that it is indispensable that capital invested in railroads shall yield a sufficient return to attract additional capital. But the proposed plan of private management involves the whole subject in so much confusion and uncertainty as to make the prospect of obtaining additional needed capital highly unfavorable. If the fair-return principle be adopted in theory, but fail in practice, the result will be either that the public will suffer serious inconvenience through railroad credit being impaired so that the necessary new capital cannot be raised, or the public will suffer serious loss through being compelled to pay in the aggregate a great deal more for transportation rates than is necessary to produce the fair return. The whole matter will be so uncertain and so subject to accidental fluctuations that a large margin over fair return must be assured in order to keep railroad credit reasonably protected, and if it is not so protected through this large margin, then the public service will suffer." (pp. 901, 902.)

¹The following summary of the present situation has appeared in the press:

"Sentiment appears to be crystalizing around the scheme evolved by the so-called Warfield committee of railroad securities' owners. This has received the indorsement of several organizations of bankers. It appeals to most minds because it does not entail radical departure from the old régime. Public sentiment is opposed to destruction of competition such as would be wrought by creation of regional systems. It demands competitive conditions in transportation, with the opportunity for private initiative provided for in the Warfield proposal, which would retain existing organizations. The feature of this scheme is that, while it leaves the rate fixing power in the hands of the government, it also places in the hands of the same government agency the responsibility for seeing that railroads earn sufficient income to permit of fair profit. The guarantee it asks for is not in the nature of a subsidy but of a minimum return on capital based on equitable rates."

constitutionality of which may be doubted, to say the least. Mr. Warfield's plan would merely reinstate the old regime of the bankers in control by reason of the bankers being called on to finance the railroads. The public and the railroads would be in constant conflict as to the reasonableness of the rates. That system is discredited.¹

¹ Elihu Root, of counsel to Mr. Warfield's association, in a letter to Mr. Warfield of May 7, 1919, endorsed the latter's plan, and said, among other things:

"The railroads are to be returned to private ownership, and they cannot be permitted to go back to the uncontrolled operation of the earlier period. * * *

"The whole system of rate regulation and the whole business of transportation rest upon the necessity that rates for competing roads shall be the same. Yet rates so low as to prevent the most favorably situated railroads from receiving excessive returns for their service will ruin the bulk of the railroads of the country, while rates so high as to permit the bulk of the railroads of the country to live will give to the most favorably situated roads returns that the American people will not stand for. If that difficulty is solved all other questions are comparatively easy of solution. Our present law leaves that difficulty as an insuperable obstacle to fair rate-making. I think the simple provisions which you have suggested do solve the difficulty. If Congress follows your suggestion and fixes a fair rate of return for the railroads of each rate-making district as a whole and requires the rate-making authorities to fix rates which will presumptively yield that rate of return, and then requires that in case any particular road makes more than the prescribed return, the excess shall be taken by the Government and disposed of equitably as you propose, to promote the public interest in transportation, there is no reason why railroad credit should not be re-established and railroad development proceed promptly, and with it the development of the business of the country. * * *

"I wish, however, to say one thing about the idea of compelling Federal incorporation, whether as applied to existing railroad companies or new consolidated regional companies. I think that comes under the head of machinery, which is not only unnecessary, but mischievous. The process of getting all the \$17,000,000,000 of railroad securities of the 2,300 railroads of the country away from the millions of present holders with all the litigation and injustice and dissatisfaction and obstruction of credit involved would require so many years of controversy that it would not meet the present exigency. * * *

"There is really only one avowed purpose which could be accomplished by that plan, and that is to withdraw the railroads entirely from the jurisdiction of the State Commissions. This is unnecessary, because Congress has power to authorize the Federal rate-making authorities to overrule the State Commissions in respect of rates which interfere with

THE PLAN OF THE RAILROADS THEMSELVES

This was ably presented to the Senate Committee by Mr. Kruttschnitt and Mr. Thom. Boiled down it is a proposition that the Government have greater supervision and the railroads

the Interstate Commerce rates. The State Commissions ought not to be destroyed. * * *

"The same observation applies to the idea of a Government guaranty. That means an attempt to assure a given income independently of rates, instead of assuring rates subject to a limit of income. The inevitable result would be that no rates would be permitted beyond those necessary to make the guaranty good, and as the Government must make the guaranty good, there would be neither opportunity nor incentive for private enterprise in the management or development of railroads. The only real financial interest and the only active control stimulated by interest would be on the part of the Government, and this would lead inevitably to Government ownership. Your plan makes the railroads work for their living and assures them of a chance to earn it. The guaranty plan gives them their living whether they work for it or not. That is fatal to enterprise and to efficiency."

Mr. Warfield himself, in a letter to the members of his association of May 13th, 1919, said:

"The investigations and advice of our Advisory Counsel are conclusive that eventual Government ownership and the continuance of present Government control and operation of the railroads will surely result from advocating before Congress the guarantee by the Government of the securities of new regional railroad companies, merging therein existing railroads, and in advocating compulsory Federal incorporation."

Now, it is all very well to say that a Government guarantee will lead to Government ownership, yet the better opinion is that a resurrection of the old mode of control will most certainly lead to Government ownership. The guaranty feature of the guaranty plan is incidental, the main proposition of that plan being that the public shall control the railroads by private ownership instead of Wall Street controlling them, as heretofore. The guaranty is required, incidentally, because if the public took control without guaranteeing reasonably fair financial results, we would have the same situation as when the Interstate Commerce Commission fixed the rates, without being responsible for railroad expenses. It is unfortunate that a guaranty is necessary, but responsibility and expenses must go hand in hand with power to fix rates.

Mr. Root is quite positive in his opinion, but not altogether convincing. As shown above, no one knows or can tell what a fair rate is. A fair rate cannot be arrived at theoretically, but will have to be worked out in connection with expenses, interest, dividends and what the service is reasonably worth in the way of anything beyond those three elements.

Mr. Root's statement that a Federal holding corporation is unneces-

a freer hand as to rates. It is the old regime in a new form. The railroads themselves would fix the rates subject to revision.¹ The rate is to be

"reasonable, but adequate and sufficient to enable the carriers to provide safe, adequate, and sufficient service, to protect existing investment, and to attract the new capital necessary in the public interest."

Senator Townsend said² in regard to the preceding:

"Now, if I understand that correctly, under this plan the railroads and their employees could practically determine what the public must pay for the use of the railroad facilities?"

"Mr. Cuyler (representing the railroads): Yes, sir.

"Senator Townsend: And the people would have nothing to say about it?"

"Mr. Cuyler: No, except the right of appeal on complaint.

* * * * *

"Senator Underwood: * * * Now, I want to ask you what are the fundamental, underlying principles that you propose that we should pass legislation upon?"

"Mr. Cuyler: The rate making.

"Senator Underwood: You say, 'the rate making,' but what you really recommend here is that the Government shall make a guaranteed return to the rate-making powers?"

"Mr. Cuyler: That is what it practically amounts to, Senator."

sary and mischievous and slow is rather sweeping, but those who have had experience in reorganizations on that plan take a different view. Mr. Root's objection that such a plan would deaden incentive to efficient and economical management of the railroads has more force, but such a plan certainly would be better than Government ownership, and, on the other hand, the old mode of running the railroads, which is now utterly discredited, had altogether too much private incentive.

Personally, I would prefer the non-guaranty plan, if it were not a mere temporary makeshift. If adopted, I predict it will not satisfy the public, and will lead to constant conflict as to rates, and will be supplanted by some form of guaranty plan.

Ultimately profit will disappear from the operation of the railroads. They will be operated without profit and without loss. The rates will be changed from time to time to meet expenses and fixed dividends—no more and no less. That may remove the incentive to effort, but that disadvantage will have to be faced. That disadvantage will occur, anyway, when the great consolidations, which all now agree to, take place. We are moving towards the administration of the railroads as great public utilities, to be operated for the public good, without profit and without loss—the best service at the least cost.

¹ Record, p. 310.

² Record, p. 326.

REPRESENTATIVE ESCH'S PLAN

On June 2, 1919, Representative Esch, Chairman of the House Committee on Interstate Commerce, introduced a bill to solve the railroad problem. Mr. Esch some fourteen years ago took part in the Esch-Townsend Bill increasing the power of the Interstate Commerce Commission. He brings to the subject long experience and unquestioned ability. His present Bill, however, does not much more than merely increase again the powers of the Interstate Commerce Commission, and does not provide for federal incorporation, nor for any regional plan, nor for any guarantee of income, and even the provision allowing the pooling of earnings and terminals must first be approved by the Interstate Commerce Commission, as well as any consolidations; all of which is well enough, but the railroad patient requires a capital operation and not a bread pill. The bill represents the views of the Interstate Commerce Commission—namely, greater powers to the Commission.

SAMUEL REA

Mr. Rea is President of the Pennsylvania Railroad Company, and his ideas are entitled to the highest consideration. He believes in the foregoing plan of the railroads themselves, that they should be returned to their owners with greater control over their own rates. He is very much opposed to any guaranty by the Government.¹ There is force in what Mr. Rea says, but without a guaranty the rates would be so high that

¹Mr. Rea said in an address before the Chamber of Commerce of the United States, in St. Louis in May, 1919:

"A governmental guarantee would plunge the country into a wholesale financial reorganization of the railroads extending over a period of years, and would ultimately mean Government ownership. But to temporarily palliate the situation, the guarantee is to be coupled with private operation. What is to be the capitalization of these private operating corporations? Are they to be mere shells, with no large financial stake in the properties they operate and administer? Is there any business man present who would recommend the Government to guarantee returns on property having a value of about eighteen billion of dollars and turn it over to six, or even eighteen, private operating companies without demanding the power to thereafter define its financial and operating policy? Can any stock or bondholder imagine that our Government will guarantee railroad stocks and bonds and charge nothing for that guarantee? Should capital improvements thereafter be made according to the business neces-

the public would revolt, and especially so if these high rates were made by the railroads themselves under a resurrection of the old method of control.

DANIEL WILLARD

Mr. Willard is President of the B. & O. Railroad. He appeared before the Senate Committee and made a very able and adroit statement. He favored the plan of the railroad companies, themselves, namely, turning back the property to them and let them fix the rates, subject to revision by the Interstate Commerce Commission. Mr. Willard saw something good in every plan that has been presented, and his testimony reminds one of the old saying that "You're all right, and he's all right, and I'm all right, and we all are right as right, as right can be." When, however, any suggestion was made that the trunk line railroads be compelled to absorb the weaker roads, or that federal incorporation be made compulsory, or profit sharing with labor ¹ or any other drastic move be made, Mr.

sities or on the political judgment of each administration? Would political favoritism as to new improvements, branches and extensions, and orders for supplies be inevitable in the Government guarantee plan? Should we, then, employ officers and men who have political influence? Should we impose this guarantee plan on the country in the midst of the great struggle she must meet to reconstruct her industries and put national affairs and taxation on a peace basis? What period do you think it would take to work out the financial reconstruction of all the railroad systems of the country, and all their leaseholds, guarantees and other obligations, and what is to occur meanwhile?"

The "Railway Age" of May 9th, 1919, contains the following:

"The principal point made against Government guarantees is that they would impair the incentive to efficient management. Another point is that if some of the railways failed to earn their guarantees and the Government had to make them good from the public treasury there would result controversy and agitation which probably would lead to Government ownership. * * *

"It may be, as those who oppose specific guarantees contend, that the guarantee policy would soon land us in Government ownership. But it is even more certain that if guarantees are not given and the policy of regulation of rates formerly followed is restored we shall soon be forced into Government ownership."

¹ Mr. Willard said (Record, p. 1207):

"I am not in favor of such a division of excess profits with labor, as Mr. Warfield suggests, because such a plan, in my opinion, would be ex-

Willard with the skill of a trained diplomat gracefully avoided the issue. The railroads were certainly well represented by Mr. Willard, but the old regime has gone never to return again. The railroads were controlled by the bankers naturally and inevitably. The railroads had to have great sums of money every year. Their directors were unable to sell stocks and bonds to the public direct, and so had to call on the bankers to sell the stocks and bonds. The bankers to protect their investors had to control the boards of directors, the policy and operation of the railroads, and to do so had to practically appoint the presidents and general managers of the railroads. Those presidents and general managers had to produce profits or lose their positions. The result was conflict between the railroads and the public, and this showed itself in hostile legislation, Interstate Commerce Commission rulings, and state commission interferences. The seat of the whole trouble was bankers' control instead of public control, and if the railroads were turned back under the plan now proposed by the railroads themselves there would be the same old control by the bankers.

tremely difficult of fair application, and does not rest upon the right principle. I believe thoroughly in good wages, and if a man does work of unusual value he should receive unusual reward, but the two should go together; and that would not necessarily follow under Mr. Warfield's plan. I agree fully with the idea advanced by Mr. Plumb on behalf of the four brotherhoods, that the best results will be obtained when men are actuated by hope of reward, and not by fear of punishment; and in no line of gainful endeavor has there been greater opportunity for advancement and reward than in the railroad service. Private ownership will preserve the conditions which have made such advancement possible. Hundreds of boys have entered the railroad service at the very bottom of the ladder, and, without wealth or influence, have risen, by virtue of personal application, skill and merit, to positions of prominence, influence and honor; and while, because of the semi-public character of the service, railroad officers have not the same opportunities to-day to acquire wealth that are offered in other lines of endeavor, the opportunity which such a career has offered in the past for constructive service has made railroading, as a career, attractive.

"The very great majority of the railroad officers to-day, from the lowest to the highest, have reached their present positions through well-established lines of promotion and because they were believed to be fitted for the enlarged responsibilities placed upon them. Having entered the railroad service as an unskilled laborer when only 18 years old, I have seen and known the things of which I speak."

It is impossible. Under the old system the political power, the industrial power and the financial power of the railroads centered in Wall Street. The public want no more of that.

GLENN E. PLUMB

Mr. Plumb, representing railroad employees, proposed to the Senate Committee that the Government shall buy the railroads by issuing Government bonds, and then operate the railroads through a corporation, the directors of which shall be named, one-third by the President, one-third by the employees, and one-third by the appointed officers. Profits, after paying interest on the purchase price, shall be divided equally between the employees and the Government. All this would quickly result in the employees managing the railroads. Have they the capacity and experience to do this? Would the Government's investment, including fresh money, at the rate of \$1,000,000,000 a year for extensions and improvements be safe? Not yet. The fundamental trouble with all such plans is that a successful industry depends upon the industrial leaders, and although the industrial leaders come from the plain people, yet they prefer to carve out their fortune and future by independent action, free from any insubordination in the ranks. The time may come when such things are possible, but not yet. This reminds one of the fable

THE BELLY AND THE MEMBERS

There was a time when the different parts of the body used to keep up a regular gabble-gabble; and one day all of the other Members were very angry with the Belly because it was so greedy. "Let it work if it wants food—the idle thing," they said. So they all went on a strike against doing anything for the Belly. The Hands would not lift a Finger to help it; the Mouth vowed it would never speak again if it took in even a crumb for it; and the Teeth declared they would decay all over before they would chew a morsel for the old thing. But when the Hands, the Mouth and the Teeth all found they were starving themselves to spite the Belly, they then soon came around and begged the Belly to let them work for it again.

MORAL

The employees should be kind to the Boss; he is really very useful, especially on pay days.

CHARLES G. DAWES

Mr. Dawes would apply the Federal Reserve Bank System strictly by having the railroads subscribe to the stock of

regional railroad corporations, the latter to control rates and supervise generally, but just where the railroads would get the money to subscribe for such stock (money being the last thing which they have in these days), and just how the regional railroad corporations would raise a million dollars fresh money every year, or any sum whatsoever, without a Government guaranty, Mr. Dawes fails to explain. I fear his plan would not march.

OTTO KAHN

Mr. Kahn proposes that Congress authorize somebody to fix rates sufficiently high to attract new capital. That is all very well, but what is to be the basis of the "sufficiently high" rate? Is it to be fixed by the bankers controlling the railroads, or by the Interstate Commerce Commission, or by Congress? What is to be the check upon its being "high" unreasonably? Mr. Kahn's general talk is cheerful and highly interesting, but it does not get anywhere.

The fact is that high railroad rates are incompatible with the prosperity of this country. High railroad rates will cripple our exports, because the selling price abroad must compete with foreigners, and from that price must be deducted the high railroad rate, leaving the farmer's and manufacturer's price low. High railroad rates also increase the cost of living at home. High railroad rates are due to high expenses of labor and material. Competition will bring down the latter and only greater efficiency can save the former. Extravagant railroad expenses mean high railroad rates, and high railroad rates mean stoppage of economic growth.

From all of the above it will be seen that there is a remarkable unanimity of opinion as to most of the fundamental principles leading to a solution of the railroad problem. Practically all seem to agree that there shall be federal incorporation, and country-wide consolidations, and a division of the consolidated roads into regional districts, each district containing one or more trunk lines with an absorption of the small railroads in that district; and there is also a unanimity of opinion that the fixing of rates shall be united with the responsibility for the

payment of the expenses, interest, dividends, and the raising of fresh capital for extensions and improvements. The plan of the Thomas Bill has undoubtedly led the way to these conclusions, and I believe that plan will ultimately prevail, with modifications, such as a larger number of regional railroads to promote competition in service.

The controversy still remains whether the railroads themselves shall fix railroad rates subject to revision by the Interstate Commerce Commission, or whether the rates shall be fixed by a Federal Railroad Board in connection with a Government guaranty of railroad income. Either plan really involves a guaranty, the guaranty in one being that of dividends on the stock, and the other a guaranty or allowance of rates high enough to pay such dividends.

A second subject of controversy is whether federal companies shall be organized to control all the railroads, or whether the old system of the control of the railroads being in many boards of directors, re-electing themselves by stockholders' proxies, shall be continued. This old plan is unsatisfactory to the public. If restored it would be merely temporary and the discontent and conflict would probably lead to Government ownership. The public insist on real public control. The regional trunk line plan, combined with federal corporations controlled by a Federal Railroad Board, with power to fix railroad rates, and with responsibility for paying railroad expenses, this responsibility being made imperative by a Government guaranty, is a compromise, to be sure, but it is the only plan which gives assurance of satisfying all the parties in interest, and at the same time will prevent Government ownership. It is the only plan yet proposed for real public control without Government ownership, and which places responsibility for rate making, the regulation of expenses, and the production of a reasonable profit, all in the hands of one body, instead of in a divided control. Real public control is insisted upon by the American people and the Thomas Bill will give it. It is gratifying to note that the plan which has taken

twelve years for me to work out, and which was first published in 1908, is now being endorsed generally.

The danger is that the public, out of sheer disgust with present railroad rates and service, may abandon all real public control of the railroads, and allow the reactionaries to have their way. That way leads to still higher rates and ultimate Government ownership.

The Warfield plan and the plan of the railroads themselves are fatally defective, in that they cannot raise one billion dollars fresh money per year for imperative railroad needs, without excessively high railroad rates.

WILLIAM W. COOK.

June 9th, 1919.