THE COUNTRY'S NEED OF GREATER RAILWAY FACILITIES AND TERMINALS

ADDRESS

DELIVERED BY

MR. JAMES J. HILL

AT

The Annual Dinner of the Railway Business Association,
New York City

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The subject of national transportation is many-sided. One aspect of it takes precedence in one community or in the opinion of one interest, while for others some different phase ranks all the rest. But every interest and every community should understand that the main need today of transportation and of the many activities connected with and dependent upon it is an increase of terminal facilities. It is no exaggeration to say that the commerce of the country, its manufacturing and agricultural industry, its prosperity as a whole and the welfare of every man in it who engages in any gainful occupation can escape threatened disaster only by such additions to and en-

largements of existing terminals at our great central markets and our principal points of export as will relieve the congestion which now paralyzes traffic when any unusual demand is made upon them. Our natural material growth will make this their chronic condition in the near future unless quick action is taken.

If you increase the size of a bottle without enlarging the neck, more time and work are required to fill and empty it. That is what has happened to the transportation business, In 1907 traffic was blocked on nearly all the principal Eastern railway lines. It took months to convey an ordinary shipment of goods from one domestic market to another. The dead-lock was broken partly by a panic that lessened the volume of business and partly by the efforts of railway managements to add, by increased efficiency, to the moving power of facilities at command. We neither anticipate nor desire perpetual business depression. While the limits of efficiency have not been reached, we know that it cannot be made to cover the demands of our growth in population and production. The records of any large city will prove this. The tonnage of the Pittsburgh District, for example, by railroad alone, grew from 64,125,000 to 152,000,000 in the ten years between 1901 and 1911. It is both practical and patriotic to ask what is to be done.

First, let us examine the following table, compiled from the reports of the Interstate Commerce Commission, showing the recent growth of the transportation business in the United States:

	Increases Per Cent.		
	1895 to 1905.	1905 to 1910.	1909 to 1910
Mileage	21	11	1.5
Locomotives	35	22	3.
Passenger Cars	23	16	3.3
Freight Service Cars	45	23	3.
Passenger Mileage	95	36	11.
Freight Ton Mileage	118	37	16.6

Business is beginning to feel the swell of a revival. The freight ton mileage of the country was less by seventeen and a half billions in 1909 than in 1907, and very little more than in 1906. Contrast this with the growth of the single year between 1909 and 1910. The freight ton mileage grew in that year eleven times as fast as trackage, and five times as fast as equipment. This ratio will be subject to increase rather than decrease. It will be much greater in this year of large crops and added tonnage. If any manufacturer were confronted with such conditions, it would be clear to him that he must either refuse business or more than double his plant. The railroad cannot refuse business. If it could do so legally, that policy would still mean national panic and individual ruin. It must enlarge its plant. Just what this means in the expenditure of billions of dollars on new track and rolling stock I demonstrated more than five years ago, and the facts have now been accepted by all authorities. But even the existing plant cannot be worked to its capacity without larger terminals. Hence the supreme importance at the very outset of this factor of the transportation problem.

This matter is vital not only to the railroads, but to every business man. It is the immediate concern of every large city. Cities can grow, they can escape decline, only as the movement of business between and through them is kept free. When the people find that their business cannot be handled, they must either move away or cease producing and consuming. They will decentralize their traffic, so far as that can be done; and the inability of the railroads to prevent this, by reason of conditions imposed on them from without, will work injury to all the great markets which have arisen through the free play of economic forces and the wise judgment of the builders of our prosperity. No city can afford to place its trade, which is its life, on a false basis. When the commerce naturally tributary to it is handicapped by poor terminals, or overloaded with too heavy charges on account of the excessive cost of enlargement, it will go elsewhere. There are a dozen places between the Maine coast and Norfolk that could be made available for relief. A city can never grow great enough to defy safely the demands of the laws of trade and its proper accommodation. Should the decentralization plan be forced on traffic, some of our greatest cities would not merely forfeit their natural share in national growth, but they would surely decline in business, wealth and power.

Interest in this question should be not local only, but national. A railroad terminal performs the same function as a harbor. It is actually the largest and most valuable harbor used by the nation's commerce.

Probably no greater volume of rail and water traffic is transferred in any city anywhere than in Duluth-Superior. On the land side almost the whole of this is carried by three railroads. It is received, transferred and discharged without congestion in the busiest seasons and with expedition because the terminals there have been specially created for the work they have to do. The nation has properly made the provision of adequate harbors its care, and expended millions of dollars on our seaboards and the Great Lakes to ensure ample facilities for loading and unloading cargoes. It is not to be supposed or desired that the nation should furnish the money to provide those great harbors known as railroad terminals, although they are vastly more essential to the free movement of trade. But it should smooth the way and make easy the task of those whose business it is to provide them.

When traffic is blocked and the railroad yards of the principal cities are filled with cars that cannot be moved, the railroad suffers the loss of a portion of its earnings; but the business man loses a larger share of his trade, and the workingman his employment. No industry can do more than protract a starved existence when the currents of transportation cease moving freely. When the commerce of an industrial empire whose magnitude is partly indicated by the clearing house exchanges of $102,000,000,000 in New York City alone during the past year is blocked, the whole nation suffers.

Whenever we have a big crop or a general revival

of business, the country hears most of the danger of a car shortage. The public assumes that if enough cars are provided they can be moved on schedule time from point of origin to destination, wherever these may be. This is not the real trouble. What is really needed is the greater movement of cars. The average movement of a freight car is about 24 miles, or two hours, per day. Delays in loading and unloading by shippers are partly responsible, but much of the lost time is consumed in getting into, out of or through terminal points where there is not room to handle the cars. More cars intensify instead of reducing the trouble. No other business could endure the loss of the use of its machine plant for twenty-two hours out of the twenty-four. One thousand cars will cover nearly eight miles of track. Each car must be switched, loaded or unloaded, or all three. This multiplies the trackage requirement.

A thousand cars are a fleabite compared with the daily movement in the busy season. The railroads of the United States carried 1,849,900,101 tons of revenue freight in 1910. At the average load of 21.5 tons per car, it would take 86,041,865 cars to move it. Nearly all of these pass through some large terminal, most of them several times in the year. There are about thirty important traffic centers; and if the total movement were divided equally between them, supposing each car to pass through but one market, and that only once a year, 7,858 cars would have to pass through each terminal every day in the year. Five thousand cars a day are enough to create a blockade in many of the large

terminals of the country. Our worst troubles have come not from insufficient rolling stock or lack of efficiency in handling it, but from congested terminals. Water routes give little assistance: first, because the largest streams of traffic in the United States are not in a direction where either natural or artificial waterways can be used; second, because a waterway less than twenty feet deep cannot compete as a carrier. The waterway, too, may and often does increase rather than lessen the pressure on terminal facilities. There is but one possible remedy—enlarged terminals. The main question back of that is financial. Where and on what terms is the money to be had for an improvement become as necessary as the removal of a freight wreck from a main traffic line.

The two obstacles to be overcome in this readjustment of the transportation agency to the growing needs of the country are the physical difficulty and the cost. The railroads could not have foreseen and guarded against this need thirty or forty years ago. They could not then know where the greatest markets were to grow. They could not tell in what portion of any city it would be most convenient to have railroad yards placed a generation later. If they had secured land, changes in business districts would in many cases have made their forethought useless. Even if gifted with prophetic knowledge, they could not then have commanded the resources for such an undertaking, any more than the country town of today can put in all the improvements that its future as a city will require and justify. It is a

natural and inevitable condition that we face. Upon the railroads rests the responsibility of performing the work now to be done. Will they be left free to attempt it under such conditions as will make the performance of it a feasible thing and not a miracle?

In some places it will be physically impossible to secure the land area for proper terminals. The space that must be used is generally in or near the business heart of the city; often along the waterways, where enterprise has been busy and land values have reached their highest point. Therefore the space for such terminals is either not available on any terms or will cost sums that sound fabulous. The financing of new terminals presents a far more serious problem than the financing of a new railroad. Large sums of money must be raised. The owners of capital will not supply them unless they are satisfied with the security and with the prospect for a sure and adequate return on their money.

What security can the railroads offer for such a loan? Already, merely for constructing and operating their existing machine, many of them have not only pledged their credit to the limit but have absorbed a large share of their surplus earnings that in other countries would have been paid out in dividends. The ability of the Pennsylvania system to handle its big business is due in no small degree to its past policy of diverting profits legally the property of the stockholders to the construction of betterments. There is not a well-managed railway of any size in the country of which the same is not true to some extent. And, with the increase of

their expenses and the limitation of their income by public authority, there is coming to be little or no surplus revenue that may be so employed. Net income, not gross, is the index of prosperity and the foundation of credit. Gross revenues grow, but expense grows faster. Returns to the Bureau of Railway Economics, covering 90 per cent of all the steam railway mileage in the United States, show that during the first seven months of 1912 operating revenues increased 3.3 per cent per mile as compared with the same period in 1911, operating expenses increased 4.9 per cent, and net operating revenue decreased .5 per cent. The additions to taxes and other incidental expenses will raise this figure. The progressive decline of net earnings per mile under the existing method of rate regulation is assured.

The properties of many systems are already encumbered to the limit of credit and solvency. Securities have been consolidated, equipment trusts have placed what are practically chattel mortgages on rolling stock, and money cannot be raised except for a short term and at high rates. Ten or fifteen years ago 4 per cent would bring in capital for railroad improvements. Strong properties sold their bonds bearing 3½ per cent interest. Now some of the strongest roads are paying 4½ per cent for new capital. Properties less well known for stability and earning power pay more. The rate has advanced by from 1½ to 2 per cent in little more than ten years. The great sums required to extend our terminals to meet the actual business of the

country can be had only on condition that the payment of principal and interest is absolutely secured. The railroads can pay money only as they are permitted to earn it. In the last resort it is up to the people to say whether or not these terminals and other facilities shall be supplied; just as it is up to them to suffer the severest of the consequences if they are not.

Two questions arise immediately and naturally from the situation as it discloses itself to any one who chooses to look at the facts. The first is, "Why are the railways not now in a position to borrow the money and build the terminals at once?"; the second is, "What have the railways done to entitle them to confidence, to relief and to a more fair and generous treatment by the public?". Each of them can be answered by an examination of facts officially vouched for.

The impairment of credit has already been partly set forth in presenting the difficulty of making loans for improvement purposes, and noting the higher rate that must be paid. How has this happened? The limitation has come, of course, from two directions; decreased earning power and increased expenses. A railroad has no other source of income, generally speaking, than receipts from rates. These have steadily declined. While the price of everything else rises, the price of transportation falls. The average freight rate per ton per mile received by the railroads of the United States fell from 9.27 mills in 1890 to 7.53 mills in 1910. This is partly the effect of legislative regulations and the orders of public commissions, and partly due to volun-

tary reductions made possible by increased efficiency and increase in the density of traffic. On the whole, railroad rates in the United States are the lowest in the world. But they cannot continue to grow less forever.

Rates must be such as will bring in, above operating expenses, a reasonable return on the investment as measured by the value of the property. So much the courts will uphold. But that is not enough, if the railroads are to go into the money markets of the world as borrowers of billions of dollars. A man must do better than graze the sharp edge of bankruptcy if he is to find himself welcomed as a prospective creditor by the investor. So the railways, if they are to carry this new burden, must not only be protected against the further destruction of their credit involved in an unending succession of attacks upon their existing revenue. They must also be permitted to earn enough to assure capital that they can pay interest and principal of the heavy additional loans asked. By the light of this practical, unchangeable fact the railway regulation of the future must be guided. If it is not, then congestion and a general paralysis of trade, costing the country more than double its whole bill for transportation cannot be avoided.

The Railroad Securities Commission, with President Hadley at its head, the ablest and most disinterested body which has ever investigated the subject in this country, said in its report: "Where the future is uncertain the investor demands, and is justified in

demanding, a chance of added profit to compensate for his risk. We cannot secure the immense amount of capital needed unless we make profits and risks commensurate. If rates are going to be reduced whenever dividends exceed current rates of interest, investors will seek other fields where the hazard is less or the opportunity greater. In no event can we expect railroads to be developed merely to pay their owners such a return as they could have obtained by the purchase of investment securities which do not involve the hazards of construction or the risks of operation". Exactly what happens when this right rule is reversed, and the railroads are forbidden by curtailment of their earning power to attract capital may be understood from the following extract from an editorial on the financial year which appeared in the New York Times of October 3, of this year: "Railways have issued a total of stocks and bonds and notes smaller this year than last by $23,821,100, while industrials have increased their issues by $362,288,650. The decrease of the railway bond issues was no less than $99,889,400, and they were formerly the favorite investment. The increase in industrials was mostly in stock, the figures being $259,416,250. Formerly industrials were unable to market stock in competition with the railways, but this year they have been able to place between three and four times as much as the railways."

While revenue was shrinking, the obligatory expenses of the railways of the country have increased enormously. Their equipment alone is valued at near-

ly three and a half billion dollars; the increase during the last nine years being 45.3 per cent in locomotives and 39.7 per cent in freight cars. For the mere maintenance of equipment they spent over $413,000,000 in 1910. When we come to consider operation, the figures mount as rapidly as those on a pressure gauge when the needle is racing toward the danger point. The wages of the railroad employes in this country have reached the stupendous total of over $1,200,000,000 a year. According to the advance summary of the report of the Interstate Commerce Commission for 1911, the total number of employes in the United States decreased in that year by 29,611 as compared with 1910, while the total wages paid increased by $64,741,164. In no other occupation has such a showing ever been made. If the wage scale of 1899 had been in effect, the item of labor cost would have been some $300,000,000 less. Against liberal wages the railways do not protest, because they know that they can render safe, adequate and satisfactory service in proportion as their employes are well fitted and well paid for their work. But new outlay must be balanced by new income unless operation is to cease. Public sentiment almost always supports the demand of employes for higher wages. Public sentiment cannot, from the point of view of either justice or safety, continue to prohibit or prevent the levying of such rates as alone will enable the employer to pay the wage rate in many cases practically imposed from without as authoritatively as are the traffic rates that a commission orders into effect.

Another item of expense which grows out of all proportion to railway revenue or national development is taxation. In 1890 the taxes paid by all the railroads aggregated $31,207,469; in 1910 they had risen to $103,795,701; for 1911 they are estimated at $109,000,000 and may be a couple of millions more. The increase in twenty years up to 1910 is 233 per cent. This is by direct act of the people. The extravagance of all modern legislative bodies, the doubling of state and national expenses within a few years and the continuous issue of bonds for all sorts of public purposes formerly met by general taxation have drained the ordinary sources of revenue. The railroad treasury has come to be looked upon as the public milch cow, from which a new supply of nourishment may always be obtained. So railway taxes have risen by leaps and bounds. Each mile of line in the country paid $199 in taxes in 1890, and $431 in 1910. The owner of capital will not be over-anxious to lend it to concerns which, if the present tendency is not checked or reversed, will presently see all receipts beyond a bare living income diverted by taxation to the public treasury. When the state appropriates out of the earnings of the railways, as it did in 1910, more than one-fourth as much as was paid in dividends to all the stockholders, the interest rate naturally rises and the possible supply of new capital for railway investment threatens to vanish altogether.

If you take two dollars out of your purse each time you put a dollar in, bankruptcy will happen in time. The railroads are not yet reduced to the point of collapse,