

Why Railroads Demand Federal Incorporation

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per cent. This road has 14 masters; it runs through 13 states and the District of Columbia.

This list could be multiplied indefinitely showing the enormous surplus available for dividends earned by the railroads of the country under "the dual system of regulation," concerning which they complain.

A recent daily paper publishing the business outlook of the country received a telegram from New York containing the following letter:

"Considering the tremendous gross and net earnings of the railroads it seems little short of malicious towards the stockholders the way railroad managers, backed up by some newspapers, try to destroy the market for railroad securities in order to influence by outward show the interstate commerce commission into giving higher rates to the roads.

"Judged not by any off month, but by earnings over several months, the railroads are making more net profits than many other lines of business."

THE FULL CREW LAW

While many generalities are indulged in by the representatives of carriers alleging disaster to railroad companies as a result of state control; but one state law has been specified and criticised as contributing to this alleged condition. We lift an extract from the second page of Bulletin No. 3, issued November 25, 1916 by the railway executives' advisory committee, which contains the following statement from Colonel Thom:

"Extra Crew' laws cost \$1,700,000 a year.

"The action of the states of Pennsylvania and New Jersey in passing 'extra crew' laws was mentioned as a further example of burdens imposed by state legislation upon the commerce of other states.

"The results of the action of New Jersey and Pennsylvania," said Mr. Thom, "is to impose an annual charge upon the railroads amounting to \$1,700,000 a year, which is interest at 5 per cent on \$34,000,000. The commerce of those states does not pay that charge. It pays only their proportion of it. The commerce of Ohio, Indiana and Illinois and of Delaware, Maryland and West Virginia is called upon to contribute."

It must be kept in mind that this criticism of the authority of the states to pass a full-crew law, as it relates to the plans of the railroads, carries with it the presumption that by a federal incorporation act either the federal commission or congress will repeal such laws; and that the carriers will be privileged to operate trains with whatever crews they please.

When the President was governor of New Jersey in 1912 he urged the legislature to pass a full-crew law in the following message:

"I recommend, moreover, the passage at an early date of an act requiring railroads operating in this state to provide their trains with adequate crews. Our sister state of Pennsylvania has adopted legislation of this kind and the railways whose lines cross Pennsylvania into New Jersey actually carry full crews to the border of this state and then send their trains on through New

Jersey with diminished crews to the jeopardy, as I believe, of life and property, requiring more of the small crew than it can safely and thoroughly do."

In the state of Pennsylvania the railroads succeeded in having the legislature repeal the full-crew law. Governor Martin G. Brumbaugh gave the following reasons for vetoing "the repealer:"

"There has been much discussion of this bill. An extensive and systematic publicity campaign was inaugurated to secure its passage. The members of the legislature, so they inform me, were subjected to the pleadings of a large and persistent lobby until the bill had passed. Thousands of letters and other literature came to them and to the executive. Employees in the offices of one corporation stated to me frankly that they were very anxiously working for the repealer because as one—their spokesman—put it, 'If we help the company get this repealer we will get an increase of salary.'

"All the discussion of this question seemed to indicate to the public mind that there are now under law a great army of unnecessary employees carried on the trains. As a matter of fact there is only one additional employee required by the present law above the number necessarily and willingly carried by the company. This one extra man has caused all this discussion and legislation. To this statement the companies assent quite as freely as do the employees. This one man is then the significant factor. The companies assert that he is not needed; the employees assert that he is.

"Within one year the railroad companies secured an increased freight rate by action of the interstate commerce commission. A potential argument of the companies for this increase was the fact that the full-crew law added to the expense of operating their service. They had scarcely secured the increased rate until steps were taken to repeal the law requiring this full crew."

Arkansas, Arizona, California, Indiana, Maine, Maryland, Massachusetts, Nebraska, New Jersey, New York, North Dakota, Ohio, Oregon, Pennsylvania, South Carolina, Texas, Washington and Wisconsin have passed laws providing for a sufficiency of crews.

FULL-CREW LAW AN ASSET, NOT A LIABILITY

In New York the full-crew law became operative in 1914. The number of accidents in the year 1913, prior to the enactment of the full-crew law amounted to 7,626. In 1915, the accidents were reduced to 4,981. In 1913, 51 passengers were killed; in 1915, 9. In 1913, there were 1,748 passengers injured; in 1915, only 833. The number of employees killed in 1913 were 250; in 1915, 142. The number of employees injured in 1913, were 3,760; in 1915, 2,114.

If the average damage paid to each passenger injured amounted to \$500, and the number was reduced by 915, the sum saved would amount to \$457,500. If the employees killed were reduced by 108, and \$4,000 are allowed in each case on the basis of the Workingman's Compensation law as damages for the death of each employee, the amount saved would amount to \$432,000. Injured

employees were reduced by the number of 1616; allowing \$500 for each injured employee, the sum saved would amount to \$808,800, making a total saving in the items mentioned of \$1,897,500, not counting the amount of property saved by eliminating railroad accidents.

The public service commission of the Second District of New York in their ninth annual report, state in connection with this reduction of deaths and accidents, "that a small part of this reduction is not attributable to the decreased train mileage but rather to increased efficiency and watchfulness of employees."

Thus we have overwhelming evidence that the one state policy which is most criticised is essential. That the President has advocated it and that it results in economy to the carriers and saves many lives.

THE PRESS

The facts about railroads do not reach the public. Through a well organized press bureau only such information as the carriers wish receives general circulation. On April 1st, 1914, Hon. A. H. Smith, president of the New York Central Railway Company testified before the interstate commerce commission in behalf of the eastern roads favoring a 5 per cent increase in freight rates. The carriers were endeavoring to create the belief in the minds of the public that the railroads were sorely pressed for revenues. The transcript of the record shows the following questions and answers.

Q. Can you name one year when your corporate income above all fixed charges and above all operating expenses was as great as in the year 1913 aside from the single year 1910?

Mr. Smith: No.

Q. Is your net operating revenue average during the past five years higher or lower than the average for the preceding five years?

Mr. Smith: 55 and 72. The first was 55 millions and the second 72 millions.

Q. Was your average net corporate income greater in the latter five year period or the former?

Mr. Smith: 23 millions and 33 millions in round figures.

Q. Greater in the latter five year period?

Mr. Smith: Yes, sir.

Q. Was not the percentage of your return on your capital during the latter five year period greater than during the former five year period?

Mr. Smith: Yes, sir.

Q. This commission, the interstate commerce commission, has unanimously held in the 1910 hearing that if a company was able to pay all of its fixed charges, all of its operating expenses and all of its taxes and then have 7½ per cent above all these charges on its outstanding capital, that ought to be adequate. Your attention is called to the fact that your average 7.93 is higher than the commission held to be adequate. Second, that the next five year average from 1908 to 1912 shows there was an increase of 30 per cent, the average being 9.2 per cent and lastly I call your attention to the fact that the profit on the outstanding capital stock in 1913 was 11.8?

Mr. Smith: Yes, I think it would be fair to take the average.

Notwithstanding this testimony, on April 2nd, 1914, the public received the impression of Mr. Smith's testimony created by the following newspaper notices:

New York World, April 2 (head-

line), "Going to the Devil fast," says head of New York Central, President Smith Asserts Income of Road Decreased Three Million in 1913 Despite Big Revenues."

Special to The World, Washington, April 1—"As I see it we are going to the devil as fast as we can." This was the statement made to members of the interstate commerce commission today by A. H. Smith, president of the New York Central.

New York Times, April 2, (headline).—"Rate Decision Likely This Month. Rapid Progress by Interstate Board in Hearings on Five Percent Increase Plea. New York Central's Plight: 'We Are Going to the Devil as Fast As We Can,' President Smith Asserts."

To the same effect are telegrams from Washington published in Philadelphia, Baltimore and many other newspapers in the cities of the country. Thus we see the press of the nation giving widespread publicity to a statement of the president of the New York Central railway company that "we are going to the devil"; but not mentioning the fact that his company had earned more than 11 per cent upon its capital stock after paying all outstanding charges.

Now, while the statement of President Smith might have been literally true, the news items created the impression that the president of the New York Central was speaking figuratively of the railroads.

THE REAL MOTIVE BEHIND FEDERAL INCORPORATION

The Boston News Bureau of September 14, 1915, carried an article dated Washington, which indicates the gigantic efforts put forth by the carriers to influence the congressional committee to favor a federal incorporation act:

"Every class of citizen doing business with the railroads of the country will be represented before the joint congressional committee charged with investigation of railroad legislation. Representatives of the railroads today began a systematic round up of prospective witnesses. Agents of the road, under direction of the legal advisers of the railway executives' advisory committee, started to comb the country for representative bankers, shippers, commercial organization officials and railroad men. J. P. Morgan will head the bankers who will submit their views to the committee and he will be accompanied by half a dozen of Wall street's biggest men who deal in the securities of the roads. The railroads likewise expect to produce bankers from various small towns throughout the country to give their views on railroad finance."

Thus we see that it is Wall street's interest in the securities of railroads that is the paramount issue. It becomes acute at this particular time, in view of the fact that the interstate commerce commission is about to establish certain principles in fixing the value of the railroad companies of the nation, at which task they are now engaged. If the railroads are successful in contending for an "unearned increment value," then their outstanding stocks and bonds may not exceed such an estimated value of the carriers' property; but such a strong attack has been made against such an absurd element of value that the fictitious securities which have been issued by common carriers are dangerously threatened.

There are at least thirteen states with constitutions and laws which