

Harding Pleads in Kansas City Speech for Merger of Railroads Into Small Groups

Hold Federal Control More Expensive Plan

President Says Relation Between Employes and Carriers Is Vital Factor in Situation.

Kansas City, Mo., June 22.—Text of President Harding's speech on transportation problems here tonight follows:

My Countrymen: Stopping as I am, enroute across the continent, to make an official visit of inquiry to the vast territory of Alaska, I stand before you to offer greetings, and bring, if possible, the federal government a little closer to you and the people of the United States closer to their government.

I confess it has been something of a problem to select subjects for localities, and take cognizance of the territorial interest in the spoken word, and at the same time keep in mind that the printed speech, in the form of modern publicity, is available to all America. I do not mean that there are any circumstances under which the president would say a thing in Kansas City that he could not say in New York, New Orleans, or San Francisco, because our varied national interests are wholly mutual in their last analysis.

Ours is a common country, with a common purpose and common pride and common confidence. I am thinking rather of the enlarged audiences with the marvels of the radio. I was speaking to you last night in St. Louis, precisely as I am speaking to Denver, Chicago, and elsewhere to night. We have come into very close communication in the United States, and we shall infinitely profit if it brings us into closer and firmer understanding. I am speaking to you tonight, not to promote our tranquility and stability at home and peace throughout the world as simple and revealing and appealing understandings.

Commerce Vitalizing Force. Production is the very lifeblood of material existence and that is its vitalizing force. Put an end to commerce and there will be no cities, and farm life will revert to the mere struggle for subsistence. And there can be no commerce without transportation. In all the exchanges which make life possible, transportation is as essential as production.

Not long ago, while discussing the distressing slump in agricultural prices which threatened the very existence of farm industry, a caller from his pocket an interesting publication, a weekly newspaper of the early forties of the last century, and turned to the quotations on livestock, dairy, and farm products. Wheat was 40 cents the bushel, pork 3 cents the pound, butter 5 cents the pound, prices of commodities like these. Not many automobiles in returns like those.

But that was before the age of motor cars, that was in the flatboat era, when a cargo of farm products had to be floated down the Scioto and Ohio rivers 200 miles to market. The prices were a reflex of the crudity of transportation. And manufactured products were correspondingly high to the consumer, because there was the same crudity of transportation in distribution. The stage coach, the wagon train, and the flatboat were speed wonders of that day, and the canal boat was the last word in luxury on many waters.

Missouri Valley Revealed. The great Missouri valley was then unrevealed, and only awakening transportation was the revealing agency. In the infinite bounty of the Creator the measureless riches of the west were bestowed, but they awaited little until the whistle of the steam locomotive proclaimed its westward march with the star of empire.

It is a curious trait of human nature that we acclaimed railroads in the building and then turned to hamper them in the operation. Missouri and Kansas were doubtless like Ohio. We gave from our purses to contribute to needed building funds, we donated vast areas for right-of-way, we witnessed financial exploitation with little protest, because of our eagerness to acquire, and acclaimed the acquisition. Marvellous development attended, but we omitted the precautions which would have

avoided many present-day difficulties. Everybody knows how necessary transportation is in this modern world of specialized industries and exchanges. Everybody knows that our very social scheme, as now organized, is dependent on the maintenance of adequate transportation media. A good many people, indeed, have lately come to wonder if it might not be possible even that we have committed our welfare and prosperity too largely to the assumption that it would always be possible to provide all the transportation that the community might desire, at costs which would not be prohibitive.

That we have even staked our very existence on the daily continuity of transportation. There is a new, and I think increasing, school of thought on this subject. Its adherents are beginning to ask whether, in the long run, it would not be better to attempt making local communities more nearly self-dependent by diversifying their range of production and by reducing the amount of transportation and exchange of products over long distances. But such a course would be a reversion to the old order, which no modern community will willingly accept, back to the farm self-contained, back to the restricted community, with its candle burning beneath the half-bushel measure.

Future Questioned. Of one thing we may be reasonably assured, and that is that since railroads first began to be built in the world there never was a time when so many people, in so many communities, were frankly and intelligently questioning the future as regards its instrumentalities of transport. They are asking very frankly and pointedly how they can attain railroads enough in the next few generations to supply them, along with other agencies, with the transportation they will require. I doubt if there is a country in the world in which railroads have come to be a considerable transportation factor which has not some sort of a railroad crisis on its hands right now.

There are some countries which merely need more railroads, and are willing to pay almost any price to get them, just as we would have done a generation or two generations ago. There are others which have more railroads than they can use, and insistent demand for lower rates makes profitable, so that they have been made, in some fashion or other, a burden on either industry or the public treasury. There are still others which have excellent railroad systems, but have found, in the increased cost of capital and operation which came with the world war upheaval, that the cost of transportation is threatening to become too heavy for the producing industries to bear it.

Face Many Difficulties. Our own country, although it possesses something like 40 per cent of the world's railroad mileage, is confronted with all of these difficulties. In much of our territory we need more railroad facilities, and somehow will have to supply them in the near future. It is stated on high authority that the indirect losses in industry and commerce due to insufficient transportation run into figures equal to the burdens of federal taxation. On the other hand there are some railroads in this country the building of which would better have been deferred, for they were born out of misguided enthusiasm, or unjustifiable speculation, or the mere purpose of levying a sort of transportation blackmail upon systems already in the field.

Finally, we have many railroads which, though apparently well managed and absolutely necessary to the communities they serve, are finding it difficult to earn a living and quite impossible to provide the necessary maintenance and the means of expanded facilities.

Every passing year adds to the cost of producing new railroads. Most of our railroads were begun in a time when land was the most plentiful and least valuable thing we possessed, and their rights of way and terminals cost as compared with the present expense that would be involved in re-producing them, very little indeed.

Everybody is doubtless familiar with the story that a few years ago a great engineer was commissioned to make preliminary calculations of the cost of a complete new trunk line system between New York and Chicago. He is said to have reported that the purchase of real estate for terminals on Manhattan island alone would require as much capital as would the physical construction of

the entire line from New York to Chicago.

Good Illustration. There could hardly be a better illustration of the increasing difficulties which the country must face in any considerable expansion of its railroad system. Of course, this hypothetical new trunk line from Lake Michigan to the Atlantic coast was not constructed. If it had been, it could not have earned returns on its enormous cost unless rates had been greatly increased for its benefit. But if rates had been increased for it, they would have had to be increased also for the lines competing with it. Otherwise, the new road would have no business at all. An increase of tariffs which would have permitted such an expensive new property to earn even a moderate return on its investment would have enabled the older and less expensive properties to earn absolutely preposterous returns.

It is worth while to bear in mind, in the face of current agitation, that we could not replace our railroads for a vastly larger sum than the situation placed upon them by the Interstate Commerce commission, and it is fortunate for our people that we do not have to contemplate a rate structure founded upon replacement cost.

I have referred to the previously recited instance because it so perfectly illustrates the whole situation which the country must meet in dealing with its railroad problem. Events of the last few years have made us all realize that the railroads must be administered under some policy that will make it possible to find the capital wherewith to expand the existing systems as business shall require, without imposing an impossible burden upon industry and consumption.

No Theoretical Problem. It is no theoretical problem. It is not an imaginary thing to be made able with the wave of the hand. When the government undertook operation during the war, and standardized wages, and was caught in the sweeping current of mounting cost, it created a situation to ignore which would quickly develop a national menace. At an awful cost we learned the extravagance and mounting burden of government operation. Yet there are today very insistent advocates of government ownership. Frankly, I do not share their views.

Our political system has not reached a point of development when we can insure proper administration. I believe it would be a colossal blunder which would destroy initiative, infect us with political corruption, create regional jealousies, and impose incalculable cost on the public treasury. But we must find a solution of the problems and the necessary expansion of facilities and find that solution in spite of the prejudices of the present day sponsors for operations and the present day destroyers who would bankrupt or confiscate, else government ownership and operation will become an accepted necessity.

Nor do I share the views of those who would lower rates without regard to railroad good fortune. The prosperity of the railroads is the prosperity of the American people, and the property rights in railway infrastructure are entitled to every consideration under our constitution which is due to property rights anywhere. Any tendency toward confiscation will lead to confusion and chaos, and destroy the very foundation on which the republic is built. Many Favor United States Control. It is easy to understand how many people contemplate the abolition of competitive carrying charges, and the elaborate machinery of government regulation, and argue that the logical step is to put them all in one common pool under government ownership. That would effect our constitution and make them all lean. It would equalize profits and losses between favored lines and the less fortunate ones, it would abolish profits and saddle all the losses on the public treasury. More, it would completely disarrange

the economic relationship between our different communities, upon which our present-day commerce is built. It is preferable to preserve initiative and enterprise, to maintain the inspiring competition of service, and it is vital that the cost of transportation be borne by the commerce which is served.

No, my countrymen, I am not proposing nationalization, nor a renewed experiment in government operation, the cost of which we have not yet settled. The federal treasury can not well bear any added burdens until we have lifted many of those already imposed. I had rather solve a difficulty than embrace a danger.

Sees Possible Solution. I do believe there is a rational, justifiable, full of promise, toward solution. It will effect a diminution in rates without making a net return impossible. It will make sound finance possible for expansion.

I refer to the program of consolidating all the railroads into a small number of systems, the whole to be under rigorous government supervision, and the larger systems to be so constituted that the weaker and unprofitable lines would be able to lean upon the financial strength of the stronger and profitable ones until the growth of the country makes them all start a just return upon capital invested. The transportation act of 1920, known as the Cummins-Esch law, contemplated this kind of a consolidation, but made it permissive rather than mandatory. In effect, it left to the railroad management the freedom to make such a consolidation, but made it permissive rather than mandatory. In effect, it left to the railroad management the freedom to make such a consolidation, but made it permissive rather than mandatory.

That provision was adopted only after long and detailed consideration by men of wisdom and experience, and seemed to represent the best judgment of leaders in both political parties. Its weakness was that it was doubtful whether the railroads would be able, of their own volition, to reconcile all the conflicting interests involved in so enormous a reorganization. It was frankly recognized when the legislation passed that it was necessary somewhat expertly. Likewise, it was extremely uncertain whether the wisdom of a dozen Solomon, sitting as railroad presidents and chairmen of boards, and as financial backers of these great properties, would be equal to the task of organizing a group of systems which would represent fair treatment of all the interests involved, including those of the public.

There now appears to be no difficulty about any constitutional inhibition to the voluntary consolidation as authorized by congress. But the problem of reconciling the interests of the hundreds of different ownerships and managements of lines to be merged into systems has proven a task for which no solution has been found.

It is, therefore, being seriously proposed that the next step be to further amplify the provisions for fair consolidation so as to stimulate the summation. It is my expectation that legislation to this end will be brought before congress at the next session. Through its adoption we should take the longest step which is now feasible on the way to a solution of our difficult problems of railroad transportation.

There has been undue alarm in many communities, Kansas City included, concerning the effect of such

consolidations upon commercial centers like yours. Let me allay the alarm by reminding you that the whole question is one of adjustment, and the whole program is to be constructive, looking to enhanced service, and destruction is as much to be avoided as failure is to be prevented.

Though no other nation in the world offers a parallel in railway development, those of us who believe that this program of regional consolidation would produce highly beneficial effects find our belief sustained by recent experience in Great Britain. The railroads of that country have, in the last few years, passed through an experience which, considering the vast differences between the two countries as to area, geographic configuration, industrial and social organization, has more or less paralleled that of American railroads. The United States and Great Britain were, when the world war flamed, the only two great countries which had clung unalterably to private ownership of railroads.

Results Expensive. In every other important country a considerable portion or all of the railroad mileage was owned or operated by the government. In Britain, as here, the necessities of war persuaded the government to take over the roads, place their operation under more rigorous control than before, and extend financial guarantees. In both countries, the result was expensive from the viewpoint of the treasury, and highly unsatisfactory from that of the public's convenience and the accommodation of business. In both countries, again, the experience went far to dispel whatever illusions had been entertained about the desirability of government railroad management.

The parallel does not end here. When the war ended opinion in both countries urged return of the railroads to corporate management as soon as possible. In both this was affected, and here comes the most striking coincidence of all—in both the return was accompanied by a legislative provision looking to consolidation of the many systems into a small group of great ones. The difference was that in Great Britain the legislation was mandatory, requiring that by January 1, 1923, the roads should be consolidated into four great systems; here it was permissive, and, of course, a much larger number of systems is proposed. The British program has been carried into effect; there are now four systems in the country, all organized around the same general idea of increasing efficiency and providing their financial stability.

While this reorganization has been in effect only a few months, its early results are reported to justify fully the expectation of better conditions under it. It is regarded as a long step toward permanent settlement on a basis fair to the owners of the properties, and to the public interest.

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The necessity for early adoption of this or some other program to place the railroads on a sound basis is so pressing as to make it a matter of deep national concern. There is no other issue of greater importance, for herein lies in large part the solution of the agricultural problem, and with it the assurance of our industrial position. Nothing else can possibly prosper with agriculture depressed, and agriculture is calling loudly for

relief from present transportation burdens.

Quite recently Senator Cummins, the veteran chairman of the senate interstate commerce committee, made the startling statement that probably 75,000 miles of our railroads are earning so little and costing so much to operate that with scant incomes they can not be adequately maintained and expanded in facility to meet traffic requirements. If we realize that this means near one-third of the country's railroad mileage, we will appreciate the gravity of the situation. Yet there it is, grimly staring us in the face, challenging our statesmanship and business capacity.

Not long ago the interstate commerce commission actually granted the necessary authorization to tear up and abandon one piece of over 230 miles of railroad. It was no frontier line, in an undeveloped, uninhabited section; it was in the rich and populous state of Illinois. If the spectacle of a railroad literally starved to death in such a community is alarming it is yet less a calamity in (Turn to Page Eight, Column One.)

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