

FREIGHT RATES

Newspapers Lambasting the Railroads for Increasing Freight Rates, but Overlook Vital Principle

It must be evident to any person who has given the subject any serious thought, that the proposed increase in freight rates is right and proper when viewed from the standpoint of private ownership of the railroads. Under private ownership the theory is to charge the value of the service rendered without regard to the cost—in other words, "all that the traffic will bear." That is the theory which prevails in all private businesses. If values of wheat and corn and land and numerous other things have risen, why should not values in freight rates go up to correspond? There seems to be no good reason why they should not, if we accept the private ownership theory as correct.

Socialists, who confuse the ideas of value and cost, might not grasp the idea at once, but populists will understand it. Under public ownership of the railroads, freight rates would be based on the cost of the service rendered and not on the value of such service as is the custom today under private ownership. The distinction is well shown in J. L. Cowles' "A General Freight and Passenger Post" (G. P. Putnam's Sons, N. Y.).

"In speed, in accommodation, in ease and comfort of travel," says Mr. Cowles, "the gain to the public from the improvements made in the railroads in the last half century has been wonderful, but the transportation tax levied on the traveler today is very generally as high as it was at the commencement of the railroad era, and it is full half as high per mile as was the charge on the old stage lines, although the cost to the railroad, where the transportation tax is such that the people can use railway trains up to their capacity, is not a fiftieth as much as by stage.

"On the main stem, the fare from New Haven to New York today (1894) is \$1.50, the same as in 1849, but from most of the stations west of New Haven the fare for the round trip to New York is from ten to twenty cents higher. From Bridgeport the increase for the round trip is thirty cents, from Hartford ten cents. From Boston, the traveler of 1850 could make a trip to and from New York, over the three or more short lines of the route via Springfield and New Haven, for one dollar less than today over the consolidated through line. . . . And yet the cost of running a railroad train, hauled by modern coal-burning engines over the consolidated steel track of today is far less than it was over the short iron roads, with the slow, wood-burning engines of 1850."

What is true of passenger rates is true in slightly less degree of freight rates. The principal idea is to change a little less than what the goods could be transported by wagon for, without any regard to what the service costs the company. In some places in Nebraska fair wages have been made wagon-freighting goods for a trifle less than railroad freights, but of course no permanent business could be attempted in that line, because, after the teams and wagons are all fitted out and the business begun regularly, the railroads would reduce rates just enough to crush their slower moving rival.

The Independent sees little to be gained by cursing the railroads because they expect to increase their earnings by raising rates. It is time wasted. Why not instead insist upon public-owned railroads hauling freight and passengers at cost of the service rendered?

The San Francisco Chronicle says: It is evident that the railroad officials of the country have virtually determined in their own minds that there shall be a general increase of freight rates, and Second Vice President Paul Morton of the Santa Fe has been selected to break the news to the country. In this proposed movement we see the results of the general railroad consolidation which has been taking place and which makes possible a policy which would have been impossible without it. Nevertheless, the time has long passed when railroad corporations could claim the right to tax the traffic of the country at their own discretion, and a proposal to increase the taxation by railroad corporations is as legitimate a subject for public discussion as a proposal to increase taxation by government. The question of what constitutes a "reasonable rate" for transportation is sufficiently difficult when confined to one commodity between two points. When considered in connection with a proposal to make a general increase it involves the preliminary determination of the capital upon which, upon the average, it is "reasonable" that a road should earn revenue. This, again,

brings up the question of the method of valuation, which has vexed the courts for many years—that is, whether the "value" of a road shall be taken at its book cost of construction, its "book cost" less losses by bad judgment or speculation, the cost of reproduction, its probable future earning capacity, or some combination of all these elements.

Without discussing this most complex of subjects, there is one thing which may be taken for granted: So long as the net income of a railroad system steadily increases the roads can only justify themselves to the public by a complete expose, which it is in their power to make, but which cannot be made by any outsider, of their financial history and condition and by affirmatively showing that stockholders' money, actually invested and prudently administered, is not producing for its owners such a revenue as a competent and impartial judge would call "reasonable." We are convinced that this cannot be done. Railroad accounts are notoriously juggled by placing the cost of betterments in winning expenses. From the standpoint of the financier this may be commendable, as showing conservative management and financial strength. It may be also claimed that by this method the "water" in the stock is gradually squeezed out by the introduction of hard coin. That, however, is only taking from the public money which it ought not to pay and placing it where it may pay unearned dividends to stockholders in the future. It is a device well calculated to deceive the public as to the real earning of a railroad.

Taking Mr. Morton's own road as an example, it is now regularly paying all interest on its bonds, 5 per cent dividends on its preferred stock, and 4 per cent on its common stock of \$102,000,000, which, on its reorganized basis, may be safely assumed to be largely water. The net earnings of the system have been regularly increasing from \$15,860,217 in 1899 to \$25,703,234 in 1901. There was an increase over this in 1902. The Southern Pacific company's returns show an equally uniform increase, which they seek to keep down by charging betterments to expenses. While these conditions continue an increase of freight rates would be robbery.

And the Minneapolis Times comments as follows:

Railway officials do not deny the proposed increase in freight rates and naturally feel called upon to make some defense or to offer some explanation.

The latest and most widely used explanation (?) is to the effect that when the leading western railway companies were found out in their evasion or disobedience of the law—that requires all freight rates to be open and published, or, rather, forbids the giving of special rates to one man that are not available to another—there were many secret tariffs in existence, that they were compelled to publish these secret tariffs, that this publication made them common property and in effect the ruling rates, that it is proposed to withdraw all these secret tariffs—evasion or disobedience of the law being no longer possible—and to issue new ones that shall control generally.

"Granting that all this is true, wherein is the justice of raising the rates to the basis of January 1 of this year when it is patent to everyone that all the railways under the operation of the lower or secret tariffs are making more money than ever before, are spending more in betterments than ever was dreamed of, feel justified in increasing their obligations by many millions, do not hesitate in some instances to water their stock enormously, knowing that high dividends can still be paid on the increased aggregate?"

Wherein is the public service with which these roads are charged conserved by railway managers whose sole purpose seems to be to make all the hay possible while the sun of prosperity shines?

When prosperity's sun is clouded or sets we will be told, as aforesaid, that rates must be raised or at least kept as high as the traffic will bear because of the changed conditions, the tightness of money and the reduction in shipments.

Once in a while, inadvertently, one of the plutocratic dailies will tell what comes very nearly being the truth. The New York Mail and Express, in commenting upon an article in this paper, says: "It needed no supreme court decision to tell us that silver dollars are a full legal tender, but a skeptical Michigan man seems to have required a revelation from that quarter to satisfy him." That is a stagger towards the truth, but is partially false after all. Silver dollars are not a legal tender when "it is otherwise provided in the contract."

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