Proposed Increase in Railroad Rates

The Shippers' View Presented by E. J. McVann, Commissioner of the Omaha Freight Bureau.

(This article was contributed by Mr. McVann to the annual financial review of the New York Times.)

THE controversy between the shipping public and the railroads in official classification territory and Western trunk line committee territory arose over the announced intention of those railroads to make material advances in their charges for transporting freight. The shippers in those two grand divisions of railroad geography opposed the advances upon the ground that those advances were unnecessary. The earnings of the railroads, the shippers claimed, were ample to pay all expenses, meet the fixed charges and leave sufficient margin for dividends and surplus. The spokesmen of the railroads insisted that the shippers were not well informed. It was true, they admitted, that the gross receipts of the railroads had increased, but they argued that operating expenses had also increased; that they were confronted with further increases on account of the advances in wages, and that they must largely augment their gross receipts to meet the situation they were facing.

Space will not permit more than the barest mention of the development of this controversy. The shippers interested in the eastern rates met in mass convention at Chicago May 17 and appointed a conference committee with power to open negotiations with the eastern presidents. The eastern presidents ignored the committee and proceeded with the preparation of the advanced rates. A meeting of western shippers was held at Omaha, May 24. Here the situation was more acute. The western advances had been published and would become effective June 1. The treatment of the conference committee appointed at Chicago was known. It was felt that a similar move would be a waste of time and that drastic action was necessary. The administration was called upon for aid, through the enforcement of the conspiracy clause of the Sherman anti-trust law. The response was prompt and effective. Mr. Wickersham petitioned for a restraining order against the Western Trunk Line committee roads. Judge Dyer granted it on May 31. Congress was also petitioned for help and almost immediately put a revision in the commerce law that any railroad which advanced any rate in effect January 1, 1910, or thereafter must justify its act before the Interstate Commerce commission if called upon to do so.

Thereupon the eastern and western railway presidents sent committees to the White House and offered to withdraw the proposed advances and submit the whole controversy to the commission. President Taft arranged the basis for such submission. The commission issued the necessary orders and appointed dates for hearings at Chicago, New York and Washington for the taking of evidence upon the question of the necessity for the proposed advances.

It is probable that the majority of the readers of the Times annual review are not shippers or railroad people. In order that they may clearly understand the magnitude of this controversy, a brief explanation and a few figures are necessary. Official Classification territory is that part of the United States bounded on the east by the Atlantic ocean; on the south by the Potomac and Ohio rivers; on the west by the Mississippi river and on the north by the Canada line. This great territory overlaps the western Trunk Line Committee territory, which is bounded on the east by Lake Michigan and the Indiana-Illinois state line; on the south by the Missouri-Arkansas state line; on the west by the Missouri river, and on the north by the Canada line.

Taken together, these two railroad territorial divisions coincide roughly with groups I, II, III and VI, as established by the Interstate Commerce commission and shown in its statistical report for the fiscal year ending June 30, 1908. According to that report there were 229,000 miles of railway in the United States, of which 116,000, more than 50 per cent, are included in these four groups. Of the 1,500,000,000 tons of freight handled by all the railways of the United States that year about 75 per cent (1,150,000,000 tons) were handled in these four groups. Of the 587,000,000 freight train miles that were run in the United States for the year ended June 30, 60 per cent, were run in groups I, II, III and VI. Finally, of the $2,395,000,000 total operating revenues of the railways of the United States for the year ended June 30, 1908, the railways in these four groups earned $1,446,800,000, about 60 per cent. It is impossible to indicate accurately how much revenue would be added to this vast sum by the proposed advances. Many estimates have been made, but they are all predicated upon the movement of business for preceding periods and might be nullified entirely by the effect upon the commerce of the country if the advances demanded by the railroads should be allowed by the commission.

Under the provisions of the newly enacted law, the railroads found themselves in the novel position of making an affirmative showing in support of their demands. The eastern lines pooled their issues and presented as the backbone of their case a statement indicating that the advances in wages which they had been compelled to make, and would be compelled to make, would add $35,000,000 per annum to their operating expense account, while their estimate of the increase in their revenues, based on the new rates, would only increase those revenues $24,000,000. These tabulations were introduced by the clerks who made them. During the entire New York hearing none of the responsible executive officers of the eastern roads was put upon the witness stand until the public press, of all shades of opinion, had united in ridiculing the sort of showing that the eastern railroads made. The traffic executives of some of the principal lines were then introduced as witnesses, but it was easy to see that their evidence was offered rather to meet the criticism of the press than to support the railroad position before the commission. Subsequently, at the Washington hearing, the presidents of the New York Central, the Pennsylvania and the Baltimore & Ohio testified. The gist of their evidence was that, in order to preserve the credit of the companies and enable them to obtain the additional capital necessary for the development of their properties, rates must be advanced to such a point that a large surplus could be accumulated to be put back into the property.

Between the hearing of the eastern lines' case in New York and the taking of the testimony of the presidents of those lines in Washington, the actual results of the operation of the lines in official classification territory for the year ending June 30, 1910, were made public by the Interstate Commerce commission. The railroad presidents were confronted with the fact that the lines which were called upon to pay the $35,000,000 estimated increase in wages had $65,000,000 actual increase in their net operating revenues for that year over and above their 1909 earnings, the basis upon which their estimate of $24,000,000 increase was made. This enormous increase, $20,000,000 more than sufficient to pay for the estimated increase in wages, was earned upon the basis of the old rates. These results seem to completely sustain the contention of the shippers that increases in the eastern rates are entirely unnecessary.

The advances made by the railroads in Western Trunk Line territory were not important in and of themselves, but the executives of those lines made it clear that it was their intention to follow these advances with others that would augment their revenues materially, if the commission approved the first figures submitted. The theory of the western roads was much the same as that finally adopted by the eastern roads, viz.: That their operating expenses were increasing with greater relative rapidity than their gross earnings, and that they must augment their gross earnings materially in order to pay their dividends and fixed charges and create the amount of surplus that they considered necessary to preserve their credit. The principal western roads presented an elaborate theory of fair return, based partly upon the evidence of Vice President May of Price, Waterhouse & Co., and partly upon the theory that they were entitled to capitalize their surplus earnings that had been put back into the property. Mr. May's theory was that fair return included not only present dividends, but the right to returns upon the investment from the beginning of the company's history. In other words, if the Santa Fe road passed its dividends during several bad years it was entitled to add the amount of those passed dividends to its present dividends, so that the average would equal a fair return for all the years of its existence. The other theory was put forward by the Burlington and Northwestern. The Burlington claimed that it had a right to a fair return upon $127,000,000 of surplus reinvested in its property, and the Northwestern showing indicated a claim to earn returns upon nearly $60,000,000 of surplus income reinvested in the same manner.

The Burlington road laid great stress upon the evidence of its general manager, Mr. Ward, that the property would cost $536,000,000 to reproduce. Included in this estimate was $160,000,000 land value. Mr. Ward testified that he based this value upon an ascertained actual value of surrounding property, which was multiplied by three upon the theory that it cost a railroad three times the value of surrounding property to obtain land for its use. The fair inference from Mr. Ward's testimony was that he had applied this multiple of three throughout. When the Burlington was confronted with the fact that the cost to the railroads of terminal property in four large cities was as follows:

Omaha, 150 per cent of adjoining land.
Minneapolis, 160 per cent of adjoining land.
St. Paul, 175 per cent of adjoining land.
Duluth, 125 per cent of adjoining land.

and that the use of the multiple of 150 supported by these figures cut Ward's value estimate in two, Mr. Ward was put back on the stand and modified his first testimony materially. He corrected his evidence by the statement that he had not used a multiple of three uniformly, but only with reference to farm lands. The value per acre upon which he supported his estimate of farm lands were so far out of line with actual values, even admitting the correctness of his multiple of 3, that it is not anticipated that the commission will pay much attention to that estimate as a basis for the claim of fair return.

The underlying theory of the testimony of all the western railroads seemed to be that the commission ought to accept without question their statements of the amount of their operating expenses, and not to go behind those statements dealing only with the net revenues left after deducting these operating expenses from the gross revenues. If the testimony of the railroads themselves showed no abnormal or unusual conditions as to the amount of their operating expenses, their position in this respect would not be open to serious question. Counsel for the shippers, however, made an exhaustive analysis of the operating expenses of the principal western railroads upon the theory that the transportation conditions in the west were controlled by the Atchison, Topeka & Santa Fe, Chicago, Burlington & Quincy, Chicago & Northwestern and Chicago, Milwaukee & St. Paul railways, and that the commission must decide the case with reference to the showing made by those four roads because of their commanding position and because of the fact that they were generally admitted to be capitalized with reasonable fairness and to be honestly and ably managed.

This analysis showed an unprecedented increase in operating expenses under the heads of maintenance of way, structures and equipment. The testimony of the executives of three of these roads had been to the effect that their properties had been kept up from year to year in such shape that they were better at the end of each year than they had been the preceding year. Notwithstanding this fact, their maintenance expenses were very largely increased during the fiscal year ending 1910. The increases showed most clearly in those items which could be most readily controlled by the fiat of management. No claim was made by the shippers that these accounts had been deliberately padded for the purpose of increasing operating expenses. The theory presented for the consideration of the commission was that, if the judgment of the management had resulted in the contracting of unusually heavy maintenance expenses during the fiscal year 1910, that fact should not be made the basis for advancing rates in order to augment gross earnings. As an instance of the large expenditures for maintenance, there was the case of the tie renewal account of the Santa Fe. This account showed that the Santa Fe company had expended $850,000 more in 1910 than in 1909 for renewals of ties, but had laid 600,000 less ties in 1910, and had reported to the commission that the cost of its ties at the point of distribution was practically the same for both years. Another instance was an increase in the expenditures of the same company of $1,300,000 in 1910 over 1909 under the item of roadway and track. Summed up, the Santa Fe maintenance accounts increased 25 per cent; the Chicago & Northwestern maintenance account 23½ per cent and the Chicago, Burlington & Quincy 16½ per cent. There was also much railroad testimony that the winter of 1909-10 was an exceedingly hard winter and that the Illinois coal strike, which lasted several months, had affected operating expenses through the increase in the cost of fuel, and freight revenues through the decrease in coal tonnage.

Notwithstanding all of these adverse conditions, these roads were enabled to pay their fixed charges, ample dividends upon their stock, make the usual appropriations from income for betterments and carry considerable sums to their surplus account for the year 1910. The contention of the shippers is that these facts would justify the commission in denying these roads the right to make any advances in their rates.

A point presented by the shippers for the consideration of the commission was the reduction of railroad earnings to the basis which the railroad people themselves are so fond of presenting, viz: Considering the railroad as a manufacturer and seller of transportation and presenting its gross profits from the sale of its wares. On this basis it was shown that the Chicago & Northwesten railroad had done a business of $74,000,000 in the year 1910 and, after paying the cost of selling its transportation had a gross profit of 32.7c out of every dollar received, available for taxes, depreciation, fixed charges, dividends, special funds, and including a surplus of $2,400,000 over all these items. Upon the same basis the Santa Fe was shown to have sold $105,000,000 worth of transportation and to have left a gross profit of 36.6c out of every dollar. The Chicago, Burlington & Quincy railroad sold $88,000,000 worth of transportation, out of which it had a gross profit of 33.8c on each dollar. In addition to these profits, it is, of course, understood that there is included in the operating expenses a very large amount of money which is really re-invested in the property by way of maintenance charges, which, of course, increases the value behind the securities. Mr. Ward testified that the Burlington road had put about $8,000,000 into its property during the year 1910, but the account of his company for that year showed a little over $1,000,000 deducted from surplus income under the heading of additions and betterments. The natural inference is that nearly $7,000,000 was expended for maintenance charges that increase value of the property and was charged to operating expenses.

Many important facts were developed incidentally during the hearing of the western testimony which, from the shippers' point of view, would militate strongly against the claims of the western railroads that they needed more revenue. One instance of this was the issue of $100,000,000 worth of Chicago, Milwaukee & St. Paul stock which paid 7 per cent or $7,000,000 in dividends in 1910, in exchange for a like amount of Chicago, Milwaukee & Puget Sound bonds, which paid 3 per cent to the parent company. This, of course, made a net loss of $3,000,000 in the income account of the St. Paul road, which their witness strenuously insisted was made up by the additional business gained through the building of the Puget Sound road, but no definite evidence was introduced in support of this claim. Another item of this character was the exhibit of the Santa Fe system, which showed that that road had charged off its income account since it reorganized in 1896, $30,000,000 which was put back into the property by way of additions and betterments; about $8,500,000 net discount on its bonds and $2,500,000 fuel reserve fund, a total of $41,000,000. In addition this exhibit showed an existing surplus in income account of $24,000,000, or a total in excess of $65,000,000 surplus income earned by that road in addition to operating expenses, fixed charges and dividends. Mr. Ripley testified that this surplus was not enough, but that the road should be enabled to earn at least 6 per cent additional on its common stock, or about $6,000,000. His theory was that sound financial policy required the piling up of the surplus that would result. As against this testimony it was interesting to note that Mr. Gardner, president of the Chicago & Northwestern railway, testified that he would be satisfied with $25,000,000 surplus to be earned in ten years, which was exactly at the rate of the surplus earned by his company in 1910, under the existing rates. With respect to this item of surplus earnings, Mr. Gardner remarked that the possession of too large a surplus tended to extravagance in management. During the same line of examination, Mr. Gardner made the significant remark that a basis of earnings which might be justice to some lesser line, would extravagantly increase the earnings of a road like the Northwestern. This is precisely what the shippers contend with reference to the present situation, viz: that the commission ought to fix the rates based upon the financial situation of the strong lines that control the transportation situation, and let the overcapitalized and badly managed roads take care of themselves.

From the shippers' point of view, the strongest argument against permitting the railroads to increase their rates, is the argument advanced at the Chicago hearing, that to do so would be to ignore the inexorable economic law underlying all commercial transactions, that law which invariably operates to decrease the volume of business in direct ratio to the increase in the cost of doing that business. The only exception to the operation of that law is in those cases where there is absolute monopoly in the barter and sale of a necessity of life. No one has yet been heard to claim that the railroad monopoly of transportation is absolute, and it follows that increases in the price of railroad transportation must decrease the volume of business. In fact, ever since the railroads became a factor in transportation the universal rule applied by them has been to reduce transportation rates when they desired to increase their business and their earnings. A complete reversal of this policy seems strange and the shippers believe, and urged the view upon the commission, that the necessary result of such a policy would be to impede the free interchange of commodities, cause hardship to many established lines of business, heavy losses to the shipping public and bring no real gains to the railroads.

By the time these lines appear in print, both the eastern and western cases will have been concluded and fully argued before the Interstate Commerce commission. The commission is charged with the duty of going into the subject thoroughly, and there is no doubt that that duty will be fully, ably and conservatively performed. Whatever the decision may be, it is hoped that it will result in establishing a sound economic basis for the levying of the tremendous transportation tax upon the people of the United States.

ICE PACKER MAKES NEW MOVE

Provides Cuspidors for the Use of the Men Who Are Cutting Ice.

F. S. Knapp of the Omaha Box company tells of a very thoughtful ice man.

"He came into the plant on Monday," says Mr. Knapp, "and asked to have fifty boxes of a specified size made at once. He had brought a wagon to take them away immediately. I had the order filled as quickly as possible, and after the goods were delivered to the wagon, I asked him what he was going to do with the boxes. He said he was going to fill them with sand and set them about on the ice for the men at work to use as cuspidors. This struck me as being especially thoughtful, for he has about 300 men working for him, and the care taken to keep them from expectorating on the ice would seem to be justified."

Choir of Iowa Soldiers' Home

A former Omaha woman, Mrs. Fannie M. Hanks, is a member of what is probably the most remarkable choir of the entire west, if not of the entire country. No other organization of its kind exceeds in the aggregate age of its members, and their average age. The choir is that of the Iowa Soldiers' Home at Marshalltown, Iowa, in which Mrs. Hanks sings soprano. The total age of the ten members, the organist and the chaplain is 763 years. Their average age is 63 years and 7 months. Mrs. Hanks has been a member of the home since in October, 1906. Three other western Iowa old people are members of this choir, which sings regularly at all chapel services and funerals. They are Edward B. Ward, basso, of Ogden, Ia.; Mrs. J. Cottrell, pianist, of Atlantic, Ia.; and Mrs. Emma Gould, alto, of Sioux City, Ia. The organizer, Chaplain Jesse Cole, is a Methodist preacher, who formerly held charges in northwestern Iowa and who is still a member of the Northwestern Iowa conference. He is a lecturer of some note, and prior to and after the war he held various charges in Wisconsin. He was chaplain of the Eighth Wisconsin Infantry, the regiment that became famous by reason of the mascot, the live eagle, "Abe Lincoln," that it carried through the war.

The members of the choir, with their ages, places or residence before being admitted to the home, and the positions they occupy in the choir, are as follows, reading from left to right: Top Row—S. H. Albert, 70, Albia, tenor; C. B. Wilbur, 65, Polk City, tenor; Miller Tallman, 69, Sioux City, basso; Edward B. Ward, 62, Ogden, basso. Middle Row—Mrs. M. Proctor, 68, Ottumwa, soprano; Mrs. Etta Cutler, 52, Dubuque, soprano; Mrs. Roena A. Walker, 66, Rolfe, soprano; Mrs. Fannie M. Hanks, 64, Omaha, soprano; Mrs. J. Cottrell, 51, Atlantic, pianist; Mrs. Sophia Wilcox, 63, Fort Dodge, alto; Mrs. Emma Gould, 60, Sioux City, alto. Front Row—Rev. Jesse Cole, 79, chaplain Iowa Soldiers' Home, and organizer of the choir.

BRUNING IS TO LAND A JOB

Two Commissioners Say He is to Be County Storekeeper—Formerly Kept a Store.

Fred Bruning, former county commissioner and chairman of the Board of County Commissioners, will be appointed county storekeeper by the Board of County Commissioners, according to statements by Commissioners Pickard and Bedford. The board has not decided who it will place in charge of the Detention Home.

"Bruning is just the man for storekeeper," said Mr. Bedford. "He used to be a grocery man and his long experience in his grocery store well qualifies him."

Constitution for Monaco.

MONTE CARLO, Jan. 7.—Prince Albert of Monaco today issued a proclamation establishing a constitutional government for the principality of Monaco. He has 1,200 subjects.

TO REFUND MERCHANTS' FARE

Commercial Club Makes the Same Arrangements as Were in Effect Last Fall.

The jobbers and manufacturers' association of the Commercial club has arranged for fare refunds to country merchants between January 20 and April 20. The general plan is like that successfully pursued in fall campaign, the present one being designed in the interest of sales of spring goods.

Fatal Quarrel Over Shotgun.

NEW ORLEANS, Jan. 7.—Ferdinand Cure, a planter, is dead and C. M. St. Germain, registrar of St. Bernard parish, is under arrest as the result of a quarrel over the disposition of a shotgun, which led to a fatal shooting affray here today. St. Germain claims he shot in self-defense.