

WHO SHOULD PAY THE FREIGHT?

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Address by

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WHO SHOULD PAY THE FREIGHT?

At first glance, the title of this address may appear in the nature of a foolish question inasmuch as those not familiar with what it implies would have but one answer, namely, the user of transportation should pay the freight. Certainly a majority of the public today believes that to be the actual practice.

The public is not generally aware that as taxpayers they are now paying part of the cost of transportation, even though they may have no direct interest in the freight, either as shipper or receiver. In other words, it is not generally known that transportation, to a very considerable extent, is carried on by taxation. This is true because transportation facilities are provided by governments, Federal and State, without reimbursement for the use of such facilities. To the extent that the cost of such facilities are not paid for by the users, they are paid by the general taxpayer.

This is particularly applicable to inland waterways and highways. The users of inland waterways pay nothing whatever for their use and the taxpayer assumes the entire burden of providing and maintaining the right-of-way for the users. The users of the highways pay only a part of the cost of providing and maintaining the highways. The taxpayers must make up the difference. The only cost involved in the transportation of freight on the railways is the actual freight charge paid by the shipper. The taxpayer contributes nothing to the support of the railroads; nor, for that matter, to the support of pipe lines. These two modes of transportation - railroads and pipe lines - are the only means of transportation not on government relief, a burden to the taxpayer.

The rail carriers are closely regulated, both by Federal and State authorities. Their greatest handicap today, in addition to the general depression in business, is unregulated competition with other forms of transportation partially or wholly supported by government, plus the fact that regulating authorities will not permit the pricing of their product, as in other business, in such a way as may be necessary to maintain at all times the rail properties in a solvent condition and in a position to continue the high standard of service the public rightfully demands and should have. The failure of regulatory authorities to permit the railroads to so price their product is responsible for the reduction of rates in times of high prices and general prosperity and thereby necessitating increased rates during periods of depression.

The railroads are prohibited from building new lines or abandoning existing lines without a certificate of convenience and necessity from the Interstate Commerce Commission. But, there is no law to prevent expansion of transportation facilities by the government, whether public convenience and necessity require it or not. Such expansion has been indulged in by the government through lavish expenditures in the construction and maintenance of highways and waterways.

Through the Motor Carrier Act the Interstate Commerce Commission has a measure of control enabling it to limit the additions to highway transportation so far as the actual operation is concerned, but there is no authority of any kind in the government to prevent unnecessary highway building and waterway expansion that further adds to the transportation subsidy on the highways and on the waterways.

If it is proper that there should be a limitation by government on the expansion of rail transportation, can any one possibly offer any reason why there should not be the same control over all other forms of transportation, the lack of

which has caused an expansion in transportation far beyond the necessities of traffic?

Let's take a look at this subsidy question today, and what do we find? A recent report made by three outstanding highway engineers, Messrs. Breed, Older and Downs, to the Association of American Railroads shows that for the twelve-year period 1921-1932 highway transportation was subsidized to the extent of about Ten Billion Dollars. Since 1932 highway transportation has been further subsidized by another Three Billion Dollars. The subsidy is equal at the present time to about \$680,000,000 per year, which is the amount in excess of what motor vehicles pay for the use of the highways, and this comes out of the pockets of the general taxpayer.

As an indication of the burden to general taxpayers for the construction and maintenance of highways, I quote the following from hearings on the Federal Aid Highway Act, H. R. 8838, January-February, 1938, statement of Mr. W. W. Zass, Chief Highway Engineer, State Department of Highways, Arkansas, pages 452-3:

"Mr. Zass: As of December 31, 1937, the state bonded indebtedness for highway purposes amounts to \$145,800,000. The peak of this indebtedness was incurred immediately prior to the depression through the years 1927 to 1931. During the depression period we were unable to meet our entire obligations and it was necessary to refund them and since that date we have reduced the total in some amount but at this time we are faced with that \$145,800,000 debt.

"The refunding under which we are operating does not allow any money for construction. The first charge upon the revenues accruing are for maintenance purposes, which will allow 25 per cent net for maintenance purposes, which amounts at this time to about \$3,000,000 annually. The \$3,000,000 annually is insufficient to maintain the state highway system to the stage to which it should be carried. We are endeavoring to keep up our high-type roads - asphalt, concrete and bridges - but our gravel roads are suffering by progressive deterioration - accumulative deterioration. We are unable to make the replacements that we should."

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"The receipts from the gasoline tax and the automobile registration are pledged entirely to maintenance and debt service. * * *

"On the schedule of bond retirements that has been predicated we will not retire our last bonds until the period of 1977; in other words, we are pledged some 40 years in the future for the retirement of bonds."

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"Mr. McClellan: May I ask you this: Is it possible under the conditions that you have described for Arkansas to carry on new construction of highways unless it does receive its apportionment of Federal Aid funds?

"Mr. Zass: No sir; our work will be at a standstill."

This is not cited as being typical of all states but as supporting the study made by Messrs. Breed, Older and Downs, heretofore referred to, as to the

construction and maintenance of highways by taxpayers other than the users thereof.

We hear loud acclaim regarding the great benefits of waterway transportation in forcing a reduction of rail rates. Is there anything constructive in such a policy when it can be shown that it is responsible, in no small degree, for there being in the hands of the Courts and Receivers today 32 per cent of all railway mileage, amounting to 75,000 miles?

Waterway and highway transportation are not cheaper than rail transportation when all costs are considered. If you add to the actual costs of the transportation by highway or waterway that additional cost now paid by the taxpayer, then rail transportation is cheaper than either waterway or highway transportation.

It is a well recognized fact, and I have heard nothing said to the contrary, that construction of the railways was largely, if not almost entirely, responsible for the expansion and development of this country, and that the railroads must always remain as the major transportation medium. You know out here how dependent you are on railroad service to the great eastern markets. Can anyone possibly back a policy of transportation being provided by the government itself in competition with rail lines and building facilities far in excess of traffic necessities?

Does the farmer or the consumer really get the benefit of transportation by waterways? Can anyone show that the producer of grain, as an example, gets one penny more for his product shipped via water than if it was shipped via rail? Is there any consumer today that can point to a reduced price of the product he buys by reason of it having moved via waterways?

Let us turn the searchlight on one of the latest proposals before Congress, and that is the proposed construction of the Ohio - Lake Erie Canal. The report of the Chief of Engineers of the United States Army states:

"The projected costs, including interest during construction, are estimated as \$225,910,000 to the Federal government and \$14,156,000 to local interests, a total of \$240,000,000. The annual economic cost is estimated as \$12,157,000."

"The through project to Lake Erie will save the shipper an average of 72 cents per ton in transportation charges on the prospective commerce estimated as 28 million tons per year. The total Federal and non-Federal costs resulting from the construction of the project would amount to a cost of 43 cents per ton, leaving a net average saving of 29 cents per ton. It seems important to call attention to the fact that if the waterway is constructed the railroads which now carry this commerce would have to meet a competitive water rate averaging 72 cents per ton below the present rail rates or loss of a large volume of traffic and revenue, while a permanent reduction in rail charges averaging 29 cents per ton, if put into effect prior to construction of the through waterway, would eliminate the justification of the project."

The government is not asked to construct this facility because of any lack of transportation facilities in that territory at the present time but for the sole purpose of bringing about a reduction in transportation charges through a government subsidy. If the users of this facility, largely coal and steel producers, were to be asked to pay interest on the investment and the maintenance cost of this canal, they would not want the facility provided. In other words, it is another case of calling upon the government to pay a part of their transportation costs. It is the finest example that I know of proposed transportation by taxation.

Why should the taxpayer be required to pay part of the transportation costs of the users of such a facility? Will the consumer benefit by reduction in price by reason of this subsidy by the government?

The distance from Pittsburgh to the mouth of the Ohio River is 981 miles. The government expenditures on this river have amounted to \$142,350,000, with an annual maintenance cost of \$4,000,000 annually. The cost to the taxpayers for all the traffic moved over this waterway and using the 1929 basis of tonnage amounted to five mills per ton mile, or a cost to the taxpayer of \$4.50 per ton from Pittsburgh to the mouth of the river. Since 1929 large expenditures have been made on this river without an increase in traffic. Today the cost without doubt greatly exceeds \$4.50 per ton. Why should the taxpayer be called upon to pay \$4.50 per ton to go to the steel manufacturers and others for shipping the product via that route and adding to their profits?

With respect to the Lower Mississippi River, the National Resources Committee in December, 1934, reported that on the basis of the tonnage of 1928-1929 -

"the total government subsidy provided shippers by water would be, at the time of the completion of the work now under construction, about 6 mills per ton-mile. Allowing for the meandered course of the river, involving distances by water that are some 50 per cent more than those by rail, the actual public expenditures, when reduced to a basis comparable to expenditures for rail haulage, would be approximately 9 mills per ton-mile."

Let us again quote the report of this Committee:

"Practically all this traffic is handled by private carriers who pay no tolls. In other words, under present policy, the construction costs and the operation and maintenance costs of navigation projects are at Federal expense, and no part of either of these costs is directly returned to the government."

Here is what the same Committee says about the Upper Mississippi River:

"It is not possible by any calculations of business accounting to discover an economic justification for the vast expenditures on the projected improvements of these waterways; especially from the prevailing viewpoint of self-liquidation, but also from the viewpoint of complete coverage of costs of maintenance and operation."

Relating to the question of whether agriculture or the consumer gets the benefit of the lowered transportation cost by reason of government subsidies so far as waterways are concerned, I recently saw a copy of a broadcast by Mr. W. H. Reed, an oil dealer in Memphis, Tennessee. I will not attempt to quote the entire address but only parts of it, but it is available in its entirety for anyone who would like to see it. Mr. Reed said:

"Taxpayers are fed the baloney that the Mississippi River is a wonderful thing for the people of Memphis. Year after year taxpayers dig up millions of dollars to maintain channels so barges can run up and down the River. The River, kept open for barges, at public expense, is supposed to be a glorious thing by providing cheap water transportation."

"As to the oil business, the truth is the Mississippi River is the curse of Memphis."

"On the one hand, public taxes keep the River Highway open for oil barges of the oil corporations. On the other hand, water transportation, made possible by millions of dollars of public money, has crucified the railroads and there would be thousands of jobs for railroad men if they got the freight that now moves by water."

"The question is... if the public pays millions in taxes to get the benefit of cheap water transportation, does the public get the benefit of water transportation or, what?

"The answer is that the oil corporations get the benefit of cheap water transportation. And the oil corporations keep the profits themselves. The public pays the bills to make water transportation possible. The oil corporations get richer!"

"When I buy a tank of gasoline, I pay the spot market price for the gasoline. But, in addition, I have to pay the oil company as freight the railroad freight rate on gasoline from Shreveport, Louisiana, to Memphis. Understand that the gasoline I get never saw Shreveport, Louisiana. It came to Memphis by water from the New Orleans refining district. The actual water charge on this gasoline is about one-half cent gallon, but I have to pay a railroad rate from Shreveport, which is over 2¢ gallon. In other words, the oil corporation takes me for a buggy ride to the extent of 1½¢ per gallon. In money, this means that every time I get a 10,000 gallon car of gasoline, the oil company makes \$150.00."

The address of Mr. J. F. Bell, of General Mills, Incorporated, at the meeting of the National Industrial Traffic League in New York on November 17, 1938, offered a great many helpful suggestions to that organization. His remarks, which have been quoted in full in the Traffic World and need not be repeated here, constitute in fact the only ray of sunshine that has been apparent as to real cooperation of shippers with the railroads. The National Industrial Traffic League evidently did not take Mr. Bell seriously. The League, at least the majority thereof, is against a change in the rate-making rule to give greater freedom to the railroads in the making of their rates. They are opposed to the regulation of the waterways.

To quote from an editorial in the Traffic World of March 4th, to the use of which I am sure my friend Mr. Palmer will not object:

"The League simply has backed up those of its members who are enjoying preferences in rates on port-to-port water traffic and has cast aside any consideration of the issue from the point of view of the transportation welfare of the country as a whole. And yet the slogan of the League is 'Promoter of Sound Economic Transportation!' What the League really is in favor of is preferential treatment for certain of its members at the expense of the public and other transportation agencies."

I think that this could be extended to include the Chambers of Commerce and also the Transportation Conference initiated by the U. S. Chamber. Their efforts up to this time in attempting to bring about the establishment of a sound national transportation policy have not produced results of any value.

The position of the railroads has always been that the public is entitled to and should have the benefit of the most economical and efficient means of transportation. The railroads do not and have no right to object to the establishment of any form of transportation, providing that regulation is equal and where such other means of transportation can be economically justified.

If any waterway project is a necessary, a reasonable and an economic development and the operations thereon are self-supporting and appropriately regulated, the rail carriers have no valid basis for objection, even though their special interests are adversely affected. Certainly the government should not originate or continue an improvement project except where the expenditures are justified after full allowance is made for all costs involved, including cost to taxpayers who furnish the funds for improvement and maintenance.

In every instance, proper consideration should be given to the effect that the proposed improvement and operation thereon will have on other established forms of transportation, the continued existence and adequacy of which is essential to the public welfare. The railroads are not entitled to any preferred treatment at the hands of the government to aid them in competing with other forms of transportation. They most certainly are entitled, however, to expect no less favorable treatment than that accorded their competitors in all matters of governmental regulation.

The most pronounced case of governmental subsidization of competitive transportation is that involved in the operation of the Federal Barge Lines, which has been conducted since 1924 by the Inland Waterways Corporation. Congress should immediately dispose of all of these properties, either as a whole or piece-meal so as to bring about discontinuance of their operation by the government.

In order that I may make myself entirely clear, let me repeat that the ills of the railroads arise from three principal conditions, namely:

1. The general business depression;
2. Competition from unregulated, subsidized highway and waterway transportation; and
3. A policy of regulating rates and fares which has largely taken out of the hands of railroad managers the pricing of the product which they sell.

I need not dwell here upon the effects of the economic depression. As we all know so well, the period of depression has been a prolonged one, and its effects have been serious to all lines of industry. I have covered, I believe, the subject of unfair competition and its effect on the railroad industry. Now I would like to turn for a few brief moments to the matter of rate regulation.

At the end of the year 1937 the carriers had pending before the Commission a petition for authority to increase freight rates by 15 per cent. This proceeding was docketed as Ex Parte 123, and was decided in March, 1938. Actually, the Commission authorized increases averaging only about 6.7 per cent, which, as subsequent events proved, was inadequate to weather the storm during the recession of 1938. Had the Commission granted the full 15 per cent asked for, instead of having a deficit in net income of \$123,000,000 for the year 1938, the Class I carriers would have had a net income over and above charges of more than \$50,000,000.

With a return of traffic to the level of 1937, and with the present freight rate level in effect, the net railway operating income of the carriers might approximate \$817,000,000, a return of 4.11 per cent on the values of Class I common-carrier railway property for rate-making purposes. Such earnings would be \$326,000,000 short of a return of 5 $\frac{3}{4}$ per cent on the "fair value" of railway property. Had the Commission granted the full 15 per cent increase in freight rates asked for, and at a traffic level equivalent to that of 1937, the carriers would have earnings approximating a return of 5 $\frac{3}{4}$ per cent.

This, of course, is only the most recent instance of regulation's control of the rate structure. The rail carriers price their product at what the Commission says they can charge, and not at a price consistent with sound economy. In effect, the government heeds the plea of special interests for cheap transportation by paying part of the cost of highway and waterway operations. By regulating rail rates, it controls the charges to the user of rail transportation. By subsidizing rail competitors, the government is gradually undermining the economic welfare of the one means of indispensable transportation that has clearly demonstrated an ability to stand on its own feet and pay its own way. There is no economic health or vigor in such a policy.

The carriers have not been standing idly by without an effort to overcome the handicaps which government has chosen to impose upon them. Depleted revenues have led to the necessity for utmost economy in operation. How well the carriers have succeeded in paring operating costs may be illustrated by the fact that it cost \$7.79 to move 1000 revenue ton-miles of freight in 1926 and only \$6.41 in 1937. If this unit cost had not been reduced, it would have cost the carriers about \$500,000,-000 more to move the 1937 traffic than it actually did.

About all the savings resulting from reduced unit costs did was to save many of the companies from virtual destruction.

This is best indicated by the fact that the reduction in average ton-mile revenue in 1937 compared with 1926, resulted in a loss to the carriers of \$527,000,-000 in 1937.

Therefore, the savings made by the carriers in reducing unit operating expenses was lost to the industry and its owners because of a lack of a sound national transportation policy which would permit each mode of transportation a fair chance to earn a living in the field best fitted for its talents.

I think that the history of transportation during the past ten or fifteen years presents an eloquent answer to the question of who should pay the freight. Certainly not the general taxpayer, for during that period government has pursued a haphazard policy designed to shift part of transportation's cost to the taxpayer with results that may be described as nothing short of chaotic. Such a haphazard policy is not only slowly destroying the Nation's most economical means of transportation, one of industry's best customers and a million dollar a day taxpayer, under normal conditions, but is also increasing the total cost of transportation.

If the user pays the freight, we will again see a healthy and vigorous transportation system in this country.