

THE PENNSYLVANIA RAILROAD COMPANY

**1617 Pennsylvania Boulevard
Philadelphia 4, Pa.**

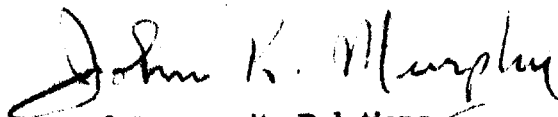
March 22, 1954

Dear Railroad Enthusiast:

Because you are a resident of New Jersey, and because of your concern with railroad matters, I am sure you will be interested in the talk made by Mr. Ralph C. Champlin of the Pennsylvania Railroad, at Moorestown, New Jersey, a few days ago. A copy is attached herewith.

As you know, railroads have contributed greatly to the development of the state of New Jersey. We feel that they have a great contribution to make in the future. Our hope is that they will be given the full opportunity to make that contribution.

Yours very truly,


Manager of Community Relations

THE FUTURE OF NEW JERSEY AND THE
FUTURE OF ITS RAILROADS WILL GO HAND IN HAND

Remarks of
Ralph C. Champlin, Vice President-Public Relations
The Pennsylvania Railroad Company
Before the Burlington County Board of Realtors
at Moorestown, New Jersey
Wednesday, March 17, 1954

As a railroad man looking toward the future of New Jersey, I want to talk to you tonight particularly about the future of your railroads, for I believe what happens to them will have a tremendous influence on your business and on this state's over-all prosperity--or lack of--prosperity.

My business function is that of a specialist in communicating ideas to other people. I joined the railroad industry a few years ago to help railroad men give people a better understanding of this industry. Since then, I have been impressed by the difficulty we face in getting public understanding of the economics of railroads and the economic importance of railroads to other business. Railroads have been around a long time and most people feel that they are going to continue along about the same way for the indefinite future. When I say that the railroads--and the interrelated businesses so dependent upon them--are facing a crisis, it is a startling statement to most people.

Frankly, railroad men have not done a good job of telling their story. We have failed to give people a true picture of the inseparable relationships between transportation and general business prosperity. This is not a matter of just my opinion. Any survey of public opinion will confirm this lack of understanding. May I hasten to add, in case that sounds critical, that neither I nor anyone else has any magic formula for telling this difficult story quickly and effectively.

The railroad story is very simple to one who understands it, but it is so different from the picture most people have in their minds of a typical industry that it is necessary to tell people what the railroad business is not as well as tell them what it is, and to explain something of the continuing revolution in transportation. It is helpful, in order to see where we are going, to trace a little of recent trends. If you will pardon a brief glance into the past I suggest that we take a look at American business at the turn of the century:

Railroads were then the only big business in America--as we know big business today. The steel industry had its chief business in the rails and bridges that railroads required, and railroads were the biggest customer of the coal companies. Automobiles and electricity and telephones existed, but as industries and public conveniences they were not far ahead of where color television is today.

Ahead lay the great development of the automobile, the telephone, the water systems, sewage and roads, electric utilities and all the related electrical appliances, airplanes, motion pictures, phonographs, radio, the inland waterways, business machines, chemistry, power farm machinery, television--and revolutions in the financial and professional worlds of banking, insurance, medicine, publishing, advertising and selling.

These businesses which have developed since the turn of the century have been growth industries for almost their entire lives. Few of them have ever faced the necessity of an orderly retreat in the contests of competition. Maybe that is one reason why it is difficult for people whose daily lives are spent in these now typical businesses to understand the railroad business. At the turn of the century the railroads were supplying practically all of the country's high

speed transportation. Then came the age of the internal combustion engine-- and a revolution in transportation. America took the automobile to its heart. Here was a new freedom--the freedom to travel when and where you wished--to get into your own vehicle of transportation at your own front door and drive to a deserted stretch of beach for a swim, or to Aunt Agatha's house for Sunday dinner.

The first World War changed the airplane into a fast and fairly dependable vehicle. Lindbergh flew non-stop to Paris in 1927 and he and other daring youngsters gave the fledgling aviation industry new horizons, flying the mail across the Rockies in all sorts of weather. The truck evolved from a chugging wagon on solid tires to a fast flexible mover that could pick up all the furniture in a house and move it in a day to the new house, or take the farmer's tomatoes directly to the soup factory with the dew still on them.

Powerful diesel motors began to throb in the holds of tugboats and lake and river boats and they cut the costs of hauling by water wherever there were good waterways. A generous government, urged by the Congressmen from towns along the rivers and harbors, sprang to the opportunity and spent millions of dollars deepening channels and placing and tending the buoys and signal systems of the inland waterways.

By water, by air, by land and by pipelines under the land, America developed the greatest transportation system in the world. The 48 States were linked and welded into a unified area of commerce--and, the network of transportation facilities made possible the rapid growth of the many new industries we mentioned. The railroads remained the most important segment of this transportation system, moving over half of the nation's freight, but now they

had vigorous competition for nearly all of the most profitable business. But they were still being regulated as though they were still a monopoly, and still being taxed as if they were still the only big business in the nation.

Furthermore their new competitors were not only too young to have caught the full application of the tax collector's art; most of them were having part of their direct costs of operation paid for out of government funds collected from all the taxpayers--including the railroads. Railroad men looked at the assembled taxpayers and found themselves in the front row. They looked at where the taxpayers' money was going and found their competitors in the front row. They didn't like it, but for many years they didn't do much about it except talk to other railroad men about how unfair it was.

Then came the depression of the thirties and one-third of the railroads went into bankruptcy. Those that escaped used up well-husbanded reserves and cut expenses to the bone. Only a few major railroads today can make the statement that they have met every financial obligation--and still fewer can add the proud words of the Pennsylvania's record--"in full when due."

In the brief span of two decades the good roads program lifted America out of the mud and the passenger car and the bus took over the short-haul passenger business. Trucks which had added so much to the efficiency and convenience of railroad transportation by handling the short-haul deliveries to and from the railroads, began to compete with the railroads for the cream of the freight business in long-haul traffic. The infant named "aviation" became a husky giant--but the day it should be weaned from the breast of the taxpayer was postponed again and again. Government money--which means taxpayers' money--built the airports and passenger stations for the airliners, developed and installed

their signal systems and maintained elaborate research laboratories to improve aviation efficiency.

The full costs of providing passenger service by air between two cities such as New York and Chicago are approximately twice the costs of providing passenger service of the finest type by the railroad. But with the taxpayers paying about half of the cost for everyone who wished to fly, the airlines took half of the profitable, long-haul passenger business. With the rising cost of wages for skilled men to operate trains, the short-haul passenger business moved over into the deficit column for all railroads.

So much for the past. Let us turn our thoughts for a few minutes to the present and particularly to the railroads that serve New Jersey. Last year my railroad, for example, did a gross business of a billion dollars and made a profit on that business of 37 million dollars. Our tax bill was 70 million dollars. To put those big figures into perspective let us suppose that one of you owns a local delivery service representing an investment of \$25,000, and that last year your customers paid you \$10,000 for your services. After you paid expenses you had a little over a thousand dollars left. Would you think it was a good year if the tax fellows said you owed them \$700 and left you only \$370 profit? Those results are comparable to the Pennsylvania Railroad results in 1953--I just divided our figures in each case by a hundred thousand.

I think if you talked to the manager of this delivery service you might expect to find him discouraged. Maybe you'd be surprised if the manager--like the managers of the Pennsylvania Railroad--said they were not in the least discouraged, that the future looks bright to them, depending only on getting a fair deal from legislators and tax collectors. To be in character, that manager

should make a speech tonight and say that he thought his delivery service was about the finest public service going--one that the town could not do without and one that had many opportunities for progress and improved service that could continue to bring large benefits to all concerned.

But then he should say "If."

I think you ladies and gentlemen here tonight will agree that the railroads in New Jersey are one of its most productive generators of real estate activity, jobs, income and general industrial and business prosperity. I hope as we review the facts that you will agree that looking to the future, it is going to be necessary to change some laws and make some tax reforms if the railroads in New Jersey are going to continue to generate these benefits.

Sticking to the present for a minute longer, my railroad employs some 8,500 citizens of New Jersey, paying them upwards of 35 million dollars a year. The Company also purchases 10 to 12 million dollars of New Jersey products a year. We pay your state and some 224 different cities, boroughs, villages, towns and townships 5 1/2 million dollars a year in taxes, and we are, as you know, just one of your railroads.

Our Industrial Department, with which you are familiar, has been quite successful in helping to attract new plants and factories to New Jersey. You are well aware that such plants and factories use real estate, pay taxes, buy goods and services, provide employment and stimulate other business. Since 1940 my railroad alone has helped locate some 150 companies in New Jersey. Other railroads have industrial departments too and I don't have to tell you they are able competitors in this type of service to the state. So in speaking of railroads

as among New Jersey's best friends I am not speaking in general inspirational terms. I mean friends in the far more exacting sense of "doing things for you."

This, then, is a brief statement of one railroad's credentials as one of your earnest and productive fellow-citizens.

Now let us turn to the other side--what does the State of New Jersey do to the railroads? Let us look first at the tax habits which New Jersey developed in the "horse-and-buggy" days and so far has not yet changed. In the case of my own railroad, the 220 odd tax levies which we pay the state, cities, boroughs, villages, towns and townships amount to more than we earn in the state. We have to take it from our slim earnings in other states. The Pennsylvania-Reading Seashore Lines, which we own with our friends of the Reading, and which operates wholly within the State of New Jersey, has made a profit only once in the past 20 years. Last year it lost around 5 million dollars and its total deficit is now above 50 million dollars. During those 20 years it has paid \$11 million dollars in state and local property taxes. Each year the Pennsylvania Railroad and the Reading Company each advance two or three million dollars earned elsewhere to keep the Pennsylvania-Reading Seashore Lines running--waiting for the day when more favorable conditions and the location of new industries on its lines can restore it as a profitable public service. Every month we are coming closer to the time of decision when either those things for which we have been waiting will happen or we give up that hope reluctantly and abandon many more miles of unprofitable railroad.

As for some of the conditions under which we operate, I wonder how many of you are aware that the tax policy of New Jersey toward the railroads is the worst of any State in the Union? On the average of all 48 States, railroads pay

taxes of about \$1,500 a year per mile of railroad. The New Jersey tax is six times this average or \$9,500 per mile of line. Now, on the other hand, how does New Jersey stand in the taxes it asks of our competitors? Well, we go from extreme to extreme. On the big heavy trucks for example, New Jersey's taxes are the lowest of any State in the Union.

Let me give you a few examples of how unreasonable New Jersey taxes are. On the New Jersey waterfront of New York Harbor we have our Harsimus Cove and Greenville Piers, backed by the supporting facilities and freight yards. Our taxes on them have just been increased. For these railroad facilities serving New Jersey we are paying 2 1/2 million dollars a year in taxes--far more than they could possibly earn. Meanwhile, not too many miles away lies your Newark Airport, built for the airline competitors of the railroad at a cost of 61 million dollars of public money--and it is not taxed a dime!

A little more humorous example is the little railroad the Princeton students call the "P. J. & B."--"Princeton Junction and Back." It is operated at an almost total loss, of course, for the convenience of the town and the college, but nevertheless we were taxed over \$10,000 on it last year.

You understand, I hope, it is not the fact that you tax us that I am complaining about. A good citizen--and I trust you agree that railroads are good New Jersey citizens--should expect to pay his fair, equitable share of taxes, but you tax us so unreasonably that you keep us from doing things that you want us to do and we would like to be doing for you.

For instance, when the Pennsylvania-Reading Seashore Lines improved service by putting in some new Budd cars your state immediately slapped a property tax on the cars. When they put on new diesel engines their taxes were

raised again. I leave it to you whether your tax policies are helping our chances to get the line in the black for your and our benefit. I also remind you that this line, built years ago for passenger service, offers you the potential for industrial development which would provide the freight traffic that could maintain the line-- but as each branch is abandoned, the potential it created for industrial development is gone forever. In spite of the claims of truck advertising, big industry still demands railroad sidings.

Maybe the unkindest cut of all is that part of the taxes you charge us is spent to provide roads which are used by heavy trucks which compete with us for interstate freight business and in many cases pay New Jersey no taxes at all. About half of the heavy trailer trucks using New Jersey's highways are from out of the state and do not pay you a cent for the privilege unless they happen to stop and buy gasoline or diesel oil. The other half of the large trucks which are registered in New Jersey pay, as I said, the lowest taxes levied by any State in the Union.

Now no one has suggested that New Jersey ask all heavy truckers to pay reasonable taxes just to be fair to the railroads. Quite a few other people have a dollars-and-cents interest in this tax inequity. Each of you who is a private automobile owner is paying a disproportionate share of the costs of building and maintaining New Jersey highways in comparison to the big trucks which are so largely responsible for tearing up the 20 to 30 year old roads and for increasing the cost of building new highways adequate for their weight. According to the measure commonly used by highway authorities, the ton mile use of the highway, the private automobile owner in New Jersey pays almost 20 cents to drive a hundred

ton miles, while the heavy trucker pays just short of 9 cents on the same basis. Your merchants and local small businessmen are even more unfairly treated, for the panel and pick-up truck--the kind used by your farmers, milkmen and grocers--pays nearly 28 cents per hundred ton miles as against the heavy trucker's 9 cents. And again, remember this is compared to the zero cents per hundred ton miles for the heavy trucker from out of state who is using your highways. Automobile owners, through the American Automobile Association, farmers through the Grange, and numerous other organizations are asking your Legislature this year to put New Jersey's taxes for road use on a more equitable basis and enact a bill for a weight-distance tax in New Jersey similar to those in other important states. The railroads will support this position.

Naturally, I hope that you will lend the important force of your opinion to this proposal. It is one of the many changes that are needed, and long over-due, as a result of the revolution in transportation which left the railroads with horse-and-buggy taxes, and regulation under the conception of monopoly, while providing competition with new transportation services which are nourished in part by bounties from the public purse.

Looking back, it is easy to be critical of railroad management for allowing these trends to develop, but they came so gradually that it would have taken tremendous vision 30 years ago to foresee the size of these costs to railroads and their inability to pay them. Take, for instance, one of the most extreme examples of the property taxes--those on the cost of grade crossing protections. When the railroads were first built they were laid across existing roads, and where wagons and buggies made frequent use of a road it was natural to take it as part of the newcomer's duty to put watchmen and crossing gates

there. Then, as the automobiles came more and more roads were built and many were laid across railroad tracks. The cost of traffic signals where two highways cross is, of course, tax free. But New Jersey taxes the railroads on the investment they make to install the signals that give similar protection and convenience where highways cross a railroad. How any reasonable person can feel that railroads should be taxed for this cost of highway safety is difficult for a railroad man to understand.

On one hand we are told by the boards and commissions set up years ago to regulate us that we are a public service--that for instance we must run trains at a loss for the public convenience, but on the other hand we have costs assessed against us and taxes placed on us as though every phase of our operation were highly profitable when, as a matter of fact, none of them any longer are. Our most profitable freight business earns a lower return on the required investment than the least profitable operations of many large companies. It may surprise you that one company in the automobile business--General Motors--in a recent year earned more than the entire railroad industry. The same is almost true for one company in the oil business, one company in the chemical business and one company in the electrical business. And the net investments in these companies are in each case only a small fraction of the total investment in the railroad industry.

But when we go before a public service commission and ask permission to discontinue passenger trains that almost no one is riding except when the weather is bad, we meet public and official resistance. The people who object would be aghast at the thought of requiring General Motors to go on turning out a style of automobile that some people liked but which didn't get enough buyers to make

money. But when the great majority of the regular customers on a train decide to use other means of transportation it is considered an unbearable inconvenience to ask the remaining few to join them.

I am told that our branch line here, serving Moorestown, used to be very busy. Now you have an excellent highway and frequent bus service to and from downtown Philadelphia--and the traffic jams in center city Philadelphia testify to the use being made of such highways--and the empty seats on the few remaining trains point to the inevitable discontinuance of this passenger service unless patronage can be restored and the general prosperity of railroads in New Jersey built up through relief from excessive taxation, relief from subsidized competition and assistance from broadminded and reasonable regulation.

In closing may I repeat that we are reaching the year of decision for the people of New Jersey. It is up to you and other leading citizens of this state to decide whether some of the burdensome shackles on railroads will be removed, allowing them to continue to make important contributions to New Jersey prosperity. Your railroads hope your decision will be favorable. There is nothing a railroad man likes better than the opportunity to provide lots of railroad transportation--at a modest profit.
