United We Stand

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An address by

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TWENTY-FIVE HUNDRED years ago, more than five hundred years before the birth of Christ, Aesop wrote "United We Stand, Divided We Fall." Other well known and oft quoted, poignant expressions credited to Aesop are—"Union Gives Strength," "Put Your Shoulder to the Wheel," "Nature Will Out," and "Never Trust a Friend Who Deserts You in a Pinch."

Interesting and pungent little gems of wisdom, are they not? But how do they apply to us here today?

Many of us in this room are a part of the railroad industry. It is a great industry, vital to the welfare of this nation and all of its citizens. Its employes number over one and one-quarter million. Expressed another way, approximately one out of every forty to fifty gainfully employed persons in this country works for a railroad.

These employes in 1951 produced passenger service—as measured by passengers hauled one mile—equal to transporting every person in the nation a distance of two hundred and thirty miles. The freight service rendered by the railroads is even more outstanding. For each person in the United States, in 1951, the railroads hauled—on an average basis—one ton of revenue freight a distance of four thousand three hundred miles.

To perform this essential transportation service, the railroads spent almost three and one-half billion dollars for the maintenance of their locomotives, cars, and other equipment, as well as the maintenance of way expenditures, including roadway, buildings and signals.

The capital expenditures of the railroads of the country were almost one and one-half billion dollars in this same period. Furthermore, the estimated capital expenditures for the 3-year period—1951 through 1953—will average about one and one-third billion dollars a year, which is more than in any previous year in railroad history.

Insufficient Return

With these few but impressive figures can there be any doubt in your minds about the importance of the railroads and the railroad industry? Yet what have they received as their share of the national prosperity which we have been experiencing during these past few years? Have they been rewarded in comparison with the service which they have performed? Actually, the answer is no! In 1951 their rate of return on net property investment, after deducting for accrued depreciation, was 3.7%. That represents just about the average return per year for the past five years.

During a period of prosperous business conditions, such as we have been experiencing during the past few years, the railroads should have been permitted to earn enough to make every necessary improvement to their property and facilities and lay aside something for a rainy day. That this has not been possible can be charged to over-regulation and subsidized competition.

It is not my intention today to stand at the wailing wall and cry about what has happened in the past. The past cannot be changed. It is the future which is important—the future during which the railroads of this country must be kept sound and healthy, and be permitted to demonstrate their ability to justify the free enterprise system. The alternative is a condition whereby the railroads could be used as a guinea pig and a forerunner of Socialism, involving government operation or control of the essential industries of this country.

Just where do you fit into this picture? You who are members of the Railway Supply Group of the Union League Club of Chicago?

$6,000,000 a day

You represent ninety-nine companies whose major success is inexorably tied up with selling some or all of your products to the railroads as purchasers. It is a tremendous market which the railroads provide for you. In 1951 alone the direct purchase of materials and supplies by the railroads amounted to almost two and one-quarter billion dollars. That is over six million dollars a day—every day in the year. Furthermore, it does not include the more than a billion dollars spent with you and your associates for your portion of the three thousand five hundred and fourteen new locomotive units, the more than eighty-six thousand freight cars, and the one hundred eighty-three passenger cars, which were acquired during the year.

The fact that this railroad business was desirable and profitable to you is well illustrated by the fact that the percent of return on the net assets of the railroad equipment industries was more than double that of the Class I railroads themselves. Do you have an interest in the railroads? The answer is self-evident.

Since you do have such a vital interest in the welfare of the railroads of this country, it is only fair to expect you to render every possible assistance in helping them solve their problems—when it is proper for you to do so. There can be no question but that "United We Stand" applies with full force to the railroads of this country and the railway supply industry.

How well have you met the challenge and given full support to the railroads? If your support has been forthcoming, has it been passive, or has it been vigorous and active? Are you satisfied that you have produced the kind of support to which the railroads are entitled? It is not for me to answer any of these questions—that can only be done by you and the management of the companies with which you are associated. Rather, it is my purpose today to outline the situation confronting us and just what you can do to help—and quite frankly, we want and need your help.

Control of Business

As businessmen, you don't need me to tell you that for the past twenty years the businessmen of this country have been investigated, obstructed, controlled and regulated as never before. As far as I know, there is only one business that has been let completely alone. It hasn't been yours, and it certainly hasn't been mine. It hasn't been Joe's delicatessen down on the corner; it hasn't been any of the great corporations that have been labeled as powerful and independent. The only business that has been let strictly alone is the business of government interference with business.

We have, I think, reason to hope that the long, tangled nightmare for business is approaching its end.

You and I agree, I am sure, that government must establish rules and regulations, and must enact new ones as they become necessary in the public interest. There have to be ground rules for the conduct of business, just as there have to be rules of the road for the traffic on highways. But—and here is the important point—they can be ground rules based on real economic law and on real public interest, as against the synthetic economic law, the vacillating theories of "the mature economy," or "over-production" plow-under campaigns, and all the other synthetic protections of the public against the realities of opportunity and venture.

I think it is no exaggeration to say that never since you and I have been given executive responsibility has the American businessman faced such an opportunity—and such a temptation. The temptation is two-fold. We can, for instance, sway back in our swivel chairs and tell ourselves: "Well, the cause of free enterprise has at last won the day. All we need to do is sit tight and the rewards of incentive enterprise will go to those who earn them by serving the public best."

The second temptation is to interpret the public mandate for business liberty as a mandate for business license. Those who try that will be asking for restraints beyond any we have ever known—and if enough businessmen yield to that temptation, the people will punish all business.

So much for the temptations; now for the opportunity. The opportunity, I would say, is to do exactly the sort of thing the railroads are doing. The railroads are, as you gentlemen know, the most over-regulated and most subsidized-against industry to be found in this or any other free-enterprise country. Decades before Washington controls became part of the businessman's daily life, we were equipped with a complete set of controls—those of the past twenty years have just been in addition. But don't reach for the crying towel. As I have said, I am not going to call the roll of our troubles. Instead, I am going to tell you how we are planning to make what we think is enlightened use of the opportunity to do something about them.

Program of Reform

We have drawn up, as some of you have heard, a streamlined five-point program of reforms that we think are necessary in the regulations that throttle and hobble us in our efforts to provide good transportation service. I say to you, in deadly earnest, that our economic survival depends upon getting some such reforms—and getting them quickly.

The railroads spend, as has been mentioned, over two billion dollars a year on materials and supplies and, in addition, we have been spending still more billions since the war's end for new equipment. You have no illusion as to where the new-equipment money came from—much of it was borrowed. My own road is nearing the completion of a gigantic post-war improvement program and you did not have to go to Dun & Bradstreet to learn that much of the cost of it was borrowed. Nor do you need me to tell you that such borrowing, based though it is on our faith in ourselves and in our future, cannot go on indefinitely. Not while the railroad industry can take in, as it did in 1951, over ten billion dollars in gross revenue and wind up with a return of only 3.69% on its net property investment.

In blunt words, it is not only a matter of principle, it is a matter of bread and butter—your bread and butter as well as ours. We are not asking you to carry the ball for us, but again I say, we are asking you, quite frankly, to help us.

Presenting the Program

Railroad executives of all ranks are traveling the length and breadth of the country laying the railroads' program before state and national farm organizations, chambers of commerce, and associations such as yours. They are enlisting the organization and support of committees to contact influential groups and individuals. They are distributing the literature that the railroads and their associations have available. They don't wait to be asked to speak or to get up committees or distribute literature; they seek out the opportunities. The reason—reform, when it comes, won't come simply because we've made a good case for our program in Washington—it will come because organizations like yours understand it and believe in it and join us in fighting for it. I solicit that kind of understanding and faith and aggressive action from you, both as a group and as individuals.

And now let me explain briefly for those of you who have not paid much attention to the railroads' program, the five reforms we are fighting for and in which we are asking your help.

One thing we ask is the right to take off the market, and take off the market quickly, services that cost us millions of dollars a year—and for which there is little or no sale.

That seems, I know, a curious right for a businessman to be asking. When you realized ten or twelve years ago that we were no longer buying oil hand lanterns for our trainmen and shopmen and car inspectors—an item you used to sell us by the hundreds of thousands—you stopped making oil hand lanterns. You switched to electric hand lanterns or forgot about lanterns completely.

Common Sense Outlawed

But had you been a railroad, you would never have gotten away with such a simple and sensible procedure. You would still be putting millions of dollars of capital and labor and executive time into the manufacture of oil hand lanterns. You would sell a few here and there, but not many—and you would probably get all kinds of complaints about the few you did sell. How you would make up the millions of dollars you were throwing out the window, with little return other than complaints, would be your problem—and nobody would bother to wish you luck with it. The best word you would get is, "Well, we'll look around a couple of months, think it over a few more, and maybe we can ease your loss by a couple of thousand or so. Meanwhile, keep 'em coming, and see that they are all good oil hand lanterns. We've heard criticisms."

Believe it or not, that's the kind of deal the railroad industry lives with year in and year out—to the tune of hundreds of millions of dollars in losses per year. It occurs on passenger trains that were once heavily traveled but are now either practically deserted or fall far short of producing a compensatory revenue. But can we withdraw such passenger trains? Sometimes. Sometimes not. The decision is in the hands of a state commission. The commissioners are honest men but they are subject to local pressure. After all, the railroad has been there ever since anyone can remember and it is still handy for occasional shopping trips and for getting to work when the roads are slippery.

So one point of the railroads' reform program is simply this: Where pressures on state commissioners compel us to keep passenger trains running that are no longer profitable or performing a public service, we want the right to appeal to the Interstate Commerce Commission. Isn't that a reasonable request?

Handicap to Competition

A second relief we are asking is the repeal of the long-and-short haul rule. This applies to us but not to highway or air transport. It is a rule that forbids us to charge less for a long haul than for a shorter one going in the same direction. On the surface the rule sounds logical and hardly a handicap. But you wouldn't, I can assure you, want to live with it in your business. Let me illustrate:

You hear of a chance to sell a thousand car wheels to a shop 800 miles from your plant. But you have a competitor located only 500 miles from the customer's shop. The customer may agree that your wheels are somewhat superior—but not enough to make up for the additional 300 miles of freight charges. If you want the business enough to pay the additional 300 miles of freight yourself, you are free to do so.

In short, you are at liberty to compete with the other fellow by taking a smaller profit—a thing any sensible businessman does when it is to his advantage.

But in similar circumstances a railroad can't do that. For instance, a long-haul contract trucker may sharply reduce his rate on a commodity moving between New York and Pittsburgh in order to take a piece of business away from the railroad. The railroad can reduce its rate too, provided it also reduces the rate for every intermediate point between New York and Pittsburgh—and, in addition, receives Interstate Commerce Commission approval of each and every change. Or it can ask, backed up by a mountain of data, the Commission's permission to forget the long-and-short haul clause for the moment. But the mills of the Commission, like those of the gods, grind with exceeding slowness. By the time approval comes through—if it does—the piece of business has been secured by the trucker and lost to the railroad. Nor is that sort of thing something that happens to us only occasionally—it happens day in and day out, and with the most lucrative classes of freight.

From this you can see why the railroads feel the long-and-short haul clause makes them sitting ducks for long-haul truck competition, and why we want the rule abolished. It's a relic of 1887—before anyone had heard of a truck.

Synthetic Economics

There is another outmoded rule that hobbles the railroads in their daily hammer-and-tongs competition for business. It bears the catchy name "rule of rate making," and is based on an even catchier set of synthetic economics. I don't think you would care to have to set your prices by it—as the Interstate Commerce Commission requires us to do. You would find yourself, for example, obliged to set prices that had less relation to your cost of doing business than to the possible distant effect they might have on your volume of business. That sounds pretty complicated and I can assure you it is. What it amounts to, actually, is that the Commission decides whether a rate the railroad proposes is good for the railroad, and gives or withholds its approval accordingly. That is the sort of thing conscientious mothers decide for small children, but which railroad men would rather decide for themselves—taking the business consequences for any mistakes or wrong guesses they may make. What happens, however, is that the Commission in effect does the deciding, leaving the railroad saddled with the consequences. As you can imagine, we want the rule of rate making simplified and relaxed to the point where railroad men, who work and live with their shippers, are allowed to stand or fall on their own decisions—just as you have to do in your business.

A fourth reform concerns a situation which you gentlemen would find just about intolerable. When the labor or material costs on something you're making for us goes up while you are making it, you note the increase on the bill and we pay it. But not so with the railroads. General rate increases for them are not that prompt. Actually, it takes an average of 350 days to get them—if and when we do—and even then they are not retroactive. For example, since World War II my own railroad has been granted a number of rate adjustments. Had those adjustments, which actually were granted, been permitted within a reasonable time, it would have resulted in approximately two hundred million dollars in additional gross revenues. Losing two hundred million dollars in revenue—part of which was so sorely needed to improve, maintain and expand our plant to meet the challenge of the future, and part of which should have been distributed to the owners of the property—represents a situation which no industry should be compelled to endure, much less one individual company.

A Typical Case

Nor is this adjustment of rates at a snail's pace something that only the Pennsylvania Railroad is experiencing. Let me quote a lawyer from another railroad on his experiences with a case before the Interstate Commerce Commission:

"The proceedings extended over 466 days, that is, over 15 months. The final decision was, of course, not retroactive. During those 15 months we had to sweat out our ever-increasing costs. The interim increases helped but they were wholly insufficient and at the end of those 15 months the Commission gave us substantially what we had asked for over a year earlier, but they said we had to come back again before the end of February, 1954, and prove it all over again or else they would put us back to the level of rates that pertained in 1950.

"In the course of that proceeding, 13,750 pages of testimony were put in the record, 223 exhibits were received, 383 verified statements were filed and 528 witnesses appeared. Spokesmen from seven different and separate government agencies participated in these proceedings."

We have to live with and by Commission rulings. We know that. But we do think they should be geared to life in this modern, inflationary day and age. What we propose is that new rates may go into effect 30 days after we submit proof of their necessity—with the Commission reserving the right to penalize us for any error we may have made in our own favor.

Subsidized Competition

Finally—I might almost say especially—we ask that our problem of subsidized competition be recognized and dealt with realistically. The railroads have, in addition to one another, four very aggressive competitors—pipe lines, inland waterways, air carriers, and big long-haul truckers. Of these, all but the pipe lines are heavily subsidized. Railroads spend twenty-two cents of every revenue dollar they take in to own and maintain their right-of-way. But water carriers receive their right-of-way free, by courtesy of the government and the tax payer. Air carriers use the airports and other expensive facilities at much below cost, by courtesy of the government and the tax payer. Big long-haul trucks—which constitute only 5% of all trucks—use the public right-of-way at cut rates and, we think, without the payment of proper general taxes—by courtesy of the motoring public and the tax payer.

You can see the competitive disadvantage of this situation to the railroad. Think of it in terms of your own individual company. Suppose, in addition to your normal competition, you had three aggressive competitors whose factories were furnished and maintained for them free or at ridiculously nominal rates. You would want something done about that, and that's just what the railroads want.

Pay Full Cost

Therefore, as our fifth reform, we are asking that each form of transportation be required to pay the full cost of providing that transportation, including its fair share of the cost of facilities now provided free or at cut rates. Only in that way, can each form of transportation compete on its own merits. Open, free competition governs the economics of production and manufacturing in your companies. It should be the principle governing the transportation which you use. I don't say that emotionally, but as a matter of economic good sense. Only fair competition can give us the best in products; only fair competition can give us the best in the transportation that helps make those products possible. And it is not fair competition when the government, or some agency, steps in and pays some of the costs which should be borne by your competitor.

Such is the reform program we are presenting to the new administration in Washington. By no means does it strike out all of the outmoded regulations with which the railroads are forced to live. But it does aim at those which are cutting deepest into the very bone of our financial well-being. Our economic future—and to an extent yours—depends on our getting these major reliefs and getting them quickly.

Your Support Needed

We have no illusions they will be forthcoming unless many people outside the railroad support our suggestions. We invite you most earnestly, both as fair-minded citizens and as our partners in business, to give us your active, aggressive, fighting support.

As members of the railway supply industry, and practical businessmen, it is possible for you to look at railroading from the outside and see a more

objective picture than we as railroaders.

At the same time, you have a very real and common interest in railroads. I am sure that you join with us of the railroads in a desire to see a strong and financially prosperous railroad industry.

The happy state of being strong and financially prosperous means only one thing—adequate profits from an aggressive, alert, forward-looking, competitive and expanding railroad industry.

We think we have that kind of an industry, but we need your help.

What are you going to do about it? As Aesop said 2500 years ago—"United We Stand."