THE COUNTRY'S NEED OF GREATER RAILWAY FACILITIES AND TERMINALS

ADDRESS

DELIVERED BY

MR. JAMES J. HILL

AT

The Annual Dinner of the Railway Business Association, New York City

DECEMBER 19, 1912

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The subject of national transportation is many-sided. One aspect of it takes precedence in one community or in the opinion of one interest, while for others some different phase ranks all the rest. But every interest and every community should understand that the main need today of transportation and of the many activities connected with and dependent upon it is an increase of terminal facilities. It is no exaggeration to say that the commerce of the country, its manufacturing and agricultural industry, its prosperity as a whole and the welfare of every man in it who engages in any gainful occupation can escape threatened disaster only by such additions to and enlargements of existing terminals at our great [2] central markets and our principal points of export as will relieve the congestion which now paralyzes traffic when any unusual demand is made upon them. Our natural material growth will make this their chronic condition in the near future unless quick action is taken.

If you increase the size of a bottle without enlarging the neck, more time and work are required to fill and empty it. That is what has happened to the transportation business. In 1907 traffic was blocked on nearly all the principal Eastern railway lines. It took months to convey an ordinary shipment of goods from one domestic market to another. The dead-lock was broken partly by a panic that lessened the volume of business and partly by the efforts of railway managements to add, by increased efficiency, to the moving power of facilities at command. We neither anticipate nor desire perpetual business depression. While the limits of efficiency have not been reached, we know that it cannot be made to cover the demands of our growth in population and production. The records of any large city will prove this. The tonnage of the Pittsburgh District, for example, by railroad alone, grew from 64,125,000 to 152,000,000 in the ten years between 1901 and 1911. It is both practical and patriotic to ask what is to be done.

First, let us examine the following table, compiled from the reports of the Interstate Commerce Commission, showing the recent growth of the transportation business in the United States:

[3]

	Increases Per Cent.		
	1895 to	1905 to	1909 to

	1905.	1910.	1910
Mileage	21	11	1.5
Locomotives	35	22	3.
Passenger Cars	23	16	3.3
Freight Service Cars	45	23	3.
Passenger Mileage	95	36	11.
Freight Ton Mileage	118	37	16.6

Business is beginning to feel the swell of a revival. The freight ton mileage of the country was less by seventeen and a half billions in 1909 than in 1907, and very little more than in 1906. Contrast this with the growth of the single year between 1909 and 1910. The freight ton mileage grew in that year eleven times as fast as trackage, and five times as fast as equipment. This ratio will be subject to increase rather than decrease. It will be much greater in this year of large crops and added tonnage. If any manufacturer were confronted with such conditions, it would be clear to him that he must either refuse business or more than double his plant. The railroad cannot refuse business. If it could do so legally, that policy would still mean national panic and individual ruin. It must enlarge its plant. Just what this means in the expenditure of billions of dollars on new track and rolling stock I demonstrated more than five years ago, and the facts have now been accepted by all authorities. But even the existing plant cannot be worked to its capacity without larger terminals. Hence the supreme importance at the very outset of this factor of the transportation problem.

This matter is vital not only to the railroads, but to every business man. It is the immediate concern of every large city. Cities can grow, they can escape decline, only as the movement of business between and through them is kept free. When the people find that their business cannot be handled, they must either move away or cease producing and consuming. They will decentralize their traffic, so far as that can be done; and the inability of the railroads to prevent this, by reason of conditions imposed on them from without, will work injury to all the great markets which have arisen through the free play of economic forces and the wise judgment of the builders of our prosperity. No city can afford to place its trade, which is its life, on a false basis. When the commerce naturally tributary to it is handicapped by poor terminals, or overloaded with too heavy charges on account of the excessive cost of enlargement, it will go elsewhere. There are a dozen places between the Maine coast and Norfolk that could be made available for relief. A city can never grow great enough to defy safely the demands of the laws of trade and its proper accommodation. Should the decentralization plan be forced on traffic, some of our greatest cities would not merely forfeit their natural share in national growth, but they would surely decline in business, wealth and power. [4]

Interest in this question should be not local only, but national. A railroad terminal performs the same function as a harbor. It is actually the largest and most valuable harbor used by the nation’s commerce. Probably no greater volume of rail and water traffic is [5] transferred in any city anywhere than in Duluth-Superior. On the land side almost the whole of this is carried by three railroads. It is received, transferred and discharged without congestion in the busiest seasons and with expedition because the terminals there have been specially created for the work they have to do. The nation has properly made the provision of adequate harbors its care, and expended millions of dollars on our seaboards and the Great Lakes to ensure ample facilities for loading and unloading cargoes. It is not to be supposed or desired that the nation should furnish the money to provide those great harbors known as railroad terminals, although they are vastly more essential to the free movement of trade. But it should smooth the way and make easy the task of those whose business it is to provide them.

When traffic is blocked and the railroad yards of the principal cities are filled with cars that cannot be moved, the railroad suffers the loss of a portion of its earnings; but the business man loses a larger share of his trade, and the workingman his employment. No industry can do more than protract a starved existence when the currents of transportation cease moving freely. When the commerce of an industrial empire whose magnitude is partly indicated by the clearing house exchanges of $102,000,000,000 in New York City alone during the past year is blocked, the whole nation suffers.

Whenever we have a big crop or a general revival of business, [6] the country hears most of the danger of a car shortage. The public assumes that if enough cars are provided they can be moved on schedule time from point of origin to destination, wherever these may be. This is not the real trouble. What is really needed is the greater movement of cars. The average movement of a freight car is about 24 miles, or two hours, per day. Delays in loading and unloading by shippers are partly responsible, but much of the lost time is consumed in getting into, out of or through terminal points where there is not room to handle the cars. More cars intensify instead of reducing the trouble. No other business could endure the loss of the use of its machine plant for twenty-two hours out of the twenty-four. One thousand cars will cover nearly eight miles of track. Each car must be switched, loaded or unloaded, or all three. This multiplies the trackage requirement.

A thousand cars are a fleabite compared with the daily movement in the busy season. The railroads of the United States carried 1,849,900,101 tons of revenue freight in 1910. At the average load of 21.5 tons per car, it would take 86,041,865 cars to move it. Nearly all of these pass through some large terminal, most of them several times in the year. There are about thirty important traffic centers; and if the total movement were divided equally between them, supposing each car to pass through but one market, and that only once a year, 7,858 cars would have to pass through each terminal every day in the year. Five thousand cars a day are enough to create a blockade in many of the large terminals of the country. [7] Our worst troubles have come not from insufficient rolling stock or lack of efficiency in handling it, but from congested terminals. Water routes give little assistance: first, because the largest streams of traffic in the United States are not in a direction where either natural or artificial waterways can be used; second, because a waterway less than twenty feet deep cannot compete as a carrier. The waterway, too, may and often does increase rather than lessen the pressure on terminal facilities. There is but one possible remedy —enlarged terminals. The main question back of that is financial. Where and on what terms is the money to be had for an improvement become as necessary as the removal of a freight wreck from a main traffic line.

The two obstacles to be overcome in this readjustment of the transportation agency to the growing needs of the country are the physical difficulty and the cost. The railroads could not have foreseen and guarded against this need thirty or forty years ago. They could not then know where the greatest markets were to grow. They could not tell in what portion of any city it would be most convenient to have railroad yards placed a generation later. If they had secured land, changes in business districts would in many cases have made their forethought useless. Even if gifted with prophetic knowledge, they could not then have commanded the resources for such an undertaking, any more than the country town of today can put in all the improvements that its future as a city will require and justify. It is a natural and inevitable condition that we face. Upon [8] the railroads rests the responsibility of performing the work now to be done. Will they be left free to attempt it under such conditions as will make the performance of it a feasible thing and not a miracle?

In some places it will be physically impossible to secure the land area for proper terminals. The space that must be used is generally in or near the business heart of the city; often along the waterways, where enterprise has been busy and land values have reached their highest point. Therefore the space for such terminals is either not available on any terms or will cost sums that sound fabulous. The financing of new terminals presents a far more serious problem than the financing of a new railroad. Large sums of money must be raised. The owners of capital will not supply them unless they are satisfied with the security and with the prospect for a sure and adequate return on their money.

What security can the railroads offer for such a loan? Already, merely for constructing and operating their existing machine, many of them have not only pledged their credit to the limit but have absorbed a large share of their surplus earnings that in other countries would have been paid out in dividends. The ability of the Pennsylvania system to handle its big business is due in no small degree to its past policy of diverting profits legally the property of the stockholders to the construction of betterments. There is not a well-managed railway of any size in the country of which the same is not true to some extent. And, with the increase of their expenses [9] and the limitation of their income by public authority, there is coming to be little or no surplus revenue that may be so employed. Net income, not gross, is the index of prosperity and the foundation of credit. Gross revenues grow, but expense grows faster. Returns to the Bureau of Railway Economics, covering 90 per cent of all the steam railway mileage in the United States, show that during the first seven months of 1912 operating revenues increased 3.3 per cent per mile as compared with the same period in 1911, operating expenses increased 4.9 per cent, and net operating revenue decreased .5 per cent. The additions to taxes and other incidental expenses will raise this figure. The progressive decline of net earnings per mile under the existing method of rate regulation is assured.

The properties of many systems are already encumbered to the limit of credit and solvency. Securities have been consolidated, equipment trusts have placed what are practically chattel mortgages on rolling stock, and money cannot be raised except for a short term and at high rates. Ten or fifteen years ago 4 per cent would bring in capital for railroad improvements. Strong properties sold their bonds bearing 3½ per cent interest. Now some of the strongest roads are paying 4½ per cent for new capital. Properties less well known for stability and earning power pay more. The rate has advanced by from 1½ to 2 per cent in little more than ten years. The great sums required to extend our terminals to meet the actual business of the country can be had only on condition that the [10] payment of principal and interest is absolutely secured. The railroads can pay money only as they are permitted to earn it. In the last resort it is up to the people to say whether or not these terminals and other facilities shall be supplied; just as it is up to them to suffer the severest of the consequences if they are not.

Two questions arise immediately and naturally from the situation as it discloses itself to any one who chooses to look at the facts. The first is, “Why are the railways not now in a position to borrow the money and build the terminals at once?”; the second is, “What have the railways done to entitle them to confidence, to relief and to a more fair and generous treatment by the public?”. Each of them can be answered by an examination of facts officially vouched for.

The impairment of credit has already been partly set forth in presenting the difficulty of making loans for improvement purposes, and noting the higher rate that must be paid. How has this happened? The limitation has come, of course, from two directions; decreased earning power and increased expenses. A railroad has no other source of income, generally speaking, than receipts from rates. These have steadily declined. While the price of everything else rises, the price of transportation falls. The average freight rate per ton per mile received by the railroads of the United States fell from 9.27 mills in 1890 to 7.53 mills in 1910. This is partly the effect of legislative regulations and the orders of public commissions, and partly due to voluntary reductions made possible by increased [11] efficiency and increase in the density of traffic. On the whole, railroad rates in the United States are the lowest in the world. But they cannot continue to grow less forever.

Rates must be such as will bring in, above operating expenses, a reasonable return on the investment as measured by the value of the property. So much the courts will uphold. But that is not enough, if the railroads are to go into the money markets of the world as borrowers of billions of dollars. A man must do better than graze the sharp edge of bankruptcy if he is to find himself welcomed as a prospective creditor by the investor. So the railways, if they are to carry this new burden, must not only be protected against the further destruction of their credit involved in an unending succession of attacks upon their existing revenue. They must also be permitted to earn enough to assure capital that they can pay interest and principal of the heavy additional loans asked. By the light of this practical, unchangeable fact the railway regulation of the future must be guided. If it is not, then congestion and a general paralysis of trade, costing the country more than double its whole bill for transportation cannot be avoided.

The Railroad Securities Commission, with President Hadley at its head, the ablest and most disinterested body which has ever investigated the subject in this country, said in its report: “Where the future is uncertain the investor demands, and is justified in [12] demanding, a chance of added profit to compensate for his risk. We cannot secure the immense amount of capital needed unless we make profits and risks commensurate. If rates are going to be reduced whenever dividends exceed current rates of interest, investors will seek other fields where the hazard is less or the opportunity greater. In no event can we expect railroads to be developed merely to pay their owners such a return as they could have obtained by the purchase of investment securities which do not involve the hazards of construction or the risks of operation”. Exactly what happens when this right rule is reversed, and the railroads are forbidden by curtailment of their earning power to attract capital may be understood from the following extract from an editorial on the financial year which appeared in the New York Times of October 3, of this year: “Railways have issued a total of stocks and bonds and notes smaller this year than last by $23,821,100, while industrials have increased their issues by $362,288,650. The decrease of the railway bond issues was no less than $99,889,400, and they were formerly the favorite investment. The increase in industrials was mostly in stock, the figures being $259,416,250. Formerly industrials were unable to market stock in competition with the railways, but this year they have been able to place between three and four times as much as the railways.”

While revenue was shrinking, the obligatory expenses of the railways of the country have increased enormously. Their equipment alone is valued at nearly three and a half billion dollars; the increase [13] during the last nine years being 45.3 per cent in locomotives and 39.7 per cent in freight cars. For the mere maintenance of equipment they spent over $413,000,000 in 1910. When we come to consider operation, the figures mount as rapidly as those on a pressure gauge when the needle is racing toward the danger point. The wages of the railroad employes in this country have reached the stupendous total of over $1,200,000,000 a year. According to the advance summary of the report of the Interstate Commerce Commission for 1911, the total number of employes in the United States decreased in that year by 29,611 as compared with 1910, while the total wages paid increased by $64,741,164. In no other occupation has such a showing ever been made. If the wage scale of 1899 had been in effect, the item of labor cost would have been some $300,000,000 less. Against liberal wages the railways do not protest, because they know that they can render safe, adequate and satisfactory service in proportion as their employes are well fitted and well paid for their work. But new outlay must be balanced by new income unless operation is to cease. Public sentiment almost always supports the demand of employes for higher wages. Public sentiment cannot, from the point of view of either justice or safety, continue to prohibit or prevent the levying of such rates as alone will enable the employer to pay the wage rate in many cases practically imposed from without as authoritatively as are the traffic rates that a commission orders into effect.

Another item of expense which grows out of all proportion to [14] railway revenue or national development is taxation. In 1890 the taxes paid by all the railroads aggregated $31,207,469; in 1910 they had risen to $103,795,701; for 1911 they are estimated at $109,000,000 and may be a couple of millions more. The increase in twenty years up to 1910 is 233 per cent. This is by direct act of the people. The extravagance of all modern legislative bodies, the doubling of state and national expenses within a few years and the continuous issue of bonds for all sorts of public purposes formerly met by general taxation have drained the ordinary sources of revenue. The railroad treasury has come to be looked upon as the public milch cow, from which a new supply of nourishment may always be obtained. So railway taxes have risen by leaps and bounds. Each mile of line in the country paid $199 in taxes in 1890, and $431 in 1910. The owner of capital will not be over-anxious to lend it to concerns which, if the present tendency is not checked or reversed, will presently see all receipts beyond a bare living income diverted by taxation to the public treasury. When the state appropriates out of the earnings of the railways, as it did in 1910, more than one-fourth as much as was paid in dividends to all the stockholders, the interest rate naturally rises and the possible supply of new capital for railway investment threatens to vanish altogether.

If you take two dollars out of your purse each time you put a dollar in, bankruptcy will happen in time. The railroads are not yet reduced to the point of collapse, because most of them are still permitted to earn and retain dividends. But their borrowing power has been cut down until it suffices only for hand-to-mouth improvement. Their credit must be so far restored as to make it equal to carrying forward the creative and constructive work which we have seen to be a condition of continued national growth. How does their record for trustworthiness stand? What have they done to show themselves fit for that larger liberty of action which is indispensable if they are to perform all the functions belonging to the proper conduct of their business? [15]

The railroads of the United States are entitled to both confidence and relief because they have not abused their trust in the matter of capitalization. While, to make possible the raising of money, stock-bonuses undoubtedly were given in their earlier history, it is true of them as a whole today that they have by far the smallest capitalization per mile in the world; and that they have kept their capitalization low by using for betterments millions of earnings which anywhere in Europe would have been handed over to stockholders, leaving the cost of improvements to be charged to capital account. This is one of the best-established facts in railroad history, though few people yet realize how great is the difference in our favor.

The statistics of railway capitalization, as given by the Interstate Commerce Commission, are, unfortunately, not always computed according to the same rules. This weakens or destroys their value for comparison. A change of statisticians may involve a change of [16]
method. However conscientious the motive, the result alters relations which should be constant. Thus the official railway capitalization in 1909 was $59,259. In 1910 it is returned at $62,657. But the increase is chargeable mostly to changes in the assignment of capital stock to one account instead of another; and one such change alone operates to increase the average capitalization $700 per mile for the entire United States. “Manifestly”, says the Statistician of the Commission in his report, “a figure so constructed should not be subjected to the burden of sustaining any very weighty conclusions”. The Bureau of Railway News and Statistics estimates the capitalization of 1911 at $59,345 per mile; probably $60,000, in round numbers, represents about the average actual capitalization today. This figure is to be compared with the capitalization per mile in other countries, as shown in the following table:

United Kingdom	$275,040
England alone	$314,000
Germany	$109,788
France	$139,237

The increase of capitalization per mile of railroad in England and Wales for the nineteen years between 1890 and 1909 was from $255,073 to $328,761, or $73,688; against a total capitalization for all the roads in the United States in 1909 of $59,259. It exceeded our total capitalization by $14,429 per mile. The average annual increase for the nineteen years has been $3,873 per mile, exceeding the entire annual net earnings per mile of railways in this country [17]
during the corresponding period. Our capitalization per mile is from one-half to one-fifth that of European countries; partly because the initial cost of construction was greater there, but largely because of a fixed difference in policy. The American railway makes improvements so far as possible out of earnings or surplus, leaving capital account to carry only new construction. The European road distributes earnings among its stockholders, and issues new capital to provide necessary betterments. The difference accounts for the sharp contrasts of the figures presented above.

The American policy is in the public interest, because it tends to keep fixed charges down. A management can take its own time about replacing a surplus used for improvements. When the money has been procured by issuing new bonds, the interest on these is a mandatory charge and must be added to the total to be raised annually from rates. So far as the public is concerned, the American policy is far better. And it should be remembered that it became the American policy by choice, not of legal compulsion, at a time when managements had a liberty of action denied to them now. It would be an ironic turn of affairs if this policy, deliberately followed of

their own option by railroad managements through the whole history of American railroading, at the expense of the stockholders and because it favors the rate-paying public, should be reversed, and the burden transferred to the people's shoulders as a consequence of regulations prescribed by the people themselves. At [18]
present it seems not improbable that this will come true to some extent. A capitalization of $60,000 per mile will not transact the business of the country. On all trunk lines and wherever population becomes dense and traffic heavy, capitalization will have to be made larger for new facilities and double tracking. The heavy amounts required to provide terminals must also be charged to capital account. With wages and material as high as they are now, billions will be required. If additional money must be borrowed for the less permanent improvement of which I shall speak presently, the country will eventually have to carry a capitalization more nearly approaching that of Europe; and, as a necessary corollary, rates will rise to a corresponding level.

The railways are entitled to confidence and relief because they have displayed efficiency in the conduct of their business. This is just as marked as their relatively low capitalization. The figures already given show an increase of traffic in a year about five times as great as the increase of equipment and eleven times the increase of mileage. Yet the machine has been hauling its load, because efficiency has been developed. Heavier rails, larger engines, cars of greater capacity, increased train movement and the full utilization of equipment have kept business moving. The density of traffic in England, France and Germany should be as much greater than in the United States as the density in the Middle exceeds that in the far Western states. Yet here are the facts:

[19]

	Ton Miles Per Mile of Road
France	496,939
United Kingdom	529,622
Germany	827,400
United States (1910)	1,071,086

It is clear that our railroads have been capably managed, and that the resources and powers entrusted to them are being used to the highest business advantage. How the money they spend is being employed is shown by the fact that our railroads move 272 ton miles of freight per dollar of net revenue, where the United Kingdom shows only 58, Germany 172 and France 88. For honest and efficient conduct our railways have no equals in the world. By this supreme test they declare their fitness for the gigantic work that still remains to be undertaken.

Not only, as I have shown, have they not charged to capital the cost of improvements covered by stock and bond issues in other countries, but they have shared their gains liberally with the people through rate reductions. It has become common to think of the progressive lowering of rates, while all other charges are rising, as the work of legislative compulsion. On the contrary, many of the most important reductions made in the past were voluntary. These are the lowering of charges on the great staple products of the soil. This has made settlement possible. It has made it possible for the farmer to realize the benefit of high prices for his crops. It has doubled production again and again. It has made possible the movement of lumber from the Pacific Coast to the Middle West and [20]
even the Eastern markets. It has become a definite policy. And it has left in the pockets of the people an enormous amount of money that would have gone to the carriers or at least been shared by them if they had fought against cheap transportation for the farm instead of fostering it. If the freight and passenger rates in force on the Great Northern system in 1881 had remained unchanged until 1910, there would have been collected from the public $1,267,411,954 additional. This amounts to more than eight times the average par value of its outstanding stock and bonds in the hands of the public during the same period. That is to say, if there had been no rate reductions on that system during the past thirty years, it could have paid off its entire capitalization every three and three-quarters years. If railroad rates in the United States had increased as much in proportion as the prices of commodities and the wages of labor between 1894 and 1909, the country's bill for transportation for

those fifteen years would have been over seven billion dollars more than it was.

The railroads, then, have proved themselves competent and trustworthy. But if they are to furnish the necessary additions and provide new terminals, without which the traffic of the country can no more continue to move than a derelict can voyage from port to port, the money will not come, as a magician catches coins, out of the air. It must be either earned or borrowed. It seems clear to any one familiar with the conditions and requirements that both resources must be drawn upon. First capitalization must be materially enlarged. But the railroads must be able to show that [21] they can earn a fair return before they can add to the principal of their debt. The very fact of additional capitalization involves additional fixed charges. The investor must be assured that such earnings will not be prohibited by the law before a loan can be placed at a bearable rate of interest. And the higher the rate, the greater must be the future charge on traffic to meet it. The country comes to a stop before a financial "no thoroughfare", from which no exit can be found save through a relaxation of the rigid and hostile prohibition of all rate advances that now absolutely negates the proper and necessary expansion of traffic agencies in this country.

The theory of encouraging home industry has prevailed in this country during the greater part of our national existence. Import duties averaging 41.22 per cent were levied in 1911. The advocates of the system claim this is done to protect American Labor. Our manufactures are protected as a matter of national policy. Transportation costs the public from one-third to one-half as much here as in Europe. This cheapness is not purchased at the cost of the workingman. In 1910 the average daily earnings of railway employes in the United States were more than twice as great as in the United Kingdom, and two and three-quarters times as much as on the Prussian-Hesse system in Germany. As employers of labor and also as producers of a commodity that everybody uses directly or indirectly, paying that labor more than it receives anywhere else [22] in the world and supplying that service for less than is charged anywhere else in the world, the railroads deserve a public consideration not extended to them now.

Second, the railroads should be permitted to earn and hold a surplus equal to fifty per cent of the amount they pay out in dividends, to be held for emergencies and applied to improved facilities. There are many expenses, and new ones constantly arising, that must not be added to capital charge unless rates are to be made that the public cannot and ought not to be asked to bear. In addition to the heavy demands of the ordinary growth of traffic, there are many extraordinary expenses. Public authorities do not hesitate to order the railroads to provide additional equipment. This, being only partially under the owner's control, is soon scattered over the country. The weaker roads prefer paying a per diem charge to buying for themselves. This compels the stronger roads practically to provide new equipment for the whole country and pay the cost of it from their own resources. Grade crossings must be eliminated both in the cities and in the country. The ordering of these is held to be a legitimate part of the police power of the state, whose exercise is unlimited. To raise or lower tracks at a single city may cost millions of dollars. This class of expenses grows very rapidly in the United States as population becomes denser. Shall we capitalize them also, as has been done abroad? Safety appliances must be adopted. Ingenuity is adding yearly to the number of these; and the public demands rightly that they be put into use as soon as [23] their value is demonstrated. But all these things take money—and a lot of it.

Steel cars are a good illustration of this kind of expense. They are coming into general use, and it has been proposed to make their purchase and employment compulsory even before their benefits have been fully proved. To buy them is a big expense, but that is only the beginning. A train made up of them is sixty-five per cent. heavier than one composed of old style cars. More trains must be run to render the same service. Tracks and bridges must be strengthened. So the cost of service is increasing all the time through improvements that the railroads are just as anxious as the public to adopt. Every one of these improvements costs money. Very few of them produce one dollar of additional revenue. Yet the railroads must pay their bills or go into the hands of a receiver. Such an increase of rates as will cover these expenses; the accumulation of at least such a surplus as will furnish funds for these daily demands in the domestic economy of the railroads, must be authorized, unless traffic is to decrease, transportation facilities to grow worse instead of better, or capitalization to be increased until any rates that the people can pay will fail to cover the fixed charges of the common carriers.

An extraordinary doctrine is now being propounded in many quarters. It is held that the accumulation of a surplus is evidence that rates are too high and ought to be lowered; just as if the man who earns, saves and puts a dollar in bank to meet future [24]
contingencies thereby admitted himself guilty of either dishonesty or extortion. It is held that a railroad has no right to receive or enjoy income derived from any other source than the operation of its plant. It is asserted that a railroad has no right to the natural increment in the value of its property, though this is not denied to any other corporation or to any individual under like circumstances. It has been attempted to apply these principles to the regulation of railway property, stripping it of privileges enjoyed by citizens and other corporate entities under the constitution. But how about the other side of the shield? Does the state recognize and abide by this same doctrine when its own revenue is at stake?

All the earnings of the railroad, from whatever source derived; all the property to which it holds title, no matter how acquired or held, is taxed by the state as the property of the railroad; either indirectly by a tax on gross earnings or directly on assessed valuation. The state has taxed surplus and all improvements made from it just the same as those made from the proceeds of stock and bond sales. Can it do this—can it tax all earnings, improvements made from earnings and surplus without confessing that the holders are entitled to the property and the income from it as truly as the state is entitled to the tax? The rule of fairness and the equal hand of the law should make the obligations and the privileges of the railroad co-extensive. The taxes paid by the railways of the United States in 1910 were [25]
about 13 per cent of the total interest and dividends. They were over 25 per cent of dividends alone. That is, the state received from the property one-fourth as much as all the owners of it put together. In the face of facts like these, no just man and no court that regards either law or equity should question the right of the railways to enjoy the natural increase and to earn the normal rate of profit on all the property they hold, no matter how invested or employed.

It is not a political but an economic question that the country has to consider and solve. The adjustment of tariff taxation, the regulation of railroads and all other similar matters over which the legislative power has control and which are essentially economic and non-political are held deliberately within the range of current controversy for the advantage of party politics. So long as they can be kept from a fair and permanent settlement on the basis of economic justice, they will furnish rallying cries for the unthinking of one political party or the other. The country cannot rise to the level of its duty or its opportunity until the scientific knowledge of the expert and the action of the just judge are applied to the settlement of such economic issues.

The American people must soon begin to realize how injuriously they are themselves affected by a game that has been played for so many years with their business prosperity and their future welfare. Meantime the practical questions that I have presented and that grow straight from the root of the present situation remain. The wisdom, the desire for justice, the intelligent self-interest of the [26]
whole country should be concentrated upon the answer, which is not really difficult to find. The people must first realize that regulation must not be strangulation. Every restriction compatible with the public interest may be applied without impairing the position of the railways, or their ability to continue serving the public; because their interests at bottom are one. It is high time that a rational perception of this identity should put an end to hostile discrimination against the railroad, and a policy be shaped which will permit the railways of the country to lay a broad foundation for transacting the future business of the country, by providing the machinery without which that business cannot be done.

Since the greatest need is larger and better terminals, the process of improvement will be costly. Since the sum to be raised must be reckoned in billions, the railroads, if they are to maintain their wage scales, and their standards of efficiency, must be permitted to charge such rates as will enable them to pay interest on the additions to capitalization representing the money invested in new terminals, and also accumulate a surplus sufficient to take care of the constantly arising demands for additions to the existing plant. Courts and commissions will see that excessive rates are not collected. On the other hand the courts have affirmed the right of the companies to earn a reasonable return on the total value of their property. Between these well-marked lines the railway rate should move, according to the needs of traffic and the development of the [27] business of the country. Rates either permanently unchanged at the present figure or lowered by compulsion mean, in view of the existing emergency, nothing but ruin. That ruin will not be so immediate or complete for the railroads themselves as it will be for the business interests to which they will no longer be able to give a prompt and adequate service. It will be far-reaching, because its effects will touch every man, however humble, who is engaged in productive industry. If it comes it will be the most disastrous catastrophe in all our business experience. The whole question may be summed up in the simple fact that the business of this country has grown beyond the possibility of being handled by a railroad system costing on an average $60,000 a mile. The experience of the whole world is against such a proposition.

I do not underrate the importance of other interests or issues, I only give due place and emphasis to this question when I say that it dwarfs by comparison every other that bespeaks the attention of our people. What, in comparison are any of the innovations or interpretations of the national will which have recently formed the subject of a nation-wide and passionate discussion? Across every stream of commerce where it enters a distributing city an obstacle grows higher every day, restraining the impatient tide of the nation’s exchanges. It is time for all of us to lay aside prepossessions, hostilities, differences in points of view, and work together for an object infinitely more essential than most of the great enterprises deemed so national in their scope and benefits [28] that they command not only the sympathy but the financial backing of the government itself.

It is the duty of every business organization, of every business man, of capital interested in safe investment and labor interested in sure and remunerative employment, to help swing the country into line behind the only policy that can help and save them all. No pledge of national credit, no subsidy in cash, no immunity or privilege is asked; only freedom to raise on reasonable terms the capital without which the work cannot be done; implying necessarily freedom to earn on that capital the return without which it will not be forthcoming, and enough additional to make and keep railway equipment and service equal to the progress of invention and improvement and to the just expectations of the people.

No national or municipal campaign, no moral crusade, no commercial or financial adventure or assurance can demand or ought to receive from you and others like you the attention, the study, the energetic support claimed by the imminent and urgent issue which I have tried to present in outline. In a day of big things it looms above them all. The railways, anxious to be active in the upbuilding of the country and the introduction of a coming era in transportation, stand at attention. Will the country give the word of permission and remove the heavy cloud of doubt and depression which has steadily arrested the growth of the nation’s commercial facilities?

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