

Delano

001.411

*Delano Frederic A
1/16/17*

THE RAILWAY PROBLEM

AN ADDRESS

BEFORE

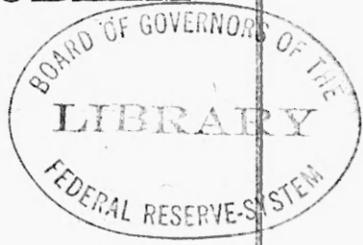
THE RAILWAY BUSINESS
ASSOCIATION

BY

FREDERIC A. DELANO

Member of

THE FEDERAL RESERVE BOARD



*With the compliments
of Frederic A. Delano*

WALDORF-ASTORIA

NEW YORK CITY

January 16, 1917

Introduction

Because I am a man rather than a chameleon; because I can neither change my color nor shed the skin which I have worn for twenty-nine years of railway experience, I cannot forget, even if I would, a rather long and busy career, sometimes discouraging, but never uninteresting. Nevertheless, while twenty-nine years of continuous railroad service has made me sympathetic with the railroad man's point of view and the difficulties which he has to encounter, my two and a half years on a Government administrative Board at Washington have certainly caused me to sympathize with the difficulties under which the Interstate Commerce Commission, and the State regulative bodies, find themselves laboring. Hence, my endeavor this evening will be, to speak, not as a partisan, but as a citizen of the United States eager to contribute his "bit" to the solution of a problem which concerns and should therefore interest everyone.

I

The Public Attitude Toward Railways

The attitude of our public toward railways may be said to have passed through three phases:

(1) The phase when every sort of inducement was given to railroad building, and when it was difficult to induce capital to embark in so hazardous an enterprise. Municipalities, counties and states taxed themselves to build railways, sometimes to supply much needed communication, but not infrequently to create or force competition with what already existed.

(2) The phase of competitive building which often degenerated into a sort of "hold-up," or blackmail. During this stage of development, lines were often built parallel to existing roads, creating little

if any new business. The general public encouraged this sort of construction on the theory that in no other way could rate concessions be secured for important centers. This era of railway development was an era of speculation, an era in which the worst elements of railway management and control were given rein, and yet one can not now justly say that the fault lay solely with the railway builders and projectors—it lay equally with those who guided public sentiment and framed the laws.

(3) The phase of public regulation and control which began approximately thirty years ago and has established itself with ever increasing definiteness as the years have advanced.

No fair-minded reviewer of the railway development of our country will fail to see that in the eighty or more years here represented, serious errors of judgment, have been made, great wrongs committed and injustice done, both to the public and to the investor. If we had it all to do over again we could proceed with greater wisdom. Unnecessary duplication of railroads has alone involved a serious economic waste. This might have been avoided for the benefit of the public, and the saving used for the creation of lines where they are really needed. However, suggestions that railways should have exclusive charters between given points or that there should be a territorial allotment to various railway corporations have never met with popular favor and, so far as I know, few railway commissions [those only of, say two or three states] have denied charters to new lines paralleling existing roads. No man in public life has been bold enough to advocate such a policy of exclusive rights.

It became more and more evident to the public that dependence on competition was decidedly unsatisfactory. Towns and cities favored by competition, fattened at the expense of others. However much they profited by their situation, they were eager for more profit and feared lest some other city might be receiving more consideration than themselves. Public regulation became a necessity and yet it seems only too apparent that today, after upwards of thirty years of Government regulation, the public is unwilling to give itself wholeheartedly to the idea. The frequent and insistent demand for im-

provement of internal waterways, not because of their inherent economy, but because they create competitive conditions which it is safely assumed the railway companies will have to meet, bears witness to the persistence of this notion of the necessity of competition as a regulator of rates.

The law creating the Interstate Commerce Commission was enacted in 1887. It marks an important epoch—a milestone in our industrial development as a Nation. It was passed in spite of strong opposition of the railway interests of the country and may be truly said to represent the first successful and aggressive step forward in behalf of communities and shippers demanding redress of wrongs, whether actual or imagined. At the time of the enactment of this law there were general complaints alleging inequality of rates, their fluctuation, or that there were unfair discriminations as between cities or shippers. It is not strange that a Commission, created with such a sentiment behind it, should have approached, and, I think I may fairly say, did approach the subject from the viewpoint of the shipper rather than that of the carrier. However, as the functions of the Commission have developed, it is more and more recognized that the Commission represents the entire public, no more the shipper than the carrier, no more the employer than the employee, nor even the customer and patron to the exclusion of the investor. It has taken years of experience to bring public sentiment in railway regulation to this point of view, and yet the propriety of it is not even open to discussion. Furthermore, as a business proposition, it should be apparent to any one that if railways are too harshly dealt with, or allowed to make but a scanty return upon their investment, less capital will seek investment in that channel, and desired improvements and betterments, additions and extensions will have to wait.

It is not strange that the public should have gone astray upon a subject whose understanding calls for so much study and technical experience. Mistakes have been made on both sides and the pendulum has swung from the extreme of encouragement to the extreme of repression of railway construction. It is now time to come to a saner and juster view—a view more nearly midway between the extremes

which have heretofore been alternately accepted; for we must admit that the history of railway development is strewn with financial wrecks of railway corporations which later passed through the processes of reorganization and rehabilitation. Indeed, relatively few miles of the trunk lines in the United States can show a record from the time they were originally constructed to date, unbroken by an appeal to the bankruptcy court. One of the inevitable results of the era of fierce competition was the combining of railroads into large units. Considerable economic advantages often resulted from this process and there is no doubt that the public also was better served. Whether we approve it in theory or not, the tendency toward consolidation exists and must be dealt with.

The States of the Union have, not unnaturally, been unwilling to give up their control over rates and have sometimes shown their hostility to railways by severity of taxation, by exactions upon, or drastic rules governing the issuance of bonds or notes, or have, by burdensome legislation, taken away from the railways the ability to make economies in railway operation. The policy has been carried to such extremes as to become not only intolerable to the owners, but hurtful to the public, by making it more difficult to supply needed facilities. That it can be permitted to continue seems very unlikely, for its un wisdom and injustice is becoming apparent to everyone. And yet this does not mean that I wish or expect to see State sovereignty destroyed. The States should retain police power. Many rights of jurisdiction, even the right to intervene in important interstate cases, is unquestioned. That States, however, should so fix their rate schedules as to compel interstate business to conform to them, especially when the relative volume of purely State business is insignificant, as compared to interstate, is a plan that can not be defended. If we were to carry the idea one step further and imagine that each town or county could fix its own regulations and rates, the absurdity of the proposition would become obvious.

In the 5% rate advance case of 1914 it was shown that rates fixed by law in the States of Ohio, Indiana and Michigan absolutely tied the hands of the Interstate Commerce Commission in formulating a

fair basis of interstate rates,—and since then a careful analysis of the business transacted in these States shows that the purely State business is only seven to ten percent of the total volume.

It is, in fact, just as impracticable to deal with interstate traffic through State regulation of rates upon railways as it would be upon those other highways of commerce; our rivers or lakes, or upon the ocean highways along our coasts. This remark does not mean that I believe that railways can or will be managed with disregard of community rights or States rights. No corporation, certainly no railway corporation, can long ignore the wishes, much less the rights, of the communities it depends upon. There are too many ways in which a railway can be harassed and even punished. I have in mind certain notable cases where rates have been established by States below the average costs as fairly determined, and the result is that these States have secured below-cost rates at the expense of business of adjacent States less harsh in their treatment, or by reason of the general interstate business carried at remunerative rates.

If the Government owned and operated the railways it is safe to assume that it would have to make rates regardless of State lines, for it could not allow one State to profit at the expense of others. There does not seem any more justification for making State rates without regard to interstate business under Government supervision than under Government ownership and operation.

II

The Unsatisfactory Situation Today Largely Due to Common Misapprehensions with Respect to Railway Questions

The railways have emerged from the third or last phase of our public policy, the phase of railway regulation, hostile legislation and the like, in such condition that their situation today demands public consideration, not so much, perhaps, because the railway corporations are themselves asking for it, as because their inability to meet public demands requires that a study be made of the causes which have

brought about that condition. Viewed from an optimistic standpoint there is immense hope in the fact that the utterances of many public men indicate a general impression that hostility to railways has gone far enough, and perhaps too far, and a belief that this hostility is already reacting upon the public in the shape of inferior service and diminished ability to give adequate facilities. But this will not, of itself, cure the difficulty. We must probe deep enough to find and, if possible, eradicate the canker which is gnawing at our vitals. My own belief is that the difficulty is largely inherent in a general misapprehension of some of the most fundamental propositions connected with the problem; propositions which have been so generally accepted, spoken from the rostrum, quoted in reports, newspapers, etc., that they have been often adopted as the starting point of railway legislation and regulation. It is, for this reason, worth while frankly to consider those fallacies, in the hope that we may approach the problem free from bias and prejudice, and without incorrect premises. It is often said that the American people are fair, that they decide public questions in the long run without prejudice and with justice to all concerned. I, for one, will go as far as anybody in maintaining that view, but I also claim, as I think every one must admit, that a prerequisite to deciding any question is a full understanding of it. That takes time; it requires an open mind and a fixed purpose to delve into the subject thoroughly. As a prime requirement in this case, one must begin with an appreciation of the mutuality of interest in the subject. Just as the mismanagement of a railway hurts not only the employees, the stockholders and the creditors of that railway, but the communities along its line and the general public, so unfair or unwise laws, unfair or unwise regulation, or unjustly burdensome taxation hurts not only the employees, the stockholders and creditors, but also reacts to the injury of the public. There are an increasing number of people who now see this fact pretty clearly.. This in itself is hopeful, but, as I have already said, that is only a beginning.

Without further introduction, therefore, I shall take up some of these more obvious misapprehensions, not so much to cover the whole field, but in order to place the suggestions before you.

(A) POPULAR MISAPPREHENSIONS IN REGARD TO THE
COST THEORY OF RATE MAKING

Among these misapprehensions is that in respect to what is known as the cost theory of rate making. It is often assumed by legislative commissions that rates are made or can be made upon the cost theory; and yet, any such proposal would result in great hardship to the public. In point of fact, all rates, like prices of commodities, manufactured articles, etc., are based upon a combination of two principles:—the cost of production and the value of the article produced, as determined by the demand for it. But even this does not state the whole case, because widely different things might be meant by "cost." Shall we, for example, define cost, as the average cost of moving freight from "A" to "B," or shall we include in that cost, not only the cost of the movement, but also its pro rata share of all general expenses connected with the maintenance of the property? Or, shall we go a step further and say that to these costs shall be added a pro rata share of the interest on the invested capital? Every competent manufacturer and merchant distinguishes between these items of cost; but in railway operation; because their investment is very large in proportion to their earnings, that is to say, the "turnover of capital" is small, and because many expenses of operation go on regardless of the volume of business transacted, these bases of cost differ more widely than in other enterprises. Any competent traffic man knows that the rates he makes should at least cover the bare cost of transportation movement. What proportion of the other costs it should include is largely a matter of business judgment and depends upon the value of the commodity transported. If, for example, the same rate were made on gold, silver and copper ore of great value, that was made on coal or iron ore of small value, it would not only be economically unscientific, but would mean either that the more highly valued article did not carry its due share of the burden or that the low valued article was overtaxed. The whole theory of the classification of freight which has been recognized and approved as a proper basis for railway tariffs, takes into account the value of the commodity as well as the actual cost of handling.

(B) POPULAR MISAPPREHENSIONS IN REGARD TO,
WHAT IS MEANT BY A FAIR COMPENSATION ON
THE INVESTMENT?

Another misapprehension of true conditions has resulted from the early litigation against rates fixed by State legislatures. The only basis upon which the railways were permitted to invoke the assistance of the courts in enjoining schedules of rates which they believed to be unfair, was upon the theory that they were confiscatory,—in other words, that the rates were so low that they would not permit the carriers a fair return upon the capital invested. The first of these cases, as I recall it, was that of Thayer versus the Union Pacific Railroad, enjoining certain rates promulgated by the State of Nebraska. The contention that the rates were confiscatory was sustained on the ground that the evidence showed that the rates were insufficient to yield a fair return on the capital invested. The court did not say, nor has it ever said, so far as I know, what it considered a fair return, and it is conceivable that its views would depend somewhat upon the circumstances attending the investment, the risk, and other factors. This, and subsequent decisions led to an idea very generally entertained that the essential question to determine in passing upon propriety of a rate is whether it is sufficient to yield, say six or, perhaps, seven or eight percent on the capital invested and from this it followed that we must determine the capital actually invested. Nobody seems to have pointed out in any authoritative way that railroad construction could never have been financed, that private capital could never have been induced to enter so hazardous an enterprise without any Government guaranties of profit, yet with a limitation as to maximum possible profits, either specified or implied. It has been stated more than once that something like ninety to ninety-five per cent of all manufacturing corporations chartered in the United States go into bankruptcy, or voluntary liquidation. The percentage in the case of the railways may perhaps not be so great, but it has certainly been very high. The essential difference between a railway and a manufacturing concern is that a railway, if it fails, however ill advised it may have been, is, in

most cases, by force of its charter requirements, compelled to keep on doing business and absorbing additional capital. Indeed, it has come to be said of many railroads that, far from being assets, they are liabilities. There are hundreds of miles of railway line, especially branch lines, which cost far more to operate than they yield and which, therefore, are a liability and a drag upon their owners. The theory, therefore, that a railway corporation is entitled to earn only a fair return upon the capital actually invested in it, is a monstrous theory, if by fair you mean a limitation of profit regardless of the circumstances surrounding the investment. If this theory had been put forward when the capital was originally sought, little or no railroad building would have resulted. If we turn to other enterprises we find that mining or manufacturing concerns seeking new capital usually hold out alluring prospects that they will surely pay investors at least four or five percent on the investment with fair prospects of much more if everything goes well. While I have no notion that it would be necessary to go to such extremes in railway financing, I am quite sure that if you offer the investor in a new railway enterprise only a reasonable certainty of, say five percent and no possibility of earnings in excess of six or seven percent, no sane man would accept the proposal.

(C) POPULAR MISAPPREHENSION IN REGARD TO
"WATERED" STOCK

And this brings me to another phase of the same subject which has been harped upon by men who severely criticize railway methods, to-wit: that of watered stock. I am not here so much to defend this method of financing, for it is open to the criticism that it is often used as a scheme of deception; but rather to present some elementary facts in connection with this overworked bugaboo, I may begin by asking how should railways be financed? How shall any more or less hazardous enterprise be financed? So far as I know, the theory of the joint stock company has developed only two or three methods. One plan is that in which no debt is put upon the property and where the joint stockholders own everything free from debt. Presumably, the stockholders of such an enterprise realize that their ownership in the com-

pany does not preclude the possibility of a debt being subsequently incurred, the obligations of which will inevitably take precedence over their rights. They, therefore, will not invest in the stock of such a company unless their profits are either very sure or likely to be large enough to be tempting. Another way of financing corporations, and one more or less employed in the early days of the railways, was to issue bonds at a high rate of interest, say seven, eight and ten percent (not a high rate for railway bonds fifty years ago) or at a low rate but at a considerable discount. This method was found very objectionable, because it placed a heavy fixed charge upon a young company which had not developed its business and, therefore, usually brought the issuing company to the bankruptcy court. The third method, and that which has been most used in manufacturing, mining and other enterprises, and which has been generally used in electric interurban railway financing, is the method by which bonds have been issued at a moderately low rate of interest and stock issued in part, at least, as a bonus. In other words, an investor in bonds is given a more or less extensive block of stock as part consideration for the purchase. The promoters of the enterprise tell the investor substantially this: "If you will invest your funds in this enterprise we will give you a first mortgage bond which will guarantee you a return of, say 5% upon your money. If the corporation does as well as we think it will, we want you to share in its profits and, therefore, we give you a stated amount of capital stock." The advantage claimed for this method of financing has been to make fixed charges as low as possible on the property during the infancy of the enterprise, and yet this method gives the original investor a fair share of the profits if the enterprise is successful. As someone cleverly remarked, it is a scheme for capitalizing "hope." Then comes the legislator ten or fifteen years later and says to the corporation, "You are not entitled to earn any interest on that stock; the stock was simply so much 'water.' You are entitled only to earn a fair return, or say the legal rate of interest on the capital actually invested!" The answer to that proposal is obvious. The mere statement of the case suggests it. It would have been a perfectly fair proposal if there had been some kind of an assur-

ance from the State at the inception that the enterprise chartered by it, would be guaranteed at least a moderate return on the capital invested at the same time that it was denied the right to earn more than a fair return on its capital. The two proposals must go together.

In explaining and defending this method of finance, my contention is that while something may be said against the evils which may grow out of the issuance of stock for less than a full cash consideration, it is fair to remember that it affords a simple, and perhaps the best way yet found, of giving to enterprises financed by the issue of bonds and stocks, the elasticity in the drain it makes upon earnings which is absolutely essential to safety or future success. Every enterprise which, unlike those fathered by a beneficent Government, must stand solely upon its own resources, if stand it does, must not be compelled to carry a uniform earning requirement. It must be so financed as to be able to pass through lean as well as fat years. If, as we see only too plainly today with the railways, an enterprise can hardly survive in the years of dull business, it enters the season of would-be prosperity utterly unable to meet the demands upon it. If the enterprise be related to the manufacture of some needed staple, its incapacity is a serious matter, not only for the owners, but for the public affected. If, however, it be a public service corporation which has been thus unable to provide for the demands certain to come upon it, the loss is more serious to the general public than to the owners. Thus, the public realizes, when it is too late, that poor or inadequate service costs it more than a liberal provision in the form of rates sufficient to provide the adequate tools would have cost.

(D) POPULAR MISAPPREHENSIONS IN REGARD TO THE VALUATION OF RAILWAY PROPERTY

A failure to understand the fundamental basis upon which enterprises can be financed had led to another and somewhat far-reaching misapprehension as to the importance of railway valuation. The Nation has committed itself to a very large expenditure for making the valuation of all the railroads and, while I do not deny that some desirable information will come therefrom, that it will have any real

bearing upon rate making, I do not expect. An impartial consideration of the matter will convince one that rates have not, as a matter of fact, been enhanced by reason of overcapitalization in the past. My observation as a student of the question is that the tendency with overcapitalized roads has always been to reach after business and adopt methods which might even be termed unfair competition, for the very reason that they were burdened with heavy fixed charges which compelled them to secure a large volume of business or go to the wall. On the other hand, the transportation company that is conservatively capitalized, or undercapitalized, is the one which hesitates about cutting rates, about reaching after new business, about doing things which are more or less experimental, and, perhaps hazardous.

Yet another feature of the same question is a misunderstanding as to what is meant by valuation, based, as I believe, on a misapprehension of terms. There is no necessary relation between cost and valuation. A man might buy a fine corner on Fifth Avenue and pay a million dollars for it, and yet it might not be worth that price. It might be fairly stated that the value of a piece of property, present or potential is determined by the use to which it is put or may be put and if, as in the case of railroad property, it is permanently dedicated to a specific use and can never be alienated or separated from that use, it has a value as part of a whole, which, in turn, is determined by the earning power of that whole. Thus, instead of saying that the value of a railroad right-of-way, improvements thereon, etc., should determine rates, it would be more accurate to say that the rates would determine the value of the railroad property. This has been proved repeatedly in the bankruptcy court as to railways, and as to many other undertakings, where ill-advised expenditures of money have led to a condition where the actual cost of the property exceeds by far the value, as determined by earning capacity, which, so far as I know, is the only way of fixing the value of a property once and for all time dedicated to a specific use. And if this is true when cost exceeds value, it must be equally true under reverse conditions. If, instead of paying one million dollars for the Fifth Avenue corner, our hypothetical friend, taking advantage of some owner's necessities, had bought the property

for half that price it would be equally fair to say that the \$500,000 should not represent the value. In other words, we cannot escape the conclusion that the final determination of the true value is the use to which the property is put, or may be put, and its resultant earning capacity.

The misapprehension as to the bearing which the capitalization of a railroad, or the actual cash investment in it, has with the regulation of the company in the future is very general. I am not here to condone or to excuse wrongdoing. All I say is that the past is behind us and that we are concerned with the future. Suppose, for example, a railway corporation has been financed very largely, as many corporations have, by the issuance of bonds and notes. It pays and has paid for many years no dividend on its capital stock. If it sells any capital stock it must sell it at a very low figure, and the value of the stock is chiefly based on hope and is, therefore, essentially speculative. How shall such a corporation finance its future needs; how shall it secure money to buy engines and cars; how shall it add side tracks, switches to industrial plants, or provide the modern conveniences, comforts and safety appliances, which the public demands? How shall it obtain that indispensable margin of elasticity in its annual fixed requirements to enable it to survive one or two lean years? The answer has sometimes been that this creates an impossible situation for the reason that if rates were made sufficiently high to give the overcapitalized "A" & "B" railroad a fair return, the "X" "Y" & "Z" railroad would earn profits beyond all propriety. Such reasoning is generally incorrect because it fails to detect that as between rates that are remunerative to all railroads and rates that are unprofitable there is an exceedingly narrow margin. The average freight rates in this country, as I recall it, are in the neighborhood of seven mills per ton mile, and yet it has been repeatedly shown that an increase of a small fraction of a mill would increase the earnings very largely on all roads, and would enable even the weaker and less favored companies better to render a public service and work out a readjustment of their finances on a sounder basis.

While some individual investors or speculators have made great profits out of railroads in this country, it can not be said that our rail-

roads have in themselves been very profitable. There are a few notable examples of railways so fortunately located that they have profited by reason of great natural resources which they have tapped, but, as compared with banking, merchandising, mining and manufacturing corporations, even the profits of the most fortunate have been insignificant, and when, with the success of some, 'is considered the lamentable failure of many others, the general result is not at all encouraging.

III

The Remedy

We have stated many difficulties—What shall we do about it—What is the remedy? First of all, it seems essential that all parties interested, and this means everyone, must approach the question in a dispassionate way and with a receptive mind; secondly, that an effort must be made to state the problem before us clearly and comprehensively, for, as every schoolboy knows, the first thing to be done in taking up any problem, for example, a problem in algebra, is to define it clearly. That done, the solution becomes comparatively easy. Let us then assume that after the swinging of the pendulum of public opinion, first to one extreme and then to the other, we are at last ready, as a Nation, to sit down and discuss the difficulties. Certain principles must be stated; some facts agreed to. Some of these are obviously axiomatic; others will be less readily conceded, but for the sake of making progress and of giving other students something to "shoot at." I venture to suggest some of the fundamental postulates of this problem:

- (1) The Interstate Commerce Commission is delegated by Congress to represent the entire public,—that is to say, not simply one group against another group.
- (2) The railways, as a whole, must be self-sustaining; in other words, they must return a sufficient revenue to attract the requisite new capital to meet, year by year, the public requirements for additions, betterments and improvements.

- (3) There must be such publicity in matters of railway finance and expenditures that the whole public shall know, through their representatives, what is being spent, why it is spent, and how the expenditure is financed.
- (4) Unless we are to see railroad debt increase from year to year, we must not permit the issuance of interest-bearing obligations against perishing property without some scheme for the general amortization of such debt.
- (5) The general public is genuinely interested in avoiding, so far as possible, unwise railway expenditures, or expenditures on a useless duplication of railways, or on ill-conceived railway schemes which are likely to prove disastrous and hence tend to bring railway investments into ill repute.
- (6) The powers, functions and duties of the Interstate Commerce Commission should be carefully reconsidered in the light of world experience in organization. Much has been learned in the last half century in regard to the science of organization, hence due recognition must be given to fundamental and well established principles applicable to it. A Board, Commission, or Court is well adapted for the settlement of policies, or for giving an effective interpretation to the law. On the other hand, it is ill-adapted, especially if it be large, for the handling of administrative and executive functions. It may, therefore, be found advisable to authorize the Commission to delegate some of those functions as they are now delegated in all successful corporate enterprises.
- (7) The relations between capital and labor are among the most difficult of our time and they offer particular difficulties when applied to the problems of the public service. Without venturing to suggest a remedy, it is fair to assume as a foundation principle that, however great the interests of the employer and the worker are, the interests of the general public are even greater and, therefore, some way must be found—invented and developed if need be—to adjust these difficult questions with due regard to the rights of the employer, the worker and the general public.

- (8) Some fair adjustment must be found in the regulation of interstate transportation companies, as between the rights of local communities, towns and counties, cities and states, and the rights of the United States. Many of these questions are being determined with great clearness and force by the Supreme Court of the United States, but the applications of the principles laid down to actual conditions yet remain to be made.
- (9) The public has a vital interest in, and should therefore encourage railway management to adopt methods which will result in economy and efficiency and the lowering of transportation costs wherever those methods do not bear down unfairly on either employees or the communities served. Much can be secured by cooperation and almost nothing without it.

V

In Conclusion

After this somewhat depressing statement of the Railway Problem, let us look at the matter from its brighter side. What have the American people attained as a result of some eighty-five years of railway development? First, they have by far the largest railway system of any nation in the world; the miles of railway facilities in proportion to the population far exceed those of other countries; the number of units of service performed in proportion either to area or population far exceed those of other nations and, yet, in no other important country is the capitalization, or are the freight rates so low. In no other country has the progress in the handling of large transportation units been so great, and these, on land, as well as on sea, are the chief factors in making for low transportation costs. The fact that under a scale of wages far higher than in any other country in the world we are able to give the consumer lower rates than in any other country is certainly a tribute either to our methods or to our management.

There is no evidence that even well operated Government railways under such highly centralized authority as that of the German Empire give better service, considering rates, conditions of operation, etc. Indeed, while Americans cannot boast that their railways have yielded

a handsome return to the investors, they can be proud of the service rendered, its cost, the low capitalization and the generally ascending scale of efficiency.

The amount of money which should be spent annually in a growing country like ours is at least calculation close to 5% of the existing investment. This means that in twenty years every railroad must expend for improvements, betterments and additions to its plant, the full amount which it already has invested; and this does not include capital requirements for development of unoccupied territory, nor for refunding operations. In a country, such as ours, the railways cannot render satisfactory service unless they keep up with community requirements. This means they must have either a surplus or cash resources of their own, or the ability to borrow upon reasonable terms; in other words, they must have "credit." To sum up, then, the public is really more interested in the intelligent financing of these needs in the future than in any vain recriminations as to the past. The past, with its faults and its successes, is behind us. The future is before us and demands our attention.