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A Pocket Memo of Facts About—

Prepared and Distributed by the

ILLINOIS CENTRAL SYSTEM

C. H. Markham, President

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Explanatory

This booklet presents a handy compilation of facts about the railroads—facts upon which an intelligent public opinion as to railway questions can be founded. It is hoped that this information may prove useful to Illinois Central System employes and their friends who have occasion to discuss railway questions.

No attempt is made to cover the entire railway field. This booklet is meant to provide practical data on only a few important phases of the railway question which are being most widely discussed.

It is an easy matter, however, to obtain the facts about any question pertaining to the railroads. No other important industry in this country is so closely regulated; no other important industry makes such extensive reports to public bodies covering every phase of its management and operation.

Although there is no excuse for a misstatement about the railroads, the railroads find that they are frequently misrepresented to the public. Since the welfare of the country and the welfare of its railroads are so inseparably bound together, it is the duty of every right-thinking citizen to correct misrepresentations and misunderstanding about the railroads whenever and wherever encountered.

Additional copies of this booklet will be furnished upon request.

Constructive criticism and suggestions are invited.

C. H. Markham

Chicago, April 1, 1924.

The Future of the Railroads

The demand for railway service is constantly increasing. There may be a falling off in the demand from one year to another, due to temporary business conditions, but nothing is more certain than that there will continue to be for many years a progressive increase in the demand for railway service as the country grows. Railway service enters into and is essential to the conduct of all forms of business, and business must expand to meet the requirements of our national development.

The growth of railway freight service in the last forty years may be seen in the following figures on the number of tons of freight carried one mile in the years shown by decades:

	Tons Carried One Mile
1883	44,064,923,445
1893	93,588,111,833
1903	173,221,278,993
1913	297,722,528,693
1923	413,562,132,000

No intelligent person doubts that railway traffic will continue to grow, although some may not agree upon the rate of growth that should be expected. A committee of the Chamber of Commerce of the United States recently made a study of this question and estimated that from 1923 to 1933 there probably will be increases of 25 per cent in the number of passengers carried one mile and of 33 1/3 per cent in the number of tons of freight carried one mile. This estimated increase in freight traffic is less than the actual increase in any of the four 10-year periods shown above.

The railroads must have more facilities of all kinds for performing transportation service if they are to take care satisfactorily of such increases in traffic. In 1923 the railroads handled all the traffic that was offered (the greatest traffic ever handled in one year) without marked congestion or delay. But in 1923 the railroads operated practically at capacity throughout the major part of the year, and it is obvious that more facilities of every kind will be needed to move the increasing traffic of the future.

This committee of the Chamber of Commerce of the United States also estimated that the railroads need to make the following additions to their more important facilities in the next ten years: Trackage, 38,350 miles; locomotives, 13,200; freight cars, 725,000; passenger cars, 12,300. To obtain these and other improved facilities, the committee estimated, the railroads must spend in the next ten years, in addition to their usual expenditures for maintenance, a total of $7,872,977,000, or an average of approximately $787,000,000 a year. This estimate corresponds roughly with other estimates which have been made in the last two years.

Most of the money that is spent for better facilities in the next ten years will have to be borrowed. The ability of the railroads to obtain credit largely determines railway expansion, and the prospective growth of business demands that the railroads have adequate credit. In other words, there must be left (after payment of operating expenses, taxes and other charges against income) a balance sufficient to assure persons having money to invest that it is safe in railway investments.

If the railroads are not allowed to raise and spend this money, or whatever sum is found to be needed, every form of business will suffer in consequence. It is to the interest of the railroads that it be raised and spent, of course; *but it is much more to the interest of those who require good railway service for the successful conduct of their own operations.*

The Railroads and Prosperity

The railroads in 1923 raised and spent $1,075,897,940 for the improvement and extension of their facilities (more than was raised and spent for that purpose in any other year in history), and expenditures authorized during 1923 and carried over into 1924 amounted to an additional $300,806,519. The expenditures of the railroads upon the betterment of facilities last year were divided as follows:

Locomotives	$212,225,204
Freight cars	415,923,534
Passenger cars	49,791,516
Other rolling stock	12,917,012
New track and track material	116,215,710
Rail	27,106,021
Ballast	10,015,601
Shops, machinery, etc.	48,787,828
Other facilities	182,915,514

The railroads in 1923 built 427 miles of new line, double-tracked 684 miles of line, and equipped 1,937 miles with automatic block signals. Other improvements and extensions were made to roadway facilities in proportion. The following table shows the amount of new equipment received and placed in service during 1923 and the amount still on order at the close of the year:

	Installed in 1923	On Order January 1, 1924
Locomotives	4,037	510
Freight cars:		
Gondola	83,296	9,990
Box	78,711	10,128
Refrigerator	22,078	1,790
Stock	5,835	3,017
Other	7,955	694
	197,875	25,619

The expenditures of the railroads for improvements and extensions to their facilities are important primarily because of the need for constant railway expansion to meet the growing demand for railway service. There is another aspect of the question, however, and one which might be overlooked by some persons. That is the effect of these and the other expenditures of the railroads upon the general business of the country.

Altogether the railroads in 1923 spent about six billion dollars for labor, materials and supplies. This sum is exclusive of taxes, which amounted to $336,399,600. Turning six billion dollars into the channels of trade and commerce is a factor of great importance to the welfare of the country. In addition to expenditures for labor amounting to around three billion dollars, the railroads spent nearly two billion dollars for materials and supplies used in their operations and more than one billion dollars, as already noted, for improvement and extension of facilities. Since labor of all kinds enters into the bill for materials and supplies, the railroads are direct contributors to the prosperity of all classes of workers. The employes of the railroads and of the industries which produce materials and supplies used by the railroads are consumers of commodities and services of all kinds, and hence all kinds of business received the benefit of these extensive expenditures.

As indicating the importance of railway expenditures to the industries, it may be noted that the railroads annually consume about 28 per cent of all the bituminous coal mined in the United States, about 48 per cent of the oil output, about 30 per cent of the iron and steel output, about 25 per cent of the lumber output and large quantities of commodities of many other kinds.

The railroads desire to continue making their large expenditures for better facilities in addition to the large expenditures required to operate and maintain their 20-billion-dollar plant, *and they will continue to make such expenditures unless they are prevented from doing so by restricted revenues and weakened credit.*

Farmers and Freight Rates

The reduction of freight rates on farm products is advocated by some persons as a measure of relief for farmers who are not prosperous. The idea that freight charges affect prices received by farmers for their products is based upon the erroneous assumption that farmers pay the freight on products they ship to market. Out of the money paid at the market, the railroad does collect the freight charge, but this freight charge is offset by the fact that a higher price prevails at the market than at the shipping point. In no transaction does the seller bear the final cost of freight transportation. The consumer pays all charges, including the cost of transportation, since it and all other costs are embodied in the ultimate selling price.

It was contended in 1921 and 1922 that freight rates were responsible for the farmers' financial difficulties. If that had been true at that time, farmers would be highly prosperous now. Crops other than livestock produced in 1923 were valued at about \$873,000,000 more than the value of the same crops the preceding year. For the transportation to markets of all farm products other than livestock in 1923 the railroads received about \$660,000,000. The increase in the value of farm crops was \$213,000,000 more than the total freight bill.

Farming as a whole was much more profitable in 1923 than in 1922. All staple crops increased in total value except wheat, but wheat constitutes only about 6 per cent of the total value of all crops. The absurdity of the statement that freight rates caused the decline in wheat values is apparent when it is considered that corn values increased, hay values increased, and cotton values increased under the same relative rate conditions. If freight rates are to be held responsible for the decline in the price of wheat, it would be just as reasonable to give the rates credit for the increase in the prices of corn and cotton and other commodities that increased in price. The following table should be illuminating.

	Increased Value 1923 Over 1922	Total Freight on 1923 Crops
Corn	$311,238,000	$ 84,511,000
Wheat	139,502,000*	119,499,000
Oats	60,305,000	34,633,000
Potatoes	86,673,000	46,903,000
Hay	71,790,000	27,782,000
Tobacco	9,638,000	8,014,000
Cotton	401,501,000	39,084,000
Cottonseed	31,318,000	11,102,000

*Decrease.

It will be noted that the increase in the value of each crop over the preceding year was vastly more than the entire cost of its transportation for 1923, with the single exception of the wheat crop. The decline in the value of the wheat crop was more than $20,000,000 in excess of the total freight charge for transporting it to market. In short, if wheat had been transported to market free in 1923 and the growers had received at the market the same prices they did receive, they would still have lost $20,000,000 as compared with 1922.

Reductions in rates for the transportation of farm products, however, would have no favorable effect on the net prices received by farmers. The benefit, if any, would accrue to the ultimate purchasers. But reductions in rates would react seriously upon farmers in another way. *Reductions in rates would reduce railway net earnings, impair railway credit and make it more difficult for the railroads to obtain the new capital necessary to provide the facilities essential to insure good service.*

How Taxes Burden the Railroads

Few persons fully realize the extent to which taxes enter into freight and passenger rates. Everyone who purchases railway service pays a share of the taxes levied upon the railroads, and railway rates—other things being equal—must rise as taxes increase.

The railroads in 1923 paid out $336,399,600 in direct taxes, or about $3 for every man, woman and child in the United States. Their direct taxes amounted to 5.3 per cent of their total receipts. Expressed in the simplest language, every person who paid a dollar to the railroads in 1923 for freight or passenger service paid 5.3 cents indirectly for taxes.

The taxes the railroads are required to pass on to their patrons, however, do not end with their direct taxes of $336,399,600. Like every other consumer, the railroads pay indirect taxes, and these become, still more indirectly, taxes upon their patrons. Expenditures of the railroads for fuel, oil, iron, steel, lumber and manufactured products must cover also the taxes levied upon the producers of those commodities.

In 1923 the railroads spent nearly two billion dollars for materials and supplies used in railway operations, in addition to large sums spent for materials and supplies used in improving and adding to railway facilities. If it is true, as has been estimated, that one dollar out of every six spent by the consumer goes to pay taxes, then the two billion dollars which the railroads spent as consumers of materials and supplies included about $333,000,000 for indirect taxes.

Individuals pay both direct and indirect taxes. These taxes form part of their living costs, and the cost of living in turn helps to determine the amount of compensation paid to railway employes. In 1923 the railroads paid out three billion dollars for labor engaged in railway operation, in addition to labor employed in making additions and betterments to railway facilities, and a part of that three billion dollar expenditure went to cover the taxes which originally were taken out of the pockets of individuals and concerns engaged in supplying the requirements of the railroads' two million employes.

The railroads have no means by which to raise money except by selling service and borrowing. The payer of railway rates, therefore, is the one who pays the railroads' direct and indirect taxes.

The growth of taxation is alarming. In 1913 the direct taxes paid by the railroads amounted to only $118,386,859. In ten years (from 1913 to 1923) they increased 184 per cent. In the same ten years the average revenue received by the railroads for each ton of freight carried one mile increased only 55 per cent, and the average revenue received for each passenger carried one mile increased only 50 per cent!

The burden of taxes is still increasing. Most other railway costs have slightly decreased in the last two years, *but in November and December, 1923, the direct tax accruals of the railroads for the first time in history amounted to more than one million dollars a day!*

The Value of Railway Property

No question pertaining to the railroads has been so misunderstood in the last few years as the question of valuation. The following is a brief history of the valuation of railway property:

In 1913 Congress enacted a law requiring the Interstate Commerce Commission to make a valuation of all railway property in the United States and prescribed the method by which the valuation should be made. The work of placing values upon all items of railway property was immediately organized by the Commission, has continued since that time and is still incomplete.

It was estimated that the work of valuation could be completed at a cost of not more than $2,500,000. The government and the railroads together have spent to date nearly $100,000,000 in carrying out the provisions of that law, with work unfinished which probably will take several years longer and require the expenditure of additional millions of dollars. Of the amount spent to date, the railroads have furnished almost 75 per cent—which has been, of course, an additional burden upon their patrons.

Congress in 1920 enacted the Transportation Act. This act directs the Interstate Commerce Commission to establish rates upon a basis estimated to provide revenue sufficient to pay operating expenses and taxes and leave a fair and reasonable return upon the value of railway property. In order to put the act into effect promptly, the Commission in 1920 found it necessary to make a tentative valuation of the railroads for rate-making purposes, which was done. The tentative valuation then established was $18,900,000,000 for all steam railroads as of December 31, 1919.

(Of this, $17,940,481,000 represented the tentative valuation of Class I railroads as of that date. Class I railroads are roads which in 1919 had operating revenues in excess of $1,000,000. The information is given separately here because, while the valuation statistics generally used are those of all railroads, virtually all other statistics in this booklet apply to Class I railroads.)

In making its tentative valuation of the railroads for rate-making purposes, the Commission availed itself extensively of the information developed by the valuation work in progress since 1913. It was contended that the valuation when completed would prove that the railroads as a whole are capitalized for a sum in excess of the real value of their property. This expectation was not realized when the Commission made its tentative valuation. The tentative valuation established as of December 31, 1919, was approximately 12 per cent greater than the total outstanding capitalization of the railroads as of that date.

There was considerable criticism of the tentative valuation by persons who were disappointed in their hopes of seeing railway capitalization discredited. However, in 1922 the Commission again affirmed the tentative valuation established in 1920, with, of course, the addition of sums which had been spent for net additions to railway property under the strict supervision and accounting of the Commission since the date of the original tentative valuation.

The tentative valuation of all steam railroads at the end of 1923, including net additions to property since 1919, was approximately $21,000,000,000. The corresponding valuation of Class I railroads at the end of 1923 was approximately $20,000,000,000.

Rates Under the Transportation Act

The regulation of railway rates by the United States government began in 1887, when an act of Congress established the Interstate Commerce Commission, to which were assigned the duties of rate regulation. From then until 1920 rate regulation was mainly negative, rather than positive. It was considered the principal duty of the Commission to hear complaints and prevent the railroads from charging exorbitant rates and from discriminating between individuals or between localities in the making of rates.

With the Transportation Act of 1920, however, rate regulation became positive. The Commission is directed by the 1920 law to give due consideration to the transportation needs of the country in the establishment of rates and to provide for the enlargement of railway facilities, as they need to be enlarged, by maintaining adequate credit.

The Commission is specifically directed by the Transportation Act to establish rates on a basis that will provide, for the railroads as a whole, revenues sufficient to meet operating expenses and taxes and leave a fair and reasonable margin of return upon the value of railway property. Although the Commission for two years fixed upon 6 per cent as the fair and reasonable return to be expected by the railroads, and since then has fixed upon 5¾ per cent, the rates of return actually realized by the railroads in the three full years which have elapsed since the termination of federal control have been as follows:

	Per Cent
1921	3.31
1922	4.14
1923	5.10

If the railroads as a whole fail to earn the full amount of the fair and reasonable return expected, there is no redress. The rate-making provision of the Transportation Act is not retroactive, and there is no guaranty of earnings. But the Act does place a limit upon earnings, and this provision has been held to be constitutional by the highest court in the land. If any railroad earns in a single year more than 6 per cent upon the value of its property, it is required to turn one-half of the excess over to the government and may use the balance only as prescribed by law.

Some persons contend that the rate-making provision of the Transportation Act is a restriction upon business. Surely the fact that the railroads in 1923 handled the largest volume of traffic ever handled in one year proves that contention to be unfounded.

These critics also make the mistake of failing to realize that operating expenses and taxes take about 85 cents of every dollar received by the railroads. This 85 cents must be earned regardless of what basis is prescribed for the computation of rates. If the railroads earned no return whatever after payment of operating expenses and taxes, they would soon cease to be going concerns, for out of the other 15 cents of every dollar received must be paid rentals of leased lines and interest on funded debt as well as dividends. Out of this 15 cents must also come such investment in facilities as is not covered by borrowed money and the creation of a reserve fund for the protection of credit. *If the railroads could get along without earning any return whatever, but should receive only enough to pay operating expenses and taxes, their total receipts could not be reduced more than about 15 per cent.*

Why Not Government Ownership?

With the exception of a small minority, the American people are opposed to government ownership and operation of industries. That small minority, however, is aggressive, and its efforts are centered first upon the railroads. With our railway systems nationalized, it is the aim of this minority to extend government ownership to coal production and other industries, until finally the country is established under a Socialistic regime. Since it is from this minority that much of the hostile criticism of the railroads emanates, the question of "Why Not Government Ownership?" is back of nearly every railway question which reaches public attention.

The efficient, low-cost service for which American railroads are noted has been development under private ownership and management. No one can successfully challenge the statement that American railway service is unexcelled by the railway service of any other country. It is extremely doubtful that railway service such as our people now enjoy could be long maintained if our railroads were taken over by the government.

The experience other countries have had with government-operated railroads does not encourage belief in the idea that governments can operate railroads more efficiently or more economically than private managements can. The latest reports available in this country on foreign railroads show that, despite rates higher and service poorer than that in most instances furnished by the privately owned railroads of the United States and Great Britain, government railroads are a heavy burden upon the taxpayers. The government railroads of five large countries of the world operated at an out-of-pocket loss in the latest year for which reports have been received in this country. In the other five of the ten large countries having government railroads, the railroads show deficits when proper allowance is made—as must be made on privately owned railroads—for the cost of construction or acquirement and the cost of improvements and extensions. It should be borne in mind that the bonds issued to raise money for the acquirement of American railroads by the government would bear interest that would have to be paid out of either net earnings or taxes.

The experience we have had in this country with government operation of other important services bears out the evidence from abroad that government ownership is costly. Our postal service for a good many years, with few exceptions, has incurred deficits which have had to be met out of tax revenues. In 1921 the deficit was \$157,517,689.11. In 1922 the deficit was \$60,815,400.36. The combined deficit of these two years is equal to about \$2 for every man, woman and child in the United States. Moreover, the postal service does not pay taxes upon its property, as the railroads do under private ownership. Neither is anything taken into account to represent current investments in improvements and extensions to postal facilities.

A desire for government ownership of railroads implies dissatisfaction with the existing system of private ownership and management under regulation by public agencies. Any dissatisfaction with the present system that may exist is based upon misunderstanding, for the railroads are now giving excellent service at rates which, considered in the light of operating costs, are remarkably low. *Government ownership could give the American public neither better nor cheaper railway service.*

The Transportation Act of 1920

The history of American railroads is divided, roughly, into four periods. The first period extends from the beginning of railway construction in this country up to 1887, when the Interstate Commerce Act was passed and the railroads were placed under the supervision and control of a branch of the government. It was a period of unregulated transportation. The second period extends from 1887 to 1918. During these thirty-one years the authority and powers of federal and state regulatory bodies increased, and the railroads were closely regulated. During the latter part of this period the revenues of the railroads were restricted to such an extent that net earnings declined, the credit of the railroads was weakened, and building and expansion were arrested. The third period covers the twenty-six months of federal control—1918, 1919 and the first two months of 1920—when the railroads were operated by the government. The fourth period begins with March 1, 1920, when the railroads came out from under federal control and the Transportation Act became effective. We are still in this period.

In some respects the Transportation Act is a departure from any previous legislation regarding the railroads. Especially is this true of its regulation of rates. The act provides that the Interstate Commerce Commission in the establishment of freight and passenger rates shall give due consideration to the transportation needs of the country and to the necessity of enlarging transportation facilities in order to enable the railroads to give adequate service. Specifically, the Commission is directed to establish rates that will provide revenues sufficient to pay the costs of producing the country's transportation service and leave a

fair and reasonable return upon the val
of railway property.

In the application of this mandate, tl
Commission has fixed upon 5¾ per cent :
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railroads should expect to earn, if they ca
The government does not guarantee th:
this rate of return will be earned. Sin
September 1, 1920, there has been r
guaranty whatsoever that the railroad
either as a whole or individually, shoul
receive net carnings of 5¾ per cent or c
any other figure. In fact, since the Trans
portation Act was passed, the railroad
as a whole have not in any year succeede
in earning as much as 5¾ per cent on thei
property valuation as determined by th
Commission.

On the other hand, if in any year any
railroad does earn in excess of 6 per cent o
its valuation, the act provides that one-hal
of such excess must be turned over to the
government. The other one-half cannot be
expended except as specified by the law.
Instead of guaranteeing earnings, therefore, the Transportation Act definitely
limits earnings. The Supreme Court of the
United States has recently affirmed the constitutionality of this provision.

The Transportation Act has not yet had a fair trial under normal conditions, unless 1923 can be regarded as normal. In 1923 the greatest volume of traffic ever handled was moved by our railroads. Freight rates averaged about 55 per cent above the prewar average, or about 13 per cent below the average of 1921. It is estimated that reductions in freight rates in 1923 saved consumers more than half a billion dollars.

Some persons no doubt believe that, since railway freight and passenger rates are higher than they were ten years ago, the owners of the railroads—the 800,000 stockholders—are receiving a larger return upon their investment than they did ten years ago. This is not true. Increases in railway expenses have not only kept pace with, but actually have exceeded, increases in railway revenues, with the result that the stockholders are receiving smaller returns than they did ten years ago. This is strikingly illustrated by the amount of money paid out in dividends and for taxes in 1913 and 1923:

	Dividends Paid	Taxes Paid
1913	$332,300,406	$127,725,809
1923	282,981,000	336,399,600