Suggestions concerning the railroad problem

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Suggestions Concerning the Railroad Problem

A paper by Mr. Kahn read before the
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It is one of the characteristic qualities of the American people to learn quickly. One year's experience has sufficed to demonstrate to the people at large that Government operation of railroads means deterioration in service, higher cost, lessened eagerness to please the shipper and study his convenience—not to mention the menace of politics becoming a determining factor in the fixing of wages, in new construction, betterments, etc.

I believe that a decisive majority of the farmers, the shippers and the consumers in general have made up their minds that in this country Government operation of railroads is not wanted.

Every right-thinking man must wish to see railroad labor, as indeed all labor, content and
liberally compensated. The just claims of labor are the first charge upon any industry. They take precedence over the claims of capital and even those of the consumer in general.

But it is not reconcilable with the American theory of government to give to any executive department the power, without a searching public hearing before at least a semi-judicial body, to increase the wages of one class of labor, as was done in the case of railroad workers, by the stupendous sum of $600,000,000–$800,000,000 a year and to apportion it by rigid and undiscriminating classification.

The increase in wages actually paid in the year 1918 is officially stated at $583,000,000, but I am informed that when the increases granted are in full effect for a complete year, they are expected to reach approximately $800,000,000. The tax thus placed upon the consumers of the country, particularly the shippers and farmers, is equal to the total
interest on our entire net war debt as estimated (excluding loans to the allies) and, capitalized at four and one-half per cent., represents a principal sum of approximately $18,000,000,000, i.e. approximately the same as the total cost of the war to America.

An increase in wages was justly due; indeed, in many cases overdue. No doubt, the Committee selected by the Director General, upon the investigation and recommendation of which the action was based, did its work ably and conscientiously. The increase granted may not be more than was justly due. Its apportionment may have been fully justified. But, after all, it is the public which pays the bill, and the public had no opportunity to formulate views or make itself heard on the subject before action was taken.

It may not be inappropriate to point out in comparison to the increase of about $800,000,000 granted to labor over and above its existing compensation, that the total compensation which capital (including therein
the brain work and enterprise which have gone into the building up of the American railroad system), receives in the shape of rental for all of the railways of the country, is about $900,000,000 per year. And that sum includes interest on borrowed money to the extent of about $500,000,000 per year, leaving as compensation to the owners of the roads the sum of about $400,000,000 (apart from about $165,000,000 income derived from miscellaneous physical property and "non-operating income").

The total wages paid to railroad labor for the past year are estimated at $2,400,000,000.

Nor is the effect of the increase in wages measured even by the huge sum of $800,000,000, at least as far as unskilled labor is concerned, for it is bound to affect wages in other industries and particularly the wages which the farmer has to pay.

The program, in support of which I believe
public opinion is crystallizing more and more, is:

1. Let the Government exercise strong and comprehensive control, but fair and constructive, not punitive or strangling.

2. Let those features of operation, which under Government management have proved advantageous and convenient to the public, be preserved and those features of legislation and administration, which experience has shown to be unduly and unwisely hampering, be abolished.

3. Without eliminating State commissions, let their functions be so adjusted as to avoid conflict with the Federal Commission in matters of rate-making and security issues.

4. Let railroading then be thrown open to private initiative and enterprise, and competition in service; make it an attractive field for capital, and, above all, for men of ability and vision.

If there is one thing less desirable than outright Government operation, it is Government control so minute, hampering and all-pervasive as to be tantamount to Government operation, without corresponding responsibility. Most of the plans which have been put forward within
recent weeks from individual quarters, would mean this very thing. Their authors start by declaring themselves utterly opposed to Government operation, and then devise a set of provisions, which to all intents and purposes, are equivalent to Government operation, or would necessarily lead to it. A feature common to all such plans, and, in my opinion, their fatal defect and largely the explanation of their self-contradictory character, is that they are based upon a permanent Government guarantee of minimum earnings for the railroads.

The two things, i.e., private management and permanent Government guarantee of earnings, are simply not reconcilable. The railroads cannot eat their cake and have it. You cannot rent your house to some one and then expect to be master in your house. If the railroads want to have private management in fact, instead of merely in name, they must take their chances and rely upon public opinion for a square deal. If they are not willing to do that, if they ask the
people to protect them by giving them a permanent guarantee of minimum earnings, the people will rightly insist upon such minute and exacting safeguards as to amount in effect to Government operation.

Personally, I am wholly opposed to the timid opportunism which would barter away the reality of private initiative and enterprise for a permanent governmental guarantee of earnings. If we cannot as citizens be convinced that bureaucratic management is preferable to individual effort, we must not as stock or bondholders permit ourselves to be bribed into making a compromise with our convictions. And I am optimistic enough to believe that by deserving the good-will and confidence of the people, and making adequate efforts to keep them correctly informed, the railroads will get a square deal from the people.

I think, indeed, that public opinion has come to recognize, not from tender regard for the railroads, but from enlightened self-
interest, that the roads must be given such treatment henceforth and permitted such opportunity as will attract a free flow of capital; because, otherwise, one of two things is bound to result: stagnation in the railroad industry, which means inadequate and insufficient service for a growing and developing country, or Government ownership and operation.

If we are agreed that what we want is real private management under strict but fair, workable and constructive Government supervision and regulation, with no permanent guarantee of earnings (but rather profit-sharing with the Government and perhaps with labor), it seems to me that the framing of appropriate legislation presents no extraordinary difficulty, provided that an equitable basis of rate-making is established and defined with sufficient preciseness to enable the railroads to obtain actually, instead of merely theoretically as heretofore, the pro-
tection of the courts against the imposition of unduly low rates.

I hesitate to express opinions as to this thorny point, concerning which so many better qualified than I appear to hold conflicting views, but I venture to throw out these suggestions for what they may be worth:

Scientific rate-making is an impossibility. A mathematical, uniformly applicable formula for rate-making might have been possible when the railroads started to come into being. It is no longer possible now. The rate structure is the product of a great many years of testing, experimenting, adapting, bargaining between the railroads and shippers, consumers, ports, cities, etc., in short, the result of evolution. It is of infinite intricacy, of manifold and subtle inter-relationship.

It is no more practicable to make it over at this late date on lines of theoretical perfection, than it is practicable to make over on such lines a large city, the growth of generations.
Capitalization or over-capitalization has no effect whatever on rate-making, nowadays. I doubt whether it ever had any.

Even the true value of railroad properties, as ascertained by valuation (to the extent that it can be so ascertained) can merely be one of the factors in rate making. As a matter of fact, I believe that from the practical point of view a valuation of railroad properties such as the Interstate Commerce Commission has been engaged in for several years at the expense of prodigious labor and of many millions of dollars, will prove largely futile, because I think a fair appraisal on such principles as the courts will uphold, will show that the railroads on the whole are not over-capitalized and that existing rates certainly do not err on the side of giving more than a fair return.

But I realize that to satisfy public opinion, a large portion of which suspects the railroads of taxing the people to pay dividends on watered stock, an authoritative appraisal of