

## CAN RAILROAD RATES BE CHEAPENED ?

No single result of recent discussions of the various topics collectively termed the "railway problem" is more apparent than the disappearance of the purely superficial notion of a continuous combat between a small body of railway proprietors, on the one hand, and, on the other, the general public, whose interests were considered to require the very lowest rates. A clearer insight into the relations between railroads and their patrons has demonstrated a surprising identity of interest which requires harmonious sentiment and action in order to promote the prosperity of all.

According to the latest information furnished by the Interstate Commerce Commission, the number of employees in the railway service on June 30, 1893, was 873,602, from which it may safely be estimated that not less than 3,500,000 persons are directly supported from the proceeds of railway transportation. When the number of producers and others required to supply railway operatives and their families with the necessities of life is considered, it becomes apparent that a very large body of our citizens is dependent for prosperity almost wholly upon that of the railways.

A brief examination of the present financial condition of the railway system is sufficient to show that the charges for railway transportation now in force do not produce excessive revenue, and that any changes toward lower charges, which are unaccompanied by measures of radical economy in operation, will render the business unprofitable and consequently be detrimental to the public interest.

During the decade from the beginning of 1884 to the end of 1893, 74,348 miles of railway, operated by 311 independent corporations, and capitalized at \$3,853,371,000, passed from the control of stockholders into that of receivers appointed by the courts, on account of the failure of the rates obtained for transportation to provide sufficient revenue to meet the expenses of operation, taxes, and interest. Of this total, 29,476 miles (40 per cent of the mileage), capitalized at \$1,758,836,000 (46 per cent of capital), was placed in charge of receivers during the year ending December 31, 1893. The entire

railway mileage operated by receivers on that date was 40,279, and the par value of its stocks and bonds \$2,217,656,000, constituting 23 per cent and 21 per cent respectively of the total railway mileage and capital in the United States.

During 1893, twenty-five railways, operating 1,613 miles of road, and represented by \$79,924,000 of capital stocks and bonds, were sold under foreclosure, while the number thus sold during eighteen years from 1876 to 1893 inclusive was 551, their aggregate length 57,283 miles, and their capitalization \$3,209,126,000. The crop of foreclosures that must inevitably follow the enormous number of receiverships created during 1893 is not yet ready for harvest. When its data become available they will afford an appalling presentation of the financial condition of a large portion of our railway system.

According to the latest data furnished by the Statistician of the Interstate Commerce Commission, during the year ending June 30, 1893, railway stocks having a par value of \$2,859,334,572, or 61.24 per cent of the total stock capital, received no dividends; and no interest was paid on mortgage bonds amounting to \$492,276,999, or 10.93 per cent of the total, nor upon \$204,864,269 of income bonds, being 82.56 per cent of the total.

The average rates of dividend and interest during 1893 are not yet known, but during 1892 they were as follows: Dividends on preferred stock, 2.73 per cent; on common stock, 2 per cent; average on all stock, 2.11 per cent; interest on funded debt, 4.75 per cent; interest on unfunded debt, 1.47 per cent; average rate of return to capital of all classes, 3.38 per cent.

The ratio of return to invested capital in the form of dividends on capital stock has declined with great rapidity during the last twenty years. In 1871, with 44,614 miles of railway, the dividends paid averaged \$1,265 per mile of line; in 1882, with 107,158 miles, dividends were only \$952 per mile; while in 1893, with 176,461 miles, dividends had declined to an average of \$572 per mile. Comparing the years 1883 and 1892, it is found that the mileage of the latter year was 55 per cent greater than that of the former, the gross earnings 45 per cent greater, and the net earnings 20 per cent greater; but the aggregate sum paid in dividends had actually declined more than 20 per cent. The decline in the average amount of dividends per mile of line equalled 48 per cent of the average of 1883.

The rates charged for railway transportation have shown a con-

stant downward tendency so extensive as to afford considerable evidence in support of the contention that they are regulated by forces beyond the control of managers or owners. During the six years covered by the reports of the Bureau of Statistics of the Interstate Commerce Commission, the average rate per ton per mile charged for the transportation of freight declined from 1.001 cents to .878 cent, and that per passenger per mile from 2.349 cents to 2.108 cents. Inconsiderable as these reductions appear, when stated in this form, they amount to a saving to the public upon the traffic carried during the year ending June 30, 1893, of \$115,113,377 on freight, and \$34,292,134 on passenger traffic; or a total of \$149,405,511 in one year,—an amount exceeding by 48 per cent the aggregate of all dividends paid during that year.

An investigation of the charges exacted for the transportation of freight by rail during the period from 1852 to 1892 inclusive was recently made by Mr. C. C. McCain, the Auditor of the Interstate Commerce Commission, and an acknowledged authority upon the subject of railway rates. The results of his work were published as a Senate Document in connection with the Finance Committee's Report on Prices and Wages, and show a decline which has been constant and considerable and has included all sections of the country and all articles of commerce commonly offered for shipment by rail.

Notwithstanding these extensive reductions and the unfortunate financial condition of so many railways, there is a continuous popular demand for still cheaper transportation. It is on account of this demand that many States have resorted to legislation prescribing maximum rates, and other even less defensible measures which are believed by many to be unfavorable alike to the railways and the public. This, too, is to be assigned as the chief reason for the existence of numerous State railway commissions clothed with authority, more or less effective, to require reductions in rates within the boundaries of individual States, and of the Interstate Commerce Commission with similar power in regard to rates upon traffic between States.

The public desire for cheaper transportation is both reasonable and natural. The carrier of goods is a middleman between producer and consumer, and consequently obnoxious to both. While it is to nobody's interest that the business of transportation should become unprofitable, its charges are a principal part of the friction incident to the processes of exchange and distribution; and the best interests of all, therefore, require their reduction to the lowest practicable

minimum. Consequently the public will be well served if, from a critical observation of current railway methods, there shall be discovered important particulars in which they can be so reformed as to allow radical economies in operation, as by that means alone can the reductions in rates which have so far characterized the development of the railway system be continued without reducing all companies to the condition of bankruptcy already confronting a large number.

The expenses incident to the struggle for traffic between competing lines could undoubtedly be reduced, if not entirely eliminated, by better methods of conducting transportation. Prominent among these is the outlay incident to the system of paying commissions to influence the routing of traffic in favor of particular lines. Authentic statistics concerning the amounts thus expended are exceedingly difficult to obtain, as the efficiency of such practices in securing business obviously depends largely upon the degree of secrecy attained, as, if the rate of commission allowed becomes known, it will generally be met by competing lines, and agents will no longer have any reason to favor a particular route. From an investigation made by the Interstate Commerce Commission several years ago, it appeared that during the year ending June 30, 1889, 108 companies paid commissions amounting in the aggregate to \$1,729,492, of which \$1,097,130 was paid by nine roads. As high as \$20.70 is alleged to have been paid for the sale of a single second-class ticket from Chicago to San Francisco. Annual, largely-attended conventions of ticket-scalpers from all parts of the country afford evidence that these expenses are sufficient to support a considerable army of parasites.

Another extravagance resulting from the struggle for traffic is that required to maintain the multitude of outside agencies and travelling agents, whose sole occupation is to secure the routing of passengers and freight by their respective lines. So important are the expenditures resulting from these causes, even during seasons of comparative harmony between rival lines, that the number of such agencies is frequently restricted by contract. In one of our principal Atlantic seaboard cities at which nine railways compete for west-bound passenger traffic, a contract is known to have been in force limiting to seven the number of agencies each should be allowed to maintain. Obviously a system of joint agencies would have accorded the public equal if not superior service at an enormous saving in expense. During those too-frequent periods of fierce and unbridled competition popularly denominated "rate-wars," each participating

road has its freight and passenger agents in every important city in the country, at a total expense for rents, clerk-hire, advertising, etc., which can scarcely be estimated. During a single year, when rates were fairly maintained, four roads operating westward from Chicago paid \$1,283,585 for maintaining outside agencies and advertising, and one road from New York expended \$871,291 for similar purposes.

Much economic waste arises from the competition of long and circuitous routes for traffic which would naturally go by more direct and shorter lines. As an example of this class of competition, that for freight traffic between New York and New Orleans may be cited. This traffic is actively sought by various lines operating in whole or in part by water, and in consequence the rates obtainable are extremely low; yet in spite of this fact 94 all-rail routes are known to seek actively to secure it. Of these the shortest and most direct is by way of Philadelphia, Baltimore, Washington, Lynchburg, Bristol, and Chattanooga, the entire distance being 1,340 miles. In contrast to this, the longest route, involving a total haul of 2,051 miles, is by way of Buffalo, New Haven, Ind., St. Louis, and Texarkana. Estimating the cost of carrying a minimum carload of 24,000 pounds at the basis per ton per mile furnished by the Statistician of the Interstate Commerce Commission for the year ending June 30, 1892, the cost for the shorter route is \$77.18; for the longer, \$118.14,—or an excess over the minimum of necessary expenditure for each carload carried by the longer route of \$40.96, or 53 per cent. This illustration is typical of the entire transportation system, and many equally startling instances could be shown. Between Omaha and St. Paul, with a short-line distance of 373 miles, traffic is carried by a competing line whose distance is 734 miles. Between Chicago and New York there are 21 routes ranging from 912 to 1,376 miles; from Chicago to Montreal, 10 routes ranging from 837 to 1,400 miles; from Omaha to San Francisco, five routes varying from 1,865 to 2,724 miles; and from Chicago to Jacksonville, Fla., 63 routes ranging from 1,097 to 1,644 miles in length. These are not merely possible routes, but are all actually competing for traffic between the points named. A case recently decided by the Interstate Commerce Commission illustrates this practice in one of its many phases. A shipper located at Ritzville, Wash., offered a carload of wheat for shipment to Portland, Ore., which the railroad declined to accept, except upon the understanding that it should be carried on its own

line over the Cascade Mountains, through a long tunnel to Tacoma, and thence to destination, a total distance of 480 miles, over an expensive and circuitous route having many costly grades, although in connection with another railway there was a shorter route of only 311 miles, mostly along the Columbia River, with few and light grades. The Commission, in an opinion rendered by Chairman Morrison, sustained the contention of the complainants that it is the right of every shipper to demand that his goods be carried over the least expensive route. While it may be true that the shortest is not necessarily the cheapest route, yet it cannot be doubted that a considerable saving would result from forwarding all traffic over whatever routes should be found by careful experiment to be the cheapest.

Railway revenues are constantly wasted in order to maintain competitive train service, both passenger and freight, which is wholly unnecessary for the accommodation of the public or the demands of traffic. Between Chicago and Omaha, 22 passenger trains, or 11 each way, are run on every day except Sunday, and 16 run seven times a week. As there are only about 200 passengers per diem in each direction, it is evident that half as many trains would afford ample accommodation with sufficient margin for local traffic. Upon the basis of the estimated cost per mile for running passenger trains, furnished by the Interstate Commerce Commission, the cost of running a passenger train from Omaha to Chicago is about \$400, and the saving resulting from reducing the number of trains one-half would amount to \$1,539,200 per year. Similar duplication of service exists between Chicago and Kansas City, Chicago and St. Paul, St. Louis and Kansas City, and in many other localities. Similar data are not available regarding freight service, but it is certain that while an ordinary locomotive will readily haul from twenty-five to thirty loaded cars upon level road, the actual average train-load of about 182 tons is far too low. The statement that the most economical use of railway facilities would require that every locomotive should haul a full train of completely loaded cars, and that great savings can be effected by measures tending to secure that result, does not need further amplification.

Large sums are also expended annually in maintaining separate and duplicate organizations with the requisite official machinery for each. Though reform in this direction may seem less practicable, there is no doubt that, could it be effected, large savings would result.

It will be observed that all the wasteful expenditures enumerated are in some way connected with competition between carriers for traffic, and it will not be surprising, therefore, that its elimination in a greater or less degree is suggested as the means through which the radical economies which are a necessary preliminary to further reductions in rates are to be effected.

The measures which have been suggested to attain this end are railway associations, pooling, consolidation. These will be found to be satisfactory in exact proportion to the degree in which they are successful in suppressing competition. Railway associations not founded upon the principle of division of traffic or earnings have proved ineffectual because they do not sufficiently protect the traffic or revenues of the weaker lines. Pooling, when permitted, was charged with responsibility for the construction of unnecessary lines which could serve no useful end, but were built upon the purely speculative anticipation of being able, by piratical methods, to obtain a share of the pooled traffic. Consolidation, if carried far enough, would render unnecessary the payment of commissions to secure traffic and the maintenance of expensive agencies; would cause all traffic to be forwarded by the cheapest routes; would do away with unnecessary train service and empty trains; would wipe out duplicate organizations,—in short, would abolish all competition. It might also render imperative a decision upon the question whether the government shall own the railways.

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