

LSRothschild

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Center for
Transportation

MEMORANDUM

White House Meeting, December 5, 1957 (2:00 p.m.)

Attendance

Daniel P. Loomis, President
Association of American Railroads

W. T. Rice, President
Atlantic Coast Line Railroad

Clark Hungerford
Frisco Railroad

Wayne A. Johnston, President
Illinois Central

Alfred E. Perlman, President
New York Central

Howard E. Simpson, President
Baltimore & Ohio

William Faricy
Chairman of the Board, AAR

J. M. Symes
Pennsylvania Railroad

Fred G. Gurley, Chairman and
Chief Executive Officer
Atchinson, Topeka & Santa Fe

Governor Adams

Gabriel Hauge

Gordon Gray

Raymond J. Saulnier

Louis S. Rothschild

Fred Nash

Governor Adams opened the meeting, saying that it would be possible for this group to see the President at a later date but that it had been decided to hold this meeting at the originally appointed time in order that those of the government who were present might learn and be able to consider what it was the railroads wished the government to do. Mr. Faricy indicated that Mr. Symes would be spokesman for the group.

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Mr. Symes opened his presentation by saying that in the years between 1929 and 1955 (latest available figures) there had been an increase of 108% in total U. S. tonnage output against an increase of 113% in ton miles of transportation. The total U. S. sale of products increased 323 % against an increase of 142% increase in transportation sales, and that these increased sales had resulted in a net increased profit contribution of 178% for the total nation against a loss of 42% in transportation net income.

He blamed this poor showing on the part of transportation on government subsidies. He further stated that the railroads could provide transportation at the lowest true cost of any mode of transportation with the possible exception of the pipelines. As an example, according to Mr. Symes, if the Pennsylvania Railroad carries 10% less ton miles in 1958 than it did in 1957, continues to neglect its maintenance and pays the labor increases, its anticipated losses will be somewhere between \$5-10 million.

He blamed the following areas in which the government operates for the plight of the railroads.

- (1) The excise tax of 3% on freight charges and 10% on passenger fares. The 3% on freight charge is said to cause many firms to go into private carriage.
- (2) Depreciation reserve requirements. Legislation to refund over a period of years taxes which have been collected because of a change in depreciation reserve accounting instituted in 1942 and with Treasury concurrence was introduced in the last session and will be re-introduced.
- (3) User charges. The railroads are pleased that the government is recommending user charges for the airways and is studying them for waterways.
- (4) ICC rate cases. Frequent instances were quoted where the Departments of Agriculture and Defense appeared before the Interstate Commerce Commission in opposition to railroad requested rate increases.
- (5) Government traffic. The Department of the Army should not, providing services and charges are equal, divide traffic between railroads and trucks on a 50-50 basis but should award railroads about 70% since this represents the actual carryings on these two modes of transportation.

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- (6) Railroads should have the right to engage in all modes of transportation either by ownership or other means.
- (7) Railroads should have the right to establish rates at or above cost without consideration by ICC of the effect of these rates on other modes of transportation.
- (8) Postal rates are non-compensatory and should be raised.
- (9) The Agriculture exemption clause needs new definition by legislation.
- (10) "Private carrier" needs new definition by legislation.
- (11) The railroads are asking the government as a whole to support all legislation favorable to the railroads and to oppose any legislation which would appear to be unfavorable to them.

Mr. Symes predicted that failure to obtain relief in most or all of these cases would head many of the railroads into bankruptcy.

The following questions were asked and answered:

Governor Adams: Are the difficulties as set out by Mr. Symes somewhat regional in character?

Mr. Gurley: No. There is no significant difference between the railroads in one part of the country or another.

Mr. Perlman: Yes. Using the New York Central as an example, there is a very substantial difference on this one railroad between the degree of difficulty in the East where passenger traffic is high as opposed to the rest of the system.

Mr. Hungerford: No, because all railroads are inter-dependent on one another.

Mr. Saulnier: Railroad carloadings which were formerly an excellent economic barometer are now down so much more than the whole economy. Why is this?

Mr. Symes: The railroads' principal traffic is in heavy commodities because they have lost so much of their consumer goods traffic to other types of carriers. Heavy industry is showing a substantial decline while consumer goods show little--therefore, the difference in carloadings.

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Mr. Saulnier: Is the present condition of the railroads as described influencing the availability of capital to them?

Mr. Symes: Capital is available from only three sources--earnings, depreciation and borrowings. Borrowings are and probably will continue to be confined to equipment trusts or conditional sale arrangements which combined are now providing only about \$300 million annually.

Mr. Gray: Is there a present barrier to railroads instituting competitive rates?

Mr. Symes: Yes, because of ICC procedures.

Mr. Rothschild: Isn't it so, though, that in spite of these procedures there is a great open area in which it is possible to establish competitive rates.

Mr. Symes: Yes.

Mr. Gray: There has been no mention in this meeting in spite of prominence on this subject in the news about mergers and consolidations. Is there any reason for this?

Mr. Symes: Mergers and consolidations are at best long-range solutions but would not solve today's problems.

Mr. Gray: Do the proposals which the railroads have made here today really get to the heart of things? Would they in total, if achieved, preserve railroad transportation in this country?

Mr. Symes: Yes, if user charges are extended to competing modes of transportation and if the railroads are permitted to engage in other modes of transport.

Mr. Gray: Is feather bedding a problem?

Mr. Symes: Yes, and one of such long standing that it is not easy of solution.

Mr. Hauge: What are the fundamental problems outside the sphere of government.

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Mr. Symes answered this by repeating some of the things he thought government could do.

Governor Adams closed the meeting shortly after 3:00 p.m. by saying that the President had a substantial interest in these problems and by repeating his statement that the President would see this group at a later date. He also indicated to the railroad representatives that all of what had been said and the documents left would be studied by those present, and it was hoped that this study would be productive. Consideration would be given to calling the railroads again when this has been accomplished.

Immediately following adjournment of the meeting with the railroad representatives, Governor Adams indicated to the rest present that it was time to reconvene the staff members of the group that prepared the Cabinet Committee Report on Transportation in 1955, and that the Department of Commerce should assume the leadership for so doing.



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THE UNDER SECRETARY OF COMMERCE
FOR TRANSPORTATION
WASHINGTON 25

December 10, 1957

MEMORANDUM

To: Messrs. Gordon Gray
Gabriel Hauge
Raymond J. Saulnier
Frederick C. Nash

From: Louis S. Rothschild
Under Secretary for Transportation

Following suggestions made by Governor Adams at our meeting on Monday, December 5, Secretary Weeks I believe expects to call a meeting during the week of December 13th.

A list of questions which might be among those considered is attached. You will perhaps have additional ones, or may wish to suggest some deletions.

CC: Governor Adams
The White House

SOME QUESTIONS ON TRANSPORTATION

1. Is the reported railroad situation new?
2. Are the dire predictions imminent or some years away?
3. Are there also problems confronting modes of transport other than railroading?
4. What is their time factor?
5. Are substantially all companies operating in a particular transport mode showing similar weaknesses?
6. If not, are companies classifiable by size, geography, management, or other means?
7. What recent governmental actions have served to intensify problems?
8. What recent governmental actions have served to alleviate problems?
9. What recent management actions have served to intensify problems?
10. What recent management actions have served to alleviate problems?
11. Has management initiative been less than desirably vital and if so, in what areas?
12. Has transport labor been fully apprised of the possible consequences of predicted events?
13. Is there a perceivable inclination on the part of transport labor to be as cooperative as necessity would seem to demand?
14. What efforts are contemplated at the levels of state and local government to remedy onerous situations?
15. Assuming a continuation of trends favoring by shipper choice certain modes of transport over others, is there a minimum plant requirement mode by mode to guarantee defense needs?
16. Under the same assumption, do U. S. Broad economic policies make it desirable to maintain irreducible levels of transport capability?