

McADOO TALKS OF THE RAILWAYS

Retiring Director General Foresees Private Ownership as Result of Five-Year Extension of Federal Control of the Nation's Transportation Systems

SELDOM has any one—by a stroke as arresting as the explosion of a bomb—succeeded in concentrating the attention of Congress and the whole country on one subject as did William G. McAdoo when he made the recommendation that Congress extend the period of Federal control of the railroads for five years.

Congress was taken completely by surprise, not because the recommendation was inconsistent with the previous course of the Director General of Railroads, but because the members generally had concluded, from the President's address, that the railroad problem was now in their hands. They had been urged to act without delay, but had shown few signs of action. Then came the Director General's letter, and immediately the railroad question became a live issue. Extremists at opposite ends joined in disapproval of the proposal; those who stood for absolute ownership because this recommendation meant a postponement of that issue; those who stood for the earliest possible return of the railroads to their owners because they saw in the proposal a scheme designed inevitably to lead to Government ownership.

Mr. McAdoo, better than any other man in the country, has had an opportunity to study the railroad problem from the inside, and, whatever the decision of Congress as to the correctness of his position, he is positive in maintaining that there are but two courses to choose between—either extend the period of Federal control for five years or abandon Government control and return the roads to their owners at the earliest possible moment without regard to the provision of the law which makes their retention possible for twenty-one months after a formal declaration of peace.

Facts Must Be Faced.

"To reach a sound solution of what I deem to be the most important domestic problem now confronting the country it is necessary that we should face the facts," said Mr. McAdoo in Washington the other day. "This implies a knowledge of the underlying conditions and a study of them. I believe that the sincere, candid, and well-informed student will be forced to conclude that the developments since the signing of the armistice have made it impracticable and unwise to attempt to operate the railroads under the provision of the present law, which provides for a continuation of Federal control twenty-one months after a proclamation of peace. The first obstacle to such a continuance that an honest investigator will encounter is the certainty of a serious impairment of morale. Already there are signs of this, and it should be remembered that the necessity for an organization that resembles that of an army is greater in the railroad business than in any other commercial or industrial activity. The same promptness, the same recognition of the value of discipline in all respects, are required for efficiency. As one after another of the months pass it will be but human for officials and employes to look more and more to the interests of private owners who are so soon to come into control, and where there is conflict between the dying Government control and the reviving private control the allegiance of officers and subordinates will inevitably be divided."

The second difficulty in the present situation, as Mr. McAdoo views it, is financial, and affects annual permanent improvements that are, in his opinion, imperative for the maintenance of a national transportation system commensurate with the country's growing needs. Up to the signing of the armistice about \$600,000,000 had been spent in improve-

On the eve of his retirement from public office, Mr. McAdoo consented to waive his rule against special interviews. This article, prepared for THE NEW YORK SUNDAY TIMES MAGAZINE, presents his views on the much-discussed five-year extension of Governmental railway control, and on the question of future ownership.

ments during the year 1918. The authority for these expenditures was the "necessity of war" as recognized in the law. When hostilities ended this necessity could no longer be urged. Without the co-operation of the corporations owning the railroads it would be difficult under the existing law, Mr. McAdoo said, to develop and adopt a comprehensive plan for the improvement of the railroad system as a whole; and even with the consent of the corporations twenty-one months would be too short a time in which to make and apply such a plan.

The railroads, thinking that the end of Federal control is in sight, prefer to wait, and make their own capital expenditures. In this situation Mr. McAdoo feels that the railroad organizations will be more or less demoralized if the properties are kept for the full time provided in the present law. His suggestion in connection with the extension that he advocates contemplates an expenditure for necessary improvements of not less than \$500,000,000 a year, or \$2,500,000,000 for the five-year period.

"It will be seen by any one who conscientiously examines the facts," said Mr. McAdoo, "that it is against the interest of both the public and the railroads to continue Federal control for twenty-one months under the present statute. The necessary morale cannot be maintained, and the improvements annually necessary cannot be made under conditions as they now exist. If we admit that these conditions are intolerable and ought to be ended, there remains for consideration as practical possibilities only (a) the return of the roads to their owners with all reasonable promptness; or (b) the extension of the period of Federal control.

"I do not think any one who has given even casual attention to the subject desires to see a return to the old conditions. Almost all of those who advocate an early return of the roads to private control insist that the transfer shall be accompanied by remedial legislation. Here again the investigator comes face to face with an impracticability. In the short session of Congress, which ends March 4, 1919, it will not be possible to obtain legislation that will solve a problem as complex and immense as that of the railroads in their triple relationship to the public, the employe, and the investor."

Difficulties in the Way.

Before committing themselves to the assertion that the time for remedial legislation was too short, Mr. McAdoo and his associates made a survey of what they felt should be considered in any remedial scheme. One of the questions considered was the degree of State control over the rates, improvements, and service that was desirable and practicable.

Another question had to do with the alleged overcapitalization of the railroads, with which is connected the problem of their proper value. The Railroad Administration holds the view that one of the insurmountable obstacles to satisfactory railroad operation in the past has been the settled suspicion of the employes and of the commercial public that the roads are heavily overcapitalized, and that the showings upon the strength of which additional revenues have been asked were predicated upon premises that were false.

Another difficulty is presented by the insistence upon Federal incorporation

that is made in many quarters. There is an important party which asserts that there cannot be any effective solution of the railroad problem until Federal corporations are substituted for the State corporations by which the railroads are now owned.

The expediency of permitting a large number of different corporations to control the railroads is pointed out as another question that may have to be debated at length. There are now 181 Class 1 railroads in the United States; that is, railroads which have operating revenues of \$1,000,000 a year or more. The proposal that a system of regional railways co-ordinated upon a plan involving more or less centralization and somewhat similar to that under which the Federal Reserve Banks are operated bristles with interrogation points

Problem Is Economic.

"Remedial legislation being impossible in the short time left to Congress to consider the matter," said Mr. McAdoo, "we should squarely face the necessity of returning the roads to their owners at the earliest possible moment without remedial legislation or an extension of the period of Federal control. In choosing between these alternatives we must not forget that the railroad problem has troubled our State and national politics and disturbed our economic development for the last twenty-five years. Every one will admit that a decision must be reached sooner or later, and that ultimately it is the American people who will make this decision.

"The problem is economic rather than political in its character, and the decision should be based upon the acceptance of an adequate test. As a result of conditions which the war forced upon us we are provided with the machinery for making the necessary test.

"If the period of Federal control is extended for a reasonable time, we shall be able to ascertain what can or can not be done with the railroads under unified management, and we will at the same time avoid the false conclusion into which political passion and prejudice may lead us. By extending the period of Federal control beyond the Presidential campaign of 1920, we shall defer final action upon this important question until the decision shall not affect the fortunes of a political candidate or a political party.

"Up to this time the test has not been sufficient to show what is the right solution of the problem. We have had unified control under abnormal conditions—those of war. The great purpose was to win the war, and the railroads were operated primarily to that end. No one questions that they served this purpose with complete success. The roads were taken over when transportation was paralyzed. The congestion was relieved, troops and war materials were moved to the ports of embarkation without delay. The traveling and shipping public were slightly inconvenienced, but their inconvenience was chargeable to the abnormal conditions of war, not to the unified operation of the railroads. Our normal condition is that of peace, and a test that will lead us to the right conclusion must, therefore, be made during a period of peace. We now have an opportunity to make this test. It will be a great mistake if it is cast aside.

"It is impossible, however, to prevent the American people from passing upon this great subject ultimately, and if old

conditions are re-established, with the congestion and economic waste that formerly prevailed, I think that out of impatience rather than upon the merits of the case the people will be more likely to declare themselves in favor of Government ownership than if they have had a chance to reach a deliberate conclusion after five years' trial. My own opinion is that five years of Federal control would be more than likely to lead to a decision in favor of some form of centralized regulation under private ownership than to outright Government proprietorship. The right attitude is an open mind, a willingness to abide by what the test shows—whether that be a form of Government regulation or Federal ownership."

New economic methods put into effect this year would not show their results until next year, Mr. McAdoo said, and if Federal control were brought abruptly to an end the lessons that might be learned from the improvements already inaugurated would be lost.

With the economies now introduced and to be introduced, Mr. McAdoo thinks that, within the first year of Federal control, it would be possible to make a substantial reduction in both freight and passenger rates. In suggesting these reductions he disclaims any thought of a coincident reduction in employes' wages.

"Employes' wages," Mr. McAdoo said, "were raised after a study of what may be regarded as permanent rather than transient wartime conditions. These advances were made after a comparison with the wages paid in other industries, and I have no expectation that any reduction will be practicable or equitable. The way to reduce rates is to improve the railroad machine and effect economies that will cheapen transportation."

Railroads Not "Scrambled."

Mr. McAdoo thinks that another bugaboo has been made of "unscrambling the railroads," as it is called.

"The railroads," he said, "have not been 'scrambled,' and those who say they cannot be readily taken apart when the time comes are talking nonsense. The Pennsylvania and the Baltimore & Ohio, for instance, now use the same station in New York City; but that does not 'scramble' them. The issuance of an order was the simple act that led to the common use of the same station. The Director General could issue another order undoing it, and in twenty-four hours the Baltimore & Ohio would be back in its Communipaw terminal.

"Out in Dayton, Ohio, we found that there was a space of only twenty feet between the terminals of the Pennsylvania Railroad and the Cincinnati, Hamilton & Dayton. In order to get around this gap it was necessary to haul Government freight 150 miles, so we closed it up. But it cannot be said that the connecting link that we built 'scrambled' the two roads.

"These questions, had they weight, are but secondary. The great fundamental question is: What is the best thing to do with the railroads? I repeat that there are but two courses open to us. One is to return the properties to their private owners as soon as possible, so throwing away the valuable and instructive experiences that we have accumulated and are accumulating; the other is to extend for five years the period of Government control, and provide a test that will under peace conditions and with a normal traffic enable the American people to pass intelligently upon the most important domestic question with which they have now to deal.

"No man who faces these alternatives squarely can fail to see that the wise course is to choose the five-year extension."