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THE RAILROADS FACE A CRISIS

By HELMUTH ENGELMAN

WHEN the employees of the nation's railroads threatened a strike several months ago, it was rather apparent that there was a crisis. When the employees of an industry the size of the railroad industry threaten a strike, something has to be done. That brings up the question of what should be done. The writer feels that whatever needs to be done, it has very little to do with the wage situation which is responsible for the present fireworks.

The strike question is very simple. The railroads want to decrease the wages of their employees by 15%. The employees do not want to take the wage cut, and made their threat as a result. That is a simple question. But the answer, yes, that is something else. However, we can start with that question and see what it brings up.

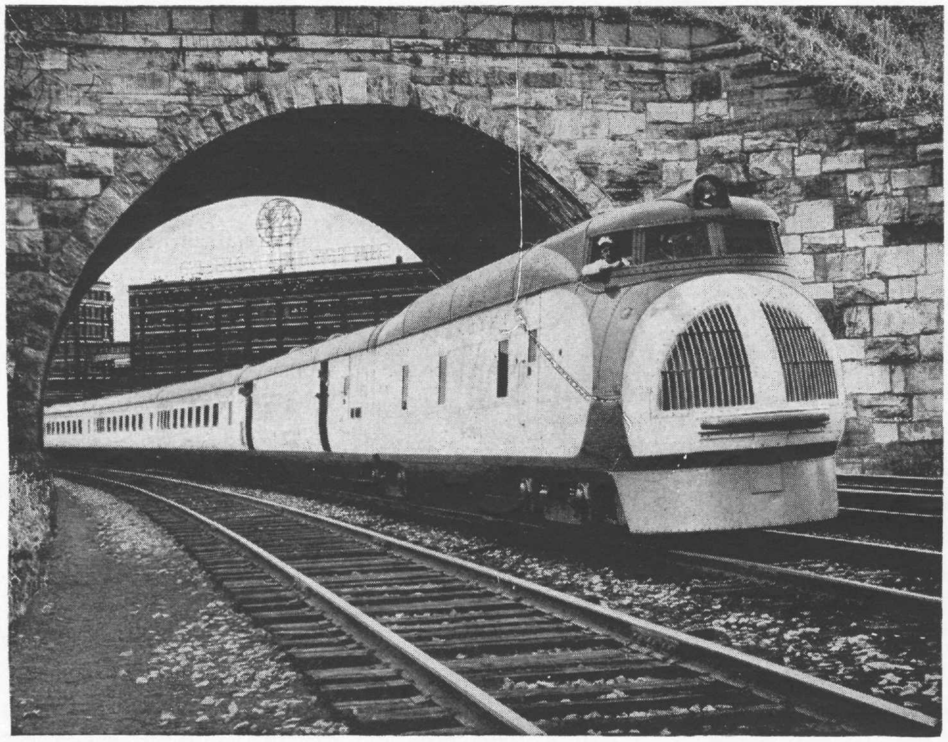
Since the carriers brought up the question, we may start by asking them why. Always first in such a situation is bad business. Furthermore, say the roads, if the wage level is kept as high as it is now, the credit of the companies will be bad. Not only that, but the workers are on a high enough income now that 15% reduction won't hurt. And if the workers really want to know, if they don't take this cut, it may mean the end of the railroad industry.

To which the workers reply somewhat as follows: Business has been bad, yes, but just now, in the past few months, it has been pretty good, and certainly would not justify a cut at all. If the carriers think their credit will become bad, what do they think it is now? As for wages, the railroad industry is lower paid than any other major industry. And if the industry goes under, it will not be because of wages.

This leaves us with really three issues: First, is business good or bad? Second, are railroad employees over or underpaid? Last, just what about this credit and failing in business we hear about.

The first question seems of least importance. The writer will admit and even substantiate the fact that the revenue of the roads has been bad lately, but the recent upswing, and the size of the drop, would not seem to justify any 15% cut. This, then, practically eliminates the most obvious possible answer to the strike question. This statement is based upon the distribution of the revenue of the carriers. The laborer's share of revenue has steadily decreased, and at present, the roads are getting just about twice as much work per dollar of wages as they did in 1921. This can be computed in several ways. If you take gross ton-miles, you can arrive at a figure of 92% more ton-miles per dollar, or 101% more per hour of work. (That last brings us into wage scales, though, which will be discussed later.) Where, now, the writer would like to ask, is the difference? Where is the saving? Of course the saving isn't really quite that much. The tractive force of locomotives has increased 48%, which means that the engineer, with the same pull on the throttle, can pull one and a half times as hard. The engineer, however, is not the only man on the road, and such things as the 37% increase in speed, 24% increase in the length of freight trains, and 15% increase in the capacity of freight cars would mean at least a certain amount of increase in the work of the men employed. We can say that there was a saving of a little over 90% in work per dollar of pay, but how much is due to technological advancement, and how much to workers, we'd rather let the Brookings Institution determine. And after saying there is a saving that ought to cover what seems like a temporary slump in business, we can pass on to a few more vital questions.

The writer admits he is convinced that railroads do not pay the highest wages, as a whole. The carriers claim an average wage rate of $1,736 per year. The workers say it is $1,150. What's the discrepancy? The answer is in seasonal employment. There are many jobs



One of thousands which would be affected by the strike.

on a railroad, like those on a section gang, which last only for a few months. Of the total employees on the carriers' payrolls in 1937, 35.3% earned a total of less than $500, 6.3% got between $500 and $750, etc. For your information, 49.3% earned less than $1000, and 14.9% more got less than $1,500, which you may remember as the Brookings standard of living minimum. It seems rather obvious, though, that a railroad should not have to pay a living annual wage for two months' work by a man that is not worth more than fifty cents per hour somewhere else. That leaves the worker on relief, because if he survives the year, he will use up more than he can ever hope to earn. You and I pay the difference. With more jobs, the worker thus employed might spend the rest of his time on a farm, off relief rolls, but the employment situation at present makes that sort of thing rather improbable. To be fair, then, we may say that this seasonal employment question is not the railroad problem. We cannot, however, ignore these workers in our wage rates because they lower the average hourly rate. The engineer works short periods, and not a great deal. In monthly pay, he is really worth the $200 or so he may receive, but he works relatively few hours, and at a correspondingly high hourly rate. So, here again we concede to both sides and say that the yearly income is between $1,736 and $1,115. That does not get us very far. The workers have established a comparison, and quote an average in 1920 of 71.1c, and in 1938 of 72.1c, which is not much increase, as the average hourly wage of employees. This is less than nineteen other industries pay. Again we have the problem of determining just how the railroad average should be determined. It is a rather common feeling that railroads do not operate a sweatshop type of industry, and for that reason, the 72c sounds all right, especially since it comes from labor. At forty hours for fifty-two weeks, it is $1,498. As the writer remembers, that is not excessive, but it compares with the pay of many industries, and there are many far lower. The conclusion from this is that if the railroad employee cannot buy enough pork chops and shoe leather, his misery is at least shared by workers as a whole, and he is not the only one who would like more pay. That fact, that everybody, almost, is underpaid, was one of the findings of the Brookings Institution.

There is a very important feature of railroad costs that has been overlooked by the carriers. The interest on bonds is where the trouble lies. The writer sees no good way out. For years, the roads have been losing money on the interest they must pay. The bonds a railroad uses for capital have an interest rate of somewhere around five percent. They couldn't sell the bonds if they were worth less, and the roads would not be capitalized at all. The gross interest on these bonds increases constantly, as more bonds are issued, while the value of the road increases far more slowly. There is no way to allow for depreciation on what the bond bought in the way of equipment, and it is easier to pay interest than amortize the bonds, so the bond value of the railroads goes up higher and higher, and has already left the real value of the property and equipment far behind. In fact, it would be impossible to finance a road with 5% bonds, simply because starting in 1933, and running through 1938, the yearly return on the property investment of Class I railroads has been: '33, 1.83%; '34, 1.79%; '35, 1.94%; '36, 2.58%; '37, 2.27%; and as of August, 1938, .99%. So a railroad just simply is not a 5% investment. The fact that depreciation is never figured has the result that on a calendar put out by an association of railroads shows that revenue from two whole months goes into interest alone. Add to that the juggling of stocks and bonds by some of the prominent financial tycoons, and it is little wonder that the carriers find themselves in a mess. One road paid dividends on its stock only eight years of the forty-four the stock has been issued. What could have made the stock valuable except speculative possibilities? In fact, that sort of thing is practically the only reason for the existence of today's trouble. No one doubts that the roads are in bad shape. Few will deny that the financial coups of the past are responsible. Now, what do we do?

The first possibility is reorganization. The writer doubts whether that would do it. It might be possible to adjust rates, wages, etc., so that an interest rate of, say, 2% could be paid, and at the same time some money set aside for amortization. That, though, would probably tie up too much capital. And anyhow, who would want bonds bearing 2% interest? That rate would be just about 5% on the depreciated property or equipment. So it is an unfeasible plan.

Is government ownership the way out? That remains to be seen. From what the writer has seen, and he has seen government owned and privately owned utilities, the rates would probably double and there might still be some left over for the taxpayer to pay; although on the other hand, something like the mail service might result, which would be quite satisfactory. The trouble is that there is no good way for the government to acquire the roads. That is the weakness of the Canadian National, and would probably be ours. So that plan, too, is really unfeasible, also.

The President has stated that there should be no wage cut. It seems that he did right. His answer does not solve a problem. It could not. Wages have little to do with the financial worries of the roads. So the crisis continues.