

PLAN FOR NEW NORTHERN RAILWAY SYSTEM

A UNIFIED OPERATION OF
GREAT NORTHERN, NORTHERN PACIFIC, AND
SPOKANE, PORTLAND & SEATTLE RAILWAYS
WITH UNIFIED CONTROL OF BURLINGTON

STATEMENT BY RALPH BUDD, PRESIDENT, GREAT NORTHERN RAILWAY COMPANY
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Twenty-five years ago James J. Hill proposed to consolidate the stock ownership of the Great Northern, Northern Pacific, and Burlington railways. The courts then held that such control was prohibited because the Anti-Trust Act of 1890 was construed to mean that there could be no consolidation of railroads where there was substantial competition. That law, according to the interpretation then adopted, left no room for any inquiry whether the consolidation might be in the public interest when viewed from all standpoints. The law at that time proceeded on the mistaken theory that unbridled competition was of paramount importance in giving the public good, ample, and cheap railroad service.

PRESENT LAW FAVORS CONSOLIDATION

Additional Changes in public opinion and in Congressional legislation desirable. policy, and the development of very effective railway regulation, together with the building of other railways in the territory, have entirely altered the situation. The Transportation Act, 1920, provides that the Interstate Commerce Commission "shall as soon as practicable prepare and adopt a plan for the consolidation of the railway properties of the continental United States into a limited number of systems." To serve as a basis for discussion,

the Commission made a tentative plan which put the Great Northern and Northern Pacific in different systems, grouping Great Northern with Chicago, Milwaukee & St. Paul, and Northern Pacific with Burlington. The Great Northern, Northern Pacific, and Burlington all joined in urging the Commission to put them in a single system. The Commission reached no decision on this, since it concluded that the plan for general consolidation of the railroads throughout the country could not be immediately prepared and that additional legislation was desirable. As a result, consolidation in the strict sense has not yet become practicable as contemplated in the Transportation Act.

SINGLE OPERATION BY NEW CARRIER

On the other hand, the Transportation Act has provided for acquisition of control of one carrier by another through stock ownership and lease without complete consolidation, and the Interstate Commerce Commission has sanctioned extensive unifications by stock control and lease. This is what is now proposed by the two Northern Companies, and such unification can only be lawful and effective if the Commission finds it to be in the public interest.

Lessee to be Operating Railway. The proposal is that in addition to controlling them through stock ownership the new company will lease from the Northern Companies their entire properties and operate them as a single carrier, which, it is contemplated, will also directly operate the Spokane, Portland & Seattle Railway, a property already jointly controlled through the ownership of all of its stock.

The operation of the Burlington, which is also controlled by the Northern Companies through equal ownership of over 97 per cent of the stock, will remain

separate as at present. But the vesting in a single control of the entire 97 per cent of the Burlington stock, now owned separately and in equal shares by the Northern Companies, will better unify the direction of the Burlington and will be favorable to the more decisive handling of its development policies than has been practicable when each Northern Company voted separately and independently its half of the Burlington stock.

PROPOSED PLAN ALREADY PARTLY ACCOMPLISHED

Northern Lines
now tied together
by common
undertakings. The unification which is now proposed is not to be viewed as an original and independent move which has never been started, and which, therefore, need not now be undertaken at all. The fact is that over twenty-five years ago the two Northern Companies took an extremely important step in this direction by acquiring control of the Burlington through purchase of a large majority of the Burlington stock. Ever since that time the two Northern Companies have been committed to an important common undertaking, involving hundreds of millions of dollars. They are already tied together by this community of interest, and it is one which in a practical sense cannot now be successfully untied, because the Burlington would suffer heavily if it were dissociated from either one of the Northern Lines, since for over a quarter of a century it has been built up with reference to association with both of them. A similar community of interest has existed for a great many years on account of the equal ownership by the Northern Companies of the Spokane, Portland & Seattle, which represents a total investment of more than \$100,000,000. These are great facts which can-

not be ignored. Under the wise policy which Congress has now adopted as to further railroad consolidation, the next logical step should be taken, and that is to unify the control and the operation of the two Northern Companies whose interests are already so tied together that they cannot be untied.

Northern Lines The community of interest which exists largely owned through their ownership of the Burlington and Spokane, Portland & Seattle is intensified by an extensive common ownership of the Northern Lines themselves, more than 60 per cent of the 4,969,350 shares of stock outstanding being held by those who own stock in both companies.

PUBLIC INTEREST IN RAILWAY ECONOMIES

The public interest in transportation is two-fold: First, and most important, the American public demands that adequate transportation of the highest quality shall be provided at all times promptly when desired; and, second, that it shall be furnished at reasonable rates. It is gratifying to be able to say that the adequacy and excellence of railway transportation now is generally admitted, so that subject need not be discussed. In the Middle West and Northwest, where the population depends almost wholly on rail transportation, and where, by reason of the great distance from markets and the relative disadvantage to which the Panama Canal has placed the territory compared with the regions nearer the seaboard, the matter of railway rates has received much public attention.

Return inadequate in Northwest. That railway rates have been increased less in the Northwest Region than the average increase in the United States, and very much less than the increases which the railways must pay for the things that enter into the cost of producing transportation, is sometimes lost sight of. The truth

is that compared with 1913, which, being the last year before the World War, is commonly used as a base year, the average revenue per ton mile in the Northwest Region is only 40 per cent more, while for the United States as a whole it is 53 per cent more, and for some regions 80 per cent more, notwithstanding the facts that wages have increased 115 per cent, taxes have increased 185 per cent, and the average cost of all commodities 60 per cent during the same period. The result of this lesser increase in rates in the Northwest has been that the average return earned by the carriers in the Northwest Region is less than the average for the United States and is far below the statutory return of $5\frac{3}{4}$ per cent fixed by the Interstate Commerce Commission as being fair, having averaged only 3 per cent for the six years since Federal Control.

Must reduce expenses or raise rates. The bearing which these facts have upon the present question is that it would be greatly in the public interest if a way could be found to improve the earnings of the Northwest railways without increasing rates and without impairing the service rendered. The ultimate basis for railway charges is the cost of producing transportation, including in such cost, however, a return on the value of the property used for transportation purposes. It therefore follows that the only way in which low rates may be maintained is through efficient and economical operation of the railways, and the public is vitally interested in all economies that the railways can make.

The railways of the Northwest have in every way endeavored to increase their efficiency and improve their service; to these ends they have made very large capital expenditures for more and better facilities and have enlisted the cooperation of their employees and

the public, with the result that the service now rendered is better than ever before. As I have already stated, it is being provided at charges relatively much lower than railway charges in other parts of the United States and without adequate return to the carriers. If railway operating expenses cannot be further reduced there does not seem to be any alternative but to increase rates.

SAVINGS FROM PROPOSED PLAN

Now, there is a distinct limitation to further economies through increased efficiency and improvements to the properties as at present operated, but it is believed that the economies which will result from the unified operation of the Great Northern, Northern Pacific, and Spokane, Portland & Seattle, and an even closer association with the Burlington than has hitherto existed, are certain to be large and that important improvement to service also will result.

There are many points of contact between these roads, and while occupying different territories there are alternate lines between several points; also the wide geographical spread of territory conduces to better average use of equipment. These facts lend themselves to a plan for saving in operating expenses and at the same time performing more service with the present railroad facilities.

Some duplication now avoided.

The Great Northern and Northern Pacific have avoided the building of some duplicate lines and terminals by making joint use of lines and terminals. To that extent, savings by joint use and by avoiding unnecessary construction of separate lines have already been made. Also each of the Northern Lines uses jointly with the Burlington and with the Spokane, Portland & Seattle, certain

facilities, and each does some switching for the other, for the Burlington, and for the Spokane, Portland & Seattle. The purchase of the Burlington by the two Northern Lines is the greatest example of avoidance of duplicate construction; another example is the joint construction of the Spokane, Portland & Seattle and subsidiaries at a cost of more than \$100,000,000. Examples of joint use of track which have avoided construction are between Seattle and Portland, 182 miles; three stretches of track between Seattle and Vancouver, B. C., 72 miles; between Huntley and Fromberg, through Billings, 50 miles; between St. Cloud and St. Paul, 72 miles.

Terminal
deliveries
would be
expedited.

There is now practically no duplication of terminals as between the Burlington and the Northern Lines at their points of contact, namely, Twin Cities, Sioux City and Billings; but in many instances the two Northern Lines are operating duplicate terminals and duplicate train service, and in those instances further economies can be made. A saving could also be brought about by avoiding the necessity of performing some terminal work; for example, a car coming into a terminal from the Great Northern line and destined to an industry on the Northern Pacific could be loaded out again, after having been made empty, without any necessity for being returned to the Great Northern as at present. Likewise, the expense of joint inspection would be saved. Another way that work could be avoided would be by routing the freight into a terminal via the line on whose track the industry to which it is destined is located. Elimination of delay to cars incident to switching and joint inspection, which would be accomplished by single operation, is important both from the standpoint of economy and improved service.

Elimination of duplicate lines and terminals and reduction of terminal work would directly reduce the cost of conducting transportation, that is, the cost of handling cars on the road and in the terminals. This item on the Great Northern, Northern Pacific, and Spokane, Portland & Seattle systems is more than \$70,000,000 annually. Avoidance of even a small proportion of the work which this cost represents would mean very substantial economies.

Better use of cars and locomotives on enlarged system. Benefits from the single control of cars and locomotives would come to the public directly in better service and indirectly through the savings the carrier would make by requiring less investment in equipment and by reducing the cost of equipment maintenance and operation. In the matter of equipment, although operated as two separate companies, the Northern Lines and the Burlington would be able to take advantage of their close relationship and effectuate a single control of cars and locomotives.

It seems self-evident that the public can be given greater assurance of an ample car supply with a reservoir of 170,000 cars available under one authority which will distribute them directly to the points of greatest need than under present conditions with three groups of 50,000 to 70,000 cars under separate organizations. The number of cars required for the peak demand of the unified system would be about 10 per cent less than the aggregate number required to give equally good service on the three separate roads. This would mean that several millions of dollars could be saved annually, and at the same time a superior service given to shippers. The advantages of a single control of locomotives are similar to those derived

from such control of cars, namely, the availability of a reservoir of 4,500 locomotives to avoid delays or congestions to freight; and the smaller investment in locomotives because the peaks of business on the three units are not simultaneous and would be protected by the aggregate supply of motive power on the enlarged system. The interest, depreciation and maintenance charges thus avoided each year would, as in the case of cars, amount to more than a million dollars.

Larger percentage of cars would be on home line. The cost of car repairs has a definite downward trend as the percentage of home cars on line increases. In the case of a foreign car, the company on whose line that car may be located, in the absence of standard material for that particular car, will try to keep the car moving by making numerous emergency repairs, perhaps repeated at several terminals, while if the car were on its own line it would be properly repaired in the first instance and avoid the succession of patch repairs which otherwise would be made. The effect of the single operation of the Great Northern, Northern Pacific, and Spokane, Portland & Seattle and the unified control of the Burlington would be to increase the percentage of home cars on line, and in that way bring about a material reduction in the cost of car repairs. Cars would be at home at all repair points on the combined system, making it possible to do repair work promptly when needed and to better advantage than when repairing foreign cars; and at present the cars of any one of these lines are foreign cars on the other lines. As the annual cost of repairs to freight cars on these four lines is \$25,000,000 a comparatively small percentage of saving would be a substantial sum.

Standardiza- The similarity of requirements makes it
tion feasible. entirely feasible to standardize equipment
on the proposed system. For example, box cars on
each of the roads at present must be built and main-
tained to meet the requirements of bulk grain ship-
ments. These are requirements which other railroads
in some other parts of the United States do not have
to meet, and for that reason the type of box car that is
suitable for them in their territory is not the type that
would be used in the Northwest.

Standardization of maintenance of way materials is
practicable because the climatic and traffic conditions
encountered are much alike on the two Northern
Lines and the requirements are, therefore, practically
the same. This would apply to ties, rails and fasten-
ings, bridges, buildings, signals, and other wayside
structures. Here again, dealing with an item of
\$50,000,000 per year for maintenance of roadway it is
apparent that a comparatively small percentage of
saving would make a very large sum annually.

Advantages in While many articles are purchased in
combined quantities sufficiently large to obtain the
purchases and best price, so far as price is affected by
stores. quantity, there are some things like rolled steel wheels,
signal wire, electrical supplies, incandescent lamps,
stationery, steel castings, creosote and zinc chloride for
tie treatment, that could be advantageously purchased
in larger quantities than is possible by each of the
three roads separately. There would be an advantage
in buying in larger quantities such materials as bolts,
nuts, washers, nails, screws, and other items, which,
by the combined purchases, could be handled in car-
load lots and unbroken packages. The enlarged
system would make available to the entire mileage the

sources of fuel oil, coal, timber and some other supplies which are local to one or the other of the lines, but are not common to all.

It is obvious that there could be a large reduction in the aggregate stock of material carried, by the simple process of eliminating duplicate stocks. The possibilities of savings in this connection may be appreciated from the fact that the average value of such stock of material and supplies totals \$25,000,000 on the Great Northern, Northern Pacific and Spokane, Portland & Seattle lines.

SERVICE WOULD BE IMPROVED

I wish to emphasize particularly that the proposed unified operation would distinctly promote the public service.

Service would be improved by eliminating terminal delays at transfer points and by getting a better distribution of cars throughout the year, thus making available a larger number of cars for the seasonal movement of crops which mature at widely separated dates in the enlarged territory; by consolidated offices and tariffs; by avoiding switching and the charges incident thereto at points common to any of the lines; and by automatically making every industry now on the Great Northern, Northern Pacific or Spokane, Portland & Seattle an industry on the combined system. To a large extent, industries common to the Burlington and either one or both of the Northern Lines would benefit likewise.

Benefits from present association would be extended.

The association of these two lines with the Burlington for the last twenty-five years has resulted in improvement of service and convenience to the public more or less in the manner and of the character described. The owner-

ship by the Great Northern and Northern Pacific in equal parts of over 97 per cent of the stock of the Burlington has resulted in the development and use of facilities in a manner which permitted prompt and efficient interchange and has resulted in close working traffic and operating arrangements to the end that shippers and consignees have been educated to the fact that by routing business via the Great Northern or the Northern Pacific, in connection with the Spokane, Portland & Seattle and the Burlington, they receive superior service. The divorcing of one of the Northern Lines from the Burlington, as has been tentatively suggested, would mean loss to the public of many of the advantages which have come from the association, so that, on the one hand, while further improvement in service will result from closer association of these lines, on the other hand separating them would cause a loss of a part of what already has been accomplished.

PUBLIC INTEREST IN FINANCIAL STRENGTH

Good credit necessary for development. The economies which I have suggested will directly tend to increase the financial strength and the credit of this group of railroads, and on that account will put them in better position to meet the needs of the West for adequate railroad expansion. Moreover, the unified operation of the Spokane, Portland & Seattle and the unified control of the Burlington, both of which are already jointly owned, will remove the danger of divided councils so that this unification may well lead to more confident and decisive expansion of these properties in the public interest than would be possible with the two Northern Companies acting independently of each other.

One of the essentials for the success of private operation of railroads is that the railroads shall have such credit as will enable them to provide for the necessary extensions into new territory and for enlarging and improving existing lines to care for increasing business. More intensive use of existing facilities will help in caring for increased business, but stabilized credit is essential to meet the growing needs of a growing country; especially is this true in the West where considerable additional mileage should be built. To serve a new and sparsely settled section where branch lines must of necessity be built and operated without profit for a considerable period, the strength shown by the proposed system is none too great.

Northwest
needs strong
railways
to reach mar-
kets in compe-
tition with
other regions.

A strong, energetic railway is able to do a great deal to aid and protect its shippers in reaching competitive markets and thus to promote the growth and progress of its territory. The real public interest of the Northwest is to get such service from its transportation agencies and such protection through them against competing districts in marketing the products of the country as will open up the largest possible distributing areas for those products and thus bring the greatest possible prosperity to the section.

The people in Minnesota, North and South Dakota, and Montana want to ship their grain, their livestock, and their diversified farm products to the primary markets or to the consuming markets on the best possible basis of rates compared with those from competing parts of the country. On potatoes, for example, the farmers of Minnesota, North Dakota and South Dakota must meet competition of farmers more favor-

ably situated geographically; and the rates from the territory served by the Great Northern and Northern Pacific are made with the object in view of allowing the farmers along their lines to compete, in the territory where these potatoes are delivered, with farmers shipping potatoes from other sections. The same is true of grain and livestock, and the interest of the farmer and the business man is in seeing that these fair and competing rate adjustments to the markets are continued. In addition to the products of the soil, in Montana the products of mines are of primary importance. Her copper, zinc and lead mines must meet the competition of mines in other sections, especially in the Southwest, Utah, Colorado, Arizona, etc., and rates are adjusted with that end in view. Montana's oil producers require and receive similar consideration at the hands of her railways. The lumber manufacturers in Montana, Idaho, Washington and Oregon are concerned in meeting the competition of Southern mills.

Competing regions have strong railways.

Only by cooperation of railways able and willing to assist the producers in reaching wider distributing areas will the region be assured of the fullest development of its resources. However willing a railway may be to assist, it cannot do so if the return on investment over a long period of years is inadequate to attract the capital necessary for improvements and expansion. The Southern and Southwestern parts of the United States on the south, and Canada on the north, are served by large and strong railway systems, which are able to, and do, protect the shippers along their lines in the matter of reaching markets. The Northwest requires equally effective protection on the part of its railways. The

Northern Railway System proposed, together with the Burlington affiliation, meets this requirement in the matter of its great distributing possibilities, and in the opportunities for economies which will go far towards taking the place of increases in rates, which otherwise may be necessary.

EXISTING TRADE ROUTES WOULD BE IMPROVED

I wish also to point out that the unified operation of the Great Northern, Northern Pacific, and Spokane, Portland & Seattle, and the resulting closer cooperation with the Burlington, not only would result in economies and improvement in service, but would in addition accomplish another requirement that is very important in the public interest, namely, that of preserving existing routes and channels of trade. The relationship between these lines has resulted in railway and industrial development which anticipated the continuation of that relationship and the establishment of closer bonds, which the present plan will to a large extent accomplish.

Trade characteristics of Northern Lines and Burlington territories are supplementary. Producers of all kinds of manufactured goods, including implements and machinery for the farms, mines, and mills of the Northwest, as well as large jobbing and merchandise houses which are served by the Burlington, have distributing offices and warehouses located on both of the Northern Lines, while the Burlington territory consumes large quantities of lumber, grain, livestock, fruit, fish, and other western products which originate on the two Northern Lines and the Spokane, Portland & Seattle. The large volume of traffic which moves both east and west through the interchange points at the Twin Cities,

Sioux City and Billings indicates the importance of the trade routes that have become established. They represent, to a large extent, the result of cooperation between the carriers and shippers in developing and marketing the resources of the country; to disrupt them would be to retard such progress, while to maintain and improve them would advance it. These railway companies, as well as shippers and consumers, have every reason to desire and to expect that such important routes will be maintained and improved.

COMPETITION WOULD BE PRESERVED

As I said at the beginning, there was a time when unbridled competition was relied upon to obtain low railway rates and ample railway service. Experience has shown that the evils resulting from excessive competition were so great in the matter of rates that the fixing of rates now is vested entirely with the governmental regulatory bodies. To a large extent it is also true that a reasonable amount of competition with respect of service will accomplish as much as excessive competition, which tends to extravagance.

Northern lines complementary. While the Great Northern and Northern Pacific are competitive between many points, they are to a very large extent complementary in character, due to the fact that the preponderance of mileage of the Northern Pacific is on the western part of its line while the preponderance of mileage of the Great Northern is on the eastern part of its line, approximately 60 per cent of the Northern Pacific's trackage being west of the Montana-North Dakota state line and 40 per cent east thereof, while only 42 per cent of the Great Northern's trackage is west and 58 per cent east of that line, compared with 49 per cent

west and 51 per cent east for the combined system, which gives a much better balance.

Other carriers It is also true that there is substantial **would afford** competition with other transcontinental **competition.** roads at practically all important terminals, both east and west, served by the Great Northern and Northern Pacific. The map shows first, the complementary character of the Great Northern and Northern Pacific, and, second, the other transcontinental roads which, in any event, will continue competitive with the Great Northern and Northern Pacific. There is surprisingly little competition between the two lines except at points where competition with other lines will continue. The population of competitive communities which are served by the Great Northern, Northern Pacific, and other roads is about 2,000,000, while less than 125,000 people are located at communities which are served by both the Great Northern and Northern Pacific but by no other road.

Welfare of Moreover, the stations which are served **local points** only by the Great Northern and Northern **promoted.** Pacific are so situated between or near points which will continue to be served by other lines that the standards of rates and service cannot be materially altered to the detriment of such places, and hence the elimination of competition, which the figures indicate is relatively unimportant, will be largely theoretical instead of practical. The places will continue to have the benefit of the standards of rates and service which are established by the broadly prevailing competitive conditions, and also will derive important protection from the principle, which has become progressively more controlling with railroads, that it is important to protect purely local points in the matter

of service, since all the business at those points goes to the one railroad; whereas if there is injurious discrimination in service in favor of competitive points, the result is to diminish the traffic which would go wholly by that railroad in favor of traffic which it would have to share with competitors.

CONCLUSION

Therefore, by the tests of saving in operating costs; improvement of service; strength necessary for expansion; preserving existing routes and channels of trade; and preserving competition, the single operation of the Great Northern, Northern Pacific, and Spokane, Portland & Seattle roads as one system seems to be justified. What appears to be a simple, practicable, and eminently fair method of accomplishing this is proposed; namely, that for each share of Great Northern or Northern Pacific stock there will be exchanged a share of stock in the new railway company which will operate the Northern Pacific, Great Northern, and Spokane, Portland & Seattle, and through single control of nearly all of the Burlington stock will effect a closer working relationship with the Burlington. I invite the careful consideration and study of this plan by the Northwestern public, and believe that such consideration and study will lead to the conclusion that it not only should be permitted but encouraged.



