

Problem of Reconstruction With Respect To Urban Transportation

Under the above title Dr. Delos Wilcox, in an exhaustive article which appears in the January issue of the National Municipal Review of America, handles the street railway companies very cleverly, though from the companies' point of view, perhaps a little roughly. The Canadian situation is somewhat similar to that in the United States, so that the article is well worth reading by those municipal men who have street railway problems on their hands. The following excerpts give an indication of the trend of the article:—

"We have reached a crisis in the street railway business. The crisis has been hastened by the extraordinary prices of labor and materials, and by the scarcity of capital incident to the carrying on of an unprecedented war in an unprecedented way, but its origin lies much farther back. It is doubtful whether the close of the war will restore normal conditions in local transportation, and even if approximately the old conditions should be brought back it will not be easy for the street railways to recover from the severe financial distress of the present time. It is like a long spell of sickness with a man who is past his prime. The street railways may "get around again," but they will "never be quite the same" as they were before. Only the other day at the conference of the American Electric Railway Association in New York city a resolution was introduced by the President of the Milwaukee Electric Railway & Light Company, and referred to the executive committee of the association for consideration and report, setting forth the present status of the street railway industry from the companies' point of view and declaring in favor of the public acquisition and the future public operation and development of the street railways of the country. It cannot be doubted that the street railway companies are suffering from some desperate malady when the cause of municipal ownership begins to get recruits in these high quarters."

The Five-Cent Fare as the Basis of Speculation.

"The traditional fixed five-cent fare with general free transfer privileges has heretofore been the chief bastion of the speculative line of defense in the street railway business. The municipality, without transit initiative, generally without transit powers, has said to the street railway promoter: "Here is a franchise to use our streets. You may charge five cents a ride. Go to it and make what you can." That looked good to the promoter, and so he established a stock and bond factory for the purpose of carrying out his speculation. It must be admitted, I think, that in the development of street railway systems and the corporations which control them in this country, the idea of public service has generally been incidental. The driving force, the motive that has negotiated franchises, engineered leases, consolidations and mergers, and piled Osa on Pelion in the organization of holding companies, has in the main been the desire for illegitimate profits. I do not refer in this connection to the superintendents of transportation and other members of the operating forces, but rather to the financial magnates who deal in traction securities and exercise ultimate control over street railway policies from the private point of view. These gentlemen reside in the financial centres of the country, and in their manipulation of street railway properties represent all the evils of indirect, unregulated, absentee ownership. The application of the gambler's motives to the control and manipulation of street railways has resulted in almost universal overcapitalization, inflated claims of value, and reckless financing. The street railway business is now on the rocks. The speculative regime has proved to be a dismal and deadly failure."

What Street Railway Companies Seek to Accomplish During the War.

"In the present era of financial distress, when it is evident that there is no future for speculation in street railway enterprises, the public service corporations are seeking to save themselves by accomplishing three things:

First, the definite abrogation of their contracts with respect to rates and fare limits.

Second, the definite public recognition of their capitalization and earnings prior to the war as not excessive.

Third, the definite shifting of responsibility for wage increases to public agencies, with the corollary that

the bill is to be passed on to the ratepayers.

Everybody is sick and tired of the speculative game as applied to urban transit, but there is trouble about the conditions upon which the transition to a new order should be made. The gamblers who have lost are unwilling to pay up and the gamblers who have won are unwilling to give up. The public is being asked to make good past losses as well as to assume future risks. The losers want to usher in a non-speculative regime which shall be dated back for a generation or two, but with respect to losses only. The winners also want a non-speculative regime, but they do not want it dated back for enough to make them disgorge past profits to make up for impending deficits.

The present status of the street railways is unsatisfactory to all parties. The sky is full of portents for the future. Disaster to the present investors is imminent, and perhaps can be averted only in case the public either unwittingly or from a mistaken sense of duty condemns itself to financial servitude time without end."

Persistent Evils of Overcapitalization.

Unsound and reckless financing has been characteristic of the street railway business. Overcapitalization is general, and the all but universal tendency of the companies is to swell the capital account at every opportunity. Appropriations for the martization of obsolete and superceded property have been either scant or entirely lacking. For some years past the companies have sought by every possible device to read values into the properties in an effort to justify and support existing overcapitalization instead of reducing the capitalization to fit the values that really exist. Even the control over capitalization exercised by public service commissions has been quite ineffective as a remedy for past evils and only partially effective as a preventive of future ones. The commissions as a rule have no power to compel a reduction of existing capitalization and the new securities issued under public control are thus put upon a par with old securities which represent uncertain values. Even in the issuance of new securities inflation continues to take place through the practice of the commissions in permitting stocks and bonds to be sold at a discount. The financial conditions which often seem to make this practice a necessary one have been brought about in large part by the uncorrected overcapitalization which took place prior to the period of public regulation. It is a universal characteristic of overcapitalization that it tends to destroy or impair the credit of the corporation and thus tends to make the financing of capital additions costly, if not impossible. From every point of view overcapitalization is fundamentally unsound. The only way to cure it is to get rid of it. It is hopeless for a company to try to live it down without correcting it. A remedy that merely applies to future capital additions is no remedy at all. So long as overcapitalization lasts it impairs credit, overloads fixed charges and stimulates controversy between the company and the public. So long as overcapitalization exists every street railway manager has to be double-faced. To the public he must make professions of interest in service. To his financial masters he must prove that his one aim in life is to make the common stock pay dividends.

The Abrogation of Franchise Contracts.

"Street railways get the bulk of their revenues from fare-paying passengers. If the rate of fare is fixed and unchangeable the only way to increase the revenues from this source is by an increase in traffic. If the cars are already overcrowded or if the people are moving to other communities, the companies see little hope in this direction. For the immediate relief of their financial pains they see no better way than the abrogation of their franchise contracts and the increase of the rates of fare. It has often been charged that contracts between cities and street railway companies are enforced to the letter when their terms go against the public, but that it proves very difficult indeed to enforce them when they go against the companies. At any rate it is a curious spectacle to see the protagonists of vested interests, who have so often invoked the sacred provisions of the federal constitution to enforce the obligations of contracts, now coming before the public service commissions and without even an apology asking that the provisions of their municipal contracts be set aside because they need more money."