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Congressional Record - Questionable value of Railroad Mergers

Mike Mansfield 1903-2001

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Senate

QUESTIONABLE VALUE OF RAILROAD MERGERS

Mr. MANSFIELD. Mr. President, there has long been a trend toward railroad merger and consolidation in the Nation. In recent years it has reached enormous proportions. I wish to register my vehement objection to this trend. It has not resulted in improved service to the public. It has ignored the human element of displaced railroad workers and their families and the thousands of businesses which depend on them. So far as I can see, it has not provided any real solution to the basic financial plight of the railroad companies themselves. It is time for the railroads to think in larger terms rather than in terms of shrinking still further their services to the public, as the Great Northern and the Northern Pacific are attempting to do at the present time between the Twin Cities and the west coast. It is my hope that the Government will help them in this process. It is time to call a halt to the merger and consolidation process and to take a careful look at where it will eventually lead.

At this moment, there is also a proposal to discontinue the passenger traffic service on the Milwaukee line between Minneapolis-St. Paul and the west coast which would work a serious hardship on the traveling public, the railroad workers and their families, and the businesses which depend upon them. This is an example of the kind of shortsighted action which should be halted.

Mr. President, I ask unanimous consent to have printed at this point in the RECORD an extremely well-written article on the subject, which was published in the Wall Street Journal of today, April 6, 1961.

There being no objection, the article was ordered to be printed in the RECORD, as follows:

THE WALL STREET JOURNAL
Thursday, April 6, 1961

Merger Barriers

Unions, States Step Up Efforts to Curb Trend To Rail Consolidations

Labor Battles With Posters, $2 Bills; Montana Allots Funds to Fight a Merger

Public's Stake Is Sizable

By JAMES R. MACDONALD
Staff Reporter of THE WALL STREET JOURNAL

In Missoula, Montana, site of a car repair shop and freight yard for the Northern Pacific Railroad, now involved in merger talks with three other lines, this message is posted on telephone poles and on walls of buildings around the town:

"If only 100 railroad employes lose their jobs or move away after the merger, Missoula will lose $70,000 in annual grocery sales, 112 households, 107 passenger cars and $30,000 in food-drink business."

The signs in Missoula are signs of the times in the railroad industry. As a mounting number of railroads chug along toward merger, opposition is increasing on a number of fronts. Most vociferous of the merger foes are the nation's 23 railroad unions, which, collectively, have adopted a policy of opposition to all mergers. The unions fear mergers will result in large layoffs.

By no means are the unions the only obstacles along the track toward consolidation, however. More and more Congressmen and state officials have announced they will intervene before the Interstate Commerce Commission, which must approve railroad mergers, to try to block such moves. The Justice Department has disclosed it is looking more closely at rail mergers with antitrust action in mind. Even railroads are stepping in to fight the mergers of other railroads, fearing the sharper competition sure to stem from combined operations.

Delays Probable

All this is somewhat frustrating for many of the nation's rail executives, who look on mergers as the best cure for the industry's ills. These officials believe that if the mergers now in the works or being negotiated are not derailed by the forces fighting them, the consolidations will at least be delayed, postponing the savings the carriers might make through elimination of duplicate facilities. Delayed in turn, of course, would be any beneficial effects of these savings on the railroad's earnings. Class I railroads—those with annual revenues of more than $3 million—had total earnings of $445 million last year, down 23% from 1959 and the lowest for any year since 1949.

No small number of carriers stand to lose. The I.C.C. has before it applications from 14 railroads to form half as many larger systems. Better than a dozen more of the nation's 106 Class I railroads are now in various stages of negotiating consolidations and almost every road of any size at all is toying with the notion.

The public is bound to be affected by mergers—or, for that matter, by the failure of mergers to come off. Through mergers, the railroads contend they would be able to operate more efficiently, providing better service and possibly even offering lower freight rates. Prices consumers pay for everything from apples to autos reflect these shipping fees. The merger movement also is important to truckers and barge line operators. A more efficient rail system naturally would mean stiffer competition for them.

Union resistance to mergers probably is nowhere better illustrated than between St. Paul and the Pacific Northwest, where the Northern Pacific, along with the Chicago, Burlington & Quincy Railroad and the Great Northern Railway, plan to merge, giving the region a giant rail system. Under the merger proposal, the combined company also would operate under a lease arrangement, the Spokane, Portland & Seattle Railway, which is wholly-owned by the Great Northern and Northern Pacific.

Most Trackage

If approved, this consolidation would create the biggest single U.S. railroad in terms of miles of track. The combined roads would use what is now Great Northern's transcontinental main line, which goes through North Dakota, Montana and Washington. Most of Northern Pacific's present main line, which parallels Great Northern but some 100 to 300 miles to the south, would be used for intermediate and local freight service.

All along the Great Northern and Northern Pacific routes, union men are attaching on automobiles the stickers shown to the left. The stickers have even shown up on cars belonging to rail executives, much to these officials' annoyance. Most of the union effort is concentrated in Missoula and other towns along the Northern Pacific's route since it is this route that is scheduled to lose its "main line" status. Since the middle of February, when the roads officially petitioned the I.C.C. for permission to merge, the unions have flooded these towns with circulars and pamphlets detailing how the unions believe each town will suffer from the merger.

In Billings, Mont., many railroad employes are paying their bills with silver dollars on which are affixed stickers conveying this warning: "This is a railroad dollar. After the merger it will disappear."

Prodded by reports that following merger the railroads would furlough workers in Jamestown, N.D., the unions devised a plan to impress residents there with the importance of the rail workers' payroll. The unions arranged with local bankers to have all union workers paid in $2 bills, a denomination rarely seen in that part of the country. Thus, the bills served as a reminder to Jamestown merchants where the money originated.

In all towns along the Northern Pacific's track, the union stamps this message on each bill it pays: "Railroad-earned union dollars paid this bill."

The railroads contend the unions are distorting the facts. Declares Northern Pacific's president, Robert S. Macfarlane: "Most of

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Merger Barriers: Unions Strive To Curb Railroad Consolidations

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this union propaganda is pure nonsense. In the first place, we never have said that certain employes stationed along the track will definitely be laid off after the merger. There will be some reduction in the work force, of course. But it will be gradual, over a five-year period following the effective date of the merger. In the second place, we have offered, even begged, the union to come and negotiate the work force problem with us. They flatly refuse to even talk to us."

Adds Great Northern president John Budd: "The unions claim they're worried about employment. Don't they realize we're concerned, too? Sure, railroad employment has declined in recent years. But you'd think the brotherhoods would realize that what we're trying to do is build a stronger railroad through mergers that will allow us to better compete with truckers and provide a more stable employment picture. I just can't understand why they are fighting us."

Mr. Budd and Mr. Macfarlane also say that most union workers who would be laid off after merger are guaranteed up to five years of severance pay both by Federal law and by contract agreement between the carriers and the unions.

Letter From Kennedy

Some union leaders believe they may be making progress in fighting rail mergers on another front, the Federal Government. Some months ago, Kenneth Tuggle, chief of the I.C.C.'s finance division, which processes merger petitions, declared that Federal agency was "ready, willing, able—and I might add anxious" to give sympathetic consideration to well-conceived mergers. But now the political climate has shifted, rail union leaders insist. They point to a recent letter from President Kennedy in which the Chief Executive agreed the problem of rail mergers is "a serious one and warrants investigation and consideration of possible corrective measures."

How have the railroads reacted to the President's words? The head of one Western carrier puts it this way: "I wouldn't say the Kennedy Administration will be openly hostile to railroad mergers, but I'd sleep a lot easier if the Republicans were in."

Merger-minded railroads also can count on opposition from Congressmen, governors and state legislatures from areas they serve.

In Washington State, the governor, both houses of the state legislature and the Washington State Public Utilities Commission have all declared their opposition to the Northern Pacific-Great Northern-Burlington merger. In Montana, the Public Service Commission has declared it is against the consolidation and the state legislature has authorized the commission to spend as much as $7,500 to present its arguments against the merger to the I.C.C.

The governor of Minnesota has directed the state's Railroad and Warehouse Commission to intervene at I.C.C. hearings to protect the interests of the state. The commission elected to intervene in opposition to the merger. The mayor of St. Paul, where both Northern Pacific and Great Northern are based, has announced his opposition, too.

Towns Oppose Merger

J. S. Turrell, general chairman of the Order of Railway Conductors and Brakemen on the Northern Pacific, brandishes a yard-long list of towns along the carrier's track that have lined up to oppose the merger. The railroads say they have been trying to get their side of the story across. "But," concedes one Northern Pacific official, "from the looks of things we haven't been trying very hard."

In the East, an official of the Seaboard Air Line Railroad reports that carrier is "having some difficulty convincing towns along the track that the merger (with the Atlantic Coast Line Railroad) is really in their best interests."

The Maryland Port Authority has elected to intervene in the proposed merger of Chesapeake & Ohio Railroad with Baltimore & Ohio Railroad. The authority says it won't decide whether to oppose the consolidation until a thorough study of the effects of consolidation on freight moving through the port of Baltimore has been completed.

Perhaps of even greater significance is the stand being taken by key Congressional leaders. Senate Majority Leader Mike Mansfield (D., Mont.) has said he is opposed to the proposed merger in the Northwest, and lining up with him are Sens. Warren G. Magnuson, chairman of the Senate Committee on Interstate and Foreign Commerce, and Henry Jackson, former Democratic national chairman. Both Sen. Magnuson and Sen. Jackson are from Washington State. Another merger foe is Minnesota Sen. Hubert Humphrey, the Senate majority whip.

In the face of all this opposition, the railroads currently are stepping up their "public information" campaign aimed at "getting the facts straight."

Opposition From Railroads

In some cases, however, the railroads are getting in their own way. Almost every carrier petitioning the I.C.C. for permission to merge will bump into some competing line's efforts to block it. These conflicting railroad claims are certain to drag out I.C.C. hearings and add to the delays already expected due to other opposition and due also to the sheer volume of merger proposals before the commission.

A prominent example of conflict within the industry centers around the fight for control of the Western Pacific Railroad, a small line that operates between San Francisco and Salt Lake City. The two main contestants are the Southern Pacific Co. and the Atchison, Topeka and Santa Fe Railway Co. However, the fight now involves a total of eight carriers. Great Northern and Western Pacific itself have sided with Sante Fe, while Union Pacific Railroad and the Chicago, Rock Island and Pacific Railroad have come to the support of Southern Pacific.

"These control and merger battles do the cause of mergers no good at all," says the president of one line. "Not only will the I.C.C. get all bogged down, but the fights may cause the commission to think twice before approving any consolidation."

One of the prime incentives for rail mergers may be yanked from under the carriers when the U.S. Supreme Court rules any day now on a union suit to force one recently-merged line—the Erie-Lackawanna Railroad—to "freeze" all of the jobs existing before the consolidation. If the court should decide for the union, it would in effect be going far beyond past interpretation of the present laws and agreements.

The Washington Job Protection Agreement of 1936 between the railroads and the unions provides that employes furloughed because of a merger are eligible for up to five years of severance pay. The Federal Transportation Act of 1940 requires that for a period of four years after a merger no employe can be placed in a worsened financial condition.

Thus, until now, a carrier has been required after a merger to keep employes on the payroll at the same wage scale or give him up to five years of severance pay if it can't find the employe another job. But it hasn't been required to insure the continuation of the job itself.

A common practice has been for a merged road to keep on most of its employes, but to reduce its work force gradually to the desired level simply by not replacing many of those workers who retire or go on to other jobs. This reduction in the number of employes results in a significant part of the savings that are usually expected from a merger and if roads were prevented from cutting their work forces there probably wouldn't be such a rush to merge.

"I can tell you right now," says one rail executive, "that if the Supreme Court decision goes against the carriers, it will kill the whole merger movement in an instant."