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VOLUME III

STATE OF NEW JERSEY
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PUBLIC HEARING

before

SPECIAL SENATE COMMITTEE TO STUDY PASSENGER AND FREIGHT
RAILROAD OPERATIONS WITHIN THIS STATE AND THE ADVISABILITY
OF PROVIDING FOR THE CREATION OF A PUBLIC AUTHORITY WITH
POWER TO ACQUIRE AND OPERATE PASSENGER AND FREIGHT RAILROAD
FACILITIES, CREATED UNDER SENATE RESOLUTION NUMBER 4.

Held:
August 20, 1965
Court House
Morristown, New Jersey

MEMBERS OF COMMITTEE PRESENT:

Senator William E. Ozzard [Chairman]
Senator Thomas J. Hillery
Senator William F. Kelly
Senator C. Robert Sarcone
Senator Nelson F. Stamler
Senator Milton Woolfenden, Jr.

Also:

Samuel A. Alito, Secretary

* * * * *

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William White, President Erie Lackawanna Railroad Company	2



SENATOR WILLIAM E. OZZARD [Chairman]: Gentlemen, I think we will start the session. Senator Sarcone has sent a message that he will be here but slightly late; Senator Stamler is on his way also and they will have to fill in later.

Now, Mr. White is here, is he not?

MR. WHITE: Yes.

SENATOR OZZARD: Mr. White, I would like to call you first, and I would like for you to come up here, if you will. I think our Secretary asked that either the Comptroller or someone of equal rank, at least someone fully informed on the business aspects of the Corporation, as well as one of the operation men, be with you. Now, if you would like to have them up at the table at the same time we will be glad to have them. I would like, however, to have their names at this time.

MR. WHITE: Yes, Senator. This is Mr. E. S. Root who is Comptroller --

SENATOR OZZARD: E. S. Root?

MR. WHITE: E. S. Root, Comptroller of the Erie Lackawanna and, as such, he is the Chief Accounting Officer. And T. E. McGinnis, General Superintendent.

SENATOR OZZARD: How do you spell that, sir?

MR. WHITE: M-a-c-G-i-n-n-i-s, General Superintendent.

SENATOR OZZARD: Right, sir.

Now, initially, Mr. White, we would like, if you would - if you have a formal presentation, we will accept that but we, along with it, are particularly interested, initially, in the present condition of the Railroad insofar as passenger service

is concerned, and follow that by your freight operations.

If you have a formal presentation, or reprints of it, we would appreciate copies, if you have them.

MR. WHITE: Yes, we do, and I think it would help you, Senator.

SENATOR OZZARD: Incidentally, I'm Senator Ozzard, Mr. White, and this is Senator Hillery of Morris County, Senator Woolfenden of Sussex County, and I mentioned the other two that will be here. Senator Kelly, of Hudson, will be absent, and Senator Lynch is on vacation - he will also be absent.

Yes, sir, Mr. White.

W I L L I A M W H I T E: Well, we appreciate the opportunity of appearing here today. I think it's very fitting that your Committee should undertake an investigation of our passenger and our freight operations, and we will be as helpful in that as we possibly can. We've had the advantage of seeing the record of your previous hearings so perhaps the information that we've brought along might be helpful to you and perhaps expedite this thing.

I would like to read this statement into the record, which is a rather broad statement but outlines our situation with respect to the principal matter in which you are interested, and that is the suburban passenger service.

If the Erie Lackawanna Railroad were not involved in furnishing suburban passenger service in the New Jersey-New York area and could retire extensive facilities that are

required to be operated and maintained for that service, its income would improve approximately \$11 million per year based on present revenues and costs. The Company since merger of the former Erie and former Lackawanna in 1960 has suffered huge losses and prior to merger the separate companies suffered losses in 1958 and 1959. The total deficit for the five years from 1960 to 1964 inclusive was \$88.5 million, an average of \$17.7 million per year. In the second quarter of 1965 the Company earned a profit of \$1,950,000 and that is the first quarter the Company has had a profit since merger in 1960. For the first six months of 1965 the Company had a profit of \$514,000. While we are pleased to be able to report a profit, it is wholly inadequate. Whether profits can be sustained depends on how well general business conditions hold up and whether or not there is a strike in the steel industry and whether automobile sales and production will continue at the high rate of the last three or four years. In short, we cannot predict today that the year 1965 will produce a profit.

The greatest obstacle that Erie Lackawanna Railroad has to overcome in order to stay in the black is the burden of loss sustained in operating its suburban passenger service. You understand, of course, that the continuing loss sustained in operating suburban passenger service is one that is borne by the Company's security owners - not its management - and, therefore, in effect the Company's security owners are subsidizing the service. For this there can be no justification.

The State of New Jersey has recognized the problem in the last five years by its modest contribution toward the

cost of providing the service. That contribution for the twelve-month period ended June 30th last was \$2.2 million and that is a reduction from its contribution of \$2.7 million in the fiscal year ended June 30, 1962; a reduction that has taken place while costs have been going up and revenues down.

I wonder if you realize how extensive Erie Lackawanna's suburban service is. It originates at eleven different points in nine counties and transports some 35,000 people into Hoboken each week day Monday to Friday inclusive, and approximately the same number outbound from Hoboken in the evening. This requires the operation of 145 passenger trains on week days to bring the people in, and an equal number to take them out in the evening, or about a total of 290 trains per day. Except for the Long Island Railroad, Erie Lackawanna's service on a multiplicity of lines exceeds by far that of any other railroad in the tri-state area - New Jersey, New York and Connecticut. No railroad in Chicago operates such an extensive service on such a multiplicity of lines. The nearest approach to it is service performed by the Pennsylvania and Reading Railroads in the Philadelphia area.

The operation of Erie Lackawanna's service involves the use of 245 multiple unit electric cars operated from Dover to Hoboken including the Gladstone and Montclair Branches, 211 coaches operated on non-electrified line of the former Erie and a portion of the former Lackawanna, 44 Diesel locomotives and 5 ferryboats as well as the Hoboken Passenger Terminal with its extensive interlocking and track facilities, multiple

tracks and a large number of stations many of which are between a half mile and a mile apart and do little freight business - some of them none.

The cars used in the service are none of them less than 30 years old and some of them are 40 years old. They are approaching the end of their useful life. Likewise the Diesel locomotives which are all over 15 years old and are approaching the end of their useful life. With one exception, the ferryboats are all over 50 years old. The electrified system on the former Lackawanna side with its sub-stations and rectifier stations have now been in use for over 35 years and require extensive rehabilitation. There is no doubt that all of these locomotives, cars and ferryboats need replacement and that the electrified system needs rehabilitation. In this day and age, of course, cars should be air-conditioned and have increased capacity. To replace the equipment, rehabilitate the electrified system and to bring the maintenance of stations, structures and track up to a normal condition would cost \$80 million. Erie Lackawanna does not have the resources to carry out such a replacement and rehabilitation program and, of course, because of its deficit operation it has poor credit. Certainly no financial institution would finance such a program for a service that loses so much money. But, even if the Company had the resources and credit to do it, the Board of Directors could not justify the investment in a service that was so unprofitable.

I need not tell you about the river crossings built and operated by the Port of New York Authority, the extensive

highway system that has been developed in northern New Jersey, and the bus terminal built and operated by the Port of New York Authority at the eastern end of the Lincoln Tunnel which is already too small and needs to be enlarged. You know also how the use of buses and private automobiles has increased as a result of these facilities.

I would remind you, however, that commuter travel via rail has decreased substantially. Using the year 1950 as an index of 100 we find that the total number of commuters handled into New York City by all railroads in 1961 had declined 23%; from the Long Island sector the decrease was only about 3%; and from the Westchester sector only 16%: but from the New Jersey sector, the decrease has been 45% and on the Erie Lackawanna the decrease has been 47%. You may ask why the Erie Lackawanna decrease has been greater than the other sectors; the answer is the Hudson River barrier which requires a change of trains at Hoboken. The Pennsylvania, New York Central, New Haven and Long Island land their passengers on the island of Manhattan; Erie Lackawanna does not. The buses and private automobiles land their passengers on Manhattan Island also and with the completion of the Aldene Plan Jersey Central's passengers will be able to change at Newark to Pennsylvania or PATH trains and land on Manhattan Island. Erie Lackawanna will continue to suffer the disadvantage of the Hudson River barrier.

More serious than the loss of commuters during the last fifteen years has been the loss of off-peak-hour travel on Erie Lackawanna trains due to the greater convenience

offered by using buses and private automobiles which land people on Manhattan Island, the location of huge shopping centers and department stores in northern New Jersey which make unnecessary travel to New York City for shopping purposes, the television set in almost every home permitting people to watch baseball and football games as well as movies from their living room chairs instead of traveling to and from New York City and other points.

As you know, a restructuring of the railroads in the eastern part of the country is taking place through mergers. The Norfolk & Western, Nickel Plate and Wabash have already been merged. The Chesapeake & Ohio has control of the Baltimore & Ohio and most of their general and executive officers are now joined to serve both railroads. Last March the Examiners who conducted extensive hearings with respect to proposed merger of Pennsylvania and New York Central issued their report in which they recommended that the Interstate Commerce Commission approve the merger of those two large systems although they made a finding in which they said - and I quote from that report:

"...we believe the conclusion is warranted that E-L would have little, if any, chance of survival in face of the proposed merger were it to remain independent and reliant solely on its own resources to compete with the merged system."

In its report and order approving the merger of Norfolk & Western, Nickel Plate and Wabash the Commission provided certain conditions and the Examiners in their proposed report in the Penn-Central merger case recommended some conditions intended to benefit E-L but none of them is

adequate to preserve Erie Lackawanna. It simply cannot survive if the Pennsylvania-New York Central merger becomes effective and Erie Lackawanna remains independent. Barriers to the inclusion of Erie Lackawanna in the Norfolk & Western system are the deficit incurred in operating its suburban passenger service and the taxes imposed on Erie Lackawanna by the State of New Jersey.

Your Committee is very properly concerned with the retention of Erie Lackawanna's suburban service but our concern is the life or death of the Company. Ridding our security owners of the burden of loss sustained in operating suburban passenger service is one of the most important things that will determine whether Erie Lackawanna continues to live or die.

Your Committee has probably read accounts in the press to the effect that Erie Lackawanna will enter into another contract with the State for operation of its suburban service for the six-month period ending December 31st of this year. You are also aware of the fact that a so-called "demonstration project" is proposed to start September 1st and continue until October 30, 1966. The Governor has already presented a proposal to the Housing and Home Finance Agency seeking a Federal contribution toward that project from monies appropriated under the Mass Transit Bill, which was sponsored in the Senate by Senator Williams of New Jersey after which he fought very hard to secure its enactment. Congressman Widnall of Bergen County was also very effective during passage of that bill by the House of Representatives.

Under the proposal the State would provide slightly more than \$2 million and the Federal Government slightly more than \$4 million. Erie Lackawanna is going to cooperate in that project but what must be found is a permanent solution - a solution that would rid the Company's security owners of the burden of loss each year in providing the suburban passenger service.

You may ask why Erie Lackawanna will not contract to operate suburban service beyond December 31st of this year. The answer is that relief from the loss incurred in providing suburban passenger service is of such vital importance that Erie Lackawanna is ready to forego payments for contracted service beyond December 31st and will, therefore, seek permission from regulatory authorities to discontinue the service. Of course, if the demonstration project becomes effective we would not propose that authority for discontinuance of the service, which we would seek, would be effective prior to the termination of the project in October 1966. If it does not become effective, we must seek to discontinue the service at the earliest possible date after next December 31st. The decision to forego further contract payments from the State is one that we must make, notwithstanding the need for such payments, because as I have said hereinbefore, we are dealing with the life or death of Erie Lackawanna. Therefore, we can reach no other decision unless a permanent solution to the commuter problem is found promptly. If we don't take this course of action and continue to bear the burden of loss that the Company has been

suffering despite some aid from the State and if the Penn-Central are permitted to merge, death for Erie Lackawanna will result anyway.

In conclusion I want to make clear that we understand fully what the effect would be if service were discontinued - the effect upon commuters and the economy of the territory served; the depressing impact upon real estate values and the loss of employment for many of the Company's employees. The discontinuance of suburban service by the Boston & Maine would have had the same effect but when the Interstate Commerce Commission authorized abandonment of that service the Massachusetts Legislature stepped in to prevent loss of the service by the creation of an agency to contract with the railroad to operate the service for the account of the agency which now compensates the Boston & Maine on the basis of avoidable cost. The commuter service operated by the Pennsylvania in both the Pittsburgh and Cleveland areas, although not so extensive as Erie Lackawanna service in New Jersey, likewise had an impact but has been discontinued.

The Erie Lackawanna simply must be relieved of the burden that is imposed upon its security owners as a result of the operation of this service to save itself from bankruptcy and to make possible an affiliation with one of the merged railroad systems. Failing to secure such an affiliation and with the consummation of a Penn-Central merger, we agree with the Examiners' finding that Erie Lackawanna would have little, if any, chance of survival as either a freight or passenger carrier. Thus it is a matter

of survival we are dealing with and we urge that the Legislature come to grips with the problem promptly and find a permanent solution if preservation of the service is desired.

BY SENATOR OZZARD:

Q Now, Mr. White, I think you are aware of the fact that our resolution directs this Commission to examine not only the passenger side of the railroad picture but also the freight aspects of it, and I find little in your statement that deals with the freight activities, the condition of the railroad in its freight operations. This is important to us in our study and ultimately in our report because the resolution indicates at least an intent for the State of New Jersey to examine the possibility of going entirely into the railroad business, not just the passenger side of it.

A I assume, Senator, you confine yourself to intrastate freight business.

Q Yes. A Not interstate.

Q That's right. A Well, so far as intrastate freight business is concerned I can give you some information.

Q Would you do that please. A Yes. I think it might be helpful to you if you had a set of these figures because here we have a statement showing information having to do with intrastate freight traffic handled by Erie Lackawanna in New Jersey. (Statement given to Committee.)

You will see in the first group on the statement headed "Estimate of Annual Freight Revenue from State of

New Jersey Intrastate Traffic" - in the top group are the number of cars and the revenue from local service for six months, October to March inclusive. Local service means that service which originates and terminates at stations of Erie Lackawanna.

In the next group there are shown for October, 1964 and March, 1965, cars and revenue from interline service, that is, business which either originates or terminates on another railroad and handled by the Erie Lackawanna also, which may originate or terminate it, but it's intrastate in the State of New Jersey - I mean, it's interchanged between Erie Lackawanna and some other railroad. So this is all intrastate business. And projecting that to 12 months, there are 12,248 cars of freight handled in intrastate traffic, the revenue from which is \$419,094.

Now, the local business, which originates and terminates on the Erie Lackawanna, produces revenue on an average of \$28.10 per car and 70% of it is waste water handled in tank cars from Drew Chemical Company at Boonton down to the Hackensack Meadows where it is disposed of because about 15 or 20 years ago Drew was prohibited from discharging its waste product into the river and - the Lackawanna at that time -- and ever since has been handling that waste water. So 70% of that business is that waste water.

The interline traffic produces about 6400 cars a year and the average revenue on that accruing to the Erie Lackawanna is \$39.80. And if the State wishes to take the

revenue from that traffic and assume the loss in handling it, you're welcome to it. We're glad to pay that price because it would relieve the company of loss.

Now, I don't know and we can't try to do the accounting to try to figure out just what the loss is on that service because it is intermingled with interstate business. We can't give it to you. It wouldn't be - it would be an estimate at best. We know it's handled at a loss because of the very light revenue that's involved. Also a lot of that local traffic, that 5840 cars are just empty cans moved from American Can Company at Marion Junction or Jersey City, I guess, within the corporate limits of Jersey City, over to a warehouse of theirs in Secaucus. I think the revenue on that is about \$39.00 a car --

MR. ROOT: \$31.00.

-- \$31.00 a car and it has to move through Croxton Yard, pulled from an industry. First, empties have to be placed and then the loaded cars pulled and the loaded cars placed at Secaucus - a 5 miles distance or less, and then the empties pulled, and there's no money in that, gentlemen.

Q A good part of your business is, therefore, in interstate traffic of freight.

A Yes, sir.

Q And with New Jersey as a gateway into the New York area, I would like to know what the financial picture is of the Erie Lackawanna Railroad on its total freight operations.

A Well, last year, for the year 1964, the freight operations of Erie Lackawanna, after deducting from revenues operating expenses, all taxes, hire of freight cars, and rents of various

kinds, produced a profit of \$11,248,000. That is known as net railway operating income.

Q What was your gross? A The freight revenue was \$186 million.

Q Do you have the total number of car loadings on that as you had on intrastate? A No, we don't.

Q Now, I didn't want to start the questioning, the Committee wanted to get the freight picture into this and we will go into the full questioning later. Did either Mr. Root or Mr. McGinnis have any separate presentation to make?

A No, they do not.

Q They are here for questioning and available information. A Yes, sir.

SENATOR OZZARD: Well, that being so, first I would like to introduce Senator Stamler who, unfortunately, was detained a few moments but he is now with the Commission.

I would like, first, to turn the questioning over to Senator Hillery of Morris County.

Senator, suppose you take it from there.

BY SENATOR HILLERY:

Q Mr. White, on the original merger with the DL&W, of the Erie, what was hoped to be gained by this? Was this supposed to bail out the railroads? A Well, Senator, I wasn't with either one of the railroads at the time.

Q I know, but you must have some history on this, the reason for the merger. A Yes, it could be

the purpose was to effect economy and to help each railroad. Both of them were in difficulties after 1957, having deficit operations. Prior to merger they had coordinated their passenger terminals at Jersey City-Hoboken, the Erie abandoning it's and going over and using Hoboken. And also through the southern tier of New York State, between Binghamton and Corning, a distance of roughly 90 miles, where they paralleled each other quite closely they had coordinated, prior to merger, the use of their tracks and their passenger stations. Then there were discussions between the Erie Lackawanna - between the Erie, the Lackawanna and the Delaware & Hudson, with which I was then and still am associated, looking toward a merger of the 3 railroads. But financial terms could not be worked out that could have been approved by the D&H so D&H pulled out and the Erie and Lackawanna went on its own. And they estimated that they would save some \$13 million a year as a result of merger once the employees' severance pays or employee protection benefits had been paid. And I have tried to determine whether or not all of that saving was made and I have determined that it has been made, that and more, and especially in view of the fact that wages have continued to rise throughout the period since the merger. So savings were accomplished that were anticipated and I think more have been accomplished, just as a result of merger, understand.

Now, at the present time, because of general business conditions, I think there's more freight to move, and because we in the last 2 years have bought a lot of new equipment, freight cars, diesel locomotives, and an extensive car repair

program under way so that we have had more cars to furnish shippers and more cars of the type that shippers today require and are necessary to meet competition, we have been able to increase our freight revenues quite considerably. That's why in the last quarter and in the first 6 months we had a little bit of profit.

We hope it's a turning point but the profit, of course, of a half million dollars in a half year is not much and our cash situation is not considerably improved except that we are able to pay our bills currently today.

I think you have there before you - yes, you do, - a statement of cash on hand and vouchers held by Erie Lackawanna on various dates from 1962 to 1965, June 30, 1965. I just call your attention to February 28, 1964, when the company had cash of \$5,100,000 and was holding up bills, which it couldn't pay, of \$6,165,000. It wouldn't have been any problem at all at that time to go into Bankruptcy Court and petition for bankruptcy and had it granted.

On June 30, this year, we had \$8,343,000 cash and the vouchers held were \$626,000. Now we don't have any vouchers held at the present time. The cash is substantially the same as it was on June 30th. So we are just that much better off but that's far from healthy.

A rule of thumb that most of us use in the railroad business is that we should have cash equal to two months of operating expenses. Well, that means that the Erie Lackawanna ought to have about \$30 million in cash in its treasury. I say cash, I mean either cash or temporary investments that

could promptly be turned into cash.

Q Well, Mr. White, then in 1965, this is the first year that you've shown a small profit since the merger?

A Since the merger, yes.

Q This is combined freight and commuter service.

A Oh, yes. It's all operations, all freight and all passenger.

Q And all of the capital expenditures have been on freight operations, from your statement. A Entirely.

Q Nothing at all for commuters. A No. Nor for through-line passengers. Everything for freight.

Q Well, as you know, this Commission was set up by the Senate to investigate the possibilities of having an authority take over the operation of the commuter service or the combined commuter-freight service. What do you think of that? Do you think an authority would have any more success than you are having with your operation?

A You asked me first what I think of that. I testified in Trenton in support of S-292 a couple of months ago which proposes the creation of a State agency which I think is a move in the right direction.

Now your second question was, do you think that such an agency could operate the service better, and I assume more profitably, than the railroad can. My answer would be this, that if the State or such an agency made capital expenditures of around \$80 million to provide all new modern air-conditioned equipment, larger seating capacity than our present-day old cars, with a push-pull operation over on the Erie side where

diesels are used, and the electrification - rehabilitate it to put it on a commercial basis where some saving could be made - I think there could be - you could expect that there would be probably an increase in the number of passengers and, therefore, some increase in revenue; there would be some decrease in cost because of the push-pull operation, principally in the terminal area of Hoboken because the equipment would not have to be backed out and put in the station - although you must remember that the bulk of 145 trains move in in the morning and out in the evening in a few hours - so that there could be some saving in yard cost there.

I would say, after 5 years expenses would start to increase. The new cars by that time would have to begin going through shop. So the first 5 years when they were new there wouldn't be so much cost.

So my answer to your question, Senator, is that I think that probably there would be more revenue, there would be some saving, but the operation would still be carried on at quite a considerable loss. Now, that would depend a good deal also on what the agency would do. If the agency would put on a lot more service because of perhaps public demand and because they think that it would draw more people, the cost would go up. But an agency cannot remove that Hudson River barrier and that is a sun-of-a-gun.

Q As you know, the State set up the Division of Transportation with the original intent of the bill that a separate division be set up and Governor Meyner was then Governor of New Jersey and he insisted that it be included in

the Highway Department. Do you think that a separate division, if it had been set up, would have done a more effective job than it has done in connection with the Highway Department over this last period of years when the State has been giving it subsidies? A I would doubt it.

I would doubt it. They do quite an extensive policing job for the low price they pay, and there may be one advantage in having --

Q Their programs -- A -- a thing like that in the Highway Department because you have --

Q I say, their program has still been a stopgap measure -- A Oh, yes.

Q -- that's all it is. A Yes, of course.

Q Do you know of any over-all plans that they might have for this problem, outside of extensive subsidies?

A No, I don't.

Q I know you have been dealing with the Division. As a matter of fact, the railroads seem to know more about the activities than the members of the Legislature in some respects because on occasion we have been faced with this problem by our constituents and we've tried to get some of the information that we need about future plans and the only thing that we've been able to get is the fact that this experimental project is coming through from the Federal government. We are not guaranteed on that. How do you feel about the counties getting into this problem of carrying on commuter service - I mean, particularly in reference to bonds, the sale of bonds to handle it?

A Well, Senator, I really don't have a fixed opinion about that. I should think that the State would have to take leadership in this thing, that the Legislature would have to take action, and that a State agency would probably be much more effective than a county, a group of counties organizing to do this thing.

Now, you passed recently the Tri-State Transportation bill, organizing that committee, and in cooperation with Connecticut and New York City. Our interest - I don't think New Jersey's interests lie with Connecticut one bit but they certainly do to some extent with New York. However, that Committee, as I understand it now, is pretty largely an advisory group, it will not be an operation group. I don't think a State agency that's contemplated by S-292 would necessarily be an operating group in the sense that they would become railroad operating men, like Tom McGinnis here, a superintendent and so on. We have to still operate freight trains on railroads and intermingled with the passenger service and that has to be done safely, and it can't be done by two groups.

Q We learned, in our questioning of the Pennsylvania Railroad at the last hearing, that the City of Philadelphia runs an authority for commuter service. They're evidently doing it at a profit. Do you think that that could be done in the New Jersey Metropolitan Area, a commuter service alone, or is the Hudson River still there?

A The Hudson River is still a barrier but I've never heard that that was done at a profit in the Philadelphia area.

Certainly the Reading Railroad has been talking about its losses down there and wanting to get out of that thing entirely. So, if it's profitable to the municipality or counties, whatever is involved there, it certainly can't be to the Reading Railroad.

Q You are not familiar then with this operation.

A But I am not sufficiently familiar to talk about the results of the Philadelphia thing, no.

SENATOR HILLERY: That's all for now,
Senator.

SENATOR OZZARD: Senator Woolfenden.

BY SENATOR WOOLFENDEN:

Q I only have a couple of questions, Mr. White. One is that as we all know in business it is a policy to set aside funds to replace equipment to keep our business right on top of the heap, so to speak, and I have often wondered why when the passenger service was more lucrative or profitable - why funds were not set aside to keep equipment replaced and keep it up to date so that you could still encourage passengers to use the rail service. A Well, I don't know when it was profitable, Senator. Going back to the 1930's - let's distinguish between through-line and suburban and I'll talk first about the suburban. Prior to the building of the George Washington Bridge the Erie, the old Erie, didn't suffer very much loss from its suburban service, and it did buy cars, it bought cars in the '20s, it bought cars as late as 1934. Now, I happened to be General Manager of the Erie in New York in '36 - '37. The George

Washington Bridge was opened in 1932 and the business on the northern branch, which is right up against the west side of the Palisades, was just gone. It gradually crept over, as the highways were built and more busses were run, into the West Shore Line of the New York Central, and then the New Jersey-New York line of the Erie and going west from the Hudson River. I say the Erie bought new cars in 1934. Now the war came along and people couldn't get gasoline and business on the trains was pretty good. I can give you something - show you something about that. Well, I came over to the Lackawanna as President the first of January, 1941, and throughout the war and for a few years thereafter our business was pretty close to a break-even basis. We had the electric service, of course, - more economical, the equipment then was only 12 or 15 years old, and we had a good mid-day business, off-peak-hour business. People couldn't get their gas during the war, of course, and for sometime after that. We weren't hit so hard by bus competition nor the private automobile over on the Lackawanna side. It went along pretty good until Route 3 was built as an access route to the Lincoln Tunnel and, by golly, then the Lackawanna for the first time began to feel seriously the result of bus competition and the private automobile. I lived in Montclair at the time and I know all the ladies in Montclair started to drive their automobiles when they went to New York to shop or to the theatre and so on. And why? Because they didn't have to change trains at Hoboken and go to PATH or Hudson Tubes or the ferries and then need some

other conveyance in New York City.

I have here a chart that shows for that commutation service the number of commutation and multiple ride passengers, and multiple ride would be weekly tickets and 10 trip tickets, and these are combined figures for Erie and the Lackawanna prior to merger and the Erie Lackawanna after the merger, and you can see there in the year 1940 - now, that's before the war - there were some 24 million passengers handled on multiple ride tickets. During the war that went up to about 26 million. And beginning in 1950 it started a steep descent until in 1964, from a high of 26 million in 1947, it dropped to 11 million in 1964.

Oh, your question is, why didn't the railroads lay aside money to buy new equipment. Well, I don't know of any railroad or any business that necessarily lays aside money. They borrow money to buy new equipment, pay something down and pay it off over a period of years, 15 years usually is the maximum. But with a thing like that happening to your business you don't invest money in new equipment because you don't know how long you're going to be in it and your losses continue to increase.

Now, in the through-line business, I was with the Lackawanna during the war and subsequently to 1952, and I prevailed upon the Board of Directors of Lackawanna to go along with the purchase of all new through-line cars, air conditioned, lightweight, new sleepers, for Chicago-Buffalo-Elmira-Binghamton service, and new dining cars for the day train between New York and Buffalo, which we named

at that time "The Phoebe Snow," and a tavern-lounge-observation car on the rear end. And I told the Board of Directors at that time, "This is a gamble." Back in the thirties I rode the Broadway Limited between New York and Chicago when it had no more than 30-35 passengers on it, and I did that two or three times - of course, in real depression years. During the war, of course, the passenger business picked up considerably and we thought we would make an attempt to hold it, see if we could hold it. We had pretty good track and we improved track, and we were able to cut the schedule between Buffalo and New York to 8 hours which was a little bit faster than the Empire State which had, however, a little bit longer distance to go.

So, we took the gamble, we bought the cars, and people liked them, but right away Binghamton, Scranton, Elmira built airports; New York and Newark airports were improved; Buffalo had an airport; Route 17 was improved; the New York Thruway was built; and the business just kept going down. So that gamble didn't prove to be a profitable one but it gave us the satisfaction of spending money to do what we could to try to hold on to the through-line business on the Lackawanna. It wasn't successful and today we find it merely a good defense against those who say, hell, you don't want business, you try to throw it away, because nobody has any nicer equipment in the country and nobody had better track in the country.

We're talking today about this high speed between New York and Washington. Fifteen years ago I let the Train-of-Tomorrow, which the General Motors people had built, run 109

miles an hour on the Lackawanna between Wayland and Bath, New York. There is no magic to the speed. The know-how is there. We can do it given the right kind of railroads and the right kind of equipment, but it doesn't work.

Now, this experience with respect to through lines of Erie Lackawanna, is not confined to this railroad. Pennsylvania and New York Central are experiencing the same thing. I know the western lines are experiencing the same thing and are beginning to squeal. They've held on longer and they've given good service, but they generally had one good train, except for the Santa Fe and the Union Pacific, they usually had one good train and one secondary train, and the good train got a lot of publicity, but they are not holding the business today, and the Union Pacific service is probably 25% of what it was 15 years ago. I don't mean in quality, I mean in quantity between Omaha, Chicago and the West Coast, San Francisco and Los Angeles.

So that is the reason why we have spent now our money for freight equipment. It's the only profitable business we do and without freight cars of adequate numbers and right types and diesel locomotives to haul them so that the service is good, there is no hope of making any money, and that's where we have to invest.

The fact is that we bought about \$40 million of new freight equipment in diesels and freight cars and haven't paid a cent down on any of it, not one cent down. We've been able to finance it through banks who have not charged us exorbitant interest rates - usually we pay 4 3/4% for the

first five years and 5% for the next 5 years. We have to pay it out in 10 years instead of the usual period of 15, but the interest rates they've charged us have been very, very reasonable in view of the fact that we have not been able to pay one nickel down.

I might say, too, that this has not all been from big banks, it's been banks along the line of the Railroad that have been depositories for years participating to the extent of perhaps \$200,000, a half million, and they have gone along and associated with the big banks in taking part of the risk. They have been very helpful.

Q Thank you, Mr. White. The only other question that I have is, often times we have heard that charges have been made against passenger service for operations rather than against freight service. Is there any foundation to an argument such as this? I should probably ask Mr. McGinnis this question.

A I'll let Mr. Root answer that question, if you don't mind. He's the Chief Accounting Officer and if he doesn't have the figures right --

Q Well, this is not my quote but we have often heard this.

A Of course.

SENATOR OZZARD: Some of us believe it, too.

MR. ROOT: The charges as made between freight and passenger service are under rules prescribed by the Interstate Commerce Commission and they send their auditors to check us periodically. We follow their rules. As a

matter of fact in my entire experience on the railroad, I never recall any time where the auditors have taken any exception to the accounting as between freight and passenger, in other words that we've deviated from the prescribed rules of the ICC.

SENATOR WOOLFENDEN: Thank you.

MR. WHITE: May I add to that? So far as suburban service is concerned, Mr. Root is guilty of not having charged enough to it. So we got Wyer, Dick & Company, a few years ago, to come in. And I don't know of any better company - any company better qualified to do railroad costing work than Wyer, Dick & Company. And we brought them in to provide figures from the outside with respect to our suburban service situation, and they found that the Erie Lackawanna accounting department was not charging enough to suburban passenger service, the accounting wasn't sufficiently refined.

MR. ROOT: I'll plead guilty to that.

SENATOR OZZARD: If we are ultimately successful in getting the Governor to agree with us that we need some money for a good accounting firm, you have no objection to our sending them to go through your books to answer that question for us directly?

MR. WHITE: Not a bit. Not a bit. We've

lived in a fishbowl all of our lives and we're just willing to stay there.

SENATOR OZZARD: All right. Thank you.

I would like to give the Court Reporter's fingers about a 5 minute break so let's take a break at this moment and let her have a rest.

(Recess)

After Recess

SENATOR OZZARD: Gentlemen, we would like to resume. Senator Kelly of Hudson County has arrived and is sitting at the end of the table. We will let you sit for a few minutes, Senator Kelly, until you get filled in here.

I would like to turn the questioning over to Senator Stamler of Union County.

MR. WHITE: Before doing that, Senator, would you give me the privilege of adding to an answer to a question of Senator Woolfenden having to do with the through-line passenger service. I just told about the Lackawanna buying all new equipment back in '48. Mr. Root happens to have some figures here. In 1946 - now that is after the war - Lackawanna handled 4,800,000 coach passengers. That is when we bought the new equipment. We got it in 1948. In the year 1958 that coach business had dropped down to 1,500,000 coach passengers. Sleeping car - parlor and sleeping car passengers in 1946 were 189,000. In 1958 that was down to 46,500. That is the trend.

SENATOR OZZARD: This is through-line?

MR. WHITE: That's through-line, yes, sir.

SENATOR OZZARD: Thank you very much. Senator Stamler.

BY SENATOR STAMLER:

Q Mr. White, one of your comments was that you had to save yourself for the security owners from bankruptcy prior to the end of this year by getting this assistance from the Federal government. Is that still so? A I don't recall ever having said that, Senator, that the Erie Lackawanna had

to save itself from bankruptcy by the end of this year. No, I never said anything like that.

Q Well, are you close to bankruptcy? A We passed through a period when we were bankrupt. At the moment we are not.

Q When was that period? A In the early part of 1964.

Q This was after you were retained as chief executive officer? A Yes.

Q So that your position - I don't mean yours - the railroad's position has improved since you have been chief executive officer. A It has improved to the extent that we have made a little money in the second quarter and the first six months of 1965 plus the fact that our cash position is a little bit better and our working capital position is a little bit better.

Q Well then, let me be explicit. Since June 18, 1963, when you were retained, the railroad's financial position has improved? A It has improved somewhat.

Q And I see that your salary is \$50,000 a year. A No.

Q Am I wrong? A No. Here is the salary scale according to the Interstate Commerce Commission. You have it there. You have to read the footnote at the bottom.

Q I read that. I was going to get to that in a moment. A Yes. That's all I get, \$50,000.

Q \$50,000. A Yes.

Q Well, that was the question I asked you.

A All right.

Q And you also said that wages have risen considerably in the past few years. What percentage have wages risen, percentagewise, not executive? A Yes, they haven't risen.

Q We'll get to that in a minute. A Oh, I can't -- it has been over 20 per cent. Since when?

Q Since when? Give me a date. A I'm going back to 1960.

Q 1960. All right. A Over 20 per cent.

Q Prior to June the 18th, 1963, which railroad were you with? A Delaware and Hudson and still am.

Q As president? A I am president of the company. I am chairman of the board of the railroad corporation. Delaware and Hudson is a holding company. It owns all the stock of the Delaware and Hudson Railroad and a couple of other short lines.

Q Does it own any other commuter lines in New Jersey?

A It doesn't own anything in New Jersey.

Q Well, what does it own in New Jersey? A Nothing.

Q Nothing at all. A No.

Q Does the Erie own the Delaware and Hudson? A No.

Q It has no connection at all? A No, not at all. We have track connection and do freight business.

Q I meant financial connections. I'm sorry. A No.

Q It has none at all? A None at all.

Q And has the Erie Railroad any connections with any other - any financial connections with any other railroad?

A No, it has not.

Q It is not owned by any other group of railroads?

A It is not.

Q Do you receive a salary from the Delaware and Hudson?

A Yes, sir.

Q Is this the \$500? What is the salary, sir?

A Delaware and Hudson salary doesn't interest you, I am sure, Senator.

Q Well, it did, otherwise I wouldn't have asked, Mr. White.

A It may interest you, but it is merely inquisitive. I don't think that is a proper question to ask of me.

Q Well, I merely think --

A That has nothing to do with the purpose of this hearing.

Q The purpose of this hearing as I recall the resolution was to study the possibility and the practicability of setting up a State agency or a State authority to operate both the commuter and the freight systems - the possibility or practicability.

A All right.

Q And what we are trying to find out, since the State puts a great deal of money by way of subsidy into railroads - I feel that we have a right to make inquiry into the amount of time and effort that a railroad car on this long haul is charged to New Jersey. Therefore, your salary might be equally charged to New Jersey.

A Not my Delaware and Hudson compensation.

Q Not at all?

A No, sir.

Q You don't want to answer it?

A No.

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A Not my Delaware and Hudson compensation.

Q Not at all?

A No, sir.

Q You don't want to answer it?

A No.

Q All right, sir. A No, it has nothing to do with it; it is entirely separate.

Q Well, it is a question of opinion. You just don't want to answer it. A No, I don't intend to answer it.

Q All right, sir. What were you earning prior to June the 18th, 1963? A From whom?

Q From whomever you were employed by. A I wasn't earning anything with which the State of New Jersey has any interest.

Q You were not earning anything from the Erie Railroad at the time? A No.

Q For instance, your counsel, general counsel for the company, part of his effort is toward the New Jersey commuter system too, is it not? A He is engaged in anything that involves Erie Lackawanna Railroad.

Q Therefore, part of the commuter system? A Yes.

Q Can you tell me this: How many commuter tickets are sold by the Erie Lackawanna within New Jersey for commuter service to New York or to Newark? A No, I can only tell you that we have -- [Paper handed to Mr. White.] I think, Senator, this might answer your question. This is a count of passengers made May 3rd to 7th, inclusive, this year, and in one direction, eastbound, there were 34,000 people handled from origin points in New Jersey to Newark and Hoboken. That was the average per day. Now that is not the number of tickets, understand. This is the passenger count on the train.

Q In other words, you couldn't break down the number

of commuters who might have purchased tickets, let's say at the Summit Station, in that period of time in the month of May?

A Oh, that can be developed and could be furnished, yes - sure.

Q Well, if you could, I think it might be helpful so we get some picture of what the actual commuter service rendered is, since this is our problem, and the number of commuters because in that four-day or five-day period, it could be either that there were other extraneous things - it could have been the World's Fair - it could have been a lot of other things.

A Oh, well, that happens all the time. The reason we did this in May was because it was prior to vacation season while school was still in session and those who were fortunate enough to take winter vacations were largely back on the job. Really that's the reason we picked that particular week.

Q In checking the New York Times this morning, the stock exchange page, I noticed that the Erie preferred stock had a high this year of 32 5/8 and 21 1/4 low. Now it is selling at 30. Has there been a change in the stock structure since 1960, taking that date? A No.

Q And has this price been prevailing? A Not since merger, you understand.

Q Since the merger. A No, no, not a bit.

Q Has this stock price prevailed right through?

A Well, I think I can give you some information about it. Well, right through, I can't tell you. But the preferred stock in 1963 sold at a high of 21 7/8 and a low of 12 1/4. Back in 1956, Erie's preferred - that's before merger - sold at a high

of 86 and a low of 70. This year, as you said, up to August 16th, the preferred sold at a high of 32 5/8 and a low of 21 1/4.

Q And the common stock? A The common stock in 1963 sold at a high of 4 1/4 and a low of 2 1/4. In 1956, prior to merger, Erie stock sold at a high of 23 1/2 and a low of 19 5/8 and D.L.&W. stock sold at a high of 25 3/4 and a low of 18 1/4. In this year, up to August 16th, Erie Lackawanna sold at a high of 10 1/4 and a low of 5 3/4.

Q Doesn't this reflect that there is a great deal of stability in the company right now? A You mean the present-day stock prices?

Q Yes. A I wouldn't say so. I certainly wouldn't say so.

Q Well now, I don't want to be argumentative, but -- A Nor do I, Senator, I assure you.

Q [Continuing] -- if the low this year for the preferred was 21 1/4 and if the high was 32 5/8 and it is now selling at 30, wouldn't this reveal a certain amount of stability? A I wouldn't say it revealed stability.

Q What does it reveal? A It reveals the fact that there are people who buy stocks who think because we haven't got any unpaid bills and because we had a small profit in the first half that Erie Lackawanna has probably turned the corner and so they speculate. But I don't necessarily agree with what happens with the market.

Q When did you last pay a dividend to either the preferred or common stockholders? A I guess the Erie

last paid a dividend in '57 and so did the Lackawanna - the early part of '57, I believe, on the common. I don't know about the preferred. When did they pay a dividend, Gene?

MR. ROOT: 1960, I believe.

[Witness continuing] I don't know exactly when the Erie last paid a dividend on the preferred. But since merger, there has been nothing paid.

SENATOR STAMLER: That's all. Thank you, sir.

BY SENATOR OZZARD:

Q Mr. White, I have a series of questions. Number one, for clarity in looking at your operations, am I correct that the so-called electric line is the line that runs through this area and the northern part of my county, Somerset?

A Yes.

Q [Continuing] -- and that the line up through Bergen and Passaic is still a diesel operation? A That's right.

Q Now I have been advised, and I would like to check it out with you and your men here today, that the electric line is profitable. Can you give me a separation of the income and costs of the electric line versus the line in North Jersey that is up in Passaic and Bergen Counties? A Senator, according to a study made in 1964 - the beginning of 1963 - by Wyer, Dick and Company who used 1963 costs and the service as it was operated in November '63 after the connection was made between the Greenwood Lake line and the Boonton line of the Lackawanna - that was after a portion of the Boonton right-of-way was sold to the State for Interstate Route 80, I believe -

Mr. Wyer for the Morris and Essex from Dover - that's the Morris and Essex Division from Dover - including the Gladstone Branch - that's down in your territory, the electric service - that the costs exceeded expenses by 22 cents on a dollar. In other words, the operating ratio, as we know it, was 122.

Q This is on the electric line? A That's on the electric line.

Q This is the only cost study that has been made of the electric line? A That's the only cost study that has been made although it is all being updated now to present-day costs.

Q What was the cost and revenue ratio on the diesel line in Bergen and Passaic? A Well, the Newark Branch cost \$4.73 for every dollar taken in. The operating ratio was 473. The line from Suffern down through Paterson and then over to where a new connection was built between the Erie and the Boonton line of the Lackawanna and then down through Passaic and Delawanna on the old former Lackawanna tracks, there the ratio was 368 per cent. The Greenwood Lake line, the operating ratio was 300 per cent - \$3 for every dollar taken in. So I can't give it to you just the way you asked, steam versus electric.

Q No, but you have given it to me in figures close enough to show me that you have a 1 to 1.22 figure on the electric lines and you have a 1 to 4 and 1 to 3 on the others. A That's right.

Q I assume that the diesel operation -- A -- is more expensive.

Q [Continuing] -- many times more expensive.

A Yes.

Q Now tell me - I am still interested in the electric line - before you leave the page there, Mr. White, please, what was the cost of operation - you gave me the ratio - what was the cost of operation of the electric lines and what was the total revenue? I presume those figures must be in line there for you to arrive at that figure.

A Would you postpone the answer to that while Mr. Root makes some calculations because he can add faster than I can.

Q Surely. For Mr. Root's guidance, I would also like to know while he is computing that the so-called out-of-pocket expense here, that is, the cost of running the trains, not everything that may be charged to it. I would like to know the cost of operating the trains on the electric line.

A No, we don't because He may have those figures. this involves all costs - track maintenance, equipment maintenance, station operations - not just the above-rail cost of running a train. You'd go broke if you started figuring those things alone.

Q Now can you show me what determination the company has made as to why the electric line is close to a break-even proposition and I'd say 1.22 --

A There are two reasons for that. First, there is a higher density on the electric line - I mean, more passengers per train. And secondly, there is less switching at terminals with the electric service because you run the trains both ways. There is no turning operation of locomotives and the electricity - the maintenance of the motors - you understand, you have a motor on one car

and the other car is a trailer - you run them in combinations of two cars - one trailer and one motor. It is cheaper than the maintenance of the cars plus the diesel locomotives. There are no firemen, of course, on the electric trains. It has some effect on the wage cost. So it has always been a little more profitable after it is once paid for and there is enough density to justify it.

Q You are saying that on the lines running through this county and through my own county, which I refer to as electric lines, there is a greater density than there is in the Passaic and Bergen County area where your lines operate?

A Yes.

Q Do you have your figures there now? I see Mr. Root has made some computations.

A For the electric service - this is based, understand on 1963 costs and as the service was operated in November 1963 - the revenues were \$5,967,000 and the costs were \$7,716,000.

Q You had a loss of approximately -- A -- A million nine.

Q A million nine. A Yes.

Q Now, Mr. White, what if anything has been done in planning by your railroad to increase the efficiency of both of these lines, more particularly the electric line? I think of such proposals as consolidation of stations, park and ride facilities, etc. Has anything been done by your company at all?

A Well, we have been able to persuade the Public Utility Commission in a good many cases that there is no need to maintain open stations, that is, agents at stations. Aside

from that, the answer is no. Sixty per cent of our costs or more is wages, not only train crews, understand, train and engine crews, but all forces - station forces, maintenance forces. With that percentage of cost being charged to wages, you don't have much chance to do much in the way of what you call increasing efficiency. A lot of service has been discontinued over the years, midday and after-hour service, after the people stopped using the trains, not before.

Q Am I correct in remembering one of your answers to previous questions, that there has been no effort on the part of the railroad to buy equipment, to improve the facilities? And now I understand there has been no effort on the part of the railroad to increase efficiency in the passenger operation. In other words, just about nothing has been done to try to improve the railroad passenger service in the State of New Jersey - is that correct? - for some years.

A There has been no new equipment bought for suburban service in New Jersey since 1934. Diesel locomotives were bought over on the Erie side around 1950, just a little before and just a little bit after. The cars in the commuter suburban service have not been maintained as well as the company would like to maintain them. The company is not proud of the condition of its cars, of its station grounds and of a lot of its stations, for the reason that it hasn't had the money with which to do these things. And as I have said in my prepared statement, Senator, we don't propose to invest any money in new equipment and new facilities in a service that produces nothing but a huge loss.

Q Then the answer to my question is yes. Is that correct, Mr. White? A I have given you an answer, Senator, as well as I could.

Q The common expression which is applied to a lot of things certainly started from something like this in the railroads and could I phrase the question this way: Isn't that a hell of a way to run a railroad; in other words, to have a facility and do nothing with it at all, spend no money for improvements, spend no money for maximum maintenance of equipment, spend no money for encouraging passengers to use the railroads, spend no money whatsoever to develop an arm, a very expensive and large arm of your whole operational picture? A A hell of a way to run a railroad is to run it into bankruptcy.

Q Well now, I am interested in something else, Mr. White. You said that since 1934 you haven't bought any new equipment. Is that correct? A Correct.

Q You gave us a graph before which shows that passenger service was sort of on the rise there for a while. Then you said when it started to drop, you could see no reason for the railroads spending money when it is on a decline. Now this decline started in 1949 and by that time I imagine the equipment you bought in 1934 was looking pretty sad. Yet there was an increase up to this time. From '34 to '49, which is by my calculations - Mr. Root can check me out - fifteen years, you spent nothing for new equipment, you said you didn't spend what you felt you should have spent in order to keep the railroad at top condition, and then it started to decline.

Now is this part of a planned program that has been charged against many railroads with getting out of the railroad business; that is, out of the passenger business? A That charge is a lot of nonsense. That's a lot of loose talk.

Q Well, tell me why during these fifteen years from 1934 to 1949 when you admitted by your own graph that you had an increase, a steady - well, fluctuating - but rather steady increase in passenger service - why was there no new equipment bought during that time? Was your equipment in such great shape that you didn't have to buy anything for fifteen years?

A I'll tell you both the Erie and the Lackawanna bought new through-line equipment for through-line service.

Q This graph deals with the number of commutation and multiple ride passengers. I am not interested in through-line at all.

A Just commuter?

Q That's right. And this is all the graph deals with too.

A Well, the Lackawanna's cars were in pretty good shape all through that period and they were well maintained up to about 1957, yes, to that time. On the Lackawanna side their cars were very well maintained. I can't tell you about how well they were maintained on the Erie side. I didn't see them for quite a few years. When I came back in 1963, in June when I came over and saw some of the cars on both the Erie side and the Lackawanna side, I was pretty discouraged about their condition I admit. But when you don't have any money, you haven't got anything to pay wages with so you don't hire men and you don't invest money in a service that constantly

produces a huge loss. At least, I won't do it.

Q Aren't we involved partly here with a matter of business philosophy also? I met about a month and a half ago with the Philadelphia engineering firm that is doing all of the design work, planning work, of the new South Jersey Rapid Transit System. Their projections and the projections of the people involved indicate that a system that presently, I think, is operating with around seventeen or eighteen thousand passengers because of an improved system, because of the speed with which they will handle passengers, because of the new equipment that they are going to put into operation - they expect that within two years after they are in full operation - and I understand full operation is '66 or '67 - they expect to go to seventy thousand passengers into the Philadelphia area and they expect to be on a break-even basis within two years. Now this is the philosophy they are using to approach a problem in South Jersey. This is not a philosophy that applies to the North Jersey railroads, am I correct, that you can spend and improve and build back a passenger service into the New York area?

A I don't think so. I hope their projections work out. Let's wait and see. The projections for the St. Lawrence Seaway were somewhat the same, but damn if they ever worked out.

Q Well, I can understand -- A Who is furnishing the money for this thing down there?

Q This is partly Federal, partly -- A Yes, public money.

Q But they are going to retire this out of their

income. A Public money.

Q At least, that is the projection. A That's the projection. That was the same thing with the St. Lawrence Seaway.

Q Now I can understand your competition from the airports between here and Chicago. A Sure, and you can ride without a traffic light from New York to Chicago.

Q I can't understand the competition with traffic lights of the buses going through the most heavily congested part of the United States. I can't understand your competition from automobiles that are backed up nose to tail pipe all the way down Highway 22 and every other highway around the northern part of the State. Don't you think that a good passenger service, one with decent facilities, one with clean cars, could invite and encourage people to get back on the railroads to go into New York City even with a major crossing necessary on your line? A No.

Q Why do you say no? A Because I have had the experience of seeing people leave good service, good cars, clean cars, and just go to the highways.

Q When did you last have good service and clean cars? A On the Lackawanna?

Q Yes. A I can answer right up to 1952 and we saw the decline just as soon as Route 3 was built.

Q Route 3 is now a congested road. A Well, they are all congested.

Q Of course, they are. A I came over on 46 this morning and it is terrible. Why anybody would do it, I

don't know, but they do.

Q I don't know either, Mr. White. A Then don't ask me why.

Q Don't you think that your railroad could play an important part in a public activity in getting the people back on your railroad by cleaning up the cars - I almost use a few expressions I shouldn't when I think of the cars - giving better service, getting people back on the railroads? A What do you mean by cleaning up the cars? They are clean.

Q I have only been on your railroad once. A Well, hell, you don't know any more about it than I do then.

Q You haven't been on it at all, I presume. A Yes, but not more than once or twice on these suburban trains, but I see all the cars in Hoboken.

Q All I know is from the passengers that complain. I have been on the Jersey Central cars and I can take a newspaper and beat the dust out of there with little effort.

A We have all rattan seats, you know, and they don't accumulate dust.

Q So your position is -- A I don't get any complaints from the commuters. You'd be surprised - it amazes me - because I don't like the condition of the cars.

Q They are like politicians - they are numb. A No, they are not, not by a damn sight. They are not numb. I don't get it. I get other letters though, commendation. It really amazes me, Senator, and I am not kidding one bit - the people who ride on these trains and people that I know very well and have known for a long time who are, what I call, my country

representatives. "Tell me what you see over there because I don't live over there any more and I don't commute on the railroad as I used to and I can't see everything. You tell me." I have got a dozen people - two dozen - over here in New Jersey who keep me informed of what they see on our suburban service. They use the trains all the time. Once in a while they give me a good tip about things that are wrong. Now, some of the stations - windows are broken by vandalism and so on. We try to keep them fixed up. But I am going to confine myself to the cars. We are keeping the cars cleaner and people are not complaining. It's a lot of people who don't know what the hell they are talking about that are mouthing these things that you hear in the newspaper or outside, not the people who use the service.

Q Well, Mr. White, what did you mean a few moments ago? A few moments ago you answered one of my questions by saying that you can't maintain the equipment on the railroad, the passenger service part of the railroad, the way you would like to do it. A I mean just that.

Q What do you mean? A I think the commuters are entitled to modern cars that are air conditioned and well maintained. The cars we have - I have seen these cars when you couldn't put a window up five windows in a row.

Q And they are not air conditioned? A They are not air conditioned.

Q And you mean to tell me that commuters are happy with this? A I've seen them with the curtains torn - couldn't get them down.

Q And the commuters are happy with that?

A I am sure they are not.

Q Well then, we are both agreeing. A They are not complaining. That amazes me. I said it amazes me that I don't hear more complaints, but this condition has been getting better.

Q Do I understand, Mr. White, that it is your considered opinion that the passenger service, at least on your road, no matter what kind of equipment we put on it, even if we spend this 80 million dollars you spoke of, that under no conditions can this be made a profitable operation again? Is that correct?

A Yes. I answered, I think, a question of Senator Hillery and that's my opinion.

Q Now you spoke before - I think it is in your prepared statement - that you hope we will find a permanent solution to the railroad problem. Do you as president of a railroad have any suggestions to make to this Commission as to what would be a permanent solution to the railroad passenger problem?

A Yes. I think a permanent solution, Senator, would be the organization by the State of an agency or an authority, whatever you call it, to contract with the railroads to operate suburban service and pay the railroad its avoidable cost, the cost that it would not assume if it didn't operate the service. That would mean that that agency would collect all the revenues, pay all the expenses - I think pay a rental for the use of properties, but not necessarily - just pay the Erie Lackawanna - take all the revenues, pay all the expenses, pay the railroad the cost that it would avoid if it were not in the service. From that there would be then no profit to the

railroad.

Q Would there be any ownership by this agency of any facilities? A No. They could have ownership if they want it.

Q You are speaking of total subsidy, are you not? A I am talking about the railroad security owners being relieved of all losses in providing suburban service.

Q Who did you say would run this? A The railroad under contract.

Q Now, Mr. White, I am a lawyer. If I represented you personally and kept losing your cases, how long would you retain me? What I am saying is that the railroad hasn't been able to run it profitably or properly up to now. Why should the agency hire the railroad to run a business that they haven't been doing a very good job with? A Who said they weren't doing a good job of it?

Q I said so because I am looking at your profit figures. A Because they haven't got the money. They could do the job.

Q Any of my clients who lose this kind of money or even one-millionth of this kind of money or lose anything consistently, I don't think they are running the business well enough to manage it. A Senator, you are talking right up my alley and that's why I say the railroad has got to get out of this thing because it's damn poor management to keep on providing a service that constantly loses money. A manufacturer that has a product that loses money discontinues it.

Q I might be very inclined to agree with you, Mr. White, but what I am differing with you at the moment on - I can't understand or can't quite comprehend - is why if we let the railroad get out of it, we don't let them get out of it completely and let somebody else run the railroad operation. Why do you insist that the railroad continue to operate under contract? A Because an agency can't operate this freight and passenger service combined.

Q Who says we can't? Why says we can't take the railroad over? A I do. You can't.

Q Why not? A Well, hell, I'll tell you - you can buy it. If the State of New Jersey wants to buy the Erie Lackawanna Railroad from the State line understand - from the State line into Hoboken - I am sure that our shareowners would sell it pronto.

Q Even though it's a profitable operation? A Hell, yes.

Q -- which it is. A -- which it is not.

Q -- which it is with your freight and everything. A Wait a minute now, if you own it, the State would own it from the State line to Hoboken.

Q That includes all interstate operations over the lines. A Yeah, you'd be in the interstate business, but you'd take a division of the revenue, understand, at the State line.

Q -- which is what you do now. A No.

Q Aren't you making a profit within the State of New Jersey now with inter- and intra-state operations? Isn't

this so, Mr. Root?

MR. ROOT: I would doubt it very much.

SENATOR OZZARD: You don't know?

MR. ROOT: No, I don't know.

SENATOR OZZARD: Would you find out and let me know?

MR. ROOT: But I know enough from past experience that I would seriously doubt that we have any profit from our operations within the State of New Jersey.

MR. WHITE: I am sure of it.

Q Why are you sure of it if your comptroller doesn't know?

A I am sure of it because the taxes we pay - the losses we have in the passenger service - what we have to do with interstate business in the way of lighterage service in the harbor would not make it very profitable in the State of New Jersey if you divide the revenues at the State line.

Q I would remind you of two things, Mr. White: Number one, when I speak of the State, we wouldn't have tax problems; and, number two, I would remind you of PATH, which is the same story I heard when I was fighting the battle of what to do to keep that from going bankrupt. A Well, you don't want an advantage, do you? You want to take it the way we have to deal with it.

Q That's another problem. A Sure it's another problem.

Q Your proposal for a permanent solution is that an agency take over and this we both understand each other on. This is a little stronger than the position of the other two

railroads and that is why I want to make it clear that continued subsidies do not satisfy the Erie Lackawanna.

A That's correct.

Q And do I also understand from your prepared statement that as far as Erie Lackawanna is concerned, recognizing the limitations that the PUC and ICC must place upon it or might, that you want out and intend to get out of the passenger service in New Jersey by December 31st, 1965; is that correct?

A That isn't stated exactly correctly, Senator.

Q I misread your statement then. Please explain it.

A We have agreed to enter into a contract with the State to operate the service until December 31st, 1965. Now the State's contract prohibits us from changing the service without the consent of the Railroad Transportation Division and, of course, we couldn't move to abandon the service without the consent of the Highway Commissioner and he wouldn't give his consent to that. So in order for us to have our hands untied and to petition for discontinuance of service, we can't contract longer than the end of this year. After that, we are free to seek authority to discontinue the service. There is no misunderstanding between the Division of Rail Transportation and the Governor and ourselves.

Q No. You are now saying that you are free to seek it. I read your statement which says: "Erie Lackawanna is ready to forego payments for contracted service beyond December 31st and will, therefore, seek permission from regulatory authorities to discontinue the service." This is

a positive position of your railroad? A That is correct.

Q As of December 31st, you will do everything within your legal means to get out of the passenger service in New Jersey; is that correct? A That is correct.

Q Is that interstate as well as intrastate passenger service? A Oh, that's the suburban passenger service.

Q Suburban. A In the meantime, we are working on the through-line all the time.

Q Now what subsidiaries does Erie Lackawanna own?
A Pennsylvania Coal Company, which formerly was engaged in mining anthracite coal, but today it only owns property and it leases some coal lands that are operated by others and Pennsylvania Coal Company collects a royalty and it owns some other properties from which it collects rentals, including houses, in fact, what were formerly miners' houses. That company this year is for some reason making a little bit of money. It's not in the red. There is another coal company, the Northwestern Mining and Exchange, which Erie Lackawanna owns 100 per cent and it operates at a loss. It just owns some property and it is hoping to sell it.

Q No trackage or train facilities in either of these companies? A No, nor does the Pennsylvania Coal Company. Harlem Transfer Company is a company that operates a freight station on the East River, in fact right near Hell Gate, and transports cars on car floats between Hoboken and the Harlem River Station. It is a separately operated company owned 100 per cent. All of its results are reflected in Erie

Lackawanna's income statements and, of course, we have a few land companies.

Q Do you have any companies that have trackage or equipment within the State of New Jersey? A Well, we own a portion of the Lehigh and Hudson River Railroad. I don't know what the percentage is of Erie Lackawanna's ownership.

Q Is this purely a stockholding? A It is purely stockholding.

Q Is there any accounting relationship between that company and your company, any transfer of costs, any sharing of costs in the operation of equipment over its lines?

A No. It is operated as a separately-operated railroad. It pays its own costs and when it makes a little money, it pays a dividend.

Q Now is that the only other company, Mr. White?

A Well, we own in association with other railroads the Chicago and Western - Indiana Railroad from the Indiana-Illinois line into Dearborn Station in Chicago and Erie Lackawanna is a one-fifth owner, and the Belt Railway of Chicago, which is a switching line and interchange between eastern and western lines. Erie Lackawanna, along with others, is a one-thirteenth owner of that. But they are separately-operated companies. Mr. Root calls my attention to the New Jersey-New York, which has been in bankruptcy since 1938 which may get out of the hands of the courts this year. The reorganization plan has all been approved and the reorganization manager has been appointed to clean up.

Q Where does it operate, Mr. White? A From Spring Valley, New York, to near Rutherford where it has a connection with the Erie, former Erie, the Erie Lackawanna.

Q Does it have separate bookkeeping, separate accounts? A Yes.

Q Is there any transfer of costs here? A When it emerges from bankruptcy, it will have no debt and it will be wholly owned by Erie Lackawanna.

Q What specifically is the Delaware and Hudson?
A What is that? Beg pardon?

Q You spoke before of being -- A The Delaware and Hudson?

Q Yes. A The Delaware and Hudson is a holding company. It owns all of the stock of the Delaware and Hudson Railroad, a short line of twelve or thirteen miles in New York State called the Greenwich and Johnsonville Railroad that is separately operated, and the Napierville Junction Railroad which operates from the U.S.-Canadian border at Rouse's Point into Montreal.

Q Where is the Delaware and Hudson Railroad? A It runs from Wilkes-Barre north to the Canadian border and then with its own railroad on into Montreal. It has connections there with the Canadian railroads, the Canadian Pacific and Canadian National. At Wilkes-Barre it has connections with the Jersey Central and the Pennsylvania and the Lehigh Valley. At Binghamton it connects with the Erie Lackawanna; at Owego, New York, with the Lehigh Valley; and at Mechanicville, New York, with the Boston and Maine. So it is to a very large extent

- about 57 per cent of its business is so-called bridge traffic, traffic which it receives from one railroad and delivers to another. It performs no terminal service.

Q You are the president of the Delaware --

A -- the Delaware and Hudson Company and I am also chairman of the board of the Delaware and Hudson Railroad Corporation.

Q I'm not going to ask you again what your salary is because you said it was none of our business. It may not be, but --

A I didn't say it was none of your business. I said I didn't intend to answer.

Q My approach is a little more earthy than yours. The fact is that you do draw a salary and I presume you spend some time.

A Yes.

Q Can you tell me approximately how much time - what percentage of your time is spent in the work of the Delaware and Hudson holding company and the railroad?

A No. I don't try to keep records.

Q Well, you split your time between that and the Erie Lackawanna, do you not?

A No, I don't split my time at all. I just do the best I can with all the jobs I have and some of them are industry jobs where both E L and D and H benefit. I don't attempt to split it.

Q What I am curious about is whether the Erie Lackawanna has a full-time president administering its affairs and worrying about its passenger service. Does it or doesn't it?

A I'm not going to answer that question, Senator. I think that is an insult.

Q I don't mean it to be an insult.

A Well, I

think it is.

Q I think it is a fair question. This is a terribly vital piece of business for the State of New Jersey. We are terribly interested in whether or not the passenger service in New Jersey is going to be continued. We are interested in whether the railroads are doing everything possible. I have learned some very interesting things here today as to the lack of investment, the lack of care and the lack of maintenance and so forth, and now I am curious about the possible lack of attention by a man who, I believe, is the man who could say most about whether or not the passenger service is going to do this today or that tomorrow. That is my only reason for the question. It wasn't meant to be an insult.

A That is what I consider it.

Q I am sorry if you take it that way. But, at least I am correct that your time is divided, is that correct, sir?

A I don't divide my time. I do everything that I am required to do for both companies and I work one hell of a lot of weekends and a lot of nights and I get no vacation except about every three years, and I don't intend to have anybody question me about how much I do of this or how much I do of that. I do everything that is required to be done of a chief executive officer and shirk nothing.

SENATOR OZZARD: Thank you. Any further questions?

SENATOR STAMLER: I have a couple.

SENATOR OZZARD: First, I'll ask Senator Kelly if he has any.

SENATOR KELLY: No.

SENATOR OZZARD: I know you got here a little late.
You probably need a fill-in first.

I'll go back to Senator Stamler.

BY SENATOR STAMLER:

Q I hope you won't feel insulted, Mr. White, at this question. You say you don't get a vacation but every three years. You have only been working for the company two.

A I've been working 52 years in this business.

Q I don't want you to be insulted really. I had a couple of questions with particular reference to Union County which I represent which has a commuter problem too. Do the electrified services of the Morris and Essex Division - and this includes Gladstone - meet their out-of-pocket expenses generally?

A No. Mr. Root gave the figures for that just a few minutes ago.

Q Now according to Commissioner Palmer's statement to the Federal Housing and Home Finance Agency, he said that for a recent 14-month period revenues were \$5,900,000; expenses, \$4,300,000, showing \$1,650,000 excess of revenues over expenses. Now can you tie that in with Mr. Root's statement?

A No, I can't. Mr. Root is looking this up in the demonstration project and perhaps he can give an answer to it.

Q That is on page 5 of Exhibit 4.

A Are you looking at the demonstration project?

Q No. I had some notes on it, sir. I don't have the demonstration project.

A Senator, page 5, Exhibit 4, of the demonstration project shows for the Morris and Essex,

including the Gladstone Branch, on an annual basis - for 14 months the loss was \$977,700.

Q It does not show a profit? A No, it shows a loss of \$977,700.

Q Can you tell me how the revenues and the out-of-pocket expenses compare in other divisions, taking the same area? In other words, do you have another commuter service in another state that we can use as a comparison with the Morris and Essex and Gladstone Branch? Do you understand what I mean? A We don't have any commuter service

in any other state.

Q This is the only state? A We run into New York State, of course, beyond the line at Suffern.

Q Well, I didn't even mean that. I meant in any other state in which there are no subsidies. A No, the only commuter service the Erie Lackawanna has is in this area, New Jersey, going a short way beyond the New Jersey-New York State line, and one train in each direction between Youngstown and Cleveland five days a week, into Cleveland in the morning and out in the evening.

Q That can hardly be called commuter. A Well, that's what it is really.

Q Is it really? A Yes, that's really what it is. All other service has been discontinued there.

SENATOR OZZARD: Senator Sarcone has joined us and I believe he has a couple of questions.

BY SENATOR SARCONE:

Q Mr. White, I am sorry I don't have a copy of the

details of the demonstration project. We have been reading quite a bit about it. There was some discussion of it at our last hearing. But you have mentioned it in your prepared statement. As I understand from your prepared statement, if this is approved and we do receive revenue under the Mass Transit Bill, you will not make application for discontinuance of service, but you will go forward with the demonstration project which will run until, I believe, October of 1966, and that thereafter you will make application for discontinuance.

A No. That isn't quite right. We are going to proceed after December 31st, 1965, at the earliest date it is possible for us to proceed; we are going to seek authority to discontinue the service at the conclusion of the demonstration project, if it becomes effective, and if it doesn't become effective, at the earliest possible date.

Q All right, but -- A I just wanted it understood that if we show up on January 3rd or 4th or 5th with a newspaper item that we have applied to the Public Utility Commission of New Jersey and the Interstate Commerce Commission for authority to discontinue suburban passenger service, we aren't being accused of going back on our word. We are going to seek the authority at the earliest possible date after December 31st. But if the demonstration project becomes effective, our request will be then to discontinue it at the conclusion of the demonstration project.

Q -- at the conclusion of the demonstration project.

A Well, there is a difference between when we take the action.

Q In any event, you are saying today that subsequent

to the demonstration project, if it is approved, if you go forward with it, you will be seeking this discontinuance.

A You stated it wrong again. We will seek it the first part of next year - the authority to discontinue the service at the conclusion of the demonstration project.

Q At the conclusion of the demonstration project. Now the demonstration project, as I understand it, cannot be a subsidy, it must be in effect an effort to go forward with a program whereby there can be improvement in services to the extent that we might attract passengers to the railroad. Is that correct?

A I can't tell you everything about what the Housing and Home Finance Agency will approve. I notice that in Connecticut and New York for the benefit of the New Haven Railroad they have authorized a project that, I think, goes beyond the provision of capital funds for so-called improvements in service, for which Senator Ribicoff took a great deal of credit when it was announced. I don't know why they wouldn't do the same thing for New Jersey that they did for New York and Connecticut. Understand, this project is not ours. We didn't conceive of this. It was conceived in the Division of Rail Transportation.

Q I understand that. You, of necessity, have to cooperate since they are dealing with your railroad.

A Yes, we have always said we would cooperate, but we had nothing to do with the preparation of the project, its figures or anything else. Well, I won't say the figures because I guess you gave Commissioner Palmer's office the figures, didn't you, that they requested?

MR. ROOT: Yes.

Q Well, assuming that it is approved and we will receive Federal money, what will be different about your railroad in so far as its operation beginning with the effective date of the demonstration project? What will the improvements be? A I don't know.

Q You mean, as of today, you wouldn't know? A I don't know. A lot of people have a lot of funny ideas that if you put a different kind of paint on the outside of a car, you will draw more passengers. But if they are going to do those things, God only knows how far they will go. But we'll cooperate - we'll do anything they want that they'll pay for as long as it doesn't involve safety.

Q The Executive Department has been going forward with this and we are in the Legislative Branch and I am attempting to obtain some information in connection with the project. Now it is to begin September 1, is that correct? A It can't now.

Q It cannot now? A No.

Q Well, when is the earliest possible date it will commence? A Well, I presume now the earliest possible date would be October 1st.

Q Well, is there anything you can tell us today? Certainly as the chief executive of the railroad where the project is going to be undertaken, could you tell us what -- A We don't run the project.

Q You are not going to be running the project. A No. I understand they propose to have a project director

and he will have an advisory committee made up of representatives of each of the counties or representing the board of freeholders of each of the counties. And we will do what they want. If they pick up the tab, we'll do what they want as long as it isn't unsafe and we can do it safely. We'll go 100 per cent in cooperation with them.

Q I understand, but as of today do you have any idea of what it is that they would want you to do come October 1st?

A Oh, sure, we have some ideas.

Q Can you tell us what some of the things are that will be done in connection with your railroad as per their directions, I assume?

A Well, we propose to run a bus service from Washington to Dover or Netcong - I don't know which, but I think it ought to be Dover - it probably would be - and take off the train service down into Washington. They propose to run a limousine service also from Washington over to a station on the Jersey Central. That's part of the project. They propose to lease from somewhere, but I don't know where, so-called Budd cars which are self-propelled cars operated with diesel engines on each car, air conditioned, stainless steel, and run them over on the Northern Branch where we have a few passengers a day - three trains in the morning and three out in the evening - and, if I understand correctly, the purpose of that is to see whether air-conditioned cars would increase the number of passengers. I think they propose here, that on this Morristown Line, as we call it, electric line, Dover east and Gladstone Branch, that some equipment be painted a different color inside and out and make it look attractive - one train or

something like that. They propose to run a bus service between Paterson and Newark adjacent to the Newark Branch to see if they can't get more people to use the buses and fewer to use the trains and take the trains off. I said that correctly, didn't I?

MR. MC GINNIS: Yes.

[Witness continuing] What else? Well, they have some ticket experiment they want to make on the Montclair Branch and they want to get a push-pull train, a diesel train, over on the Erie side and have a diesel locomotive equipped so that it can operate on one end of the train and a car at the other end have a cab in it from which the diesel engine can be operated from the cab at the other end of the train -- the car at the other end of the train, just like the Chicago and Northwestern. You don't have to demonstrate that. That has been demonstrated. I don't know what that is going to prove over here. I am not critical of it. We'll do anything they want that they'll pay for, as I have said. Now if you ask me what it is going to prove, I can't tell you.

Q Well, I wasn't going to ask you quite that.

A They are going to do some advertising on radio and in the press - inform people that there is a service operated over here on the Erie Lackawanna that they don't know anything about. It's perfectly all right. They will do those things themselves.

Q By "they," do you mean the Rail Transportation Division or those --

A The project director.

Q The director whom they designate? A Yes.

Q From what you know of the plan and from your

experience as a railroad man, which has been quite extensive, Mr. White, is the plan as you see it one that would possibly attract more passengers to the railroad or is it one where you are going to reduce passenger travel on rail lines by reason of the fact that you are using the buses and the limousines? A Well, I think the purpose of it is to see if they can't get more people on the heavy density - more heavy-density lines; on a railroad like the Newark Branch, I think they want to find out if the train service is actually necessary if there is good bus service paralleling the railroad. Well, there is bus service in there now from Newark to Paterson. I presume they are talking about a different route, aren't they?

MR. MC GINNIS: Yes, sir, a separate bus.

Q Assuming, Mr. White - this is just an assumption now - maybe it is a hope too - that it proves to be successful to the extent that more passengers are attracted to the line, would not your position be a little different -- A No.

Q [Continuing] -- than it is today in connection with an application for discontinuance - now let me also inject this - by reason of the fact that it has been shown that by doing something, by planning and making some changes, you can attract individuals to ride on the rails? Isn't this what we are seeking? Isn't this what the objective is? A That is what the objective is of the public authority, yes, sir. We have a situation, Senator, where if we weren't in the business, we would be \$11 million a year better off and no agency, no matter what they are going to do, is going to operate the service as we are required to operate it today and eliminate

\$11 million of loss per year.

Q Yes, but you just said "required as you are required --" A Now if they can cut it one or two million or three million, fine, the agency would save that. That's good. But I don't think they will do it without removing service.

Q Paramount in our consideration, while we feel it is unfortunate that the investors are in the position that they are - but paramount in our thinking and our consideration is continuance of the service for the public good. But if an improvement is shown, it shows that if you can plan and can make changes, you can improve. Would this not be a little different? Would not your position be different than it is today?

A No, only if I could be convinced that the service could be operated at no loss, an investment of money could be justified. I can never be convinced of that. You have built too many highways and river crossings, Senator, and shopping centers and television sets, all of which have had an effect on this thing. The five-day week had an effect on it. I don't care what kind of a service you put on or who you put in the job of running it, I will bet odds of five hundred dollars to ten dollars that they cannot make this service pay.

SENATOR OZZARD: It's illegal.

[Witness continuing] Mr. Heineman doesn't want this job. He has three high-density lines in Chicago that he operates right into the Loop, three high-density lines. The New York Central has two high-density lines into Grand Central. When I say "high

density," it is just two lines handling a lot of people. You have a different situation than over here on the Erie Lackawanna, completely.

Q Mr. White, it is somewhat discouraging --

A It sure is.

Q [Continuing] -- and I say this respectfully - when you hear the president of the railroad where the project is going to be undertaken and this money, millions of dollars, is going to be put into it - perhaps it is not as much as we would all like, but it is millions of State moneys and Federal moneys - and you appear - well, I think it is less than halfhearted. You seem to lack any enthusiasm whatsoever to go forward.

A Senator, I have to seek a permanent solution of this problem for Erie Lackawanna. More is involved in this than just the present-day Erie Lackawanna. It is involved also in getting into one of the merged systems. It is the life and the death of the railroad. I guess you weren't here when I read my statement.

Q No, but I read your statement. A I am glad you did because I wasn't pulling any punches. I don't intend to kid anybody about anything. I am telling you just exactly what I think. I am so sure of it that I am going to give big odds and do a little illegal betting.

Q Mr. White, you make mention in your statement on one or two occasions - I think it is two - that when you compare your service to others, one of your problems is the Hudson River being a barrier. I don't know - perhaps this was entered into earlier. If it was, I won't go into it. But if

this is a very important factor, could not we give consideration to getting your passengers into, for instance, the Pennsylvania Station in Newark? For instance, you indicate that the other services - they ultimately - I think you use the expression, "They land in Manhattan." If this is an important factor in future planning, could we not consider the Erie Lackawanna getting into Penn Station in Newark so that they can land in Manhattan? A Well, in the first place, they can't get into Penn Station at Newark. That would be impossible. But you mean to get on to the Pennsylvania tracks so the trains could run into Penn Station?

Q Yes. A Well now, I think that is a very admirable idea to get the people to Uptown New York if the Pennsylvania Station has capacity to handle all these trains. But there are 145 trains that go into Hoboken in the morning and they go in pretty short headway and I don't think Penn Station - Pennsylvania's tunnel could handle those trains. Now if they would put another tunnel bore through there and in the course of building their new facility enlarge their station properties, perhaps it could be done. I don't know; I really don't.

Q You do stress that point about the Hudson River being a barrier? A That's right.

Q If this factor were eliminated or made favorable to the extent that your passengers would land in Manhattan, would this improve your situation? A To some extent, yes. I am sure it would. If the Erie Lackawanna could land its passengers on Manhattan Island and had maybe two lines, high-density lines, this thing wouldn't be so serious. It certainly

wouldn't.

Q And have you considered -- A I can't waste time on a project like that because the Erie Lackawanna never can spend the money necessary to do it.

SENATOR SARCONE: No further questions.

BY SENATOR OZZARD:

Q Mr. White, do you have any New Jersey residents on your board of directors? A Yes, Paul Stillman, Chairman of Prudential Insurance Company and also Chairman of the National State Bank -- not Prudential, Mutual Benefit. I think Paul Stillman is the only resident of New Jersey.

Q Will you tell me if your position on the termination of activities in New Jersey as soon as possible after December 31st of this year - is this position supported by your board of directors? A Oh, yes, absolutely.

Q Has there been official action taken in this direction, do you know? A Yes, sir.

Q There has. So this is no longer a probability or something for discussion with this Commission; this is a certainty, is that right, as far as present position is concerned? A That's correct. This is all with the approval of the board of directors. I wouldn't forego these State contract payments, no matter what they are, without the board of directors knowing the whole story and concurring fully because my time here is limited, you know. I am like everybody else; I am temporary. But I am probably more temporary than some others on account of age. So I wouldn't take a position like that without the complete support of the board of directors.

BY SENATOR HILLERY:

Q Mr. White, in view of the testimony given here this morning about the termination of commuter service by your railroad at the end of the year and pretty determined statements about your intentions, how do you reconcile this with statements coming out of Trenton that there will be no discontinuance of commuter service in New Jersey from the Governor's Office and members of the Legislature?

A The Governor has made very plain to me, Senator Hillery, that if the Erie Lackawanna seeks authority to discontinue its service, the State is going to be in there opposing it with vigor.

Q Yes, I know. I think the Legislature --

A Neither he nor I have kidded each other about this situation and I have ~~tried~~ at the hearing on 292 and also here to be absolutely frank and forthright about this, except with respect to salary from the Delaware and Hudson and the division of time.

Q Well, I didn't ask you that question. A No, you didn't. But I say, otherwise I have stated things as frankly as I could forthrightly and stated my opinions. Whether people agree with them or not is another question.

Q So you do expect a good fight on your hands?

A Yes. We have a fight on our hands if we want to take off a train any place in the country. We have one between Buffalo and Hornell, New York, that makes one intermediate stop and we had a hell of a fight about it. Nobody uses it.

Q The other question really has nothing to do with

your supervision of the railroad because it was before your time with the railroad. But to your knowledge from the records of the railroad, was there any protest filed by the railroad at the time the State was planning to build S 3 in view of the fact that it was going to wreck the commuter service into New York City? A No. I was President of the Lackawanna at that time, Senator, and I am sure we made no protest about the construction of S 3.

Q You didn't foresee what this was going to do?

A Yes, we did protest those seeking bus permits - the convenience and necessity for bus service. We could foresee - we knew when they were building Route 3 - you know, nobody ever asks us when they are going to build a highway.

Q You are public citizens. You have a right, just as anybody else does, to express your views. A I presume so.

Q I know Governor Driscoll when he was Governor - that's quite a while back - that he was planning major parking terminals halfway into the city area so that they could run rapid transit service in. He had a plan at that time in view of the fact that this thing was going to deteriorate. So it has been a long while in process. When the Port Authority took over the Hudson and Manhattan - at the hearings I could never understand - I still can't understand - why there wasn't a provision made to run a rapid transit into the heart of Bergen County, providing about 70 per cent of the commuter service, and nobody wanted to answer my question. I suppose that was because the Port Authority had more power than some of the other

agencies of the State. I don't know. A Well, I don't know either. I don't know anything about it.

Q We know what the Port Authority is. We have had them here in the county and they weren't too successful here.

SENATOR HILLERY: Thank you, Mr. White.

SENATOR OZZARD: Senator Sarcone says he has two more questions.

BY SENATOR SARCONE:

Q Mr. White, back to the demonstration project, as you pointed out in your statement, the State will provide approximately two million dollars. Is that correct? A That is their proposal, yes.

Q -- and the Federal government, \$4 million or a total of \$6 million. Is the railroad scheduled to receive this \$6 million? A No, not all of it because they have to pay for their organization and they have certain promotional activities, as they call them, that they are proposing. They are going to have to lease cars and they want these cars painted and all that has to come out. They expect about \$5 million of it to go to the railroad.

Q Then, as I understand it, you are scheduled to receive some \$5 million of the \$6 million and the other million will be used for -- Do you know what? A For their own administration, promotional costs, leasing equipment from other railroads that they hope to lease for a period - a few things like that.

Q And as to the \$5 million, what will you be doing? A Maintaining the tracks and the equipment and running the

trains, putting crews on and perhaps some additional crews.

Q In comparison to the manner in which you are operating today, can you tell us what differences or changes there will be for this \$5 million? A I think I tried to say that a little while ago.

Q I know you gave a general -- A Well, elimination of service on the Washington line by the substitution of buses.

Q Well, will you be -- A No, they'll pay that.

Q They'll pay that out of the million. A Sure.

Q Let's take the \$5 million that the railroad is going to receive. A That will partially reimburse the railroad for its continuing loss.

Q This could be described as a subsidy. A Hell, your two million two today is a subsidy.

Q Yes, I understand. But as I understand the demonstration project - as a matter of fact, several months ago it was reported in the press that the plan which was about to be submitted - and I was not and I don't think the public was aware of what the plan was - but it was described as a subsidy and it would not be approved. The Highway Commissioner - the head of the Rail Transportation Division, of course - indicated that he felt that it would be approved and it would not be a subsidy. Now can you tell us what will be done with the \$5 million whereby it would not be in the category of a subsidy, but would be \$5 million spent or used for improving facilities and services. This is what I am trying to ascertain. A You will have to get your information from those who proposed the

project, Mr. Sarcone, because I can't answer your questions.

Q Well, you know you are going to receive \$5 million, Mr. White.

A I don't know.

Q You don't know that. But it is anticipated that if the project is approved --

A The project says that \$5 million goes to the railroad which partially would reimburse the railroad for its losses.

Q Mr. White, may I ask this question: You are the president, the chief executive of the railroad, has anyone from the Executive Department sat down with you and those who are operating your railroad and indicated what it is that you will be expected to do or requested to do for the \$5 million?

A We got a copy of this thing at the time that it was presented to the Household and Home Finance Agency in Washington.

Q Unfortunately I don't have a copy of it. But what is indicated will be done with the \$5 million? I assume you have reviewed it.

A We are going to pay train crews. We are going to pay maintenance men. We are going to pay station help.

BY SENATOR OZZARD:

Q New ones or the ones that you are presently operating with, Mr. White? That is what we are trying to find out. Additional crews or the ones you are already operating with? Or is this just a plain old flat \$5 million subsidy on top of everything else to keep you going for ten months?

A On top of everything else? On top of nothing.

Q Is the State merely buying ten more months of

service of Erie Lackawanna? A No, the State is going to try to find out whether, adopting the views of a lot of people who know how to run the railroads better than we do - can you improve revenues and reduce cost? And this project is designed to demonstrate whether that can be done with certain types of equipment and with certain types of promotion and with a substitution in some places of buses for rail service.

Q But the \$5 million is not just for items over and above what you are doing now? This is including some of the lines you are operating and paying some of the salaries you are paying and paying some of the costs you are paying right now, isn't that correct? A That's right.

Q Then it is a subsidy. Thank you very much.

A Call it what you will --

BY SENATOR STAMLER:

Q I have one item, Senator. In one of the newspapers of July 21st - maybe this will clarify it a little bit - the story says that the bulk of the total project cost, \$4,995,000, will be paid to the Erie - \$55,000 for additional train crews and the rest for contracts to continue service during the demonstration period. Is that right, Mr. Root?

MR. ROOT: Correct.

Q Now the demonstration period has been cut down now, has it not, by one month? A Yes.

Q So that the original project was from September, the 1st, for a period of -- A -- 14 months.

Q [Continuing] -- 14 months and now it has been cut

to 13. A No, not necessarily.

Q Well, when does this end? A Well, let me explain. As I understand them, the men on Mr. Palmer's staff, they hoped to get it started September 1st and continue it through to the fall change of time table in October, '66. Now, if they want to continue it for 14 months from October 1st, 1965, to November 30th, 1966, we aren't going to raise any fuss about a little detail like that. We'll have to change our time tables when Daylight Saving changes. But we can change them again in November.

SENATOR STAMLER: Thank you.

SENATOR OZZARD: Any other questions, gentlemen? If not, Mr. White, Mr. Root and Mr. McGinnis, thank you very much for coming. We appreciate this. We may not like the picture you present, but we appreciate the fact that you present it.

THE WITNESS: I don't like it either.

SENATOR OZZARD: I am not convinced of that.

THE WITNESS: Oh, no, I don't like it.

SENATOR STAMLER: I am not either.

THE WITNESS: I am carrying out what I consider a responsibility. I'm sorry that --

SENATOR OZZARD: I have adopted a basic philosophy. I determined a long time ago, to satisfy myself, at least, that the railroads from the very beginning back in the early 1800's hauled passengers to places where people weren't in order to get them there so they could haul goods to them. And when they finally got them populated

enough, they no longer found a need to haul the people, just the freight, and they started getting out of the passenger business. This is a philosophy that may be erroneous. But this is one that I based my approach on.

THE WITNESS: You know, we have an awful lot of unused track that is not used anyway near to capacity and we would just love to run passenger trains if people would use them and we could haul them at a profit. No kidding about that. But people have left the trains. When you can drive from New York to Chicago without encountering a traffic light - just think of it - and this highway from Youngstown west is not over 20 miles from the railroad at any point. And then you go the other way, up through the New York Thruway, Buffalo and Interstate Route 90 and connect with the Ohio Turnpike, and you have the same thing. Then Route 17, if you know what that is, up through New York State, parallels the Erie all the way to Jamestown, New York. Then when all of these places have airports and commercial service -- people have left the trains.

SENATOR OZZARD: The Esso rest rooms are cleaner than yours.

THE WITNESS: Now don't forget that I told you what we did in the Lackawanna in the late 40's when we bought new equipment, new coaches and new sleepers for our passenger service, new diners and a tavern lounge observation car to try to hold that business that came

to us during the war when people couldn't get gasoline. We hoped that by getting new equipment and by giving good service, we could hold the business and it didn't prove to be successful. We can't make people ride trains.

BY SENATOR STAMLER:

Q Now Mr. White, this is a deplorable condition.

A It sure is.

Q I still get back to the one point - why has your stock held up? A You know I'll never attempt to answer what happens in the vagaries of fluctuation of stock prices.

Q This isn't fluctuation. This is four years.

A It is worse on the D and H stock than it is on the Erie Lackawanna.

SENATOR STAMLER: Well, we are not going to get back into that.

SENATOR OZZARD: Thank you very much.

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