

**MERGER OF STREET RAILWAYS IN THE  
DISTRICT OF COLUMBIA: HEARINGS BEFORE  
A SUBCOMMITTEE OF THE  
COMMITTEE ON THE DISTRICT OF COLUMBIA  
UNITED STATES SENATE, SIXTY - SIXTH  
CONGRESS THIRD SESSION ON S. 4973**

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Merger of Street Railways in the District of Columbia: Hearings Before a subcommittee of the committee on the district of columbia united states senate, sixty - sixth congress third session on S. 4973 by Various

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# **VARIOUS**

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**HEARINGS**

BEFORE A

**SUBCOMMITTEE OF THE  
COMMITTEE ON THE DISTRICT OF COLUMBIA  
UNITED STATES SENATE**

SIXTY-SIXTH CONGRESS

THIRD SESSION

P113-74

ON

**S. 4973**

A BILL TO AMEND THE PROVISIONS OF AN ACT  
RELATING TO CERTAIN RAILWAY CORPORATIONS  
OWNING OR OPERATING STREET RAILWAYS IN  
THE DISTRICT OF COLUMBIA, APPROVED  
JUNE 5, 1905

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Printed for the use of the Committee on the District of Columbia

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APRIL 4, 1921



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1921

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ARTHUR CAPPER. ATLEE POMERENE.

## MERGER OF THE STREET RAILWAYS OF THE DISTRICT OF COLUMBIA.

MONDAY, APRIL 4, 1921.

UNITED STATES SENATE,  
SUBCOMMITTEE OF THE  
COMMITTEE ON THE DISTRICT OF COLUMBIA,  
*Washington, D. C.*

The subcommittee met, pursuant to call, at 10 o'clock a. m. in the committee room, Capitol, Senator L. Heisler Ball presiding.

Present: Senators Ball (chairman), Capper, and Pomerene.

Also present, Hon. Benjamin K. Focht, a Representative from the State of Pennsylvania and member of the Committee on the District of Columbia of the House of Representatives.

Also present, Mr. William F. Ham, president Washington Railway & Electric Co.; Mr. Brainard H. Warner, jr., representing the Washington Railway & Electric Co.; John H. Hanna, vice president Capitol Traction Co.; Col. Charles W. Kutz, Capt. J. F. Oyster, and Hon. Cuno H. Rudolph, Commissioners of the District of Columbia; Hon. Francis H. Stephens, corporation counselor of the District of Columbia; Hon. William McK. Clayton, representing the Federation of Citizens Associations.

The CHAIRMAN. We have asked for this meeting that we might get a thorough understanding as to the railway conditions in Washington, from the different viewpoints of the citizens and the representatives of the different traction companies. I can assure you that this committee wants to do that which is best for the city of Washington. If it is best that these companies should be merged, we want them merged. If there are any reasons why they should not be merged we would like to have them presented to-day. I mean by that not only the companies that have been asking the merger, the electric light and power company and the Washington Railway & Electric Co., but also all of the trolley lines that do business in the District of Columbia. I understand there are one or two companies that are not taken in by the two main trolley lines. If you are going to merge the trolley lines, they should all be taken in under one system.

Have you anything to say, Senator?

Senator CAPPER. Nothing particularly, except that I am in sympathy with what you say. I find this feeling pretty general among Members of Congress that I have talked to, especially Senators, that the present situation ought not to go on much longer, especially as to the one company that seems to be paying a larger dividend than probably most any other traction company in the country engaged

in a similar line of business, and the public still paying an 8-cent fare. There is a good deal of feeling along this line, and I feel that they ought to get together on some sort of a basis that will be fair to each company and fair to the public. They believe the present situation is not fair to the public. That feeling is very strong among Senators and Congressmen. I think it is also strong among the people.

The CHAIRMAN. I would like to add this: That I appreciate that the company doing business in the suburban part of Washington necessarily would not reap the same revenue that the company would that is doing business only in the thickly settled part of Washington. Yet I appreciate if you are going to develop your city you must continue to give proper service to the suburban part of the city. That is necessary for the future welfare of the city, and any action that is taken ought to be taken with that view always in mind.

Do the commissioners care to make a statement?

**STATEMENT OF COL. CHARLES W. KUTZ, CHAIRMAN OF THE  
PUBLIC UTILITIES COMMISSION.**

Col. KUTZ. Mr. Chairman, when I appeared before the committee about a month ago we urged or stated that we had no inherent objection to the merger of the Washington Railway & Electric Co. and the Potomac Electric Power Co. as contemplated by the France bill, if all the street railways were owned and controlled by the merged company. We join hands with you in urging that the railway company be permitted to merge with the power company. We think that is the wise and economical way to handle the street railway situation. Our only purpose in suggesting that the two questions be linked up together was feeling that what we had in mind as the ultimate goal was a merger of all the street railway companies, and that we ought not to lose sight of that fact in our effort to improve the financial condition of the Washington Railway & Electric Co. alone. For that reason we urged in lieu of the France bill sections 1 and 2 of the Woods bill, which, as you know, provides first for a merger of the street railway companies, that merger to be subject to the approval of the Public Utilities Commission, and then that merger having been effected in section 2 the bill provides for the merger of that merged united street railway company with the power company, unconditionally.

But whether the commission's plan be followed or the plan contemplated by the report of the Senate committee made in the closing days of the last session of Congress, whichever plan may be adopted we feel that that proposed legislation in itself would not have the effect of bringing together the street railway companies, and, therefore, we suggested the two be authorized or provided for simultaneously, so that not only would the power company come into the absolute control of the Washington Railway & Electric Co., but that the Capitol Traction Co. would come in at the same time.

The CHAIRMAN. Your idea is that all the mergers should take place at the same time or that the railway companies should merge first?

Col. KUTZ. Either would be entirely agreeable to us.

The CHAIRMAN. The bill we reported to the Senate provided that the electric light and power company and the Washington Railway &



Electric Co. should merge, on condition that the other merger was to be permitted afterwards.

Col. KUTZ. Yes; permitted only.

The CHAIRMAN. Congress can not compel, as I understand it, the merger of the companies.

Col. KUTZ. No; but the merger of the Washington Railway & Electric Co. and the Potomac Electric Power Co. is considered to be an advantage to the owners of that company. They want it, they are seeking it, and we felt that they were coming to Congress and asking for a privilege. Now, our thought was that that privilege should be granted them, provided at the same time they also merged with the Capitol Traction Co. In other words, we wanted to accomplish the merger of the street railway companies, and in return for that merger give them this privilege which they now seek at the hands of Congress. Whether that be done in two steps, as contemplated by the Woods bill, or whether it be done simultaneously, in one step, is a matter of legislation concerning which we have no thought.

The CHAIRMAN. You will permit questions as we go along, so that we may have a thorough understanding, will you not?

Col. KUTZ. Certainly.

The CHAIRMAN. Is it your judgment that the Washington Traction Co. would not be placed at any disadvantage in merging, if they are compelled to merge, to have the light and power plant merged with them?

Col. KUTZ. I do not think so, bearing in mind the fact that they own every share of stock in the Potomac Electric Power Co. It is one of their assets which is to be taken into consideration in the merger. They would not own a dollar's worth more property.

The CHAIRMAN. I do not think you get my point. They are placed at rather a disadvantage with the other company, because really to save their life they have got to merge, while if they had all their own property merged together probably they would not be in such an unfavorable position.

Col. KUTZ. By the merger they can not increase the amount of their physical property or increase their assets in any way. Our thought was whichever plan of merger might be adopted, whether that as suggested by the commission or that embodied in the report of this committee, that there should at the same time be enacted legislation which will tend to bring these companies together into one single corporation, and after a very careful consideration of the subject not only by the present commission but by its two predecessors in office we have thought that the best way was to impose an excess-profits tax so as to bring their earnings within reasonable range of each other.

Our thought in the matter—and it is not an original idea with the commission but is taken from the Esch-Cummins railroad bill. We suggested it to the House committee a year ago. We adopted it because it had then been adopted by the Senate of the United States, and we thought that if it was a good rule to apply to the railroads of the country, where their earnings vary greatly, from very profitable roads to very poor roads, that the same rule might be applied to the street railways in Washington, where we have on a very small scale the same problem.

Senator CAPPER. Could you apply that to the Potomac Electric Power Co., if the merger was brought about?

Col. KUTZ. No; it was not our thought to apply it to the power company but would apply it to the street railway companies.

The CHAIRMAN. Your idea was to apply it to the two street railway companies?

Col. KUTZ. Yes; to apply it to the two street railway companies. In the Esch-Cummins bill it provides for a return of 5 per cent and a conditional return up to 6 per cent. We suggested originally that the 4 per cent tax on gross receipts be abolished and in lieu that the companies be permitted to earn without taxation up to 6 per cent on the fair valuation of their property and between earnings of 6 per cent and 7 per cent 50 per cent should be paid as a tax on that excess profit above 6 per cent.

The CHAIRMAN. Where would that tax go—into a fund that would be used to bring the other company up?

Col. KUTZ. No. After objection was raised to that, we were proposing to pay that into the Treasury of the United States, just as the 4 per cent tax on gross receipts is paid into the Treasury. It would become a part of the revenues of the United States.

Then, above 7 per cent our original bill contemplated taking away 75 per cent of the earnings. Then, in the bill that we have since considered we have felt that probably was unreasonably drastic.

Senator POMERENE. When you say "we" considered, whom do you mean?

Col. KUTZ. I mean the Public Utilities Commission.

Senator POMERENE. The present commission?

Col. KUTZ. I do not know that I voice absolutely the views of the present commission, but I think they agree with me in feeling that instead of having two rates of 50 and 75 per cent, it is best to adhere to only the 50 per cent tax. Whether the starting point of that 50 per cent tax be 6 or 7 is a question. My own thought was that 6 per cent would be a good starting point for that excess-profits tax.

Senator POMERENE. Do I understand that it is the plan of your bill that while you levy this excess-profits tax you also continue to tax their gross receipts as heretofore?

Col. KUTZ. No. Our thought was to abolish that tax and to substitute for it this excess-profits tax of 50 per cent.

The CHAIRMAN. How would that help the weaker road or help the rates of fare?

Col. KUTZ. If that rule had been applied to the earnings of the two street car companies last year, it would have increased the revenue of the Washington Railway & Electric Co. about \$225,000.

The CHAIRMAN. That excess of 50 or 75 per cent is not going to benefit the weaker lines.

Col. KUTZ. No, sir; but they are relieved from the payment of the present tax they now pay on gross receipts. Mr. Ham will correct me if I am wrong, but I think last year that was something like \$225,000.

The CHAIRMAN. It relieves them of the tax, but it does not help them otherwise.

Col. KUTZ. No, sir. At the same time it greatly increases the tax of the Capitol Traction Co., the tax that company now pays.

Our computation was that if that tax had been applied in 1920, instead of one company earning about 5 per cent and the other company earning about 11 per cent, one company would have earned slightly in excess of 6 per cent, and the other company slightly in excess of 7 per cent. In other words, instead of a range of six between the rates of return there would have been a range of about one, and with that comparatively small difference in the earning power, we felt there should be no serious obstacle to their getting together in the form of a merger.

Now, there has been another suggestion made that appeals to me as a wise one. Some objection has been voiced, and it was from the House committee, against permanent substitution of the excess-profits tax for a tax on gross receipts. So in the bill we have formulated now we provide that when these companies are merged the excess-profits tax shall be automatically abolished, and they shall automatically return to the 4 per cent tax on gross. In other words, the excess-profits tax is not suggested as a substitute for the tax on gross because it is inherently a better form of taxation, because there are objections to it. There is the possibility of padding of operating expenses and undue increasing of wages and salaries.

Senator POMERENE. As the Public Utilities Commission has charge of that, why can they not check it?

Col. KUTZ. We can check it indirectly, Senator Pomerene.

Mr. CLAYTON. They can not check wages.

Col. KUTZ. We have no direct control.

Senator POMERENE. They can have some check on wages. To take an extreme case, they can not say the wages must be \$1,000 a month for each man, and have the public pay that. There must be some means of doing that.

Col. KUTZ. I simply cited that as one of the objections to an excess-profits tax—that there is the possibility of building up operating expenses for the purpose of evading a part of that tax. I don't mean to imply that these two companies would resort to such procedure.

Senator POMERENE. I see the force of that objection.

Col. KUTZ. But to meet the objection that was raised in the House committee to the permanent substitution of an excess-profits tax for a tax on gross receipts we suggest that it be applied only so long as the companies remain under separate and distinct ownership, but when they have taken advantage of the authority conferred on them by the proposed law, then this excess profits tax shall cease, and they shall revert to the 4 per cent tax on gross.

Senator CAPPER. Your plan continues the present street-car fare indefinitely, does it not?

Col. KUTZ. On that basis the present fare would continue until the merger had been effected, unless by reason of reduced operating expenses, which we think are bound to come, we would be justified in making a different rate. But on the assumption that the wages of motormen and conductors and the cost of all the material that goes into the upkeep of the roads continue as at present, the present fare would continue; but we look for a drop not only in wages, but in the price of material, and when that time comes there will undoubtedly be a reduction in car fare. Even under the present inadequate arrangement we could do that.