Rising Deficits in a Rebounding Market: Rail Passenger Strategy, 1930–1941

Although the company’s passenger operating ratio stood at 84 in 1929, Southern Pacific’s vice president of passenger traffic, Felix S. McGinnis, pointed to the company’s recent passenger accomplishments with pride. The ratio was moving in the right direction, while traffic was stabilizing. The company’s policies of providing faster service, more luxurious accommodations, and lower fares, and of eliminating rural local trains, seemed to be bearing fruit. McGinnis was cautiously optimistic that such policies, together with improved coach accommodations that offered passengers many of the amenities of Pullman travel, as well as improved amenities for women travelers, would ensure demand for the foreseeable future.1

The Depression soon proved McGinnis’s optimism to be misplaced. The economic downturn reduced total intercity travel demand relatively little, but it savaged rail passenger demand. Under duress of the economic calamity, many of the remaining rail travelers broke old habits and switched to automobiles, which they already owned. The Depression showed that during the 1930s rail managers needed to find a better formula for the passenger train, taking into account the cheapness of using the auto and the ever faster driving conditions being developed, particularly in California.

California’s rail managers only partly met the challenge. Their actions during the 1930s showed the existence of a significant latent demand for railroad passenger service in certain markets, but their inadequate infrastructure prevented them from fully taking advantage of the potential market. Their cost ignorance also led them astray. While they did tap part of the market, they lost money doing so. The new trains that they developed during the latter half of the decade cost much more to operate than they anticipated.
Management began the 1930s by misreading the cause of passenger demand reduction. As industrial production fell in 1930, few if any people in American society foresaw the enormity of the economic decline that lay ahead. Day after day for three disheartening years retail sales, rail car loadings, industrial production, the rate of employment, and other indicators of economic health dropped ever lower. Between 1929 and 1933 California business activity plummeted by a devastating 56 percent, as measured by indicators used by the business community.²

The Depression hit the California passenger train industry particularly hard. Revenues from passengers traveling within the state dropped by 64 percent, while revenues from passengers traveling to and from the state dropped by 68 percent (see table 20). Nationally, rail revenues declined by 60 percent.³ Railroad managers attributed this stunning drop to the decline in business activity, and they were confident that demand would bounce back when the economy turned around. They ignored abundant evidence suggesting that not just the Depression but also automobile competition played a significant role in the sudden drop in rail passenger demand.

The Lynds’ famous study of Muncie, Indiana (“Middletown”), revealed that the Depression least affected auto ownership and driving. Gasoline sales fell hardly at all in Muncie between 1929 and 1933. Other statistics show that for the nation as a whole, passenger miles of intercity driving declined by only 11 percent over the same period. Figures are not available showing intercity driving in California, but auto ownership in the state declined by only 7 percent between 1929 and 1933.⁴ These figures suggest that rail revenues dropped so significantly not because the economic downturn forced many passengers to stop traveling, but because it induced them to switch to autos. Warren Belasco’s history of the motel in American life supports this contention by showing that as companies cut back expense accounts after 1928, businesspeople increasingly gave up using Pullman cars on overnight trains in favor of driving and sleeping in inexpensive but congenial tourist courts.⁵ By 1933 the auto accounted for more than 90 percent of intercity travel in the United States.⁶

While McGinnis believed that the public demanded faster and more luxurious trains, they actually got slower, fewer, and more spartan trains during the initial years of the Depression. Such cutbacks reflected Southern Pacific management’s belief that the downturn in passengers merely reflected the downturn in the economy. When the economy revived, managers intended to restore cutback services to accommodate the flood of passengers who would return to the rails. As the Depression continued the company responded to falling passenger lists by shortening its major trains and reducing dining and observation car assignments. When trains
shrank to four or five cars, the company sometimes combined them with other short trains, as it did in 1931 when it combined the two overnight limited trains running through the San Joaquin Valley, the West Coast and the Owl. To make one train do the work previously performed by two, the company added stops and switched cars into and out of the train en route. Both practices added time to schedules. In 1931 the company slowed down the prestigious Daylight by forty-five minutes so that it could make some of the stops of a discontinued local train. With this change, even Pacific Greyhound buses beat the Daylight’s slow twelve and a half hour schedule.7

The Southern Pacific also continued eliminating branch line trains. Its investment in Pacific Greyhound Lines made such discontinuances easier, because the bus company now provided the comprehensive passenger service that the railroad previously felt obligated to provide. Where Pacific Greyhound already operated regular bus service along the route in question, the railroad did not contract for substitute bus service. By 1935 the company eliminated more than 40 percent of the train miles that it operated in 1929; figure 5.1 shows the results in central California.

Although the Santa Fe initially did not cut back its passenger operations to and within California as much as the Southern Pacific did, by 1933 it faced more radical cuts.8 McGinnis later testified that he was privy to a 1933 Santa Fe passenger traffic manager recommendation that the Santa Fe abandon its entire passenger operations north of Barstow. This move would have eliminated all Santa Fe branch line gas-electric car service in the San Joaquin Valley, which served largely a token function, as well as mainline passenger service to and from San Francisco. By this time the mainline service consisted of two local steam trains a day that connected with through Los Angeles to Chicago trains at Barstow. McGinnis explained that the Santa Fe’s vice president of traffic, who presided over freight as well as passenger traffic, considered this recommendation but rejected it. As did most in the railroad industry, the Santa Fe traffic officer believed that complete passenger discontinuance would irreparably damage the company’s prestige in the San Joaquin Valley and the Bay Area and hinder its efforts to solicit what freight remained in the dark year of 1933.9 However, Santa Fe management remained gravely concerned about its passenger service, whose operating ratio reached 139 in 1933, considerably above the 110 ratio of the Southern Pacific for that year.10

The one positive move that railroad management made during the early years of the Depression was to reduce fares. When the economy turned down in 1929 the official regulated fare remained at 3.6 cents per passenger mile throughout the United States. In subsequent Depression years people increasingly refused to pay such a high fare, although their reluctance varied
5.1 Southern Pacific passenger train services in central California, ca. 1935. Source: SFC, exhibit 626
5.2 Passenger fare yields in U.S. regions, 1922–1935. Group I includes the Pennsylvania Railroad, the New York Central, and the New Haven. Source: Table 24

with regions. In the Northeast, where both incomes and train speeds exceeded those in other parts of the country, passengers offered less resistance to high fares. Poverty and poor train service resulted in less tolerance for high fares in the South, as did slow trains in the West. To keep passengers on trains, passenger traffic officers had to offer discounts, usually on round trip and excursion tickets. The effect of such discounts on the fare yield per passenger mile in different regions of the country clearly stands out in figure 5.2.

Southern Pacific management slashed round trip and excursion fares during the early years of the Depression. By 1933 the company offered one-dollar day return fares on several services out of San Francisco. Over most of the system the price of a round-trip ticket exceeded that of a one-way ticket by only 10 percent. Few passengers continued to buy the standard one-way ticket.11

As the public abandoned using one-way tickets, some western railroads sought to break with national practice and formally lower western rail fares. Working through the Association of Western Traffic Officers, they prepared a fare reduction proposal that the association approved in 1933. While eastern lines opposed western fare reductions, the ICC approved lowering the basic one-way fare in the West from 3.6 cents per passenger
mile to 2 cents for travel in coaches and 3 cents for travel in sleeping cars (not including the space charge). The proposal, which took effect 1 December 1933, also eliminated the Pullman surcharge. In order to better compete with buses and coastal steamers for the economy-minded long distance traveler, the Southern Pacific unilaterally went further. All along the Pacific Coast where other railroads did not compete, it applied the regular coach fare to tourist sleeping cars.\textsuperscript{12}

Coinciding with an upturn in economic indicators, the 1933 western fare reduction reversed the trend of declining passenger traffic and revenues for the Southern Pacific. Passenger miles rebounded significantly, and although gross revenues in 1934 failed to exceed the average of the previous three years, they at least did not decline below the depressing figure for 1933, and by the end of the year they showed a slight upward trend.\textsuperscript{13} The passenger operating ratio also dipped from 110 in 1933 to 107 in 1934.

Southern Pacific management responded to the encouraging reversal in trends with two measures. Beginning in 1933 it cooperated with the Pullman Company to air condition some of its trains. It also revived its efforts begun in the late 1920s to improve coach conditions. By 1936 the company advertised air-conditioned dining cars, sleepers, and coaches on most principal trains operating on the Coast Line and on interstate routes. After the Santa Fe filed its bus applications in late 1935, the Southern Pacific also hurriedly air conditioned its trains in the San Joaquin Valley. It neglected its important Oakland to Sacramento route, which did not receive air-conditioned equipment prior to World War II.\textsuperscript{14}

Coach improvements included not only air conditioning but also reclining easy chairs and large men’s and women’s lounges approximately the size of the men’s smoking and dressing lounge in the standard Pullman sleeping car. Capacity of the refurbished coaches ranged from forty-four to fifty seats, compared to seventy to ninety seats in the unrefurbished coaches. Generally, the company assigned refurbished coaches to the same trains that it air conditioned.\textsuperscript{15}

The improvement in economic indicators and the general fare reduction in 1933 failed to revive the Santa Fe’s passenger operations as much as they did the Southern Pacific’s. After declining a staggering 77 percent between 1929 and 1933, the Santa Fe’s intrastate passenger revenue increased only slightly in 1934, and the road’s transcontinental passenger revenue continued to decline. As the Santa Fe’s passenger operating ratio climbed from the alarming figure of 139 in 1933 to an even more dismaying 143 in 1934, management examined the experience of other American railroads in search of a new passenger strategy.\textsuperscript{16} Its attention turned to glowing re-
ports emanating from the South on how radical fare reductions could revive passenger service.

During the 1920s coach traffic had dropped precipitously throughout the South. The Southern Railway, the region's largest railroad, discontinued coach trains as revenues dropped below out-of-pocket costs. By the end of the 1920s the Southern's management determined that if the trend persisted, it would discontinue its last coach passenger train in 1934 or 1935.17

To avoid such a loss of prestige, the Southern's management began fare reduction experiments in the late 1920s. Because competing railroads in the South opposed fare reductions, the Southern confined its experiments to its lines connecting points of principal population where no other railroad operated. In such markets the Southern's management hoped to increase gross revenues. While a lowered fare would reduce revenue from each existing passenger, it would induce additional passengers to ride. The Southern's management believed that reduced fares would induce so many new passengers to ride that their revenue would more than compensate for lost revenue from old passengers. It also believed that it had so much capacity on its trains that the new passengers would cost the company little to carry. Thus, the Southern Railway anticipated increased gross revenues with little increase in cost, resulting in a reduced passenger deficit.18

Such results eluded the company for several years. Each time the company reduced fares, it gained more passengers, but not enough to increase gross revenues. Out of desperation the company reduced fares even further. In 1932 it tried the extraordinarily low fare of 1.5 cents per mile on its route between Winston-Salem and Goldsboro, North Carolina. This effort yielded success. The reduction increased the number of passengers by about 200 percent and gross revenues by 68 percent.19

The Goldsboro experiment convinced the Southern's management that a threshold fare existed between 2.0 and 1.5 cents below which coach rail service was attractive and above which it was not. Management reasoned that it should set all of its coach fares at the low level and in 1933 petitioned the ICC for a systemwide fare reduction to 1.5 cents in coaches and 3.0 cents in Pullmans, with no Pullman surcharge. Despite its unilateral action and vehement opposition from all other railroads (as well as bus companies) in the South, the Southern received enthusiastic ICC approval and reduced its fares in December 1933. All other southern railroads and bus companies felt compelled to meet the new low rates.20

The low fares succeeded in attracting enough new passengers to increase gross revenues, according to a study performed by the federal coordinator of transportation. Congress established the coordinator's office
in 1933 at the behest of railroad security owners, who wanted to achieve cost savings by forcing greater cooperation among railroads.\textsuperscript{21} Much of the office’s attention focused on ways to reduce the passenger deficit, and it carefully monitored results of the southern fare reductions. It found that the new low fares increased coach passenger miles for all southern railroads by 70 percent and coach revenues by 8 percent in 1934, compared to the average of 1931, 1932, and 1933. During the same test period, the eastern carriers, who kept the high fares of the 1920s, experienced no change in coach passenger miles and an 18 percent drop in coach revenues as more passengers rode on discounted tickets. In the West, where the basic one-way fare fell to 2.0 cents, coach passenger miles increased by 4 percent but coach revenue declined by 26 percent.\textsuperscript{22}

The federal coordinator concurred with the Southern Railway that a ceiling for coach fares existed. At fares much above 1.5 cents a mile passengers would not ride coach trains. This ceiling was determined by what the public perceived the cost of driving a car to be. Surveys by the federal coordinator’s office as well as those conducted at the University of Iowa revealed that the public perceived the cost of driving an auto at about 1.2 cents per passenger mile. If fares exceeded this value by very much, the public would not use trains.\textsuperscript{23}

These results convinced the Santa Fe management to replicate the Southern Railway experiment on its own line between Los Angeles and San Diego. In 1931 the Santa Fe received an average daily revenue of $1,244 from passengers traveling between downtown Los Angeles and San Diego. The average fare yield was 2.3 cents per passenger mile. By the beginning of 1933 the carrier grossed only $491 per day on a fare yield of 2.0 cents. Based on the Southern Railway experience, the Santa Fe radically reduced the fare to 1.0 cent per mile in mid-1934.\textsuperscript{24}

The results gratified management. After the substantially discounted fares went into effect, passenger miles increased by approximately 120 percent, while gross revenues increased by 10 percent over the nadir of 1933. In 1935 a major exposition opened in San Diego and led to a much greater increase in passenger miles, which then exceeded levels reached in the 1920s. Gross revenues amounted to several times their 1933 level. Many of the new or regained passengers drove to the Santa Fe station in Los Angeles, compelling the railroad to pave the lovely gardens on the station grounds in order to provide parking spaces. After the exposition closed, gross revenues settled to a level about 40 percent greater than in 1933 and passenger miles to a level about 2.8 times greater.\textsuperscript{25}

In the eyes of the Santa Fe management, the San Diego line experience brilliantly contrasted to the railroad’s otherwise worsening passenger
performance. Even as the economy continued to improve, the Santa Fe passenger operating ratio climbed still higher, reaching 145 in 1935. A stunned management resolved to do something about the deplorable state of its passenger operations and concluded on the basis of its San Diego line experiment that systemwide low fares would figure prominently in a new passenger strategy.

Management also embraced faster trains as another important part of a new passenger strategy. Many rail officials viewed higher speed as a means for protecting earnings. Spokespeople for the New York Central, the Pennsylvania, and the Chicago, North Shore & Milwaukee all claimed that the higher speeds of their services compared to those of most railroads protected their earnings from auto competition.\textsuperscript{26} In the mid-1930s Santa Fe managers also stated this view. The company believed that travel between large cities constituted the only market for rail passenger service, and very fast trains were required to tap this market.\textsuperscript{27}

To speed up its passenger service, the Santa Fe proposed using new high-speed diesel streamliners as well as buses. Both the Union Pacific and the Chicago, Burlington & Quincy inaugurated short, lightweight, high-speed diesel coach trains in 1934. The Union Pacific’s aluminum M-10000 and the Burlington’s stainless steel \textit{Pioneer Zephyr} exhibited low weight per seat, low operating and maintenance costs, and high public appeal.\textsuperscript{28} According to a special study conducted by the engineering firm of Coverdale & Colpitts, they earned extraordinary profits.\textsuperscript{29} Highly publicized, the fast and flashy little trains captured the public imagination during the dreary days of the mid-Depression. They sold the Santa Fe management on the concept of experimenting with diesel power and fast, streamlined trains.\textsuperscript{30}

The company intended to use buses in two ways. They could help in speeding up limited trains between major cities by serving unimportant intermediate stops previously served by the limiteds. Buses also could extend service to small towns not on the railroad line. Pacific Greyhound’s 30 percent return on investment convinced Santa Fe’s management that a local traffic potential still existed, but only buses could tap it profitably.\textsuperscript{31}

In mid-1935 Santa Fe’s management began to act on a new passenger strategy based on these ideas. It quickly purchased two large regional bus systems in the Midwest and a couple of smaller systems that had remained independent of the Greyhound system and reorganized them under the trade name of the Santa Fe Trail System. The railroad then extended Santa Fe Trail routes east and west along the main Santa Fe rail routes between Chicago, Los Angeles, San Francisco, and San Diego.\textsuperscript{32}

The Santa Fe acted quickly in making these purchases and extensions in order to escape provisions of a congressional bill that was about to be-
come law. In the Motor Carrier Act of 1935 Congress extended jurisdiction of the ICC over the intercity bus industry, which previously was unregulated at the national level. If the ICC restricted entry into the bus industry, as the California Railroad Commission generally had done since 1917 within California, it would deny the Santa Fe’s attempts to start bus service. To avoid this possibility, the Santa Fe purchased and extended bus lines before the act became effective. In order to move this rapidly, the railroad had to refrain from carrying intra-California passengers on its buses. The carriage of intrastate passengers required California Railroad Commission approval, which Santa Fe management feared would come slowly, if at all. Because of this restriction a passenger at the end of 1935 could board a Santa Fe Trails bus in San Diego and ride to Chicago but not to any point in California.\textsuperscript{33}

Upon establishing the Santa Fe Trail System, Santa Fe management turned its attention to implementing a bold plan for revitalizing the railroad’s presence within California. It first organized a California bus subsidiary, the Santa Fe Transportation Company. In October 1935 the subsidiary filed applications with the California Railroad Commission for certificates to operate buses competing with Pacific Greyhound Lines between San Francisco, Los Angeles, and San Diego via the San Joaquin Valley. The applications also requested permission to charge a uniform fare of 1.5 cents per mile based on the highway distance between two points. The low rate, which considerably undercut then prevailing Pacific Greyhound and Southern Pacific rates, would apply to Santa Fe buses and trains alike, and passengers could freely transfer between the two.\textsuperscript{34}

Shortly after asking the state commission to allow statewide bus competition, the Santa Fe revealed that it planned to do still more. If the railroad commission approved the bus and fare reduction applications, the Santa Fe promised to inaugurate two daily high-speed diesel streamliners between Bakersfield and Oakland, and another two between Los Angeles and San Diego. Santa Fe Trails buses would feed passengers to the streamliners. In addition, buses and trains would work together to provide a fast through service between Los Angeles and San Francisco. A through passenger would travel on a modern, air-conditioned bus over the new high-speed highway from Los Angeles to Bakersfield, continue on a diesel streamlined train to Oakland, and complete the journey by bus over the new Bay Bridge into San Francisco. In all the passenger would spend only nine and a half hours completing this trip, three hours faster than if he or she used the fastest Southern Pacific train and about as fast as the commonly perceived driving time.\textsuperscript{35}

These proposals stunned both the Southern Pacific and Pacific Greyhound Lines managements. Neither had any hint of what the Santa Fe
intended until it filed its applications. Since the early part of the century until the renegade Southern Railway broke with tradition, railroads rarely acted unilaterally in matters affecting other railroads. They acted cooperatively through traffic and executive associations. For this reason the Southern Pacific and Pacific Greyhound Lines kept the Santa Fe informed of their plans and on two occasions invited the Santa Fe to join in control of the bus operation. The Santa Fe still was welcome to buy in. In the eyes of the Southern Pacific and Pacific Greyhound as well as prevailing business etiquette, joint ownership rather than a competing bus operation was the proper way for the Santa Fe to reap the profits of buses. The contrary actions of Santa Fe’s management seemed to the Southern Pacific and Pacific Greyhound Lines managements to be a betrayal, and they reacted accordingly.

Not surprisingly, both carriers opposed the applications and attempted to marshal California business sentiment against the Chicago-based Santa Fe. In the World War I era Southern Pacific president William Sproule had successfully used a similar tactic against the Union Pacific over control of the Central Pacific. Recalling the earlier campaign, Southern Pacific president A. D. McDonald, McGinnis, and other officers visited chambers of commerce and business groups in every community affected by the proposals. They tirelessly argued that the Santa Fe plan would do no more than spread existing traffic more thinly over a duplicative and costlier transportation system. Such waste would further weaken the already financially wobbly Southern Pacific and, because the company still was one of California’s most important business institutions, would irreparably harm the state. California would not even benefit from low rates, they argued. Heavy financial losses would force the Santa Fe to raise rates and also withdraw its streamliners. Everybody would lose.

Travis and other Pacific Greyhound officers also visited business groups, arguing that the Santa Fe intended to drive Pacific Greyhound Lines out of business and then cut back its bus service in favor of trains, much as the Pacific Electric Railway did with Motor Transit. The Santa Fe thus would deprive the public of a valuable form of transportation. Travis added that the Santa Fe management could not possibly make money operating buses at fares of 1.5 cents per mile because, being railroad men, they could not figure out how to operate at a low enough cost.

To press its case the Santa Fe in turn raised the specter of the Southern Pacific octopus. Its officers also lobbied business groups throughout the state and angrily charged that the monopolistic combination of the Southern Pacific and Pacific Greyhound Lines stifled transportation innovation in California while extorting excessive fares from the public. It exposed
Pacific Greyhound’s practice of charging rates based on circuitous railroad distance. Santa Fe officers cited examples of such rates not only between Los Angeles and Bakersfield, but between Los Angeles and San Francisco and all San Joaquin Valley points. In all of these cases bus fares were based on the railroad distance rather than the much shorter highway distance. Competition provided the only protection of the public from such abuses, the Santa Fe argued. Moreover, improved service at lower fares would stimulate much greater travel to the benefit of everybody, including the Southern Pacific and Pacific Greyhound Lines.\(^{39}\)

Such arguments raged before the railroad commission for two and a half years. In the meantime, the Southern Pacific and Pacific Greyhound Lines hurriedly improved their services. To complement its numerous fourteen-hour schedules between Los Angeles and San Francisco via the San Joaquin Valley, Pacific Greyhound added several daily express buses running on a twelve and a half hour schedule. It also lowered its fares in mid-1936 and based the new fares on the highway distance. In February 1936 the Southern Pacific split and speeded up previously consolidated through trains in the San Joaquin Valley and added new service between San Francisco and Fresno. It also restored a daily gas-electric train running east-west between Armona and Porterville. In addition it accelerated the schedule of the Coast Line’s Daylight between San Francisco and Los Angeles by one and a half hours and added a new local train to that route. It also air conditioned most of its through trains in the San Joaquin Valley and along the coast. Southern Pacific’s management claimed that it restored service because traffic warranted it and not because of the Santa Fe initiative.\(^{40}\)

In addition to these service changes, the Southern Pacific invested $2.4 million in a pair of new streamlined trains to operate between San Francisco and Los Angeles. According to Southern Pacific historian Don Hofsommer, the company’s marketing consultant recommended in 1933 that the company invest in high-speed, lightweight motor trains to meet auto competition. The consultant placed highest priority on the Oakland to Sacramento route, where the Southern Pacific carried the greatest number of passengers on its entire system, and on the San Francisco to Los Angeles route.\(^{41}\) Richard Wright’s history of the Daylight shows that the Southern Pacific’s Office of the General Superintendent prepared drawings in 1933 for a low-cost, lightweight, high-speed motor train consistent with the consultant’s recommendations.\(^{42}\)

Despite the recommendations and engineering work, Southern Pacific management deferred action until spurred by the Santa Fe initiative more than two years later, and then it responded only to meet the Santa Fe competitive threat. A month and a half after the Santa Fe filed its applications,
Southern Pacific president A. D. McDonald decided to build a new train for service between San Francisco and Los Angeles. He ignored the Sacramento route. He also rejected the idea of an economy high-performance train because he did not think the design looked sufficiently like a train ought to look. He ordered instead that his mechanical department design a more luxurious and more conventional-looking streamlined train of individual cars of lightweight construction, pulled by a massive but streamlined steam locomotive. He wanted the new train to offer about five hundred spacious seats, with large and richly appointed men’s and women’s lounges in every car, and first-rate dining and lounge services. Rather than costing $1,400 per seat to build, as would the original economy design, the new Southern Pacific design had to outshine the Santa Fe’s proposed trains, which were estimated to cost about $2,300 per seat. Southern Pacific’s new luxury Daylight ended up costing about $2,800 per seat.43

From the time that the new trains entered service in March 1937 on a fast nine and three-quarter hour schedule, Southern Pacific management realized that it had tapped a latent market for rail travel far larger than it anticipated. Revenues per train mile jumped from $2.69 for the old Daylight in 1936 to $4.88 for the new, faster Daylight in 1938. Coverdale & Colpitts calculated that the new streamliners earned among the highest profits of any streamlined train in the United States prior to World War II.44

Despite the Daylight’s earnings and a couple of other bright spots, Southern Pacific management viewed its passenger operations with alarm in 1938. Passenger and freight traffic rose rapidly, almost reaching 1929 levels by 1937, but gross revenues rose much less rapidly because of heavily discounted fares and freight rates. Costs grew in proportion to traffic rather than revenues. Consequently, the passenger deficit worsened as the economy improved. From a low of 107 in 1934, the passenger operating ratio climbed to 112 in 1936 and 118 in 1937. After a sharp recession reduced the company’s profits by 95 percent in late 1937 compared to 1936, and the Santa Fe won its fight before the Railroad Commission in April 1938, the Southern Pacific management reevaluated its passenger strategy.45

Up to this time the company continued to operate some unprofitable passenger services for the benefit of businesspeople. Its electric and steam suburban operations in the Bay Area fell into this category, as did its subsidiary Pacific Electric Railway in Los Angeles. The company also continued to operate several local trains in the San Joaquin Valley for the purpose of hauling businesspeople in overnight Pullman cars from various valley towns to Los Angeles and San Francisco. Several passengers used these cars each night, but the trains hauling them grossed only between $0.20 and $0.50 per mile.46
During the *Santa Fe Case* Southern Pacific president McDonald argued that one of the benefits that the California public received from the railroad's protected status was the provision of such unprofitable but socially needed services. He strongly implied that if the railroad commission approved the Santa Fe's applications, the Southern Pacific would discontinue the services. These arguments failed to persuade business groups. Despite the Southern Pacific's and Pacific Greyhound's efforts to enlist the support of the California business community, every business group they contacted lined up behind the Santa Fe. Even the San Francisco Chamber of Commerce, in which McGinnis prominently participated, rejected the Southern Pacific's pleas and backed the Santa Fe. In supporting the Santa Fe, the spokespeople of almost all groups found no fault with Southern Pacific's service and regretted any financial harm that might befall Southern Pacific as a consequence of competition. However, they believed the short term improvements brought by competition would outweigh any longer term dire consequences predicted by Southern Pacific.

As the Greyhound executive Cloyd Kimball later recounted, the position taken by the state's business groups leading to the railroad commission's April 1938 decision favoring the Santa Fe embittered Pacific Greyhound president Buck Travis. As a consequence, Travis effectively turned the reins of his business over to his longtime colleague, Fred Ackerman. Given Southern Pacific's careful cultivation of California business interests since 1911, it is likely that company's managers felt similarly.

In any event, the company began discontinuing money-losing services, beginning with nonmainline passenger trains. By the end of the next year it eliminated all local Pullman services and remaining local trains in the San Joaquin Valley. It also axed its slow Oakland to Stockton trains, which the new, faster Santa Fe service made redundant. Local trains to Santa Barbara and Santa Cruz also disappeared.

The remaining electric services also began to go, but the decision to sell or abandon them was not easy. Through the 1920s Southern Pacific sought to end its East Bay electric deficits by merging its electric lines with those of the rival Key System into a jointly owned subsidiary. According to McDonald, Southern Pacific's electric railway employees blocked this proposal, which meant less liberal work rules for them. Management did not think the price of a systemwide strike was worth paying to resolve this issue, so the company let the status quo continue until 1933. Then McDonald directed the company's general vice president, Frank L. Burckhalter, to study the electric problem. After finding labor still intransigent, Burckhalter recommended that the company completely abandon the East Bay electric operation. According to Danny McGanny, Southern Pacific vice president
of research during the 1960s, McGinnis objected to the recommendation, and McDonald put off making a decision.\textsuperscript{51}

McDonald apparently decided after the \textit{Santa Fe Case} decision. In January 1939 Southern Pacific’s Bay Area electric trains began operating as a wholly owned subsidiary company called the Interurban Electric Railway (IER). In March 1940 IER applied to discontinue all electric service. McDonald’s observations on this discontinuance reveal the parent company’s new policy of ending cross subsidiaries:

The Interurban Electric losses have exhausted its financial resources; and the Southern Pacific Co. is unwilling to continue making advances to the Interurban to enable it to continue operations. . . . Withdrawal of support for the Interurban Electric Railway is another step in the policy the Southern Pacific Company has adopted to strengthen its financial position and thus improve its ability to meet the needs of its major transportation services. Evidence of this policy will be found in the recent disposition by Southern Pacific of its interest in street railway systems in San Jose, Stockton and Fresno, in the contemplated abandonment of interurban service by the Northwestern Pacific, in substitution of motor coaches and abandonment by the Pacific Electric of substantial parts of its rail lines, in withdrawal of financial support from the Southern Pacific Railroad Company of Mexico, and now in the abandonment of the Interurban Electric. . . . Because these unprofitable phases of service are no longer generally desired by the public, as indicated by lack of patronage, and because they constitute a drag on our efforts to provide modern service of the type that the public does want, we are asking and expect to have the support and cooperation of the public, in its own interest and for the greatest good of the greatest number, in working out these transitions in transportation services.\textsuperscript{52}

McDonald’s statement contrasts markedly from his position three years earlier when he testified, “[The Southern Pacific] has provided at great capital outlay, and is operating at a loss, interurban service which is indispensable and of great value in promoting general welfare.”\textsuperscript{53} The utility of the interurban service changed little between 1937 and 1940; what changed was Southern Pacific’s willingness to operate services at a loss for the general welfare.

The company readily received railroad commission approval and, except for the more heavily traveled lines of the Pacific Electric, discontinued its last electric train in mid-1941. Only two significant Southern Pacific passenger operations remained outside of mainline passenger services. The company continued to operate money-losing commuter service to the wealthy suburbs south of San Francisco, where most Southern Pacific executives lived, and it continued heavily patronized trains between Oakland and Sacramento.\textsuperscript{54}
While the Southern Pacific discontinued money-losing passenger services, it continued to improve its mainline trains. With the inauguration of the once-weekly *City of San Francisco* in 1936 and the new *Daylight* in 1937, the glamorous streamliner stole the spotlight from the company's intercity passenger improvements. The company initially experimented with streamliners reluctantly. As already recounted, the streamlined *Daylight* resulted from the Santa Fe California initiative. Indirectly, the Santa Fe also provided the creative impulse that led to the *City of San Francisco*. Maury Klein shows that in 1936 the Union Pacific inaugurated the *City of Los Angeles* to meet the competition of the thirty-nine and three-quarter hour Santa Fe *Super Chief* between Chicago and Los Angeles. Having favored Los Angeles with a fast streamliner, the Union Pacific then was compelled to also provide San Francisco with an equally fast train.\(^55\)

Results of the streamliners quickly proved encouraging. Often attracting sellout crowds, the diesel-powered *City of San Francisco* averaged about 57 miles an hour for the 2,260-mile trip and grossed more than $4.00 per train mile. While the *Daylight* averaged only 48 miles an hour for its 470-mile trip, it beat the fastest previous train by one and a half hours and grossed more than $5.00 per train mile. The experience of the *City of San Francisco* and the *Daylight* convinced management to invest in more such trains, although it did so sparingly, usually when prompted by a competitive threat. In late 1937 it placed two streamliners in service between Houston and Dallas to meet streamlined competition from the Burlington–Rock Island. It also purchased additional streamlined cars and locomotives for transcontinental services. By the end of the year it had spent almost $10 million in equipment improvements. In 1940 it added a second pair of *Daylights* to the Coast Line, and in 1941 it reequipped its premier San Francisco to Los Angeles overnight train, the *Lark*, with streamlined equipment. The Southern Pacific also cooperated with the Union Pacific and the Chicago & Northwestern in building additional larger streamliners for the *City of San Francisco* service to increase its frequency to three times a week.\(^56\)

To meet the Santa Fe challenge in the San Joaquin Valley, the Southern Pacific considered several options. It evaluated its new Dallas to Houston streamlined service as a failure and considered transferring the streamlined trains from Texas to the San Joaquin Valley. McDonald ultimately rejected this option because of the loss of prestige the Southern Pacific would suffer in Texas. He also considered but rejected purchasing one or more Rock Island streamliners, which his staff thought were not doing well. He finally decided to build two new trains patterned after the *Daylight*. Named the *San Joaquin Daylight*, the new trains began daily service between Los Angeles and Oakland in July 1941 on a twelve-hour schedule.\(^57\)
The company improved other mainline trains as well. For starters, it speeded them up. By the end of the 1930s most of its mainline trains ran modestly faster than a decade earlier, reflecting the speed demands of a more auto-oriented public (see table 21).

The company also made a large effort to regain the high-volume economy trade, which it lost in the 1920s. To attract such passengers, the company began in 1937 to rebuild old heavy steel coaches to approximate the interior accommodations of the new streamlined coaches. It combined the rebuilt coaches and tourist sleepers with informal dining and lounge cars and ultra-low fares to offer economical but comfortable transcontinental train travel for those not liking the stuffy formality and prices of the first-class trains. This concept in train travel had been promoted in the *Passenger Traffic Report*, released in January 1935. The Union Pacific then pioneered the economy train with the May 1936 introduction of the *Challenger* between Los Angeles and Chicago. The Southern Pacific became involved in 1937, after the early popularity of the *Challenger* convinced it and the Union Pacific to provide similar service between Chicago and San Francisco. Thereafter the Southern Pacific rapidly introduced economy trains to all of its mainlines and advertised a train on every mainline for every purse and taste.58

The Santa Fe’s California improvements began to appear in 1938. In March of that year the company inaugurated twice-daily high-speed diesel train service between Los Angeles and San Diego, and on 1 July 1938 it began coordinated bus and rail service between Los Angeles and San Francisco with the new 1.5 cent fare. The through fare between Los Angeles and San Francisco fell from $9.00 to $6.00, which the Southern Pacific was forced to meet on its *Daylight*. Under the name of Santa Fe Trailways, the Santa Fe also started a comprehensive network of bus services competing with Pacific Greyhound Lines between San Francisco and San Diego. By this time the Santa Fe joined with several other railroad-owned and independent bus systems to form a national marketing organization called the National Trailways System. Members of the system painted their buses the same colors, coordinated their schedules, provided through services and fares, used common terminals, and published joint timetables. Collectively, National Trailways members offered the public a bus system comparable to that of the Greyhound Corporation.59

Contrary to the Southern Pacific’s dire predictions, the greatly improved service and lowered fares generated a large amount of new traffic and revenues. The *Golden Gates* and *San Diegans* carried about as much traffic as Santa Fe witnesses predicted during the *Santa Fe Case*. Most of this traffic was new to the Santa Fe and did not merely transfer from older
trains. The railroad’s revenues from intra-California trains increased from $500,000 in 1937 to $1.4 million in 1939 and reached $1.8 million in 1941. Coverdale & Colpitts pronounced both services highly profitable. At the same time, the earnings of Southern Pacific trains stayed the same or, as in the case of the Daylight, substantially increased because of the reduced fare. As figure 5.3 shows, the California rail improvements that the Santa Fe initiated, and those that it induced the Southern Pacific to make, caused a modest revival of rail importance in the several markets between Los Angeles and San Francisco. Despite rising air competition and improved highways, rail revenues per capita nearly doubled between 1934 and 1941. These and the San Diego train improvements stopped the historic decline in intra-California rail passenger demand prior to World War II (figure 5.4).

The Santa Fe and the Southern Pacific achieved these impressive traffic increases without major improvements to their tracks and facilities. About the only significant improvement that the Southern Pacific made allowed the Daylight to meet its intended nine and three-quarter hour schedule. In 1937 the company laid eighty new track miles of heavier rail on the Coast Line, realigned curves over Cuesta Grade and near Santa Margarita, and constructed nine miles of additional sidings. It also constructed new maintenance facilities in Los Angeles and San Francisco to service the new
trains. In order to enhance high-speed train service, the Santa Fe also worked cooperatively with the California Division of Highways’s realignment of U.S. 101 to straighten some curves on its San Diego line. While the improvements to the Southern Pacific and Santa Fe lines were desirable, they paled in comparison to the new high-speed, shorter distance highways that the California Highway Commission feverishly constructed over mountain passes on California’s trunk routes during the 1930s.

The Southern Pacific and Santa Fe also invested heavily in Los Angeles’s new Union Station, opened in 1939, although the investment probably worsened rather than improved passenger service performance. After years of struggle in the courts and regulatory commissions, the City of Los Angeles forced the three major intercity railroads serving the city to build a union station. With the most passenger trains operating into Los Angeles, the Southern Pacific contributed 44 percent of the $11 million construction cost. While architecturally striking, the new terminal did not significantly improve the quality of the state’s passenger service. I have not found operating cost figures of the new terminal, but Carl Condit’s penetrating work on terminals in Cincinnati suggests that the new terminal cost more to operate than the two passenger terminals that it replaced.

The net result of the Southern Pacific’s passenger strategy in the late
1930s proved disappointing. The deletion of money-losing passenger services and the improvement of money-making trains failed to end passenger service financial woes. Although the passenger operating ratio dropped from 119 in 1938 to 109 in 1939, it rose again to 117 in 1940. Only as war threatened in 1941 did swelling war-related traffic mask this trend, bringing the operating ratio down to 105.

How the Santa Fe management evaluated its improvements is not known, but records exist showing how Southern Pacific management viewed them. During the first several weeks of Golden Gate operation, Southern Pacific employed clandestine agents to ride on Santa Fe’s bus/train service and make daily reports to A. D. McDonald. McDonald in turn had his staff analyze the reports and periodically summarized the analyses for board chairman Hale Holden in New York. McDonald concluded that when all costs were considered, including those of the connecting buses, the service failed to cover its operating and equipment costs, but that the Santa Fe had scored an incalculable publicity coup that would lead to a growth of Santa Fe freight revenues in the San Joaquin Valley. This scared McDonald, because the Southern Pacific still dominated rail freight movement in the San Joaquin Valley and the Bay Area, meaning that it potentially could lose much to the Santa Fe. He believed that the Santa Fe viewed the service in this manner and thought increased freight revenue would more than compensate for added passenger deficits. His observation, “The situation points to the need of some positive action on the part of Southern Pacific if we are to counteract the prestige which the Santa Fe has undoubtedly gained, and hold to our own line our rightful proportion of San Joaquin Valley traffic—both freight and passenger,” led to Southern Pacific’s investment in the San Joaquin Daylight in 1941. Clearly Pratt’s 1901 assertion that railroads operated passenger trains to advertise freight service still prevailed in 1938.

While the Santa Fe generally succeeded with its California passenger rail improvement program, its overall passenger indicators must have disappointed management. Since 1936 the company operated the Super Chief, a weekly diesel-powered high-speed luxury train between Chicago and Los Angeles. In 1938 it outfitted its premier daily train on the run with streamlined cars. It also inaugurated lightweight high-speed economy day trains between Chicago and Kansas City, as well as a novel weekly high-speed streamlined coach train from Chicago to Los Angeles. Coverdale & Colpitts reported that all of these trains attracted heavy passenger loadings and earned high returns on investments. Yet revenues from all Santa Fe interstate trains into and out of Los Angeles grew only by 11 percent between 1936 and 1937 and then remained largely static through 1940. The passen-
ger operating ratio declined from 138 in 1937 to 129 a year later, coinciding with the introduction of diesel trains in California and in the Midwest, and it declined further to 123 in 1940. The economies of streamlined operation or, more probably, diesel operation may have contributed to this improvement, but considering the large profits that Coverdale & Colpitts attributed to the streamliners, the passenger deficit remained remarkably high.

When Santa Fe Trailways started its California service in 1938 Pacific Greyhound revenues dropped up to 40 percent in important markets. According to Pacific Greyhound executive Cloyd Kimball, the Santa Fe captured about half of the bus business in its markets and held onto this share before World War II. Travis threatened to drop the bus fare between Los Angeles and San Francisco to $5.00. Whether or not this happened is not clear. It is clear, however, that while Santa Fe Trailways carried about half the traffic in its markets, which also were Pacific Greyhound’s most lucrative markets, Pacific Greyhound’s profitability remained at its high 1936 level until World War II. At the same time, Santa Fe Trailways lost money. By the end of World War II, Santa Fe showed little interest in the bus business, which by this time, according to Kimball, it managed without competitive zeal. It made no attempt to hold on to the business it had captured from Pacific Greyhound and quickly sold out. Despite the Santa Fe’s marketing success with buses, Travis proved correct: the railroad could not make money in the bus business.

Responding to a devastating collapse in demand at the beginning of the decade, Southern Pacific and Santa Fe managements during the 1930s greatly altered the character of the late 1920s passenger train. The Southern Pacific in particular accelerated its shift away from short distance trains by eliminating most of them in favor of buses. On the other hand, it speeded up and added more luxurious accommodations to its longer distance trains operating between large cities, while charging ever lower fares. Through such actions the Southern Pacific operated far fewer trains, but each train carried more cars, offered more amenities, operated at faster speeds, and carried its passengers over greater distances. Although the number of passengers using the Southern Pacific declined substantially over the decade, the fact that each passenger rode much farther resulted in approximately the same number of passenger miles using the Southern Pacific in 1939 as in 1927.

The Santa Fe’s management followed a similar strategy, but it emphasized considerably more than the Southern Pacific high-speed coach trains offering comfortable but not posh accommodations. It also reversed its strategy of the 1920s and first half of the 1930s by turning more of its
attention to shorter distance markets, most notably that between Los Angeles and San Diego and those between the San Joaquin Valley towns and California’s two major metropolitan areas. Its efforts boosted gross intra-California passenger revenues to the level of 1928, but the company had to work much harder and incur greater expense to get the revenue. Because fares in 1941 were much lower than those in 1928, the number of passenger miles producing the revenue approached the passenger miles of the peak year of 1913.72

Curiously, the Southern Pacific’s passenger improvements failed to reduce the company’s passenger deficit, while the Santa Fe’s efforts produced only modest improvements. In 1940, the last year before war-related traffic affected statistics, the Southern Pacific’s passenger operating ratio stood as high as at any time during the 1930s and exceeded the deplorably high level of 1933 by a wide margin. That the company lost more money on a passenger volume 60 percent greater than that of the bleak year of 1933 should have alarmed management. While the Santa Fe’s efforts reduced its passenger operating ratio by about 15 points, it still stood at the unacceptably high level of 123 on the eve of World War II.

In many respects the California passenger experience of the Southern Pacific and the Santa Fe paralleled that of Pacific Greyhound Lines. All three faced a public demanding ever lower fares. All three faced declining traffic to about 1933 and then rebounding passenger volumes. All three improved service to capture the increasing traffic potential after 1933. Their experiences differed only in profitability. Whereas Pacific Greyhound Lines made a 30 percent return on investment under these conditions, both railroads lost substantial sums on their increasing passenger business. Why this was so begs explanation.