

THE PENNSYLVANIA RAILROAD SYSTEM

Broad Street Station
PHILADELPHIA, PA.

Pennsylvania Station
PITTSBURGH, PA.

Why Freight Rates Should Be Increased

In response to a request from the Editor of the Philadelphia "Public Ledger," Mr. Samuel Rea, President of the Pennsylvania Railroad Company, forwarded the following letter concerning the proposal to increase freight rates.

PHILADELPHIA, PA., May 9, 1913.

To the Editor of the Public Ledger:

"The public should know exactly what is meant by the proposal to increase freight rates 5 per cent. The annual revenue from freight in the territory concerned is about \$800,000,000. Five per cent. on this is \$40,000,000. There are about 40,000,000 people in this portion of the country. The proposed increase therefore means an average of \$1 per year per head of population—eight cents a month.

"Everybody knows that the railroads have been put to greatly increased expense in recent years. On the Pennsylvania Railroad system lines east of Pittsburgh, the added cost of new legislation from August, 1906, to December, 1912, was nearly \$11,000,000. Question is not here raised as to the propriety of the legislation; the fact is that it has cost \$11,000,000 in six years to comply with it.

"Recently many more laws have been enacted. These will cost still more. The

New Jersey grade crossing bill alone involves an ultimate cost to this company's system of more than \$60,000,000, for that law imposes upon the railroad companies the entire burden of the cost of removing all grade crossings. Extra crew laws, drinking water laws, railroad valuation laws, all are adding to the cost of running a railroad.

"Now managements of railroads seek to obey the law. If the public, through constituted authority, demands certain measures of safety, certain improvements, certain conveniences, it is entirely within the right of this public to express that demand in the form of law. But certainly such measures of safety and comfort must be paid for by somebody. The railroads are only too happy to remove all grade crossings, to equip every mile of track with automatic block signals, to make every car of all steel construction, but to do these things is utterly impossible without the money with which to pay for them.

"There are some people who believe the railroads are owned by a few millionaires who could afford to sacrifice a portion of their interest on bonds or dividends on stock without feeling the effects. As a matter of fact, there are nearly 100,000 persons interested as investors in the stock of the different companies of the Pennsylvania Railroad system. It is likely that holders of this company's bonds number 200,000. A very large percentage of these investors are women. Enormous investments in American railroad secu-

rities are held by savings banks, insurance companies and trustees of estates.

"Strike at the investor of railroad securities and you hurt depositors in savings banks, policy holders in life insurance companies, women investors and many others least able to cope with the situation. The capitalist does not submit to a reduction of his dividends to a point below what he can realize from some other investment in this country or in some other part of the world. Capital is liquid and it flows to where it is wanted and will be properly paid for.

"If investments in American railway securities are to be denied a proper return, those who can do so will sell their holdings and the money will be put elsewhere, and when we want more money for improvements to handle the public business we cannot get it. As Mr. Prouty, chairman of the Interstate Commerce Commission, very properly said, in speaking to the National Association of Railway Commissioners in Washington, on November 19, 1912 :

"The United States is trying an experiment which has never been successfully worked out yet in the history of the world. It is trying to build, develop and operate its railroads by private capital under rates and regulations fixed not by the owners of that capital, but by the public. * * * We can make rates reasonable, we can remove discrimination, we can put on schedules for the running of trains; all that is easy. The question is here: Can you obtain under this system the new money which is necessary to develop our old railroad systems and to build our new railroad systems?"

"Reduced to its simplest terms, therefore, the question involved in the proposal to increase freight rates is this :

"Are the people willing to pay to the railroads sufficient freight rates to enable them to render the service which the people demand and should have? The country is

growing; unless its growth is to be stultified, its railroads must grow. We have to-day the lowest railroad capitalization per mile of any great country in the world, much lower than in any of the great European countries.

"It is impossible to continue this building and developing of railroads without more capital. To obtain that capital, the railroads must have credit ; credit that will withstand the scrutiny of the banker of Lombard Street, as well as appeal to the investor in Philadelphia. That credit cannot be assured and maintained unless the railroads are permitted to earn sufficient revenue to have left over at the end of the year a surplus out of which to make the necessary improvements which do not add to the earning power of the company, and which yet assure the investor of the productive value, both now and prospective, of the enterprise in which he proposes to put his money.

"The railroads of this country pay the highest wages of any country in the world. They pay more to the support of the Government in taxation, proportioned to the capital invested, than is paid in any country in the world. They do their work upon less capital, and they do more work upon their capital, than is done in any country in the world.

"In addition, the railroads of this country haul freight cheaper than is done in any other country in the world. Confronted, therefore, with such costs as have been noted, not to speak of the growing cost of materials and wages, is it not absolutely proper that the railways should ask, on their own behalf as well as on behalf of the public they seek to serve, that a small increase be made in the rates of freight?"

SAMUEL REA, President,
The Pennsylvania Railroad Company.

