

# THE PENNSYLVANIA RAILROAD SYSTEM

Broad Street Station  
PHILADELPHIA, PA.

Pennsylvania Station  
PITTSBURGH, PA.

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## The Proposed Advance in Eastern Freight Rates

Speaking concerning the proposed advance in freight rates, at a meeting of the shippers of Boston on Thursday, June 12, Mr. Samuel Rea, President of the Pennsylvania Railroad Co., said :

Mr. Willard has set out the railroad situation so fully and ably that there is but little which I can add that would enlighten you on the subject before us unless it be to state some potent facts with respect to the System which I have the honor to represent.

I had the pleasure a week ago of coming to this City in connection with railroad matters, and it may not be amiss to repeat briefly what I said on that occasion as to the relation between the Pennsylvania Railroad and the New England situation.

As you know, we are a stockholder to a small extent in the New York, New Haven & Hartford R. R. Co., and have a deep interest in the welfare of New England. The New Haven is a very important and independent transportation company; it is our best easterly connection for traffic and we in turn, I believe, are its best westbound connection.

Beyond continuing the mutually advantageous traffic relations, our Company has no

other policy, but in order to evidence our desire for their continuance we acquired the small stock interest in the Company, and we are now jointly constructing a railroad at New York so as to have a direct physical rail connection between the two Systems. Therefore, in addressing you, I realize that you represent a community which furnishes our Company with a large volume of traffic for distribution throughout our System and its connections.

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I need not remind an intelligent body of aggressive business men of the value of railroads to a community, especially in the New England States, and of the prosperity that has come through the railroads, prosperity small in extent, however, to the railroads compared to the great returns it has brought to the country at large. We must start on the firm basis that the railroad is essential to the business men and the community, and that they are equally essential to the railroads. One cannot exist without the other, nor can one exist at the expense of the other.

We should, therefore, leave no stone unturned to continue in a strong condition so as to vigorously carry on the purposes for which we were created, your service in manufacturing and commerce being as much of a public service as that rendered by the Transportation Companies. You have a right to expect that the railroads shall render a safe and efficient public service, with road-

bed, equipment and facilities of an adequate standard, and the Transportation Companies believe they are entitled by law, equity and public opinion to reasonable rates consistent with the value of the public service rendered and a fair return upon the capital employed. You are also in business for like results, but with this difference: Our business is under strict Governmental supervision and regulation; of this we make no complaint, because it is admitted that such supervision protects the rights of the public, and should equally protect private enterprise and insure efficiency of service.

Consider the position of the railroads of the country for the past few years, and in no district is this more apparent than in the Eastern section of the United States, where the railroads are at present asking for a slight advance in rates. The Pennsylvania Railroad Company is as good an example as can be found. In 1901 for every dollar we earned it cost us, including taxes, 67.7 cents to operate and maintain the road; for every dollar received in 1912, it cost us over 78 cents for actual operation and maintenance.

This is largely the result of increased wages and taxes, and apparently the end of these increases has not yet been reached. Wages and taxes are not the only cause, for the Railroad Company, by the increase in its efficient operation, which is shown in heavier trainloads, and by public requirements, is compelled to have a higher standard for roadbed, equipment, stations, signaling, etc., and pay the cost of new capital, labor and materials to produce them. With these demands all railroads are pleased to comply, but we cannot ignore the result that it costs more.

We are, further, under Governmental supervision and regulation, required to observe extra crew laws, laws for grade crossing abolition, which in some States is exclusively at the expense of the railroads, compensation acts, etc., regarding which we may not complain, as the public has the right to impose burdens short of confiscation upon the railroads, but as a practical matter we must re-

alize that eventually outgo must be governed by income.

The estimated annual cost to our Company for three States of the extra crew laws alone amounts to \$756,000 per annum, for which no increased return will come to the Company. In the six and one-half years ending December 31, 1912, our Company paid over \$10,000,000 to comply with the new regulations, Federal and State.

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Our complaint, however, is not of the laws generally, but only against those which are unjust, if not unnecessary, and our fear of the slow but sure encroachment upon our margin of financial safety. It is true of every business, but more especially of the railroads, that they cannot exist unless they can earn an amount sufficient to adequately maintain their property and public service, pay a fair return to those who have intrusted their money to the Company and have a fair margin which forms not only a basis of credit, but which can, and has been, applied to those betterments. These betterments may but slightly, if at all, increase the revenues, and therefore should not be paid for out of capital account, because they are essential to keep the property in modern and safe condition.

The Pennsylvania Railroad Company has been most fortunate in this regard, as this has been its uniform policy for over two generations, and its stockholders have wisely, we believe, consented to the application of earnings which might properly have been distributed in dividends, to the continuous betterment of the property for public service. This margin of safety is also a necessity to provide for emergencies, such as extraordinary floods and unforeseen contingencies to which a big system is subjected, and to preserve its service in years of financial and commercial depression.

Our experience is that not only have expenses and taxes and other expense outlays been increased, but the tendency of the rates themselves has until recently been downward, so that the present rates do not produce

a fair return upon the capital employed. This return on the capital employed solely for railroad purposes has during the past ten years in the history of our Company been continually reduced.

On the total cash invested in railroad tracks, equipment, and facilities, the President of our Company testified in the rate hearings in 1910 that 5.01 per cent. was earned in the year 1909. In 1912 the return upon the amount similarly invested on our lines east of Pittsburgh and Erie was 4.83 per cent., while in 1900 the return was 9.39 per cent.

Our problem is: Is this a fair return, and can the Company continue to render an effective service and raise new capital for future growth on that basis?

We are sure that unless this margin over a fair return to the stockholders is earned, everything above bare maintenance of the property must be provided out of capital account, and this in turn means that new capital for betterments and improvements of our facilities and service will be exceedingly difficult to raise, and it must be at measurably higher rates than have heretofore prevailed. We cannot raise that money except in competition with other forms of corporate and private enterprise, and without public approval and co-operation in securing the payment of a fair transportation rate by the shippers.

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I can take no gloomy view of this great country and its possibilities, notwithstanding the present unfavorable outlook. I have unbounded confidence in the business men of this country that nothing approaching confiscation or unfair dealing to lower the standards of service will ultimately be permitted, provided the railroads themselves will put their case in the hands of the business public and clearly emphasize their needs; it is for that purpose that we are in conference with you.

So far as the Pennsylvania Railroad Company itself is concerned, and stripping it of all obligations connected with the lines in its system which act as feeders, it perhaps

cannot be said that at present it absolutely needs an increase in transportation rates for the ordinary maintenance of its property, the payment of its present fixed charges on the outstanding capital, or to maintain the present rate of dividend.

This is the result of the conservative management I have already alluded to, which has conserved its capital account and applied all above a fair dividend to the betterment of the property; but the company itself cannot ignore the other companies in its system upon which it relies to be fed with traffic, and upon their investment and its own, as above stated, it received the low return of 4.83 per cent. in 1912.

Then as the business of the country is constantly increasing, the transportation companies are required to furnish enlarged facilities of every kind, and they must have the basis of credit to enable them to secure the capital.

There are other companies not so fortunate as the Pennsylvania, but which are just as important to the sections they serve, which are in absolute need of increased revenue to exist; while others need increased revenue as a basis for raising new capital, and all of them are justified in asking for it; in my opinion, based upon the value of the service they render to the country.

One railroad, as you know, cannot be favored in this wise and the others excluded. If the position of the Pennsylvania System, as above stated, leaves it in need of the moderate advance in freight rates now requested, it is clear that such an advance is urgently needed on sound business reasons, by all other railroad companies, not to pay for inefficient management or undue capitalization of the past, but after exercising the best ability and foresight that can be obtained in the administration of the property, the railroads are not receiving just compensation under present rates.

Unless this reasonable treatment is accorded to the railroad companies and a fair return can be earned upon the money invested in railroad

facilities, the railroads will come to a standstill because capital cannot be exacted from the public unless it is suitably rewarded.

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A clear issue is therefore before us, i. e., that after putting forth the best efforts for efficient and economical management, consistent with safety, public regulation and requirements, the railroad earnings and return upon the capital invested have been reduced to such an extent that many of the railroads do not earn or pay a fair return upon the capital invested and have no basis for credit, while others see the margin above a fair return so narrowed that the question of their credit and of the continued maintenance of their railroad at a sound standard is imperilled.

All questions of valuation and rate making cannot evade the main problem of credit and a fair return on capital. If this cannot be had, public ownership is the only alternative, but we believe public opinion will continue to endorse and support private ownership and operation under Governmental regulation.

Confronted by this situation, the railroads have made a public appeal not for the maximum rate which under their charters they are entitled to charge, but for a moderate increase over the minimum rates now in existence. On such a basis as that they confidently rely upon public support, preferring to make this appeal so that railroad enterprise may not be halted, but that, on the contrary, railroad managements will continue to assume their full responsibility, and provide the facilities and service to make the country progress.

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May I suggest in closing that, since the railroad companies are now generally operated properly and in the public interest and under rigid regulation, if legislators and Governmental officials would appear to aid the Transportation Companies to carry on their business and improve their facilities and service so as to better serve the public and try to compose the many difficulties which

confront them, instead, of as in many instances, worrying and harassing them and proposing new, expensive, and often unnecessary laws and regulations, we would all soon come to a better understanding.

Therefore, is it not time for business men of your experience to take a hand and see that only fair-minded and impartial men are sent to legislatures and regulative bodies who will co-operate with these Governmental agencies of transportation—for that is what they have become in fact, although privately owned—to the end that continued good service and facilities may be assured, necessary improvements made, protection secured for the capital already invested, and the new capital raised on a basis that shall yield a fair return to the owners of the properties?

And, futhermore, can you not also do something to guard against the unwise acts of organized labor when directed to securing what might be termed coercive and class legislation as illustrated in the extra crew laws? Railroads, like other corporations, are now generally prohibited from contributing to political parties, and rightfully, but without apologizing for what existed in the past, I do believe that such contributions were made oftener for the purpose of preventing unjust legislation than to influence legislation favorable to the railroad companies.

What, however, is the difference in morals between railroads currying favor with political parties through contributions to the party purse, and so-called labor committees sitting in almost every capital and in many cases, as we are informed, promising votes in return for such unnecessary legislation as the extra crew laws? I say there is no difference, and such action should also be prohibited, and you business men can do much in this direction, if you believe the railroad position just and will make your power effective.

Such action will also be in the most enlightened interest of the employes, and encourage those who intrust their capital to us. We must all work and advance together on a mutually fair basis if we desire our country to progress.