

THE PENNSYLVANIA RAILROAD SYSTEM

Broad Street Station
PHILADELPHIA, PA.

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Pennsylvania Station
PITTSBURGH, PA.

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An English Estimate of the Pennsylvania Railroad

The "Statist," the well-known London financial weekly, of which Sir George Paish is editor, devotes its issue of July 26th largely to a discussion of American Railroads. The comments upon the Pennsylvania Railroad are particularly interesting and are partly as follows :

The magnitude of the Pennsylvania Railroad System is difficult to grasp, but perhaps if the size and the work it performs are compared with the length of and the work performed by the whole of the railways of the British Isles a sort of notion will be obtained of the place it occupies among the great enterprises of the world. The length of the Pennsylvania Railroad System east and west of Pittsburgh at the end of last year was 11,557 miles, and the length of all the railways of the United Kingdom was less than 23,500 miles, so that in route miles the Pennsylvania System is one-half as long as the whole of the railways of this country. The length of the single-track miles of the System is about 17,000, while the single-track miles of the railways in this country are close to 40,000. Including the System's sidings the total length of the track is 26,000 miles against 55,000 miles in this country. Thus in the matter of tracks and sidings the System is nearly one-half as long as the railways of this country.

But the importance of a railway cannot be judged only by its length. The amount of

work it performs for the public is a much more weighty matter, and the work accomplished by the Pennsylvania System is truly enormous. Unfortunately we have no data in this country of the amount of work done by our railways; we can only guess at the amount. Assuming an average rate in this country of about 1.2*d.* [2.4 cents] per ton per mile, the freight traffic of the whole of the railways of England, Scotland, Ireland and Wales would reach 13,000 million ton miles. The freight traffic conveyed by the Pennsylvania Railroad System alone exceeds 41,000 million ton miles, or more than three times the amount of work performed in conveying freight by the whole of the railways of this country.

In the United Kingdom the railways now convey about 530 million tons of freight an average distance of about 25 miles, whereas the Pennsylvania System last year conveyed 473 million tons of freight an average distance of 87 miles. Thus the freight tonnage of the Pennsylvania System was nearly as great as the whole of the tonnage of the railways of Great Britain, and the average

distance carried was between three and four times longer.

About 60 per cent. of the freight traffic of the Pennsylvania System and 80 per cent. of that of this country consist of minerals. The great density of population in this country of course gives our railways a much larger passenger traffic than enjoyed by the Pennsylvania; and whereas the passengers conveyed one mile by the Pennsylvania System last year reached 4440 millions, the passenger mileage in this country, on the assumption that the average fare is about three farthings [1½ cents] per passenger per mile, amounts to upward of 14,000 millions. But when the passenger mileage of British railways is added to the ton mileage the total units of traffic conveyed one mile are only 27,000 millions; whereas the total units of traffic conveyed by the Pennsylvania System are nearly 46,000 millions.

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To control this great system of railways, to maintain its prosperity, to secure the economical working of its traffic, to raise the capital for additional facilities, to look ahead to the needs of the Company in future years, and to secure willing service from the employes, requires ability of a very high order. In this country the business of our railways doubles in about 33 years, and with abundance of capital available for the provision of facilities, the work of providing for the expansion of traffic is under normal conditions an easy one. **But the business of the Pennsylvania Railroad System doubles every decade, and the task of providing the facilities and raising the capital needed for an expansion so rapid and so great is a very onerous one.** Thirty-four years ago, in 1878, the freight traffic of the Pennsylvania was relatively small; but in a single decade it grew from 4000 million to over 10,000 million ton miles. Ten years later, in 1898, it had increased to 16,000 million ton miles, and in the last 14 years it has grown to over 41,000 million ton miles. In the past year

alone the growth in the freight business of the system has been nearly 7000 million ton miles, an expansion equal to the total increase in business from 1888 to 1898. And it is quite impossible to place any limit upon the traffic the Company will convey in the future.

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In considering the expansion of business in the United States account has to be taken not only of the rapid growth in population from year to year, largely in consequence of immigration, but of the fact that the wealth of the existing population of about 96,000,000 persons is expanding in a remarkable manner.

When we take into account the rapidity with which the wealth annually produced by the United States is increasing, and the unlimited scope for expansion in population and in wealth production of the country in the years to come, we are obliged to admit the possibility, indeed, the probability, that the business of the Pennsylvania System may again double in the next decade.

It is, of course, obvious that if in a single decade the freight traffic of the Pennsylvania were to expand from 41,000 million to something like 80,000 million ton miles a great deal of preparation would be needed. It is, however, the boast of the Pennsylvania that its facilities are always ahead of its traffic, and this, of course, explains in some measure the immense growth in its business from period to period.

In the United States no one is ever satisfied with the quantity of business he does. The president of a railroad, and, indeed, everyone else, for that matter, has the commendable ambition to see that the business of the undertaking for which he is responsible shall expand in proportion to the normal rate at which the business of the country develops, and that, as far as he is concerned at any rate, nothing shall be left undone that can be done to assist his company to progress as rapidly as foresight and ability will permit.

With regard to the future of the Pennsyl-

vania Railroad nothing is lacking to assure the continuance of the remarkable progress it has made in the past. Since 1856 it has never failed to pay a cash dividend, and its credit has never been better or its financial position stronger than today. Indeed, in the last 10 years its financial strength has become much greater than ever it was, and it is evident that the Pennsylvania will always be able to raise the capital it will require for its development.

During recent years it has raised new capital entirely by the issue of Common stock, and its fixed charges have declined, while its net income has grown rapidly. This means, of course, that the security of its bonds has greatly increased, and that should it desire at some future time to issue bonds instead of stock for new capital purposes the security it will offer to investors will be so great that no one will have to give a moment's thought to the safety of the bonds.

In 1912 the proportion of the fixed charges to the net income of the Pennsylvania Railroad proper was only 28.4 per cent., and every year the proportion grows smaller. From the point of view of assets its financial strength is equally great. The actual capital expended upon the Pennsylvania Railroad is something like twice as great as the nominal capital. Certainly the Pennsylvania System could not be constructed at the present time for twice the sum at which its value stands in the books of the Company.

Not only is the Pennsylvania proper devoting large amounts of profits every year to betterments, but most of the subsidiary companies are acting in a similar manner, and the additional facilities required to take care of the expected immense growth of traffic in future are being paid for mainly out of profits. In the past year the whole of the capital expended by the Pennsylvania Railroad has come out of profits. Thus the financial position of the undertaking is one of great and increasing strength.

In the matter of *personnel*, upon which so much depends, the Company has always been very fortunate. Its Presidents have been men of high character and of great ability. The new President, Mr. Samuel Rea, who, as our readers are aware, was appointed to his post at the beginning of the present year, is second to none of his predecessors in the knowledge and the ability that he brings to the work before him. Indeed, his appointment shows that the Directors of the Pennsylvania are leaving nothing undone that can be done to insure the continued progress and prosperity of the System.

It will be realized that failure to make provision for future expansion in traffic is a very costly matter, as it results in traffic blockades and feverish activity to overtake arrears. The views of Mr. Rea concerning the wisdom of providing facilities in advance of the traffic are well known, and his knowledge of the probable expansion of traffic in future and of the needs of the System in the matter of tracks and of equipment will cause the necessary work to be accomplished in good time.

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The great work undertaken by Mr. Cassatt and completed by Mr. McCrea, of constructing six lines of rail for the whole distance from New York to Pittsburgh, has already given the Company a considerable margin of facilities, but it is evident that if provision is to be made for the great expansion of traffic in the next 10 years the work of constructing fresh facilities will have to be undertaken in the not distant future.

The remarkable growth in the traffic of the Pennsylvania system was not appreciated until recent years, as attention used to be paid almost entirely to earnings and not to the work performed for those earnings. Inasmuch as the average freight rate fell continuously until 1899, the real growth of its traffic became apparent only when the expansion in its business was attended by a corresponding increase in earnings. Thus,

between 1888 and 1898 a great growth of traffic was attended by a very small increase in earnings, and the expansion in net earnings that occurred was brought about by the economy with which the additional traffic was conveyed.

Since 1899, however, the whole position has changed. At that time the competition for traffic was so keen that freight rates had fallen to a non-payable basis, except for the strongest companies such as the Pennsylvania, and a restoration of rates became essential to prevent the general bankruptcy of the Eastern trunk roads. The passage of the Hepburn Act, which made secret rate-cutting a criminal offense, entirely altered the situation and enabled the railways to obtain rates which permitted them to give a reasonable return upon the capital expended, and at the same time more adequate rates of remuneration to railway operatives.

In the last thirteen years a growth of 113 per cent. in the traffic units has been attended by an increase of 146 per cent. in gross earnings. **IT SHOULD BE REALIZED THAT ALMOST THE WHOLE OF THIS INCREASE IN GROSS EARNINGS HAS GONE TO THE ADVANTAGE OF THE RAILWAY OPERATIVES AND TO THE PUBLIC** through the improvement in the rate of wages, the shortening of hours, and measures for the increased safety of the public, and that the stockholders have

derived very little advantage from the immense expansion in earnings.

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In 1899 the dividend on Pennsylvania Railroad stock was 5 per cent., and in the past year it was still only 6 per cent. In considering the results of 1912 in comparison with 1899, we have to recollect that the traffic of the Pennsylvania System has been conveyed with increased skill and economy from year to year, and that the rise in expenses is entirely due to the substantial advances in the rates of wages of the employes, the rise in prices of supplies, and improved and safer services rendered to the public.

If account be had of the rise in the cost of living, the argument which has played so great a part in bringing about the advance in wages, and which affects the owners of capital as well as the wage earners, it will be evident that the stockholders have not been treated with undue generosity, seeing that the increase in the dividend has been only from 5 to 6 per cent. In considering the question of dividend it is essential to recollect the conservative dividend policy followed by the Company throughout its existence, and the fact that the amount of hard cash put into the System has been much greater than is represented by the capital raised. In other words, were account taken of the enormous sums devoted out of profits to betterments by the Pennsylvania Railroad it would be found that the dividend upon the real capital provided is probably equal to a dividend of much less than 3 per cent. upon the stock.