RAILROADS READY FOR LEAN YEARS

One of the interesting questions now engaging the attention of Wall Street and of the business world generally involves the ability of the railroads of the country to maintain net revenues at present figures. Manifestly, were the remarkable prosperity of the country to continue indefinitely there would be no reason for doubt in the matter; there would be improvement even upon the astonishing and gratifying records of the past few years. It is only when the possibility of the coming of "lean" years is suggested and canvassed that the issue presents itself as one that may be worthy of consideration, in view of possible but, from the present viewpoint, not probable developments, for all the indications and promises are of continuing good times.

In many quarters the belief is firmly held that hard times come just as do good times—that prosperity and depression move in cycles, and that the one is no less inevitable than the other. Presuming that this is so—though there are no signs on the horizon indicative of any abatement of the present prosperity—the question of the ability of the railroads so to maintain their net earnings that dividends will not be impaired is at once interesting and pertinent.

Can it be done? And if so, why and how? The answer is not one to be given offhand. In large measure, however, it may be said that it depends primarily and largely upon the railroad itself. It is a well-known fact that in the last half-dozen years many of the important systems of the country have expended large sums of money in improvements, betterments, &c. This money in some instances has come out of capital account; in other instances—and this has been the policy pursued by the conservative and, be it said, more ably managed roads—it has come directly out of earnings, going into the property as a permanent investment rather than into the pockets of the shareholders in the form of dividends. This policy of extension and improvement is going steadily on—will this year be so great that President Ingalls of the Big Four is credited with computing the total thus to be expended at the enormous sum of $400,000,000. This, however, is undoubtedly a mistake. What probably President Ingalls meant was that the total not alone for improvements, &c., but for new lines and extensions, will be $400,000,000. For the first item alone, i. e., improvements, a conservative estimate is that it will be somewhat less than half the amount set out. This, however, does not include the extraordinary expenditures to be made by such systems as the Pennsylvania and New York Central, though these expenditures will extend well beyond the present year.

Of the railroads which in recent years have pursued the policy of steadily bettering their physical conditions out of earnings, the most conspicuous are Chicago, Milwaukee and St. Paul, Chicago and Northwest, and Chicago, Burlington and Quincy. The views, therefore, of the managers of these roads as to the outlook in "lean" years—should lean years come—are especially timely, for as these systems can do so also can other railroads—depending solely to what length they have carried out the policy pursued by these representative systems. No effort will be made to quote Chairman Roswell Miller of St. Paul or President Hughitt of Northwest, the purpose being merely to set out their opinions—opinions, it may be said, shared in by other leading railroad managers to whom the writer has talked, among the number being included President Truesdale of Lackawanna, President Olyphant of Delaware and Hudson, President Spencer of Southern Railway, Chairman Porter of Chicago and Eastern Illinois, President Hill of Great Northern, and President Mellen of Northern Pacific.

It appears that in the past five years St. Paul, Northwest and Burlington have each spent something like $20,000,000 in improvements and betterments. In large measure these expenditures have come out of earnings. In consequence there have been no sudden increases in the dividends paid by the companies; while on the other hand there has been no large increase in the capital stock of any of the companies, which would have been brought about had these expenditures been charged to capital account. What this signifies to these railroads in case general business should fall off, he who runs may read. As a result of these expenditures—not always pleasing to impatient stockholders clamoring for more dividends — legitimate operating expenses have been materially reduced. Curves have been straightened, embankments have been widened, grades have been reduced, greater train loads are being hauled, bridges have been strengthened so that they bear better the burden of heavier engines and train loads; and, generally, each road has been brought to what approaches a perfect system, in so far as perfection is possible in these days. The consequence of all this is that, should hard times come and decreased gross earnings result, the roads will be in such excellent order that extraordinary expenditures can cease without any detriment to the property, and thus net earnings can be maintained at their present rate. Indeed it is an official admission that after this year, or at most at the conclusion of next, these expenditures, so far as the roads referred to are concerned, will in all probability cease in any event, for by then the systems will be in the ideal position, physically, which the managers had in mind when some years ago the policy referred to was instituted. Thereafter it is believed that the present equipment can be maintained indefinitely at an ordinary outlay. In other words, in the years to come the millions that would go into the properties were it necessary further to improve them will go into the treasury because the permanent improvement is practically completed. The only condition that could change this would be a change in standards, necessitating entirely new equipment.

Of course this is not to say that improvements will not go on—for they will—nor that operating expenses will not continue high, for they also will. But it is to say that the improvements will of necessity mean a much smaller outlay, and that therefore operating expenses (in which these improvements formerly have been included) will be in diminishing figures. It may be said, however, that it is the opinion of railroad authorities not only that legitimate operating expenses will continue high, but that such increased expenses have come to stay. It is a fact that railroads are paying for track labor 15 cents more a day than they did some time ago; for extra gangs 25 cents a day; and for bridge gangs even more; while it is well known that steel and iron command a price twice as great as they did four or five years ago, thus adding appreciably to the cost of equipment and material of a railroad. Offsetting this, there is in general only the ability to operate more cheaply; though in the case, for instance, of Southern Pacific and Atchison, new economies are to result from the use of fuel oil instead of coal. Undoubtedly in hard times the prices of labor and of material will fall, but not, it is contended, sufficient to compensate for the general loss of business. It is apparent, however, that when the roads cease making their improvement expenses the saving thereby will be to a certain extent lost by the decrease in business and this increase in operating expenses. Therefore, if in hard times the railroads maintain their present rate of net earnings they will do all that reasonably can be expected of them.

A factor, of course, that is not to be lost sight of in a consideration of future earnings is the working of the "community of interest" plan. This is not expected to stop competition, but it ought at least to do away with a recurrence of the one-time destructive rate wars that resulted in harm alike to the railroads and to the country. This, however, is merely a special influence, and is scarcely to be considered in that view of the matter which pertains to the ability of railroads, whatever happens, to husband their resources.

Generally speaking, it may be concluded that if the time should come when the traffic and the earnings of the railroads of the country shall fall off, stockholders of those systems which have, so to speak, "put their houses in order," need not worry because of any fear that the dividend-paying power of the roads must of necessity be impaired. It is only in the case of those companies which have gone ahead wantonly increasing not only capital stock but also dividends, that there need be occasion for concern. Fortunately, those roads in which a policy of wisdom and conservatism has not been observed are the exception, not the rule.

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