L. H. TAYLOR & CO.

MONTHLY LETTER. **BANKERS** Fifth & Chestnut Sts

Members Philada. & New York Stock Exchanges

PHILADELPHIA

April 3, 1893.

DEAR SIR:

Western New York & Penna. R. R.

The placing of the Western New York & Pennsylvania Railroad in receiver's hands and the passing of even scrip dividends on Norfolk & Western Preferred stock were of particular interest to Philadelphia, where so many of the securities are held. Of more than local interest, however, is the question of the rates of transportation, the amount charged by the railroads for hauling freight. President De Coursey, of the Western New York & Pennsylvania Railroad, told us on Saturday last, the day of the receivership, that the average rate per ton per mile on his road was, some years ago, ten mills, and that it was now only six mills. This serious falling-off of 40% in the amount received per ton for transportation can be better illustrated by Mr. De Coursey's statement that a rate of seven mills would have netted enough increased receipts to have easily met the cash interest on the second mortgage bonds, and that a rate of eight mills would have earned a dividend on the stock. The last annual report showed that the gross earnings were $3,580,156, operating expenses were 67%, or $2,398,360, and the net earnings of $1,181,796 were much more than sufficient to pay all charges for first mortgage interest, rentals, and taxes—in all, $652,740. The second mortgage interest has been, up to this year, paid in scrip at the rate of five per cent. per annum; but the mortgage required that cash payments of three per cent. per annum should commence in 1893, although, if it were not paid, foreclosure proceedings could not be commenced until January, 1897. The company requires the surplus earnings for necessary additions and betterments, the only source of income to make these improvements being the current operating receipts. The receivership does not seem to be a serious matter, inasmuch as the present first mortgage interest and rentals are easily within the earning power of the company.

Norfolk & Western.

The Norfolk & Western investors have even a stronger case of complaint, inasmuch as the company operates 1540 miles of road, and its purely "local freight" is enormous. The first two months of 1893 show a decrease of $117,453 in net earnings, and follows a decrease of $257,066 in net in the year 1892. The strength of the company was formerly proudly declared to be its local business. Statistics for the year 1892 will not be available until the annual meeting in May, but the tonnage was much heavier than in 1891. Taking the latter figures as a basis, we find that the total number of tons of freight moved was 5,797,941, and the ton mileage (the tonnage moved one mile) was 1,292,984,631. The average rate per ton per mile was 0.548 cents, or say 5½ mills. The profit per ton per mile 0.187 cents, or 1⅞ mills. Out of this small profit had to be paid interest, rentals, taxes, dividends, etc. The *apparent* cost of handling freight has not greatly increased, being 0.361 cents in 1891, as against 0.366 cents in 1888 and 0.373 cents in 1887. If the rate received for transportation had been the same as in 1887 (0.635 cents), the net earnings in 1891 would have been $1,024,896 greater than the $3,178,274 reported. The Norfolk & Western does not hold, when the mileage is considered, many securities in its treasury; but the securement of fair rates would have rendered those outside investment holdings valuable. The Preferred stock issued now amounts to $43,000,000, as against $22,000,000 in 1887—the Preferred stock capitalization alone being larger than the stock of either the Reading or Lehigh Valley. In addition, there are $9,500,000 of Common stock. The company states that the earnings of 1892 were sufficient to pay all fixed charges and leave a balance of $296,313 after paying the 1½% cash dividend. No allowance is apparently made for the dividend of 1% paid in October in scrip. If the freight rates of 1887 had been maintained in 1891—and they were then surely low enough—the increased earnings would have been equal to an additional 2½% on the Preferred stock.

Philad'lphia's Investments.

Fostering of local interests is right and proper when a road is engaged in creating on its line business interests that will forever return annual profits to the fosterer (the railroad). But when that local business gets large enough to overcome the carrying capacity of the roads, the railroad policy should be reversed. The United States in 1892 produced 50% more pig-iron than Great Britain, and our roads should secure better rates. Fostering of local or any other kind of industries should cease unless the railroad investor receives increased returns. The Reading Railroad system, including its bonded debt, leases, and preference bonds, has now to earn profits to pay fixed charges capitalized at about $400,000,000, and the Pennsylvania Railroad bonds and stock of say $200,000,000 have an outside fixed charge sufficient to bring its obligatory capitalization up to that of the Reading's $400,000,000. Including the Northern Pacific and other railroads, largely promoted by Philadelphians, this city and State have a direct interest in the welfare of over $1,350,000,000 of invested railroad capital—paid for in cash. The entire capitalization of the roads of the United States is say $11,000,000,000, roughly divided into $5,000,000,000 of stock and $6,000,000,000 of debt. It is probable that the cash actually paid in did not exceed $8,500,000,000; but the securities that interest Pennsylvanians, and particularly Philadelphians, do represent at least $1,350,000,000 cash actually invested. The Pennsylvania, Lehigh Valley, Lehigh Navigation, and other stockholders—even the $40,000,000 of Reading stock and $60,000,000 of preference bonds—can prove that fact by the exhibit of checks which partly represent investments in non-earning railroads. There is a growing feeling that railroad affairs, particularly in the East, and more especially in the States of Pennsylvania and New York, are not properly conducted. The leading advocates of the proposed amendment to the Inter-State Commerce law were the presidents of the New York Central and Pennsylvania. But the force of the arguments to legalize "pooling" was directly broken by the fact that these railroad presidents have officially declared that they were unable to secure paying rates even when each road had more tonnage offered than could be handled.

English Rates.

The statesmen, law-makers, and investors of the city and Commonwealth are exhibiting indications that this subject of rates—the preservation of $1,350,000,000 cash invested by our citizens in railroad development—is most important. More important indeed than the money invested in trusts or Stock-Exchange-listed-industrial-securities. The $1,350,000,000 cash invested in railroads in which Philadelphia has a direct interest vastly exceeded the industrial or "trust" capitalization of the United States. As far, then, as Philadelphia goes, "fostering" of inside interests should cease at once, because the most important duty devolved upon this Commonwealth is to conserve the real interests of cash investors in our transportation companies. The Secretary of Internal Affairs of Pennsylvania, Col. Thos. J. Stewart, has had embodied in his forthcoming report an able article prepared by Mr. Isaac D. Brown, on the question of transportation rates. It is stated that the American shipper not only enjoys better facilities, but has also the benefit of rates that are only one-third of the charges made on railroads in Great Britain. It is stated that the rate per ton per mile in England is two cents; a fact that was well known and that could have been supplemented by the statement that our passenger rates are also much lower. We do not think that the same rates for freight transportation will ever be received here as abroad, but the Secretary of Internal Affairs shows the mammoth difference and practically the complete absurdity of the American system by stating that "if the Pennsylvania Railroad had received in 1891 the same rate per ton per mile as was received by the roads of Great Britain, it would have received $147,252,379 instead of $47,619,280, and such receipts would have paid the 6% dividend to stockholders and left enough money to have paid the entire funded (direct) indebtedness from a single year's freight earnings, besides leaving millions of dollars in the treasury. If the Reading Company had received the English freight rates, it would have earned $61,115,499 instead of $26,792,121."

Poor Management.

It is not necessary to state what increases of net earnings of the amounts stated would have meant to these, and in fact all, roads. We do not believe that American productions or freight will ever bear a rate of two cents a mile. But we do believe, as a pure matter of business principle, that an overflowing freight traffic should pay an increased rate per ton. If a business man is doing $1,000,000 of cash business at a profit, at say 6½ mills, he would be neglectful of his friend's interest if he did $1,150,000 of business at 5⅞ mills, the reduced receipts occasioning a falling-off of net profits. The main conundrum to solve is this—if there is plenty of freight, why not let a competing line handle all the losing contracts? It seems clear that, if a road were allowed to take enough of poor business, it would soon cry "peccavi," which means "I have had enough." In 1892, there was a great rush of food products for export; the foreigners had to buy here, and could not haggle as to price. Our railroads deliberately helped the people who are not in sympathy with our institutions by carrying the grain at lower prices than the Western roads made three years ago, when "emergency rates" were necessary to give the Western planter a profit at a time when Europe was disdainfully refusing to buy our cereals at the lowest prices ever quoted. If the rate of grain transportation last year had been properly maintained, three things would have been seen: first, Europe would have paid more for our grain; second, our railroads would have received increased rates of freight; third, investors in railroad securities would have received increased dividends. What additional benefits did investors get from this glorious chance? Nothing!

Difference to "Pennsy."

In 1892, the Pennsylvania Railroad main line division handled 5,494,581,323 tons of freight one mile at a rate of 5¾ mills—0.571 cents. The rate in 1887 was 6¾ mills—0.670 cents. If the rate of 1887 had been received in 1892, the net earnings of the main line division alone would have been $5,880,735 greater than they were. The Philadelphia & Erie division rate was 0.495, against 0.543 in 1887, and the latter rates would have increased the net earnings of 1892 by $613,554. A much worse case is that of the Philadelphia & Erie Railroad, which practically supports the whole division, the division of rates being apparently most unfair. In 1887, the rate per ton per mile on the Philadelphia & Erie Railroad was 0.543, and in 1892 it was 0.447—less than 4½ mills. If the Philadelphia & Erie Railroad had received the rates of 1887, the net earnings in 1892 would have been $943,990 greater. The United Railroads of New Jersey had a rate per ton in 1892 of over twelve mills—1.204 cents. If the rates of 1887 had been received, net earnings in 1892 would have been $656,069 greater. In 1892, the Northern Central handled 929,886,142 ton miles at 0.592 cents—about six mills. If the rate of 1887—0.666 cents, or 6⅔ mills—had been received in 1892, net earnings would have been $688,115 greater. The Philadelphia, Wilmington & Baltimore handled 300,102,276 ton miles in 1892, the receipts being 1.340 cents, as against 1.687 cents in 1887. If the 1887 rates had been received, net earnings in 1892 would have been $981,350 greater.

Improvement Earnings Lost.

This calculation could be extended to the other roads that are not included in the Pennsylvania Railroad monthly statements, but the 1887 rates received on simply those roads named above would have secured in 1892 the great additional net earnings of $8,819,823. It is a serious question as to whether the improvements and betterments of these large lines should not now be mainly secured from operating earnings. The sum of "$8,447,689 was invested in cash, for construction, equipment, and real estate on the main line, and advanced for such purposes to leased, branch, and auxiliary lines east of Pittsburg and Erie, by the Pennsylvania Railroad Company, in 1892." This sum of $8,447,689 was the net remainder after $1,521,790 had been repaid in cash by the branch lines. If the 1887 freight rates had been received in 1892, and there would seem to be no valid reason why they should be lower, the increased net earnings would have been more than sufficient to have done nearly $10,000,000 of work charged to capital account.

"Pennsy's" Capital Additions.

The accounts of the Pennsylvania Company, the Western lines, are not yet at hand; but the additional capital expenditures of $7,001,940 on those lines should also have been nearly met from earnings. A year's addition to capital of $9,968,500 "East," and $7,001,940 "West," besides $4,187,000 Car Trusts, should impress upon railroad managers and investors the necessity of securing better rates for the services rendered the public.

We think that the time has arrived when investors generally should impress upon all railroad managements the fact that additional capital will not continue to be easily procured, if at all, unless better net earnings are shown, which can only be obtained by higher rates. The Chicago Fair, in our opinion, will be a strong bull card, inasmuch as its influence will be felt not only in the transportation interests and in the making of exchange against our unfavorable trade balances, but in more powerful ways. The country's resources will be fully set forth, and much of the idle money of Europe should seek investment in our securities —provided our railroads are run on business principles. In any event, foreign capital will go into our manufacturing establishments. The market in April should be materially higher on the World's Fair influence, which will probably outweigh all other considerations.

L. H. TAYLOR & CO

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S. S. Breed Esq.
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D Sir.

Replying to yours of the 28 March, regarding corrections of bill, would say I have carefully looked over the letters sent you year, and find from the letter book, and after a conversation with my clerk, that he neglected to credit you with the cancellation of Merchants Insly. returned by you on Febry 10th. and the policy as shown on my former bill as National should have been N. B. & M. Enclosed I hand you corrected statement which I think is correct. My clerk has not kept my books quite correctly, but I think this is correct. If you prefer you may remit me the \$22.64 and I will settle with Burnham Tillotson

Yours truly
B. L. Titus