

UNITED STATES' RAILROADS REACH CRITICAL POINT IN DEVELOPMENT

Poor's Railroad Manual Company has Issued a Pamphlet Which Shows in a Striking Manner how Effectively Railroad Credit has Been Curtailed Within the Last Few Years and asks if it Shall be Totally Destroyed

The railroads of the United States have reached a critical point in their development, writes Poor's Railroad Manual Co. of New York. Until recently they have been able to provide adequate transportation facilities, increasing with the growth of the country, but since the United States and the States have begun to harass them by hostile legislation, to the point of interfering with their management and hampering their usefulness, the confidence of investors in American railroad securities, not only in this country but in Europe, has been greatly weakened. The Government has virtually assumed the management of the railroads without incurring the risks of ownership, and apparently without intelligent consideration or knowledge of the business, and yet with aggressive hostility to their successful operation. What will become of the railroads if they cannot find relief from these conditions is an alarming problem. In other lines of industry, when credit is endangered by diminishing profits, relief may be found by reducing operating expenses or increasing prices; but the railroads can do neither, for they are obliged to maintain for the public a service now at the minimum of its efficiency.

In view of the fact that the growth and prosperity of the United States are directly dependent upon the railroads, the situation now confronting them has become a grave one for the country. The railroads are the principal customers in the steel trade, one of the most important of our manufacturing industries. The cessation of railroad purchases always causes widespread depression in this trade, and also in the equipment and allied industries. Furthermore, there are nearly 2,000,000 employees of the railroads, not to speak of probably an equal number of investors in railroad securities (including savings banks, insurance companies and benevolent orders), whose prosperity depends upon the prosperity of the railroads. Besides this, if the railroads are unable to obtain money for their development, then their ability to render adequate service to the business of the country will soon be impaired. If these facts were generally understood, Congress and the state legislatures would speedily be forced by an indignant public to abandon their pernicious activities against the railroads.

The grave danger, actually already present, to American railroad credit is fully shown by a comparison of railroad capitalization and net earnings for a series of years. In Table I, appended hereto, such a comparison, compiled from the figures published by the Interstate Commerce Commission, is made. The percentage of net earnings to total capitalization, which was 5 1/2 per cent. in 1902, had risen with the growth of the country and good railroad management, to 8 1/2 per cent. in 1907. In 1912, however—the latest year for which complete returns are available—this percentage had fallen below 5 per cent., and for the year ended June 30, 1914, was probably not more than 4 1/2 per cent.—net earnings having declined \$40,000,000 since 1912, while railroad capital has probably increased in the same period about \$1,000,000,000. An industry showing such rapidly diminishing returns cannot hope to attract investors.

One of the most striking evidences of the prevalent hostility, fostered by political activities, toward the railroads, is seen in the rise in the rate of taxation on railroad property. By reference to Table II (below) it will be seen that while the railroads in 1902 paid \$1.00 in taxes out of every \$11.00 of their net earnings in 1914 they paid \$1.00 in taxes out of every \$6.00. The rate of taxation, measured by the proportion of taxes to total railroad capitalization outstanding in the hands of the public, has steadily increased. In 1902 it was 0.85 per cent.; in 1912 it was 0.77 per cent., and in 1914 it was something like 0.85 per cent.—the exact rate in 1914 being inaccessible on account of incomplete returns. In other words, the rate of taxation has increased in a dozen years about 60 per cent. It is safe to say that there has been no such increase in the rate of taxation of other property.

This increase alone in the rate of taxation is now taking from the railroads about \$45,000,000 of their annual net earnings.

The return on railroad capital has been further reduced by an increase in operating expenses. In Table III (below) operating expenses are divided into two classes: (a) Maintenance, including maintenance of way and structures and of equipment; and (b) all other expenses, including traffic, transportation and general expenses.

Comparing the almost complete returns of 1914 with the complete returns of 1902, it will be noted that the railroads spent 31 per cent of their gross earnings for maintenance in 1914, as against 26 1/2 per cent in 1902; an increase equivalent to 4 1/2 per cent of the gross earnings, or about \$125,000,000 per annum. The amount that the railroads may charge for maintenance is, however, at least partly within the control of railroad officials; but other expenses are beyond their control excepting in so far as scientific management may avail toward keeping down expenses. Table III (below) shows that expenses other than maintenance—that is, traffic, transportation, and general expenses—absorbed about 41 per cent of gross earnings in 1914, as against about 32 per cent in 1902. Could the railroads have been operated in 1914 at the same percentage of gross earnings at which they were operated in 1902, the saving would have been 3 per cent of gross earnings, or about \$90,000,000. This sum is equivalent to about 4 1/2 per cent of the freight earnings of the railroads in 1914.

The question may be asked, however, whether the railroads could not have saved this \$90,000,000 a year by maintaining a standard of efficiency in handling traffic as high as in 1902. An analysis of operation shows that the standard of efficiency of operation as appears by revenue train load, since 1902, has steadily increased, and, therefore, that the increase in operating cost was due to causes beyond the control of railroad officials. Table IV (below) shows that an increase in ten years of 68 per cent in the number of tons moved one mile has been handled with an increase of only 2 1/2 per cent in train mileage. In other words, the average train load was increased from 295 tons in 1902 to 407 tons in 1912, the latest year for which complete traffic statistics are reported.

The eastern railroads have asked for permission to advance their freight rates 5 per cent. It has been estimated that if this advance be granted, the net earnings would not go far toward restoring the credit of the railroads to the position it held in 1907, although it might help to restore the confidence of investors in American railroad securities and help to extricate the companies from their difficulties. But the complete restoration of railroad credit seems hopeless unless the Interstate Commerce Commission is deprived of its rate-making function. The Commission has proved itself utterly incompetent to regulate rates, its policy having been chiefly obstructive. It appears to regard itself as established only in the interests of the shippers, to secure them against any advance in rates, however imperatively needed. The utter incompetency of the Commission in rate-making is shown by its fatuous and fallacious policy of needless and endless delays in its decisions, to the infinite injury of the business interests of the country. If the Commission were no longer a rate-making power, the railroads would have the same liberty of action as are enjoyed by other interests, and without which none can succeed. The railroads should be left free to charge remunerative rates. The self-interest of the companies and competition would be sufficient checks upon unreasonable rates. If such freedom is not given them, then some other means must be found to restore railroad credit or the country must suffer consequences alarming to contemplate. However, the problem may be solved, it is evident that the public must be educated to a knowledge of the facts affecting the railroad business. Until there is a change in public opinion, it is useless to expect any change in the attitude of the Commission.

(From the Reports of the Interstate Commerce Commission.)

TABLE I. Complete Returns—All Roads.

| Year | Stock Outstanding in Hands of Public | Debt Outstanding | Total Capitalization | Net Earnings, after Taxes | Per Cent. of Total Capitalization |
|-------------------|--------------------------------------|------------------|----------------------|---------------------------|-----------------------------------|
| 1902 | \$4,314,055,951 | \$5,611,608,220 | \$9,925,664,171 | \$555,139,045 | 5.59 |
| 1903 | 4,375,235,824 | 5,924,362,481 | 10,299,598,305 | 585,028,059 | 5.69 |
| 1904 | 4,397,040,970 | 6,214,753,068 | 10,611,794,038 | 574,128,143 | 5.36 |
| 1905 | 4,485,504,942 | 6,682,601,049 | 11,167,105,992 | 627,793,057 | 5.62 |
| 1906 | 4,546,584,294 | 7,125,356,355 | 11,671,940,649 | 713,530,850 | 6.11 |
| 1907 | Not reported. | Not reported. | \$12,352,765,080 | 759,628,554 | 6.20 |
| 1908 | 5,526,991,778 | 8,811,584,162 | 14,338,575,940 | 689,312,126 | 4.98 |
| 1909 | 5,844,247,369 | 9,164,460,201 | 15,008,707,570 | 767,934,358 | 5.12 |
| 1910 | 5,766,993,588 | 9,231,606,162 | 15,000,600,750 | 750,918,760 | 4.98 |
| 1911 | 5,844,247,369 | 9,164,460,201 | 15,008,707,570 | 767,934,358 | 5.12 |
| 1912 | 5,766,993,588 | 9,231,606,162 | 15,000,600,750 | 750,918,760 | 4.98 |
| Increase | \$1,452,097,997 | \$3,708,998,542 | \$5,161,936,479 | \$195,774,715 | 10.61 |
| Per cent increase | 33.96 | 68.11 | 52.01 | 35.27 | |

Incomplete Returns—Roads Reporting Gross in Excess of \$1,000,000 Annually.

| Year | Not reported. | Total | Net Earnings | Per Cent. |
|-------------------|---------------|---------------|---------------|-----------|
| 1912 | Not reported. | \$737,667,406 | \$737,667,406 | 100.00 |
| 1913 | Not reported. | \$15,000,972 | \$15,000,972 | 100.00 |
| 1914 | Not reported. | \$97,702,776 | \$97,702,776 | 100.00 |
| Increase | Not reported. | \$139,966,630 | \$139,966,630 | 100.00 |
| Per cent increase | Not reported. | 15.42 | 15.42 | |

*Estimated from figures given in the report. †The output of securities in this year was \$543,601,183, but the Commission explains that the securities reported owned by the railroads increased \$455,999,921. ‡Decrease.

TABLE II. Complete Returns—All Roads.

| Year | Total Capitalization in Hands of Public | Net Earnings Before Taxes | Per Cent. of Total Capitalization | Per Cent. of Net Earnings |
|-------------------|---|---------------------------|-----------------------------------|---------------------------|
| 1902 | \$9,925,664,171 | \$555,139,045 | 5.59 | 5.59 |
| 1903 | 10,299,598,305 | 585,028,059 | 5.69 | 5.69 |
| 1904 | 10,611,794,038 | 574,128,143 | 5.36 | 5.36 |
| 1905 | 11,167,105,992 | 627,793,057 | 5.62 | 5.62 |
| 1906 | 11,671,940,649 | 713,530,850 | 6.11 | 6.11 |
| 1907 | Not reported. | Not reported. | Not reported. | Not reported. |
| 1908 | 14,338,575,940 | 689,312,126 | 4.98 | 4.98 |
| 1909 | 15,008,707,570 | 767,934,358 | 5.12 | 5.12 |
| 1910 | 15,000,600,750 | 750,918,760 | 4.98 | 4.98 |
| 1911 | 15,008,707,570 | 767,934,358 | 5.12 | 5.12 |
| 1912 | 15,000,600,750 | 750,918,760 | 4.98 | 4.98 |
| Increase | \$5,161,936,479 | \$195,774,715 | 10.61 | 10.61 |
| Per cent increase | 52.01 | 35.27 | 19.49 | 19.49 |



W. M. BATES. Who is now in Quebec on his way to join the Canadian forces in Europe.

WILL TRAVEL SEVEN THOUSAND MILES TO GET CRACK AT BERMANS

Mr. W. M. Bates Was With a Government Survey Party in the Peace River District When He Heard of the Outbreak of Hostilities.

Eleven thousand miles to get a crack at the Germans. That is the distance W. M. Bates, now with the 23rd Battalion at Quebec, will have travelled when he reaches the firing line in Europe.

Mr. Bates is a civil engineer, and was in charge of a Government party doing land survey work north of Grouard, in the Peace River District, when he heard of the outbreak of war. This was late in August, and a few weeks later the party broke camp for Edmonton, where he, with several other members of the party, enlisted and joined a company from the Edmonton district who were going East to join the 23rd.

Mr. Bates has spent a number of years in the Peace River District surveying the land preparatory to opening it up for the settlers, and speaks most favorably of the wealth of the North Country. Around Grouard and north of the Big and Little Smoky, he says, is excellent farming land which is being rapidly taken up by settlers.

The completion of the Edmonton and Dunvegon Railway, which passes through that country, will open up a great area suitable for mixed farming, and he looks for a rapid growth in the population of the district during the next year or so. Incidentally he has got hold of several choice lots that he hopes to settle down on as soon as he has made his arrangements with the Kaiser and several other German friends he is making the trip to see.

OHIO OIL DEAL COMPLETED.

Findlay, Ohio, December 22.—The Ohio Oil Company directors, at a meeting following the special stockholders' meeting, formally decided to turn over company's pipe line property in exchange for the \$20,000,000 capital stock of the new Illinois Pipe Line Company.

A pro-rata distribution of the stock is to be made to stockholders of the Ohio company before February 1st next, each holder of one share of Ohio stock (\$25 par value), to receive one-third of a share of Illinois Pipe Line stock (\$100 par value).

APPLICATIONS FOR LISTINGS.

New York, December 22.—New York Stock Exchange has received the following applications for listings:

J. I. Case Threshing Machine Company, \$12,150,000 stock trust certificates for preferred stock extended to 1918.

Maxwell Motor Company, Incorporated, \$12,985,000 common stock trust certificates, \$13,000,000 first preferred stock trust certificates, and \$11,000,000 second preferred stock trust certificates.

CALL MONEY AT NEW YORK.

New York, December 22.—Call money opened at 3 per cent.

| Year | Not reported. | Total | Net Earnings | Per Cent. |
|-------------------|---------------|-----------------|---------------|-----------|
| 1912 | Not reported. | \$2,764,446,224 | \$854,576,855 | 30.95 |
| 1913 | Not reported. | 2,957,163,723 | 929,858,926 | 31.45 |
| 1914 | Not reported. | 2,991,391,325 | 934,218,351 | 31.23 |
| Increase | Not reported. | \$227,045,101 | \$80,261,890 | 2.92 |
| Per cent increase | Not reported. | 8.21 | 9.27 | |

| Year | Average Mileage Operated. | Gross Earnings. | Maintenance Expenses. | Other Expenses. | Per Cent. |
|-------------------|---------------------------|-----------------|-----------------------|-----------------|-----------|
| 1902 | 200,155 | \$1,726,280,267 | \$461,762,228 | \$655,013,547 | 37.94 |
| 1903 | 205,314 | 1,900,846,907 | 506,851,516 | 751,117,763 | 39.51 |
| 1904 | 212,343 | 1,975,174,091 | 528,465,193 | 810,884,401 | 41.05 |
| 1905 | 215,374 | 2,082,482,406 | 568,487,909 | 827,727,961 | 39.75 |
| 1906 | 222,460 | 2,325,765,167 | 640,276,478 | 897,178,224 | 38.58 |
| 1907 | 227,465 | 2,589,106,578 | 711,406,685 | 1,037,558,014 | 40.61 |
| 1908 | 227,257 | 2,392,905,939 | 697,727,165 | 972,211,552 | 40.61 |
| 1909 | 232,981 | 2,418,677,538 | 672,262,991 | 827,486,728 | 38.25 |
| 1910 | 238,947 | 2,750,667,435 | 781,617,091 | 1,041,345,644 | 37.88 |
| 1911 | 243,424 | 2,789,761,659 | 784,392,568 | 1,121,080,424 | 40.18 |
| 1912 | 248,829 | 2,842,695,382 | 817,820,775 | 1,154,948,047 | 40.68 |
| Increase | 48,674 | \$1,116,415,116 | \$256,058,537 | \$499,934,500 | 2.69 |
| Per cent increase | 23.22 | 64.86 | 77.11 | 76.32 | |

| Year | Not reported. | Total | Net Earnings | Per Cent. |
|-------------------|---------------|-----------|---------------|-----------|
| 1912 | Not reported. | \$219,373 | \$274,346,224 | 125.35 |
| 1913 | Not reported. | \$221,749 | 2,007,163,783 | 90.84 |
| 1914 | Not reported. | \$225,475 | 2,991,391,325 | 132.65 |
| Increase | Not reported. | 6,106 | \$227,045,101 | 104.16 |
| Per cent increase | Not reported. | 2.78 | 17.90 | 9.25 |

*Includes 2,042 miles in 1912, 1,948 miles in 1913 and 1,986 miles in 1914 not in the United States.

| Year | Tons Revenue | Freight and Mixed Train One Mile. | Revenue |
|-------------------|-----------------|-----------------------------------|---------|
| 1902 | 157,289,270,053 | 530,585,444 | 296 |
| 1903 | 178,221,578,988 | 557,804,080 | 311 |
| 1904 | 174,522,089,577 | 547,064,586 | 208 |
| 1905 | 186,468,010,510 | 578,614,401 | 322 |
| 1906 | 215,877,561,241 | 626,339,538 | 284 |
| 1907 | 226,601,390,103 | 662,104,857 | 357 |
| 1908 | 219,381,664,802 | 622,084,490 | 282 |
| 1909 | 219,808,986,939 | 605,091,524 | 262 |
| 1910 | 255,010,619,451 | 671,257,888 | 263 |
| 1911 | 258,738,701,839 | 682,057,481 | 283 |
| 1912 | 266,080,746,058 | 649,478,104 | 407 |
| Increase | 108,791,476,005 | 116,897,660 | 111 |
| Per cent increase | 67.89 | 22.42 | 37.50 |

† Figures for 1913 and 1914 not reported. ‡ Decrease.

WAR DEMAND KEEPS AUTOMOBILE FACTORIES WORKING AT CAPACITY

New York, December 22.—Automobile manufacturers have considerable basis for optimism. The extensive use of motor cars by the warring nations of Europe and the prosperity of the farmer class in the middle west have combined to keep automobile factories working at almost capacity. The allies have been heavy buyers of American made cars during the last few months.

As a result of the war reports show that 672 commercial automobiles, valued at \$2,256,984, were exported in October, as compared with 79 cars last year, valued at \$129,508. Exports in passenger cars were only 732; amounting to \$878,887, as compared with the previous October, when exports in passenger cars were 1,679, with a value of \$1,665,714.

The total exports for the ten months ended October 1914, were \$1,871, with a value of \$21,241,850, as compared with \$2,729, with a value of \$23,995,080 last year. The exports for October, 1914, show an increase of \$1,162,129 over the mark set in the same month last year.

There have been no trade relations with Germany but the United Kingdom took \$229,982 worth of cars last October, against \$266,238 in October, 1913, and France bought \$171,049, against \$38,769 in October, 1913. Other European countries took cars valued at \$1,461,191, against \$91,421 a year ago.

The following table shows the distribution of cars by number during the last ten months and the same ten months last year:

| | October, 1914. | October, 1913. | 1914. | 1913. |
|-----------------|----------------|----------------|--------|--------|
| France | 108 | 59 | 1,152 | 714 |
| Germany | 32 | 1,063 | 890 | 277 |
| Italy | 2 | 18 | 233 | 277 |
| United Kingdom | 415 | 283 | 5,545 | 4,183 |
| Other Europe | 346 | 82 | 2,738 | 1,565 |
| Canada | 127 | 298 | 3,981 | 5,558 |
| Mexico | 5 | 24 | 73 | 199 |
| West Indies | 72 | 35 | 466 | 405 |
| South America | 48 | 182 | 963 | 2,371 |
| British Oceania | 190 | 356 | 3,075 | 2,774 |
| Asia | 63 | 231 | 1,295 | 2,093 |
| Other countries | 28 | 176 | 989 | 1,892 |
| Totals | 1,404 | 1,776 | 21,571 | 22,729 |

REPORT ON DETROIT UNITED.

According to the appraisal of Prof. Edward W. Bemis, the physical value of the Detroit United Railway within the one-fare zone is \$16,500,000. The franchise valuation has not been completed.

The above valuation was made public yesterday by the Board of Street Railway Commissioners without comment immediately on its submission to them.

The figure given excludes the appraisal of the paving between the tracks and the Junction Avenue line, which was built at a cost of \$225,000.

The total appraisal of D. U. R. made a year ago was \$2,500,000. At that time the physical value was placed at \$1,295,497.

MACKAY ISSUES CONSIDERED PRETTY SAFE PURCHASE.

Edward Cronyn and Co., the Toronto stock-brokers, write: Both the preferred and common stocks had a severe break on account of the war trouble, and as the earnings of the subsidiary companies have probably been increased rather than decreased by the war owing to the vast amount of cabling it has caused and to the fact that the majority of the cables have had to be sent without coding, there has been an active demand for the shares, on our exchange. The minimum price on the common was 5 1/2. We bought some for clients at this figure. It has since sold up to 7 1/2 and is now around 7 1/2. It is noticeable that the earnings would justify a material increase in the dividend, which is 5 per cent. Even at 5 per cent. it pays on the investment well over 7 per cent. The preferred stock is as safe as most bonds (the corporation has issued no bonds) and pays approximately 6 per cent. at 67.

GREAT WEST PERMANENT.

The Great West Permanent Loan Co. has declared a half-yearly dividend of 4 1/2 per cent., or at the rate of 9 per cent. for the year. For the year \$50,000 were added to the company's reserve, which now amounts to \$702,000.

MANY OFFERS TO EDISON TO BUILD

American Cities Covet the Great Plan of the Distinguished Inventor

SPEAKS ABOUT THE WAR

Says That Naval Raid by the Kaiser on His Cousin's