STALWART ST. PAUL

Factors Upon Which Rests the Prosperity of the Standard American Railway System.

The facts upon which are grounded all other features showing the progress of the Chicago, Milwaukee and St. Paul Railway Company in the making of new high records of earnings are, of course, the development of the territory served by the company's lines, and the growth of traffic consequent upon that development. The absolute strength of the company's financial position, however, rests not only upon these factors, but upon the policy of management, a policy which has long been considered conservative, if not deserving of the stronger appellation of being altogether exemplary in character. That the trust committed by the owners of the property to the able body of men constituting the Board of Directors has not been misplaced, and that the actual management of the road has been in the hands of an efficient corps of officials, need not be discussed. There are proofs in abundance that this has been the case. It may, however, be well to point out that when it comes to tracing the course of traffics and earnings, and naturally of resulting profits, comparison should not stop short of going back to the company's previous best records.

It transpired, as some people may have forgotten, but as doubtless many will remember, that in the fiscal year 1894 St. Paul took over the Milwaukee and Northern, a road having some 400 miles in operation, with an earning power of about $1,750,000 gross and more than $500,000 net. The transfer was made as of July 1, 1893, and the 1894 report showed results of the road named included in St. Paul's accounts. But despite this addition, earnings, owing to the bad times, were not prevented from falling off heavily that year and still more heavily the next, until 1895, by comparison with 1893, (combining Milwaukee and Northern's returns with those for St. Paul for 1893,) gave indication of the stupendous contraction of $8,408,060 in gross earnings and the contraction of $1,738,870 in net. Now it was not until 1899 that this loss in gross traffic receipts was fully recovered, and as much or more was being earned per mile as for 1893, so that tracing the records back for anything less than the period including that date is apt to be misleading. Concerning net earnings, as these ran behind from 1893 to 1895, only about 14½ per cent., whereas the decrease in gross was as much as 23½ per cent., it will be easily seen that expenses were under some pressure. This, indeed, continued, for while, as stated, total earnings did not get back the loss for four years, the loss in profit was more than regained in one year, 1896 showing net earnings actually a million dollars ahead of 1893, with gross still more than three millions behind. As every one knows who is conversant with the facts as reported for the past few years, operating outlays, taken to include extraordinary appropriations for improvements and new equipment, have been favored by large additions, so that whatever arrears may have been incurred, it is safe to say have been wiped out, and more than wiped out, introducing an element of strength whose existence at one time, in the light of the facts related, may perhaps be questioned. A clear idea of the development of earnings for the ten years taking in 1893 to 1902 inclusive may be had from this statement:

	—Gross Earnings.—		—Net Earnings.—	
	Amount.	Per Mile.	Amount.	Per Mile.
1893........	$35,748,429	$5,851	$12,030,486	$1,969
1894........	31,327,951	5,096	11,213,618	1,824
1895........	27,335,369	4,438	10,291,616	1,671
1896........	32,681,829	5,311	13,005,021	2,113
1897........	30,486,768	4,955	11,909,229	1,936
1898........	34,189,664	5,556	12,968,097	2,111
1899........	38,310,632	6,226	14,347,796	2,332
1900........	41,884,692	6,599	13,463,355	2,121
1901........	42,369,509	6,506	14,391,509	2,210
1902........	45,613,125	6,906	15,416,230	2,334

After all, it is not to be gainsaid that a large and important expansion has taken place in the total earning power of the St. Paul system, for 1902, even against 1893, shows nearly $10,000,000 increase, or about 28 per cent., and, after all, it is to be calculated that expenses have been allowed to assume their previous importance, for the gain in net by the same comparison is under $3,400,000 and but little in excess of 28 per cent. The point to note here, however, is a very important one, analysis of the details of operating outlays indicating that of the increment of nearly $6,500,000 to that account, maintenance of property was treated to $4,000,000, the equivalent of an increase of 33 per cent., other expenditures absorbing only a little in excess of 8 per cent. Owing to a reclassification of the expense items which took place in 1901 no attempt at exact comparison for all years would be successful. The following, however, may be introduced to illustrate the point just made, and to show as near as it is possible to show the maintenance totals separated from the totals of all other working costs. It should be stated that for 1902 the figures for maintenance of property include the $2,475,000 shown in the report as being placed to the credit of renewal and improvement account:

	1893.	1902.	Increase.
Miles operated..	6,109	6,605	496
Maintenance ...	$9,059,263	$13,057,732	$3,998,469
Maintenance per mile	1,483	1,977	494
Other expenses..	14,653,680	17,139,163	2,485,483
Other expenses per mile......	2,399	2,595	196
Total expenses..	23,712,943	30,196,895	6,483,952
Total expenses, per mile......	3,882	4,572	690

It must now be pointed out that the growth in gross earnings by no means measures the growth in traffic, which naturally makes all the more noteworthy, as it has made all the more necessary, the liberality seen displayed toward road and equipment. Growth in earnings, it may be stated, and with emphasis, has enabled the management first to resume and subsequently to declare dividends at the rate of 7 per cent. on the common share capital, and for the year recently closed to show a total of cash and cash assets amounting to no less a sum than $27,586,973, of which as much as $15,550,560 is in actual cash and $4,680,229 is on deposit with banks and trust companies to the credit of the company's renewal and improvement fund. Progress toward this highly gratifying state of affairs forms perhaps one of the most interesting chapters in contemporary railroad history, for it is only as short a time ago as 1895 that St. Paul found itself unable to pay more than 2 per cent. on its common stock calling for $920,546, whereas the dividend for the late year, as raised by the recent decision of the Directors, will mean a requirement in excess of $4,000,000.

But one of the features which stands out in bold relief in connection with St. Paul's record is the fact that what has been accomplished has taken place, not in any way as a result of rate maintenance, but in spite of a steady decline in the average remuneration for the transportation of freight, at once an index of the increasing facilities offered the shipping community and a reflection of the forces of expansion at work. This feature of rate decline is one not to be overlooked, particularly as it has been demonstrated to what an extent the revenues of the St. Paul Road have increased. Long before the recent low averages were recorded, it received a considerable amount of attention at the hands of the then President of the company, Mr. Roswell Miller. In order that present conditions may be more accurately gauged than by a mere study of earnings, it is necessary to comprehend how far this gradual change in rates has proceeded. Of course, in a general way it is easy to refer to St. Paul as being a highly prosperous company, to the property as being well managed, and so forth, and to produce the necessary evidence to substantiate the assertion. This, however, would be but a superficial characterization, not conclusive as to the foundation upon which the structure rests, to comprehend the nature of which calls for a brief study of some of the details of the road's traffic. In the present case these will be found of unusual interest as well as importance.

To go back to 1891, a period perhaps within the memory of most people interested in the property, the St. Paul system then had a traffic indicated by 1,895,635,111 ton miles, originating on 5,721 miles of road, a volume of business on which it secured 1.003 cents per ton per mile. Freight earnings were $19,012,159, and total gross earnings $27,504,224. Previous to 1891 complaint had been made of "the conditions which have led to low rates on competitive traffic have also reduced rates on local traffic through the operation of the long and short haul clause of the Inter-State law"; but in his report for the year named Mr. Miller, having in mind an increase of $1,098,516 in gross earnings, accompanied by an increase of only $94,886 in net, went on to say: "It is an unavoidable conclusion that when so large an increase of gross earnings produces no increase of net revenue, the rates obtained for transportation are too low. This conclusion is often met by the assertion that existing rates would be sufficient for all needs if they were maintained."

At the time St. Paul was paying nothing to holders of its common stock, hence the non-expansion of net earnings, apparently from causes which could not be prevented, contrasts very boldly with the aspect of the company's accounts to-day, when voluntary appropriations of millions of dollars from traffic revenues are made in the endeavor to render more perfect the road and its equipment, and to add to transportation facilities, to the end that the lowering of rates may be successfully combated.

But to return to 1891, it was lamented that "legislation had prohibited pooling," considered "the only satisfactory method of providing for the necessities of railways whose disadvantages prevent them from competing on equal terms with railways that are more favorably situated, and the only efficient means that results from the existence of too many competitors." Maintenance of rates, it was Mr. Miller's opinion, would not cure the evil effects of the unremitting efforts of State authorities to reduce local tariffs, continuing, "In view of these conditions, it is not surprising that the efforts made by railway managements to maintain rates have not been fully successful, but that they should have had even a moderate and spasmodic success is surprising, when all the conditions have been adverse." But one of the most significant paragraphs contained an allusion to what was apparently a matter of vital importance to the St. Paul company, hinting at a position which the road has now left behind by many long strides. In the circumstances, it may be introduced in full, as it is pregnant with meaning and strong as an argument in proving the total transformation of the company's affairs in the past few years. "Another important element is beginning to interest the public in the necessity for an increase in the net revenue of railways. The development of the country and consequent increase of commerce demand more and better facilities and a higher standard of railway property. How can these be furnished unless the net income of railways is increased? If railway companies are not permitted to earn enough to pay for improving their property, they must borrow; and how can they borrow unless they can show a reasonable certainty of enough net earnings to pay for borrowed money? It is not sufficient to earn merely enough to pay interest on mortgages. No company can obtain money on favorable terms if for a long time it can pay nothing to its stockholders. It is a very easy matter for Legislatures or Boards of Railway Commissioners to legislate that a railway company shall expend a million of dollars in equipping freight cars with air brakes or in building viaducts over street crossings; but neither Legislatures nor Commissioners, nor railway companies themselves, can provide the means to meet the cost when earnings are insufficient to furnish good credit.

"It is apparent that the railways of the West cannot meet such demands without a very considerable increase in their capitalization. The proper way to accomplish this is to make the shares of the companies a safe and sure investment, so that they can raise money by sale of shares instead of bonds. While it is a proper subject for the care of Legislatures and courts that such increase of capital shall be represented by additional property and facilities, it is vital that equal care shall be taken that the revenues of the companies shall protect the increased capitalization and prevent the disaster that will surely result from expenditure that cannot be made remunerative. It is an impossibility that increased capitalization shall represent only actual additions to property if its rates and revenues do not enable a company to place its bonds and stock at par."

Now, after the lapse of a decade, we have a record which shows, not that rates did not further recede, not that earnings either gross or net were helped by larger average payment for services, but that the uplifting forces at work, the energy thrown into industry, the stimulation of production, the call for a wider distribution of the output of the Nation's activities, have brought such an amount of business to the St. Paul lines that large profits, large dividends, and large surpluses have resulted. So far from the advance which took place in rates in 1891 having been spasmodic, it turned out to have continued up to 1895, when 1.075 cents per ton mile was the average recorded. But this may have come about partly from the elimination of much low-class traffic from the total movement, as there was a sharp falling off in the haul during the hard times of that period. The descent from that figure, however, while marked and continuous, has been accompanied by such recovery and further expansion in ton mileage that every year, beginning with 1898, has brought forth a new high record of ton miles, until for 1902 the latter stands 1,483,000,000, or 59 per cent. above the 1893 level, and 2,225,000,000, or 126 per cent., above the low mark touched in 1895. This is the rather striking exhibit, which includes freight earnings as well as the movement and average rates:

	Ton. Miles.	Rate. Cents.	Freight Earnings.
1893...........	2,506,850.702	1.026	$25,722,001
1894...........	2,077,869,470	1.037	21,550,687
1895...........	1,765,245,552	1.075	18,978,263
1896...........	2,381,667,988	1.003	23,887,930
1897...........	2,193,241,080	1.008	22,104,803
1898...........	2,621,348,372	0.972	25,468,852
1899...........	3,070,579,710	0.937	28,773,222
1900...........	3,357,450,584	0.932	31,220,217
1901...........	3,639,077,919	0.861	31,357,992
1902...........	3,990,048,676	0.840	33,516,812

Without going into detail, it is at once clear from a glance at the above array of figures that the struggle with declining rates has been a real one. In effect this has been the development which has called forth the best powers of the management, and the development which has put to the test all efforts made to economize in the cost of conducting transportation. How considerable has been the measure of success attending those efforts has already been seen in the small increase which has taken place in other operating outlays than those connected with maintenance of property. The policy strictly adhered to of late has been the injecting of available net revenues into improvements, the result being that the entire outfit has been to a great extent made over both as to road and equipment, so that the company to-day must stand better prepared than ever to meet not only what further fall may occur in rates, but any contraction in earnings that may result from the advent of poor harvests or any other cause. It has been pointed out to what a strikingly satisfactory position the company's financial status has been brought. It may now be shown what earnings have yielded to property improvement outside of the ordinary needs of carrying on the business of the road. Whatever the extra outlays made and charged to expenses before 1901 is not specified in the reports. These are the items shown, 1896 being the first year the property benefited in the way stated:

	Renewal and Improvement Account.	Additional Equipment.	Other Outlays.	Total Appropriations.
1896.....	$350,000	....	....	$350,000
1897.....	200,000	....	....	200,000
1898.....	1,250,000	....	....	1,250,000
1899.....	1,925,000	....	....	1,925,000
1900.....	1,550,000	$1,475,305	....	3,025,305
1901.....	1,185,000	1,111,256	$857,723	3,153,979
1902.....	2,475,000	....	1,230,801	3,705,801
Total.	$8,935,000	$2,586,561	$2,088,524	$13,610,085

The exhibit makes a noteworthy showing, the aggregate deductions for improvement purposes footing up no less than $13,610,085 for the seven years, fully $13,000,000 of which came out of results for only five years. In all, this will be found equal to nearly 23½ per cent. on the common stock of the company as it stood on June 30 last, at $58,183,900, and 13 per cent. on the aggregate of common and preferred, which at the same date showed a total of $104,866,300.

Apparently St. Paul could have made much larger returns to stockholders than the latter have received, but obviously the elimination of the important factor of improvements would have worked harm in other ways, and in the end results could not have failed to be far less satisfactory from every standpoint than they are at the present time. It is not competent to say what would have been compelled both in the past and in the future as to extension of the company's funded debt and consequent expansion in fixed charges had a less conservative policy prevailed, but it is competent to show that by adhering to conservative methods so far obligatory disbursements have been kept down to a limit which shows little variation for a number of years, taking due account of the exchange of preferred stock for convertible bonds. The record may be shown in this way, the figures for preferred stock dividend for 1902 being taken as $1,601,404 for the first half of the year, as given in the report, and for the second half $1,623,884, the equivalent of 3½ per cent. on the outstanding preferred at the end of the late year.

	Interest on Bonds.	Dividends on Pref. Stock.	Total Int. and Divs.
1893	$7,434,696	$1,800,463	$9,235,159
1894	7,503,748	1,816,423	9,320,171
1895	7,629,377	1,825,208	9,454,585
1896	7,611,928	1,872,178	9,484,106
1897	7,488,747	1,971,928	9,460,675
1898	7,190,431	2,200,968	9,391,399
1899	6,890,120	2,411,125	9,301,245
1900	6,633,170	2,686,611	9,319,781
1901	6,383,035	2,998,180	9,381,215
1902	6,210,086	3,225,288	9,335,374

It is only necessary now to place the above aggregates against the total net revenues to see what the annual results for the common stock have been.

	Total Net Income.	Interest and Preferred Dividends.	Balance for Common.
1893	$12,131,600	$9,235,159	$2,896,441
1894	11,218,481	9,320,171	1,898,310
1895	10,426,263	9,454,585	971,678
1896	13,069,878	9,484,106	3,585,772
1897	12,072,052	9,460,675	2,611,377
1898	13,119,115	9,391,399	3,727,716
1899	14,465,207	9,301,245	5,163,962
1900	13,608,611	9,319,781	4,288,830
1901	14,566,192	9,381,215	5,184,977
1902	15,850,544	9,335,374	6,515,170

To the many strong features which, it is quite evident, abound in the recently issued report of the St. Paul Road for the fiscal period not long since closed, the above may be credited with being by no means the least in importance. Interest on bonds decreased $1,220,000 since 1893, (issue of which has been kept in restraint while earning power has multiplied and furnished the necessary funds for advancing the physical condition of the property and meeting the needs of traffic growth,) and dividends on preferred stock have increased only $1,420,000, so that before the common dividend there has come to stand an almost stationary total of charges. How near the margin above these came to disappearing in 1895 is a part of the company's history which is not likely to be repeated, at all events for some time to come, while the extent of this margin for the late year, (about $2,500,000 more than 7 per cent. on the stock,) indicates the ability of the company to sustain a heavy loss in profits before impairment can take place in the actual requirement.

That the manner shown of handling the extensive interests represented by 6,603 miles of road with a total capital of $230,000,000 in stock and funded debt, capable of producing $45,600,000 annually in gross earnings, should commend itself to investors is hardly to be wondered at. The directorate should be proud of the appellation which it has frequently called down upon itself of being ultra conservative, while no complaining voice should be heard that stockholders have been accorded a further share in the company's rapidly accumulating surplus revenues.

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