THE GREAT AMERICAN RAILWAY SYSTEMS.

XXIV. THE CHICAGO, MILWAUKEE AND ST. PAUL.

By Edward Sherwood Meade.

THE Chicago, Milwaukee and St. Paul Railway Company owns three parallel lines extending from Lake Michigan into Dakota, with lines to Kansas City, Omaha, St. Paul and Minneapolis. The system includes 6,647 miles of road, and is one of the leading railways of the United States.

In its general outline, the Milwaukee and St. Paul is directly comparable with the Chicago and Northwestern. Both roads connect with Milwaukee, St. Paul and Minneapolis, Sioux City and Omaha. Each has a large mileage in southern Wisconsin and northern Illinois. Both systems extend throughout the southern part of the spring wheat-belt, and through the center of the corn belt. In general, the boundaries of the two systems are identical. On the face of things, we should therefore expect to find an active competition between them. Closer examination, however, shows that the two companies, in spite of their general identity in location, have kept each to its own territory, and that, for the most part, they do not come into conflict. The Milwaukee and St. Paul does not extend to Duluth, and the road does not enjoy the heavy iron ore tonnage of the Northwestern. Abundant compensation for this deficiency, however, is found in a line to Kansas City, which the Northwestern does not reach, from which a large tonnage of winter wheat is derived. The banks of the Mississippi river, moreover, are divided between the two roads, the Northwestern taking the east bank and the St. Paul, which has only a small mileage east of the river, occupying quite thoroughly the contiguous territory on the west. The Northwestern again has thoroughly occupied the territory north and west of Omaha, while the St. Paul has only a single line running into that city. In South Dakota and in eastern Wisconsin, it is true, the St. Paul competes with the Northwestern, but taking the territory as a whole the two systems do not come into serious conflict.

DIVISION OF TERRITORY.

This division of the territory north and west of Chicago between the three systems which are now being considered, the Burlington having its own field sharply defined, is a remarkable example of forethought in the extension of mileage. The greater expansion of these three systems took place about the same time between 1870 and 1890. Each has been at all times wholly independent of the others. It might be expected, if we are to believe the tendency to competition is inherent, that, in the absence of some arrangement by which this rich territory could be divided, these three powerful corporations would have contested every square mile, and that every considerable town would have been the scene of a struggle for traffic. Instead of this situation, we find that the Milwaukee and St. Paul, the Burlington, and the Northwestern have divided the northwest among them, and that, while competition is frequently encountered throughout the greater part of this prairie country, one railroad supplies most of the transportation facilities.

This division of territory is the result of prevision on the part of the companies concerned. From the outset they have been conservatively managed for the benefit of their stockholders. Conservative management is responsible for the policy which has, during nearly forty years of railway expansion, constantly held in mind the folly of duplicating transportation facilities where the traffic was no more than sufficient for the support of one line, and which has therefore acquiesced in the parcelling out of this vast western territory among the large companies and confining their struggle for supremacy to those sections where competition gave some promise of success.

Returning now to the Chicago, Milwaukee and St. Paul we find that it is remarkable among western railroads because its policy of conservatism in financing contains some features not met with elsewhere, and because of its increasing diversity of traffic.

The St. Paul has not materially added to its mileage in recent years. Ten years ago the mileage operated was 6,147 miles, and this had only increased to 6,682 miles by 1903. At various times reports of further extension of the St. Paul system, either by construction or consolidation, have been current, but with the exception of the unsuccessful attempt made by Mr. Hill and his associates to acquire the St. Paul before they opened negotiations for the Burlington, these reports have had no foundation. The controlling interests of the road, among whom the Rockefellers are now most prominent, are apparently satisfied with the territorial position of their property, and are content with the outlook for its development.

A UNIFORM AND CONSERVATIVE FINANCIAL POLICY.

While the St. Paul was expanding it extended its lines with great rapidity. From 1878 to 1887, the period of most rapid growth, the company built 3,040 miles of road, a very high average even for the upper Mississippi Valley. In recent years, however, the constructive energies of the management have been primarily devoted to decreasing their operating cost and to bringing up all parts of their vast system to a high standard of efficiency. They have trusted to the industrial transformation now in progress throughout the west to increase the traffic of their lines to the limit of their possibilities without endeavoring to bring more territory under their control.

Throughout the development of the system a uniform financial policy has been pursued, which has been modified only in the direction of greater conservatism. The St. Paul has been from the beginning the absolute owner of its property. Lease rentals and guarantees do not appear in its accounts. Its only fixed charge has been for interest. As a sult, although the funded debt of the company, until recent years, has been large as compared with the bond issues of other western roads, the fixed charges have always been held within the bounds of moderation. The numerous extensions made during the eighties were, for the most part, financed by the creation of divisional mortgages, whose bonds were general liabilities of the company, but which were specifically secured by lines on those portions of the system in whose construction the funds obtained by the sale of particular issues of bonds were employed. Of late years the amount of the funded debt has been materially reduced by the conversion of a large number of bonds into preferred stock. Most of the bonds so converted bore high rates of interest, so that at the time the exchange was made the disbursement requirements of the company were not increased.

THE ST. PAUL'S DIVIDEND RECORD.

By allowing this privilege of conversion, however, the St. Paul, while increasing the security of the bonds which remain, has sacrificed the opportunity to make large reductions in interest charges by refunding. Considerable savings, it is true, have already been made in this direction, and similar reductions in fixed charges are insured for the future. From the standpoint of the common stock, however, the permanent assumption of a seven per cent. preferred dividend charge by the company, in exchange for the sacrifice of claims for interest which would have eventually been cut in half by refunding, seems hardly justifiable by the necessities of the case.

Aside from this question of converting high interest bonds into preferred stock, the financial administration of the St. Paul has been not merely conservative, but notably successful. The policy of the company has always considered financial safety to be the primary consideration, and the requirements of such safety have never been violated. This is illustrated by the dividend history of the company during the period of its expansion. From 1880 to 1884 exclusive, 7 per cent. was paid on the common stock. In 1885 this was reduced to 4 per cent. in consequence of a shrinkage in earnings which, however, was not regarded as more than temporary. In 1886 and 1887 the rate was increased to 5 per cent., but in 1888, partly as a result of declining rates and in part because the new mileage of the company was not yet producing a surplus above fixed charges, the dividend was first cut to 2½ per cent., and during the following year was suspended altogether. Nothing was paid on the common stock until 1892, when dividends were resumed at the rate of 2 per cent. In 1893 and 1894, 4 per cent. was paid; in 1895, 2 per cent.; in 1896, 4 per cent.; from 1897 to 1900, 5 per cent,, and since 1901, 7 per cent. This dividend record shows how unhesitatingly the claims of the stockholders have been subordinated to the requirements of safety.

Some companies in the financial situation which the St. Paul occupied in 1888 would have made shift to maintain the rate in anticipation of the increasing productivity of their new mileage. The St. Paul management, however, took no chances and were able, because of the previous suspension of dividends, to maintain a substantial rate of distribution throughout the industrial depression following 1893.

A TRUE DEPRECIATION ACCOUNT MAINTAINED.

The conservatism of the St. Paul is also shown in the fact that for nine years past the company has maintained a true depreciation account, writing off openly, out of the earnings of each year, a considerable sum for improvements, whose cost becomes a part of expense. From 1896 to 1903, including the interest received on unemployed cash balances, the special appropriations on account of the purchase of equipment, the company had withdrawn from its revenues $12,937,884, all of which, under less conservative financing, could have been available to swell the surplus. This deduction for depreciation is in addition to adequate maintenance charges, and in addition also to a substantial surplus over dividends, aggregating, during the last six years, $3,967,000. The dividend on the common stock is apparently fully protected by the earnings of the company. It should not, however, be forgotten that in the event of a serious decline in net earnings, the history of the company indicates that the common stock holders might be called on to make sacrifices rather than that the company should resort to any of the familiar expedients by which a temporary difficulty might be surmounted.

The probability of such a decline in the earnings of the St. Paul as would endanger the present rate of dividend is, however, remote. Twenty years ago, on account of the primary dependence upon the northern wheat crop, the earnings of this company were subject to wide fluctuations. To-day, however, the development of the west has so far progressed as to make the basis of St. Paul traffic broad enough to resist the ordinary vicissitudes of business.

This industrial progress of the middle west is accurately reflected by the traffic statistics of this important railway system. The following table presents the principal items of the St. Paul tonnage for 1884 and 1903:

Classes of Traffic.	1884. (4,799 miles.) Tons.	1903. (6,647 miles.) Tons.
Products of Agriculture	1,604,047	4,922,169
" " Animals	463,053	1,490,176
" " Mines	1,055,179	5,174,542
" " Forest	1,112,375	3,923,207
Manufactures	245,489	3,737,896
Mdse. and Other	1,303,621	2,056,648
Total Traffic	5,783,764	21,304,638

This table shows how the dependence of the St. Paul upon agriculture has diminished. In 1884 agriculture furnished nearly one-third the tonnage of the road; twenty years later only one-fourth. In 1884, moreover, the traffic in merchandise, manufactures and mineral products was only 2,549,026 tons. In 1903 this had increased to 10,969,396 tons. The agricultural tonnage itself has been greatly diversified. In 1884, out of a total farm traffic of 1,604,047 tons, 1,444,444 tons was furnished by wheat and flour. Twenty years later, wheat, flour and mill products supplied only 2,422,685 tons out of a total agricultural tonnage of 4,922,169 tons. Along every line the traffic of the Chicago, Milwaukee and St. Paul has been not merely expanded, but widely diversified. Only a serious and prolonged industrial depression, extending to every branch of trade, can be expected to affect seriously the profits of this company.

NEW COMPANIES INCORPORATED.

FRANKFORT AND OHIO RIVER.

Articles of incorporation have been filed with the Secretary of State of Illinois for the Frankfort and Ohio River Railroad Company, with its principal office at Chicago. The company is capitalized at $50,000. It is proposed to construct a railroad from West Frankfort, Franklin county, Illinois, through the counties of Franklin, Williamson, Saline, and Gallatin to a point on the Ohio River in the county of Gallatin. The incorporators and first board of directors are: Jonathan Reeves, Ed H. Seneff, John J. Duck, Fred W. Krohn, and Harrison F. Jones, all of Chicago.

FROM KANSAS CITY TO THE GULF.

The Kansas, Okmulgee and Gulf has been incorporated to build a railroad 560 miles long from Kansas City to a point on the Red River in the Choctaw nation.

OLYMPIA AND PORTLAND LINE.

The British American Finance Company, a Maine corporation capitalized at $250,000, has been organized to build the Port Angeles and Eastern Railway. It is expected to finish the line to Olympia by August, 1905, and to Portland, Ore., by January, 1906. W. Belvin is president, and Edward F. Cragin, of the International Banking Company, both of New York, is vice-president of the company. The road is to run from Port Angeles to Olympia, tapping the lumber territory west and northwest of Portland.

TEXAS AND GULF CHARTERED.

The Texas and Gulf has been chartered at Austin, with a capital stock of $400,000, for the purpose of building and operating a railroad from Timpson, Tex., in a southeasterly direction to a point on the Gulf of Mexico, a distance of about 150 miles, passing through the counties of Shelby, San Augustine, Jasper, Orange and Jefferson; also, from Longview northwest to a point on the line between Texas and the Indian Territory, a distance of about 100 miles, passing through the counties of Upshur, Wood, Franklin, Hopkins, Delta and Lamar. The general offices of the company are located at Longview. The incorporators are: G. M. D. Griggsby and W. B. Ward, of Jefferson; D. J. Griggsby, of Marshall; F. T. Rembert, E. A. Young, C. L. Taylor, M. H. Lillard, J. W. Yates, K. W. T. Whiteler and W. S. Mayfield, all of Longview, Texas.

PROGRESS ON THE PAN-AMERICAN.

Henry Heintz, general superintendent of the Pan-American, states that a large consignment of rolling stock for the road will reach headquarters at Tonala, Mex., during the present year, and then the line will be opened to general traffic, both passenger and freight. President Everett is now at the southern terminus of the road supervising the work for inaugurating the service on the completed portion of the line and commencing the extension down the west coast towards Tapachula. Mr. Heintz believes that this extension will be commenced within a few weeks.