The Wages of the Locomotive and Its Driver

Comparison of the Work and Pay of the Trainmen and the Trains Considered as Representatives of Labor and Capital

By Edward A. Bradford.

DURING the early weeks of the railway negotiations which ended in the basic eight-hour law The Railway Age Gazette used a phrase worth expansion as a clue to the merits of the dispute. The Gazette urged that "the wages of the locomotive" were too low, and that attention should be given to fair compensation for the services of the engines as well as of the men.

Nobody would be heard to urge that the cash which supplied the equipment should be paid for any reason of humanity. On the other hand, that is the main plea of the trainmen for the betterment of their working conditions. They urged that their work was "dehumanizing" in its severity, and that they should be paid more. On that condition they were willing to be further dehumanized.

The response to this appeal to the social conscience can be told in few words. In 1912, 1913, and 1915 there were four arbitrations which awarded labor, at the expense of capital, increases of wages of 4, 9½, 7, and 5 per cent. This year's award by Congress cannot be calculated until it has been decided what classes of railway men fall within the law. The award of ten hours' pay for eight hours' work, and pro rata for overtime, about equals the other four increases together.

The railways were repeatedly refused an advance of rates, and finally were allowed an increase of 5 per cent. Whether the railways will be allowed anything more in the way of rates to meet the increase of wages estimated variously by the railways at approaching $100,000,000 is a secret of the future. It is certain that at the very time the eight-hour increase was allowed the Interstate Commerce Commission disallowed an increase of transcontinental rates made by the railways upon the commission's previous permission. This increase would have been about $20,000,000 to $25,000,000, or approximately what the trainmen's spokesmen estimated the increase of wages by the basic eight-hour law would be, or might be made to be. The figures are large in all cases, and the estimates vary widely. Nevertheless, it cannot be said that the social conscience has hardened its heart against the cry of the social servants on the railways.

How has the social conscience reacted to the cry of capital that the wages of the locomotive were too small? A receiver of a railway is a competent and disinterested witness. A receiver is a court officer concerned only with the honest and efficient administration of the property. It is nothing to a receiver whether interest or dividends are paid or not. The amount of water in the stock of a railway in receivership has nothing to do with its earnings. Labor must be paid to keep the cars moving, and the property will be sold to the highest bidder to meet any other demands. In the words of the operating receiver of the Père Marquette Railway in August of this year:

Notwithstanding the railroads of the country carried a tonnage exceeding that of eight years ago by 66,000,000,000 ton miles, and additional passengers to the extent of 4,000,000,000 passengers one mile, and that they have increased their investment of $4,800,000,000, the net receipts for 1915 as compared with 1907 were $21,000,000 less.

With this general statement of the conditions at large, Mr. King passed to a consideration of the general view that faults of operation and finance were the causes of the facts. As regards the Père Marquette, Mr. King said that the real reason of its troubles are that it has been "trying to furnish service at rates which are grossly inadequate."

Since the Père Marquette was organized sixteen years ago its average rate per ton mile has decreased more than 30 per cent., and the legal rate for the carrying of passengers has been reduced by the same percentage, while taxes and the cost of labor and materials and supplies have increased manyfold. While I cannot speak for the other railroads of the country, I apprehend that their situations are not vastly different from ours.

Edmund Pennington, President of the Soo line, recently issued a formal statement to the same effect:

From 1907 to 1915 the property investment in American railroads increased from $13,030,000,000 to $17,247,000,000, or at the rate of about $500,000,000 a year, half as much as Mr. Hill thought was needed. Meanwhile, the earnings of the roads were so reduced and their expenses so increased that in 1915, the last year for which we have the Interstate Commerce Commission figures, the net operating income was only $696,000,000, as compared with $760,000,000 in 1907. In other words, instead of earning a return on the increased investment the railroads have earned no return whatever on the new capital put into the railways in eight years, amounting to over $4,000,000,000. While there has been considerable improvement in conditions in 1916, it has not yet continued long enough to make up for the lean years we have just passed through. Many people are being deceived by the present apparent prosperity of the railways in believing that they can easily stand an increase in their expenses. The degree of their prosperity is being greatly exaggerated by comparison with a period in which railway earnings reached a very low ebb. This is unfortunate, because it encourages a mistaken belief as to the ability of the roads to pay enormous increases in wages.

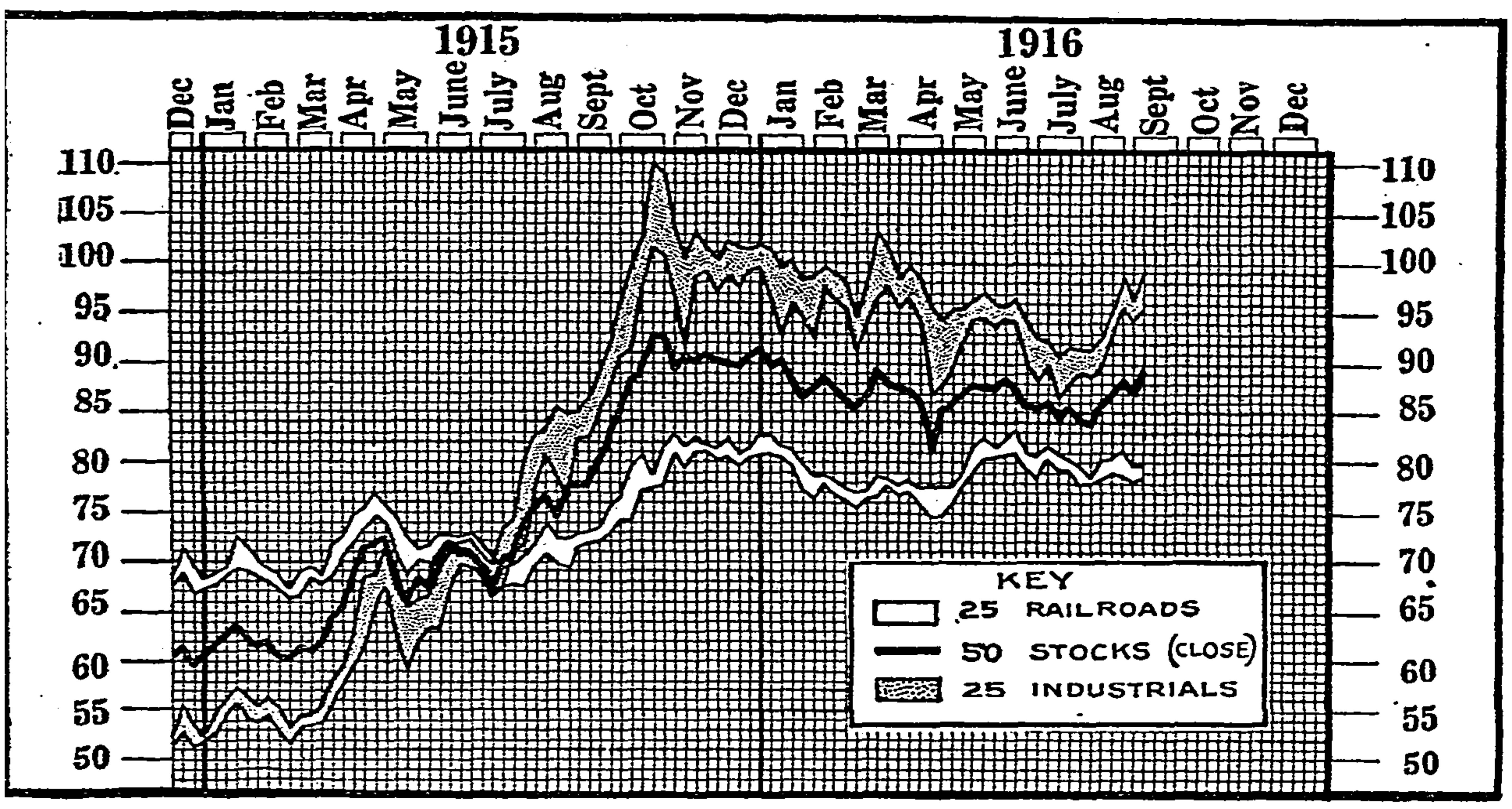
It is not practicable to multiply specific instances of the statement that the condition of the railways is more their misfortune than their fault. The Atchison is mentioned because during the recent negotiations the trainmen charged that in its reorganization in 1905 stock issues were "inflated to the amount of $166,093,095," and that "more than $112,000,000 has already been paid in dividends upon fictitious securities." The fact is that in that reorganization the fixed charges were reduced by half, or about $5,000,000, representing the income on $100,000,000. Preferred stock was issued for $13,000,000 new money, in an assessment which replaced bonds with shares. Since the reorganization Atchison has spent upon betterments over $200,000,000, including a large fraction from earnings properly applicable to dividends, but diverted to the property placed at the service of the public. There never was so large an amount of mileage or capitalization in receivership as this year, and as a general thing the service to the public was at the maximum when the difficulties of the roads were greatest.

The St. Louis & San Francisco and the Rock Island are as flagrant examples of railway mismanagement as can be named. Their troubles are partly due to that cause. But during their troubles they have been more efficient servants of the public than during their prosperity. Never have they carried as many tons or passengers. Their rates have been regulated down and their wages regulated up. Taxes and other costs are higher. It is no condonation of mismanagement to cite the facts to show that the railways have not paid profits to shareholders at the expense of service to the public, or wages to labor. There are mountains of proof that rates are as low as bold regulators dare make them, that costs are approaching the apprehension maximum, and that the system of private management of public utilities under Governmental regulation is tottering on the ragged edge of Government ownership. The quantity and quality of opinion which rather welcomes such conditions is as disquieting to those of contrary opinion as the facts themselves.

Such facts do not establish a theory that railway labor is better rewarded than railway capital. It is a condition which is established, and the question is how the condition is operative upon society. The surest reflection is found in the investment market. The conditions there are as clear as in the railway operating conditions. It is a time-honored prophecy that discrimination against railway values would divert the public favor from them to other departments offering better rewards for investors. When that was prophesied the railway investments were the favorites of the soundest judges of values. For years the average prices of representative railways ranged above that of representative industrials. Those who bought industrials were thought to be taking chances, like those who bought mining shares, risking a small loss in the hope of extravagant profits. It was thought hardly financially respectable to buy industrials, and they ranged far below the railways. Now conditions are reversed. Industrials now range above railways, having passed them upward during the time of the railway wage arbitrations and rate regulation.

In January, 1911, the average price of twenty-five railways was about 93, about thirty points above the industrials. At the end of 1912 the railways had fallen to about 90 and the industrials had risen to about 67. In another year the figures respectively were about 80 and 56, both being depressed about equally by conditions preceding the declaration of war. That caused the change in their relative prices, the industrials passing the railways in July of 1915. Since then the industrials have ruled as consistently above the railroads as previously they had ruled below.

On Sept. 1 the industrial average was near 96, the railway average near 79, and the combined average near 87. That is history. It would be prophecy to say whether this revolution in investment conditions would be permanent, and prophecy is no part of this story. Any man can construct his own financial horoscope from the materials here assembled, and make easy money. What could be easier than to tell the effect of the return of normal conditions upon industrial undertakings? It is only necessary to forecast the economic combinations of the commercial war after the war abroad, the response of this country, including perhaps a new tariff, meaning possibly retaliation, or perhaps a return to protection. It is equally simple to foresee the course of regulation of railway rates and wages, and to perceive whether or not Government ownership will prevail, and what will be its results if so. It is only necessary to select the securities which will rise or fall, and buy or sell accordingly.



A Two-Year Profile of the Stock Market. —From The Annalist.

The effect is best traced in the market for new securities. This is authoritatively and conveniently shown in the following compilation by The Journal of Commerce of actual issues for eight months including August:

RAILROADS.

	1916.	1915.	Change.
Bonds	$281,074,300	$274,946,300	— $93,872,000
Notes	270,006,000	153,386,800	+ 116,618,200
Stocks	74,473,200	6,485,000	+ 67,988,200
Total	$625,552,500	$534,818,100	+ $90,734,400

INDUSTRIAL CORPORATIONS.

	1916.	1915.	Change.
Bonds	$357,405,800	$194,432,500	+$162,973,300
Notes	166,436,100	88,468,500	+ 77,967,600
Stocks	467,833,100	84,064,500	+ 383,768,600
Total	$991,675,000	$366,965,500	+$624,709,500
Grand total	$1,617,227,500	$901,783,600	+$715,443,900

It will be remarked that the issues of railway bonds decreased $93,872,000, while the industrial bonds increased $162,973,300. Here alone is a total change of a quarter of a billion dollars to the disadvantage of the railways. The issue of railway notes is $116,618,200, against $77,967,600 by industrials. The increase of notes is as disadvantageous to the railways as the decrease of bonds. The more permanent financing is the better. It was the maturity of notes which could not be met which threw railways into receivership by hundreds of millions. There could be no surer proof of the low estate of the railways than that they were able to issue an increase of only $67,988,200 of shares against the increased issue by industrials of $383,768,600. The upshot is that the increase of industrial securities is nearly sevenfold that of the railways.

How could it be otherwise? It would be derisory to compare the earnings in the railway world with the earnings of such a meteoric industrial as the Ford Automobile Company. There could be no instruction in such a comparison. It is different when ten leading industrials are taken which show earnings on the preferred shares ranging from 13 to 119 per cent., and on the common shares earnings on the market price, as calculated by The Wall Street Journal, ranging from 11 to 88 per cent. It is suf-

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ficiently accurate to say that the earnings on these industrials begin to range upward from double that of representative railway dividends. The margin of safety on many of the industrial preferred shares is larger than that on many good bonds.

Included in these representative ten there necessarily are many of the so-called "war brides." The Journal of Commerce says that the financing of such companies of many various trades and descriptions totalled $780,792,000 in twenty-five months of the war. A compilation of the earnings of eighty miscellaneous industrials shows average earnings of over 20 per cent., compared with less than 10 per cent. in 1914. The Financial Chronicle has published a table showing that 216 industrials in 1915 made profits of $787,000,000, compared with $432,200,000 in 1914. That is an increase of 82 per cent. in earnings. Earnings increased from 7.49 upon the capitalization to 13.33 per cent., the percentage of increase being 77. Eighteen of the leading industrials reported cash in treasury $348,420,111, or double the cash of the preceding year. The railway records will be searched in vain for such rewards in the public service. They are serving the public as never before, and to the limit of their capacity, but they cannot raise their prices. They can gain only by increase in efficiency, and such gains are claimed by their workmen as the reward of their increased productivity. Yet such gains are due to the investment of capital in the means of cheapening the processes of transportation, and the sources of the capital are now nearly dried up.

Another class of investments ranking ahead of most railways under present conditions are foreign government bonds. More than a billion of them have been absorbed at rates of return ranking with many good railways, although a public bond should outrank a private bond, and sell enough higher to give a lower yield. Particularly does this seem true of bonds issued jointly and severally by two such nations as France and England. Also there are offerings individually in the name of each of those nations, or on their account by a corporation formed for that purpose, with a double margin in the shape of the capital of the holding corporation, and a considerable fraction above the market price of choice assorted collateral securities. These Governmental offerings are abnormal and temporary. It is no reproach to the rate regulators and the wage raisers that they were neither foreseen nor allowed for when they occurred. It is only incidentally a reproach to any adjustment of prices by law or by arbitration that it is less flexible and quick than the market for securities, which it is not possible to abolish or to regulate, and which must be complied with.

It is different with permanent considerations regarding the diversion of capital from railways to industrials. It has appeared above that hundreds of millions have been diverted permanently from railway investments to industrials. Consequently last year there were constructed in the United States less than 1,000 miles of track. That is less than in any year since the civil war, and with the exception of the war, less than in any year since 1848. In New England prime railway securities, which have sold at double par, have gone into receiverships, because it was necessary for them to issue fixed obligations instead of shares, as the result of regulation by law. In New York it has been said that construction has been stopped by the legal regulations. In Texas a railway has gone into receivership because it operated under a Federal charter which prevented the issue of shares on any conditions possible in the market.

These considerations are enforced by the interest and dividend disbursements for September, amounting to $142,539,689. That is a new high record, an increase over September, 1915, of $27,385,589. The details of September dividends as given by The Journal of Commerce are:

	1916.	1915.
Industrial companies..	$50,081,091	$29,107,642
Railroads	24,132,032	23,212,085
Street railways........	2,576,566	1,834,373
Banks and trust companies.	2,250,000	2,100,000
Total.............	$79,039,689	$56,254,100

Here we see railway dividends increase one million, while industrial dividends increase twenty millions. Naturally the issue of industrial shares is sixfold that for railways. The old idea was that the industrials were unreliable investments, being either princes or paupers, while the railways were the standbys for widows and orphans. There is still a remnant of that feeling, but it is growing in stony ground. It is maintained in part by the hope that the regulation will either be relaxed, or extended over costs, so that its application will be less invidious. In part there is hope that if regulation of rates downward and arbitration of wages upward is to be pressed to the bitter end common fairness and the necessity of the case will compel the Government to have a heart toward the investors in the railways who are not blameworthy for the management of their properties.

There are over 600,000 railway shareholders. There are less than 400,000 members of the four Brotherhoods which forced their demands from Congress. There are 1,800,000 railway employes, and there are almost as many holders of railway securities of all sorts.

Eleven million savings bank depositors are interested in the banks' investments of $800,000,000 in railway securities. Insurance companies with $1,500,000,000 of railway investments have 30,000,000 of policy holders. Industries tributary to the railways support a million wage-earners. Two-thirds of the population have interests of these sorts in the welfare of the railways, and there is hardly a trader, perhaps literally not one, whose profits do not depend upon the excellence of the service of the railways.

At present, this year like last year, there are interruptions and embargoes of various degrees of strictness in the movement of freight. There is a larger trade, and there are fewer cars and locomotives to accommodate it. Last year the cars were empty and in excess supply when the trade activity began. This year the cars are busy before the crop movement begins, so that in one aspect the shortage of the crop movement is a blessing. It is a calamity equally for the railways and for their customers that there should be more business offering than can be done. Such conditions limits the profits of the railways, through their inability to raise the prices of transportation, and limit the profits of traders through their inability either to assemble the materials of their manufactures or to distribute their products. Thus the strangling of the railways is a universal misfortune, being shared by them with investors, manufacturers, and traders generally, with but the most limited exceptions.