

**COST CAPITALIZATION AND
ESTIMATED VALUE OF
AMERICAN RAILWAYS; AN
ANALYSIS OF CURRENT
FALLACIES**

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Cost capitalization and estimated value of American railways; an analysis of current fallacies by
Slason Thompson

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BY

SLASON THOMPSON
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NOTE.

Except as they present facts and legitimate deductions, no authoritative value is claimed for these pages. Neither is any railway official or organization responsible for the views expressed herein. They are published by the writer as the result of four years' study, in which he has had time and opportunity to investigate the subject beyond what was possible in his many years of active daily journalism.

Wherever statements of fact are not matters of common knowledge their source is given. From these facts only the most obvious deductions have been drawn.

S. T.

Chicago, 1907.

There can, indeed, be no doubt that American railways are less over-capitalized now than they have ever previously been, the amount of profit diverted to capital purposes in recent years having been on a truly colossal scale.—*London Statist*, August 24, 1907.



CONCLUSIONS BY WAY OF PREFACE

From the facts presented in the following pages it is submitted that the VALUE of railway property in the United States employed in the service of the public is shown by several independent methods of inquiry to exceed their total NET CAPITALIZATION.

Historically, the cost is shown to be always cumulative, while the capitalization has sometimes been scaled down and millions of expenditures have never been capitalized.

Where the NET CAPITALIZATION in 1906 has been officially declared to be only \$11,671,940,649, the cost or value ascertained, through several processes, is approximated as follows:

CONSTRUCTION AND EQUIPMENT to June 30th, 1905, \$13,000,000,000
(Exclusive of appreciation of right of way and terminal rights.)

COMMERCIAL VALUE, as approximated by Prof.

Henry C. Adams as of June 30th, 1904.....	\$11,244,852,000
Applying Prof. Adams' formulae to earnings of 1905	\$15,235,765,167
Applying Prof. Adams' formulae to earnings of 1906	\$17,248,620,000

MARKET VALUE as shown in quotations of securities, anywhere

From	\$11,000,000,000
To	\$14,000,000,000
	and upward,

according as affected by politics, crops, value of money and manipulation.

By COMPARISON with capitalization of foreign roads

From	\$13,384,240,000	(on the Canadian basis)
To	\$21,969,000,000	(on the German basis)
or	\$28,712,000,000	(on the French basis)
or	\$34,795,000,000	(on the Belgian basis)
or	\$58,644,000,000	(on the English basis)

Even allowing \$100,000.00 per mile for the difference in the value of right of way (the only feature of cost greater in Great Britain), American Railways capitalized on the English basis might fairly be capitalized at \$37,000,000,000 and with freight rates as charged in England their commercial value on Prof. Adams' theory would exceed that amount.

On the basis adopted by Japan in the purchase of private roads of Japan, in 1906, the value of American Railways on the average business of 1904, 1905 and 1906 would be over \$14,505,000,000.

Capitalized according to the price paid by Japan for the inferior railways of Japan, the value of American Railways would be nearly\$16,000,000,000

And finally:

On the ratio of assessed value to the true value of all property in the United States, as reported by the Federal Census Bureau, the assessment of American Railways for the purposes of taxation is a certificate of value for \$12,890,000,000, or **over a billion dollars more than their Net Capitalization.**

INTRODUCTION

Why Official Valuation of Railway Property is Desirable

In numerous official and unofficial utterances, President Roosevelt has made it clear that he has lent a more or less complaisant ear to the theorists and agitators who for many years have been clamoring for government valuation of the property of the railways of the United States represented by their stocks and bonds. This clamor was put in concrete shape in the amendment to the Hepburn Act introduced by Senator La Follette, which reads:

"That the Commission shall estimate and ascertain the fair value of the property of every railroad engaged in interstate commerce, as defined in this act, and used by it for the convenience of the public."

That the demand thus formulated was not original with the senator from Wisconsin is proven by the discussion of its practicability by Professor Henry C. Adams in his first report as Statistician to the Interstate Commerce Commission for the year ending June 30, 1888. In this he asked: "Is it possible to discover the cost and value of the carrier's property, franchises and equipment?" And while he was of opinion that such a task was a "prodigious," if not an impossible one, he thought that a trustworthy estimate of the relation existing between "the present worth of railroad property and its cost to those who are proprietors of it" might be obtained. He also thought that "the estimate of social agitators on the one hand and of men interested in the present status on the other might be far from the truth."

The idea present in the mind of Statistician, Senator and President is, and always has been, that the cost or capital of railways exercised a controlling influence on rates. In other words that the falsely alleged "exorbitant rates" on American railways were due to the necessity of paying interest and dividends on gross over-capitalization.

It has gone for naught with the "social agitators," back of this contention, that the rates on American railways are not exorbitant, being the lowest in the world. Neither have they been able to grasp the truth that rates are not fixed by dividends, because they close their understanding absolutely to the mute immutable testimony of such figures as the following, showing that while gross railway capitalization per mile has steadily increased during the period of Mr. Adams' incumbency of his present office, the tendency of average rates has, almost invariably, been downward:

GROSS CAPITAL AND AVERAGE RECEIPTS PER MILE, 1888-1906.

Year.	Gross Railway Capital per Mile.	Passenger Receipts per Passenger Mile (Cents).	Freight Receipts per Ton Mile (Cents).
1888.....	\$56,498	2.340	1.001
1889.....	56,892	2.165	.922
1890.....	58,659	2.142	.941
1891.....	59,006	2.120	.895
1892.....	61,130	2.108	.898
1893.....	59,729	2.111	.879
1894.....	59,419	1.986	.860
1895.....	59,650	2.040	.839
1896.....	59,610	2.019	.806
1897.....	59,620	2.022	.798
1898.....	60,343	1.973	.753
1899.....	60,556	1.978	.724
1900.....	61,490	2.003	.729
1901.....	61,631	2.013	.750
1902.....	62,301	1.986	.757
1903.....	63,186	2.006	.763
1904.....	64,265	2.006	.780
1905.....	65,926	1.962	.766
1906.....	67,936	2.002	.748

Here is an official demonstration that while the capitalization of American railways increased \$11,438 per mile between 1888 and 1906 their average passenger receipts per mile declined more than a third of a cent, and their freight earnings per ton were less by over a quarter of a cent per mile.

President Roosevelt and Senator La Follette and Professor Adams and all intelligent students of railway affairs understand the significance of these figures, but the "social agitators" dwell upon the increase of capital and never tell their deluded followers that a reduction of one-third of a cent per passenger