

**THE PUBLIC, THE INVESTOR  
AND THE RAILROADS OF  
NEW ENGLAND**

Published @ 2017 Trieste Publishing Pty Ltd

ISBN 9780649323470

The Public, the Investor and the Railroads of New England by Burton L. Read

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# THE PUBLIC, THE INVESTOR AND THE RAILROADS OF NEW ENGLAND

*AN UNPREJUDICED ANALYSIS OF THE AFFAIRS  
OF THE BOSTON & MAINE AND NEW YORK,  
NEW HAVEN & HARTFORD RAILROADS  
AND  
AN APPEAL FOR JUSTICE AND SOUND FINANCE*

*By*  
BURTON L. READ

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THE FINANCIAL PUBLISHING COMPANY  
7 HANCOCK AVENUE  
BOSTON, MASS.

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## THE PUBLIC, THE INVESTOR AND THE RAILROADS OF NEW ENGLAND

### A WORD ABOUT FAIR PLAY

This discussion is addressed to the investors in the New York, New Haven & Hartford and Boston & Maine railroads and their leased and controlled lines, and to the public of New England in its relations with these companies. First, as to some basic principles.

The investor who risks money in a private business is entitled to that return which can be earned by the sale of the product or the services of such business in the open market. The investor in shares of a public utility is not so placed. He is limited in his return; always in theory, and now to a growing extent in practice. The public, which enables a corporation to carry on a business by virtue of rights of eminent domain, the use of public ways, and perhaps even protection in some degree of monopoly, rightfully reserves the power both to fix the quality of the service and to limit the corporation's charges,

But while the public holds this power over the corporation, it is itself under obligations to those who contribute funds to the providing of a public service.

No more than for any business enterprise, can the State protect investors in a public utility against bad management, or against misfortune for which the public is not to blame. It cannot guarantee stockholders a dividend. Rarely, nowadays, does it even guarantee the bondholders. But in the exercise of its power over service and over rates it both can, and should, do three things:

First, restrict its demands upon the companies to that extent and quality of service which is justified on business grounds.

Second, permit the adjustment of rates and charges on a basis that will meet the cost of the service rendered, including sufficient maintenance of the property, and a proper return upon every dollar of capital honestly employed in the business.



Third, cooperate in all reasonable ways toward the conduct of the service on the most efficient and economical basis.

A proper return includes, in the case of capital stock, not simply the rate which can be had upon a mortgage investment or its equivalent, but in addition enough to compensate the owners of the business for the risk incurred. Moreover, when the policy of the public for a long series of years has made possible the fixing of any reasonable rate of dividend, upon the basis of which the company's shares have been habitually bought and sold in the market, no such change can be made as to reduce that dividend without an implication of bad faith. If, however, the property has not been sufficiently maintained, it would appear that dividends have been to a corresponding extent excessive, and should be reduced until such deficiency has been made good.

#### The Case at Issue

The Boston & Maine Railroad, barring most unforeseen alterations in circumstances, is about to suspend dividend payments upon its common stock, after uninterrupted payments for seventy-five years at an average rate of about  $7\frac{3}{4}$  per cent. Partly owing to the resulting loss through its indirect ownership of more than half of the stock of the Boston & Maine, partly in consequence of other unfavorable developments, the New York, New Haven & Hartford Railroad is expected to place its stock upon a six per cent dividend basis, following payments for nineteen years at 8 per cent, one year previously at 9, and twenty-one years in the earlier history of the road at 10 per cent.

Boston & Maine common stock has sold recently at 65, comparing with 210 in 1899, and with  $175\frac{3}{4}$  in 1906. New Haven stock has touched  $113\frac{1}{2}$ , comparing with 255 in 1902 and with 216 in 1905. Even the guaranteed stocks of leased lines, especially of the Boston & Maine system, have suffered sympathetic declines.

In what has been said above relative to certain underlying equities of the railway proposition, there has been no desire to blame the public for these unfortunate conditions, further than as our study may demonstrate in the public's attitude toward the railroads, either past, present, or proposed, any violation of the principles there defined. It has been plainly stated that the

public cannot protect investors, or at least cannot protect stockholders, against mistakes in management or against misfortune not related to public policy. And our review of conditions, it is believed, will show that to both of the last-named causes some of the present troubles of New England railway investors are due.

We are concerned in arguing simply that the public has a duty toward investors, and should be as zealous in conforming to that obligation as in demanding that the public service corporation perform its duty to the people. With this principle in view, and consistently with the three lines of policy above proposed, the following suggestions are ventured as an equitable position of the public toward New England railways and their investors in the present situation. The arguments in favor of such proposals will be stated elsewhere.

#### Certain Proposals

(1) Requirement of all capital outlays not reasonably necessary should be deferred or withdrawn. This applies especially to proposed electrification throughout the Metropolitan district, and certain other expenditures at Boston; but not necessarily to a connecting north and south tunnel and electrification in connection therewith, though in this matter caution is necessary.

(2) It should be the purpose of the authorities of the New England States to assist in an equitable readjustment of rates, especially in Boston & Maine territory, having in view a moderate increase in aggregate revenues to compensate in some degree for higher cost of operation.

(3) All proposals for separate control of the Boston & Maine system should be dismissed, and the New Haven management should be encouraged in efforts toward more economical and effective operation of the two roads. The control should continue for the present under the existing arrangement, and inquiries should be inaugurated with a view to future outright consolidation of the two properties, with adequate protection to the interests of Boston and northern New England. Under no circumstances should the Boston & Maine be leased to the New Haven.

Before arguing these proposals it will be necessary to consider the financial position of the Boston & Maine and New York, New Haven & Hartford railroads.