

**THE FEDERAL VALUATION  
OF THE RAILROADS IN THE  
UNITED STATES: A REPORT**

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The Federal Valuation of the Railroads in the United States: a report by Committee on Railroad Securities of the Investment Bankers Association of America

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**COMMITTEE ON RAILROAD SECURITIES OF THE  
INVESTMENT BANKERS ASSOCIATION OF AMERICA**

# **THE FEDERAL VALUATION OF THE RAILROADS IN THE UNITED STATES: A REPORT**



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8-30-1923

COMMITTEE ON RAILROAD SECURITIES

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INVESTMENT BANKERS ASSOCIATION OF AMERICA

## FOREWORD

WHEN the Bureau of Valuation of the Interstate Commerce Commission completes the tentative report of the valuation of a carrier, mimeographed copies of the report are sent to the railway company, the governors and public service commissions of the states in which the property is located and to the Attorney-General of the United States. Additional copies of the reports are difficult to obtain owing to the limited number made. Holders of bonds and stocks of railway corporations are very deeply concerned with these valuation reports, which are not easily understood. For this reason, the Committee on Railroad Securities determined to present as its annual report for 1922 to the Investment Bankers Association a study of this subject.

In the accompanying text will be found a brief history of the Valuation Act, a description of the methods of finding values, an account of some of the differences as to principles and methods which have arisen between the carriers and the Bureau of Valuation, the uses to which the valuations may be put, and their probable effect on railway credit. In the supplement, tables are presented setting forth the valuations of such Class I roads as are now obtainable, the amount of additions and betterments made to these properties since the date of valuation, the cost of materials and supplies, the cash on hand, and the outstanding capitalizations as of December 31, 1921. To afford a ready means of comparison, the above figures are also presented on a per mile basis.

The hope is expressed that successor Committees on Railroad Securities may issue from time to time supplements giving the valuation figures for other carriers as they are released.

The present Committee on Railroad Securities wishes to express its great obligation to Messrs. H. H. Copeland & Son, 111 Broadway, New York City, who have generously drawn upon their study of "Railroad Valuation" to prepare the statistical tables given in the supplement, and to Mr. J. E. White, of the New York Bar, who has done much research work and prepared valuable memoranda for the use of the Committee.





**THE FEDERAL VALUATION**  
**of the**  
**RAILROADS IN THE UNITED STATES**

**BRIEF HISTORY OF VALUATION ACT**

In order to have a better appreciation of the reasons for the passage of the Valuation Act, we should first give some consideration to the fundamental principle of public transportation, on which the rights and duties of common carriers rest.

The state, i. e., the sovereign power, owns the public highways, and the transportation of goods and passengers thereon is a state function and logically should be performed by the state, but this service is delegated by the state to private individuals or corporations; hence both the right and the duty of the state to control this service.

The Federal Constitution empowers Congress "to regulate commerce with foreign nations and among the several states." The first Federal legislation dealing with the regulation of interstate commerce was the Interstate Commerce Act, approved February 4, 1887. Prior to that time, there had been great lack of uniformity among the carriers as to rates, practices and methods of dealing with the public, which gave rise to many State laws and regulations, such as the Granger Laws in the Middle Western States. There have been numerous amendments to the Interstate Commerce Act not connected with valuation, but we are not now concerned with these.

The Valuation Act, which is a part of the Interstate Commerce Act, was approved March 1, 1913. Some two or three years before that, Congress, under its authority to regulate interstate commerce, had had under consideration a bill to regulate the issuance of securities of railroad corporations engaged in interstate commerce, and authorized the appointment of a commission to investigate and report with reference thereto. The commission, headed by Arthur T. Hadley, then President of Yale

University, in its report, submitted in 1911, advised against such legislation pending a valuation of the property used in interstate commerce. It is probable that this report had much to do with causing the passage of the Valuation Act. At the time, it was expected that the work of valuation could be completed in from three to five years, at a cost of six to ten million dollars. One original estimate of the cost of valuing the railroads was as low as ten dollars a mile. In one case the Commission expended \$110 a mile in investigating original cost alone of a railroad constructed within the last twenty-five years. According to the report of the Presidents' Conference Committee, under date of January 20, 1922, the Class I carriers reporting to that Committee had expended \$54,120,957 up to June 30, 1921. The expenditures of the Commission's Bureau of Valuation to the same date were \$21,462,809, a total of \$75,583,766, and the end is not yet.

The members of the Senate and House chiefly responsible for the introduction of the bill to regulate the issuance of railroad securities and later the passage of the Valuation Act, were of the opinion that the roads as a whole were much overcapitalized, and they sought to show this as a result of valuation of the properties. The value to be fixed was also to be the basis for determination of the reasonableness of rates and the fairness of taxation, as well as other basic questions depending on value of the properties for their settlement.

#### REQUIREMENTS OF THE ACT

The Valuation Act directs the Commission to find and report the value of all the property owned or used by every common carrier subject to its jurisdiction. The Commission is directed to ascertain and report in detail, as to each piece of property owned or used by each such carrier for its purposes as a common carrier, "the original cost to date, the cost of reproduction new, the cost of reproduction less depreciation, and an analysis of the methods by which these several costs are obtained, and the reason for their differences, if any. The Commission shall in like manner ascertain and report separately other values, and elements of value, if any, of the property of such common carrier, and an analysis of the methods of valuation employed, and of the reasons