

RAILROAD WEEK IN REVIEW

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“Capital allocation is usually an important job for CEOs. If you take a CEO in a job for ten years, and he has a business that earns 12% on equity, and he pays out a third, that means he’s got 8% per year of equity. When you think of his tenure in office, how much capital he’s allocated, it’s an enormous factor over time. And yet, probably relatively few CEOs are either trained for, or are selected on, the basis of their ability to allocate capital.” — Warren Buffett, 1994 Annual Meeting

“Productivity including operating income (40%) is our highest-weighted metric and represents our continued focus on continuous productivity improvements and accretive incremental margins... Our long-term incentives, including stock options are tied to our common stock value...” — NS Proxy Statement, CEO Compensation

“These are symptoms of financialization. That’s the term for making financial markets and transactions ends unto themselves, disconnected from — and often at the expense of — the societal benefits that support human flourishing and are capitalism’s proper purpose.” New York Times, Feb 6

For nearly a decade, *Railroad Week in Review* has warned that U.S. railroads were drifting from stewardship toward financialization — a concern sharpened in 2017 by the Grant Williams’ interview with Simon Mikhailovich, which framed financialization as the quiet substitution of balance-sheet optics for operating truth.

I am a big believer in corporate culture, and no place is that more evident than in the railroads pre-financialization and personified in the passenger trains. It is writ large in volumes like Beebe/Clegg *The Trains we Rode* — the New York Central Twentieth Century Limited or the Santa Fe Super Chief; and trains like The UP City of Los Angeles or the Southern Crescent.

And though these Name Trains are long gone, the hosting railroads retained that culture. Until the money-changers took over the temple and financialization replaced the owner-operator culture. The proposed Union Pacific acquisition of Norfolk Southern brings that concern into sharp relief. The transaction logic leans heavily on capital structure, synergies, and OR math, while treating network complexity, service resilience, and shipper trust as variables to be managed rather than foundations to be protected.

Railroads are not portfolios; they are tightly-coupled systems whose failures are nonlinear and whose credibility, once impaired, takes years to restore. When capital markets become the primary audience and operating excellence the secondary proof point, the industry risks converting durable franchises into financial instruments — efficient on spreadsheets, fragile on the ground.

By contrast, only BNSF, thanks to its being part of the Berkshire fold, retains the owner-operator culture of yore. The railroad still illustrates what rail stewardship looks like when financial engineering is removed from the operating equation. BNSF is not optimized for quarterly optics, leverage targets, or transactional optionality; it is optimized to run trains safely, reliably, and profitably across cycles, with capital allocated on industrial time rather than market time. And there is no mandatory retirement at 65.

CEO Katy Farmer is the only Class I railroad CEO who's been on the property since signing on — in her case, to BNSF predecessor Burlington Northern in 1992 as a management trainee at the network operations center in Fort Worth, Texas. She had earlier interned in the Burlington Northern engineering department between her junior and senior years of college. Best of all, she won't be forced to retire at 65 because Berkshire wants its CEOs to stick around as long as they are so inclined.

And now, with Greg Abel succeeding Warren Buffett as Berkshire CEO, we can be assured that the railroad's cash flows are still reinvested with an owner's patience, not a seller's urgency, and BNSF's value accrues quietly through network resilience, asset longevity, and service credibility rather than headline OR gains. In an industry increasingly tempted to treat railroads as financial instruments with steel accents, BNSF remains a reminder that the railroad itself — not the 10-K — is the asset.

Some years ago, when I was still running my shortline consultancy, I had several assignments that explicitly involved aligning a short line's strengths with BNSF Railway's commercial objectives. In some cases the client was the short line; in others it was BNSF itself — but in both cases the work started from the same premise: understanding how BNSF actually thought about traffic, service, and network fit, and then using that knowledge to design partnerships that worked for both sides.

When those alignments were done well, the outcome was not financial engineering or contractual cleverness, but a genuinely better mousetrap for meeting freight-payer supply-chain needs — one that strengthened the short line, supported BNSF, and, most importantly, earned the shipper's business.

As for the UP–NS merger, I asked ChatGPT to act as a research assistant and compare Abel the Allocator with Vena the oOerator. The distinction was clarifying. Greg Abel thinks in terms of return on long-lived capital—regulated, asset-heavy, patient. Jim Vena thinks in terms of throughput, dwell, and velocity—impatient to make the railroad work today.

Both Abel and Vena are Canadians born in the early 1960s. Raised in western Canada in a middle-class, work-oriented household, Abel has described his upbringing as practical and unsentimental. He joined CalEnergy in the early 1990s; the company later became MidAmerican Energy and then Berkshire Hathaway Energy after Berkshire acquired control. Abel ultimately served as CEO at each stage. His operating mantra has been consistent: capital discipline first, customers always.

Vena, by contrast, came up in an Ontario railroading culture — not finance, not consulting. He hired out young and learned the business in train operations, classification yards, and crew management — environments where service failures are visible and immediate, not abstract. That matters. Those formative experiences help explain why Vena’s instincts are operational and why he was able to drive meaningful cultural and service improvements starting early in his Union Pacific tenure.

Vena’s leadership skills will be sorely needed—especially given the central role intermodal plays in the UP–NS merger filing. I’ve spent enough mainline office-car hours to know that intermodal is not “just another traffic lane.” It requires better track, more horsepower per trailing-ton than conventional carload freight, and it consumes capacity in ways spreadsheets routinely understate.

The problem is that Jim Vena is now operating inside a financialized environment, one in which cost metrics are privileged over customer outcomes. Intermodal does not forgive that imbalance. If service falters, it fails fast and visibly. Reconciling those physical realities with a capital-markets mindset will be the real test not the merger rhetoric itself. In the final analysis, intermodal rewards discipline and punishes illusion — and it will do so regardless of how the transaction is framed.

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