The farmer, the investor, and the railway

This article written by C. Wood Davis was published in volume 3 of The Arena in February 1891. Davis explores the inequities between farmers and the railroads and their investors. He admits that the construction of railroads has benefited the farmers but also argues that railroads have too great an influence over the lives and income of farmers. He provides a number of statistics related to railroads from the 1870s and 1880s. He believes that it is much harder for farmers to organize to work together because of their independent and dispersed nature than it is for the few owners of the nation's railroads. Davis presents the views of the Populists in regard to the railroad industry.

Creator: Davis, C. Wood

Date: 1891

KSHS Identifier: DaRT ID: 208173

Item Identifier: 208173

www.kansasmemory.org/item/208173

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"THE FARMER, THE INVESTOR, AND THE RAILWAY."

BY C. WOOD DAVIS.

AGRICULTURE having been the first industry of settled life, we may assume that the farmer has pursued his calling since the dawn of civilization; yet, necessary as have been such labors, he has borne many burdens from which his brothers have been exempt, doubtless owing to the difficulty experienced in forming combinations with his fellows for concerted action, while those representing aggregates of capital, being comparatively few in numbers, easily effect such combinations. This is especially true of the present era, and of those controlling the great mass of capital represented by the railways of the country, nominally amounting to $9,369,000,000, and appearing to equal 60 per cent. while being not over 30 per cent. of the capital invested in farms, yet, the influence exerted upon economic and other questions by railway owners and farmers is in an inverse ratio to their respective numbers and the magnitude of their investments.

One is a compact force, disciplined, alert, living in the midst of the greatest activities; the other exceedingly more numerous, undisciplined, leading isolated lives and with few incentives to quickening thought.

Those familiar with the history of the last sixty years will not question the great benefits resulting from the construction of railways, or grudge the men who have carried forward these great undertakings a rich reward.

By the aid of the railway the wilderness has been made productive, countless farms brought within reach of the great markets, mines opened, mills, factories, and forges built, villages, towns, and cities brought into existence, and populous States carried to a higher development than would have been possible in centuries without such aids. Such are but a part of the beneficent results flowing from the construction of the railway.

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While the builders of the railway have been exploiting a continent and piling up the greatest fortunes ever known, the farmer has taken an unproductive wilderness and literally hewn his way through the great forests which clothed seaboard and central region to the open prairie, there developing the most productive of States, continued his toilsome march up the arid slopes, scaled the mountains and planted orchard, vineyard, and farm by the shores of the Western Ocean.

His labors have enabled the nation to flood the markets with a plethora of bread, meat, and fibre, to meet the enormous expenditure of a devastating war, to repair the losses and havoc of those bloody days, and then to turn the balance of trade in our favor.

Willingly has the farmer performed this labor, expecting to share in the prosperity of the country, yet not always content with his part of the rewards, and coming to believe that those controlling the carriage of his products were exacting as toll more than a just proportion thereof. He has seen the carrier yearly adding to his property, building new lines from the tolls collected on the old, increasing his wealth and power, and leaving a constantly lessening proportion of the proceeds arising from the sale of farm products, to the grower. As population has increased, railway property has grown in relative value, as has the power of those controlling it, and this increase has been very largely made from revenues derived from tolls levied to pay interest and dividends on the water in the bonds and shares, hence made at the expense of railway users, a large part of whom are farmers.

All are fairly prosperous except such as are engaged in the basic industry of civilization, and the one cloud in the industrial horizon is the unsatisfactory condition of a large part of an agricultural population numbering some 25,000,000, and the railway is chargeable with so much of this as results from the exaction of unjust tolls, and this inquiry is instituted for the purpose of ascertaining if the complaints, as to the unreasonableness of such charges, are well grounded.

The highest tribunals hold that railway companies are public trusts, and can exercise the power to enter upon and take private property solely in their public character; and that the exercise of such exceptional power can be defended only upon the ground that the good of the public can best be subserved by a corporation under obligation to treat all justly in rendering services which each citizen cannot perform for himself; that the State could perform the functions delegated to railway corporations, which are trusts organized for the service of the public and charged with remuneration for the private capital employed; that the corporations thus endowed must provide all needed facilities for conducting speedily the business for which they were created; and that the charge for the services rendered shall be no more than just and reasonable; and the Federal courts have not hesitated to determine what was a just and reasonable charge.

The Courts hold that rates fixed by the State are *prima facie* reasonable, and while railway companies cannot be barred from showing the unremunerative character of such rates, they can only do so by disclosing—in addition to the cost of maintenance and operation — the exact cost of the plant employed, and that in arriving at such cost account can be taken only of monies actually expended in construction and equipment. Railway companies have evinced no desire to make disclosures of this character, although it would be easy in this way to show that the schedule of rates established by the State was unremunerative, if such was the case.

The cost of maintaining and operating any given railway is readily ascertainable, and it should be equally easy to determine its cost, but such a procedure is surrounded with grave difficulties,—difficulties growing out of syndicates and construction companies, the manufacture of securities, of bond and stock waterings, the purchase and construction of branch lines at low cost, and unloading upon the stockholders at high cost. Stock and scrip dividends, bonus * of stock to purchaser of bonds, bonds sold to pay unearned dividends that much stock may be unloaded at high prices à la Wabash, the building of branch lines at low cost, capitalizing at high cost, and covering resulting profits into the treasury of the parent company to be distributed as dividends, and forever taxing the railway user to pay interest and dividends on the profits thus enjoyed, as well as by a thousand and one other shady devices by which water is added to the basic power of levying tolls and increasing the amount upon which the public is expected to furnish the means of paying interest and dividends.

*The Santa Fe and other companies have given as a bonus as much as ten shares of stock with each $1,000 bond sold.

The cost of the railway is known only to its managers, and rarely to them, as the constructors but seldom retain the management, and railway accounts are manipulated in numberless peculiar ways for the sophistication of investors. For instance, on page 184 of the 1889 report, of the Kansas R. R. Commissioners, there is appended to the statement of bonded indebtedness, made by the Atchison, Topeka & Santa Fé, this note: "The early records of the Company are very incomplete, and it is impossible to tell, with any accuracy, the amount realized from the issue of these bonds," *i. e.*, $14,061,500 of first mortgage, land grant, and consolidated bonds. Another typical case is that of a railway company in whose service was the writer, and which built a costly line of passenger steamers for lake service; but, by reason of the building of railways north and south of the lake, the operation of the line became unprofitable, the steamers were dismantled, engines sold, and the great sum they represented, dropped from the annual report of the company, without a word of explanation.

Managers dealing thus with stockholders, are not likely to be more frank with the public. Indeed the cost of the railway, and the manipulations of such cost, are of the professional secrets which are employed to defraud railway users and investors, and a case or two in point may not be uninteresting, as showing some of the processes adopted in the manufacture and marketing of stocks and bonds, which are so frequently but evidences of corporate fraud, rather than ownership.

An illustration of the ease with which investor and user are alike plundered, is found in the case of a corporation controlling a valuable dividend-paying property, which a second company parallel with expectation of profits only from construction, and by forcing a sale,—eventually effected,—to the older company, the result being the trebling of railway capital, without an increase of traffic.

Another form of corporate fraud is the payment of unearned dividends from the proceeds of bonds sold, thus adding to the capitalization, and necessitating the collection of unjust tolls to pay interest. These fraudulent payments are often made to enable the management to foist upon the public immense issues of worthless shares, such dividends being continued as long as bonds can be sold, and a market found for the stock, and when one of these bubbles is about to burst, the manipulators make further vast profits, by selling "short," and then having disclosures made of the hopeless condition of the corporate finances.

Yet another form of corporate fraud is the purchase or construction of cheap branch lines, and selling them at two, three, or four times their cost to the Company of whose interests the profiting parties are the trustees. Sometimes these lines are consolidated with that of the parent company and new issues of securities made to cover the added mileage, while in other cases the old Company enables the schemers to sell immense issues of the shares and bonds of the auxiliary line at high prices by guaranteeing the bonds of the latter and leasing its road at an exorbitant rental. Loaded down in this way the old Company frequently ceases to pay dividends.

Again the parent Company resolves itself into a construction Company and covers into its treasury the profits arising from the construction of cheap branches. For instance, it is shown on page 391 of the 1889 report of the Kansas R. R. Commissioners that the St. Louis and San Francisco Railway Company derived a profit of $67,871 from the construction of ten and one half miles of road that should not have cost over $10,000 per mile, but which, with this profit added and stock issued for a nominal consideration, is capitalized for $28,845 per mile. This Company has built many hundred miles in recent years, and construction profits have aided in the payment of dividends on preferred stock, while providing a basis for levying, for all time, tolls to pay interest and dividends on the bonds and stock representing the profits divided. Thus, the greater the profits from construction, the greater the sums which can hereafter be extorted from the user of the railway.

* Poor's Manual shows that to make contemplated extensions the stock of the Missouri Pacific was, during 1886–87, increased $15,000,000, and the funded debt $14,376,000, and while the capitalization of the parent company was thus increased $29,379,000,† the lines built or purchased were capitalized from $8,000 to $52,000 per mile, the result of such multiple capitalization being to add an immense amount

*"Poor's Manual" is a compendium of such financial and traffic statements as the railway companies prepare for publication.

† August, 1890—It is now stated that the Missouri Pacific has added $20,000,000 to its capitalization.

of water to old as well as new issues. There are some very instructive phases of the construction of this new mileage. For instance the 310 miles of the auxiliary Fort Scott, Wichita & Western is shown by Mr. Poor to have cost $4,666,000; the funded debt is shown by Kansas R. R. Commission to be $5,666,000, and Mr. Poor shows that $4,666,000 of such bonds are deposited with the Union Trust Company to secure $4,666,000 of Missouri Pacific trust mortgage bonds issued to provide the $4,666,000, which the road is said to have cost. Has the user of this railway a right to ask what became of the other $1,000,000 of mortgage bonds and the $7,000,000 of capital stock upon which rates are based, and which make up a capitalization of $8,000,000 in excess of cost, and what was the consideration therefore?

In the case of the 411 miles of the Missouri Pacific's Denver, M. & A. line, Mr. Poor shows the cost to have been $4,920,000, and Kansas report shows bonded debt to be $6,561,000, the first mortgage bonds exceeding the cost by $1,641,000, and the entire capitalization being $8,202,000 in excess of cost, a large part of which cost was borne by the municipalities along the line. Like conditions obtain with all Missouri Pacific lines built of late years except two short ones not yet mortgaged.

Another mode of collecting excessive tolls and defrauding the public, is that practised by the subsidized Pacific lines in paying $900,000 per annum to the Pacific Mail Steamship Company to forego competition, and then charging the public two or three times this sum to recoup themselves for such illegal diversion of corporate funds.

A unique case is that of an Ohio corporation, where the men who afterwards became the directors and managers gave their notes to certain bankers for money borrowed for the purpose of buying the shares which were to give them control of the corporation, and, having by this means secured control, applied — in whole or in part — to the payment of such notes, the first mortgage bonds of the company to the amount of $8,000,000, although such bonds had, in compliance with the requirements of the statutes of Ohio, been issued for the express purpose of equipments, double tracks, and other betterments.*

*See the seventh annual report of the Columbus, Hocking Valley & Toledo Railway Company.

Many auxiliary lines have been built at costs ranging from $8,000 to $15,000 per mile, and capitalized at two, three, four, and even five times their cost, as in the case of the 107 miles of the Kansas Midland, costing, including a small equipment, but $10,200 per mile, of which 30 per cent. was furnished by the municipalities along its line, yet with construction profits and other devices this road shows a capitalization of $53,000 per mile.

Or take the 1055 miles in Kansas of the Chicago, Kansas & Nebraska built by the Chicago, Rock Island & Pacific in much the same way and capitalized for $38,000 per mile. Kansas municipalities aided to the extent of $2,500 per mile in building this road, receiving the stock of the company in exchange for municipal bonds; now, however, foreclosure proceedings are pending in the interest of and at the procurement of the parent company (which owns, practically, all the bonds and stock of the auxiliary line except the stock issued to the municipalities), whereby the municipalities are to be despoiled of this $2,500,000.

This is no uncommon device for plundering the farmer and other tax-payers; and railway presidents, directors, and managers, who would scorn to put their hands in the pocket of the farmer and abstract a (single) silver dollar, rarely hesitate when, by the devices described, they can take from the same farmer and his congeners a lump sum of $2,500,000, and the successful workers of such schemes, by one and the same act, acquire vast sums and a reputation for great financial ability.

Another type is found in the Marion and McPherson line of the Atchison, Topeka & Santa Fé,* built largely from old and much worn material, and originally capitalized for $28,000 per mile, being more than three times its cost. Under the recent re-organization of the Santa Fé, each mile represents a much larger sum; but how much larger I am unable to ascertain from the accounting officers of that company, to whom application was made for definite information.

Other Santa Fé lines show peculiar phases of railway administration. For instance, the Santa Fé, jointly with the St. Louis & San Francisco, built the Wichita & Western, extending 125 miles through a sparsely settled district and

* Known as the "Atchison" in New England and as the "Santa Fe" in the West.

not paying operating expenses, yet the Santa Fé, although having another and parallel line — the Southern Kansas — less than twenty-four miles south of the Wichita & Western, doubly paralleled itself by building a third line between the two, this third line, for one hundred miles, being eight to fourteen miles from the Wichita & Western on the north, and, for seventy miles, but ten to sixteen from the Southern Kansas on the south.

In this way has money been wasted in construction, the farmer unnecessarily burdened, the parent company loaded with an immense unproductive mileage, and rendered unable to pay fixed charges, and thousands of those investing in its securities reduced to sore straits, the reason for all of which is probably to be found in the profits — private or corporate — growing out of construction.

Perhaps the Santa Fé affords as fair an illustration as can be found of the ease with which twelve men, sitting in directors' chairs, can issue an edict for the creation of an hundred million or more of fiat property, the only evidence of the existence of which is found in reams of paper, and affording additional evidence of the great and growing utility of printers' ink as an instrument of advanced civilization. By this simple process and without any addition to the property of the corporation, the liabilities of the Santa Fé have been increased more than $100,000,000, and while rates of interest may have been scaled down, the total of interest and principal have been scaled up. When an individual or firm fails, creditors usually accept large reductions of principal in adjustment; but when a railway company like the Santa Fé fails, they insist on doubling the principal and increasing the total of interest.

Although the earnings of the Santa Fé, in 1888, amounted to $2,944,529 less than operating expenses and fixed charges, the managers paid an unearned dividend of $2,625,000, which, with other enormous additions to the liabilities, are to be an endless burden upon railway users and the warrant for the exaction of unjust tolls.

The Santa Fé's recently acquired control of the St. Louis & San Francisco lines,—which are to be operated as a distinct property—is a remarkable instance of the fiat process of multiplying securities without the addition of one dollar's worth to the world's stock of property.

The St. Louis & San Francisco controlled 1329* miles of railway, capitalized for the enormous sum of $70,402,800, being $52,200 per mile. The Santa Fé acquired control of this property by issuing $26,285,175 of new Santa Fé stock, not to retire the stock of the "Frisco" but to buy it and place it in the treasury of the Santa Fé and apply† such dividends as may accrue to the payment of current Santa Fé liabilities.

The result to the railway user will be that, whereas the "Frisco" property has been represented by $70,402,800 of "Frisco" and auxiliary stocks and bonds, it is now represented by that sum plus $26,285,175 of Santa Fé stock, which is an addition of fictitious capital upon which the user is expected to furnish revenue, and the owners of Santa Fé shares have that amount of water injected into their holdings.

‡ The Santa Fé holds 741,129½ shares, of the par value of $74,112,950, of stock of auxiliary lines built wholly from land grants, municipal aid, and proceeds of bonds sold, and for this immense number of shares the only consideration—as shown by the Santa Fé ledger—was $4,029, or a fraction over half of one cent a share. For 663,306½ of these shares, of the par value of $66,330,650, the only consideration shown is $15.00, being at the rate of 44$\frac{22}{100}$ shares of the par value of $4,422.00 for one cent. Such is the stuff which passes current as railway securities and on which the railway user is taxed to pay dividends!

The Santa Fé affords a most instructive example of what may be accomplished in the way of multiplying securities by the hoodooing§ of accounts, by reckless construction, the payment of stock dividends ($18,000,000), the giving of vast quantities of stock to the purchasers of bonds, the payment of unearned dividends and the creation of $100,000,000 and more of fiat securities at one or two sittings.

The seventy miles of the Columbus and Cincinnati Midland, built at a cost of about $17,000 per mile—of which some $1,500 per mile was donated by the people along its line—is capitalized at $57,000 per mile and earns nearly twelve per cent. on the money furnished by its builders, yet

*Includes such lines as the Kansas Midland, etc., built at costs ranging from $10,000 to $15,000 per mile.
†Financial chronicle of May 31, 1890.
‡Poor's Manual, 1889, page 723.
§Ante, page 5.

appears to earn but three per cent., while in its immense fictitious capital the foundation is laid for further exactions.

The enormous profits accruing from the operation of the construction company, and the unjust tax thereby forever imposed upon the public, is exemplified in the case of the "Credit Mobilier" and other construction devices connected with the building of the various Pacific lines, out of which grew no little corruption of legislators, the ruin, politically, of promising statesmen, and the amassing of so many great fortunes, typified in the case of the four men who built the Central Pacific and whose united worldly possessions in 1860 are said to have been but $120,000. Now, however, their estates are estimated at more than $120,000,000.

Mr. Poor states that "the cost per mile of the roads making returns (1888) as measured by the amount of their stocks and indebtedness equalled nearly $60,732 as against $58,603 for 1887," being an increase of $2,129 per mile, and at the price recently prevailing, it would require 135,000,000 bushels of the farmers' corn annually to pay 5 per cent. on the water absorbed by railway securities in one year, and by such waterings yearly it will take but fourteen years to absorb the entire corn crop to provide revenue on the added fluid. How long shall this process be permitted to continue?

Mr. Poor also states that, in the eleven central farming States, railway earnings have in eighteen years increased 175 per cent. and the bushels of wheat and corn grow 160 per cent.; yet he forgets to tell us that such has been the shrinkage in the prices of farm products that the value of the wheat and corn crops in these States increased but 57 per cent., showing conclusively that the railways are taking a constantly increasing proportion of the proceeds arising from the sale of the products of the farm.

This is still more clearly shown on the same page in the statement that in these States railway revenue in 1870 was $12 for each unit of the population as against $18 in 1888. Thus the *per capita* transportation tax is shown to have increased 50 per cent.

Mr. Poor says, "With these facts before us, it is difficult to understand the extraordinary antipathy to railroad corporations in the West."

If such antipathy exists, possibly Mr. Poor could understand it if he would but look at these facts, and others herein stated, in all their nakedness, keeping in view their true bearing upon the greatest of the nation's industries.

That no such antipathy exists is shown by the fact that, while the railways of Illinois are capitalized for $42,450 per mile, they are assessed for purposes of taxation at $7,863 per mile, those of Iowa are capitalized at $38,069, and assessed at $5,189, those of Nebraska are capitalized at $40,172, and assessed at $5,829, and those of Kansas are capitalized at $52,155, and assessed at $6,595 per mile.

We have seen some of the processes by which the investor is shorn, and an enormous fictitious capitalization piled up to aid in taxing the farmer and others. Is it any wonder that when his wares are selling at starvation prices, the farmer becomes restive under the burdens thus imposed and seeks to replace present ownership by that of the nation?

According to Mr. Poor, there existed 156,082 miles of railway at the close of 1888, showing a capitalization — including floating debts — of $9,369,398,954, to pay interest and dividends on which a toll is levied on all the industries of the country.

How much of this vast capitalization is real, and how much the fictitious outgrowth of the practices described?

Owing to the practices illustrated, it is impossible for railway companies to show the cost of their properties, and we are compelled to reach an approximation by estimating such cost, and thus determining the sum upon which revenue should accrue.

ESTIMATED COST PER MILE OF EXISTING RAILWAYS.

Grubbing and clearing	$100
Right of way and land damage	2,500
Earthwork and rock cuttings	4,500
Bridges, culverts and masonry	3,000
Ties — 3000	2,000
Rails, splices, bolts and spikes	4,000
Switches, side-tracks, cattle-guards, road croppings and fences	1,100
Track laying, surfacing and ballasting	2,300
Depots, water-tanks, stockyards, shops and terminals	3,500
Equipment	4,500
Engineering, rents, interest, taxes, and contingencies	2,500
Total cost per mile	$30,000

* That this estimate is more than ample is assured by the statement (in substance) of Mr. H. V. Poor that the capitalization of the roads built from 1880 to 1883 is double the actual investment and, could the fictitious capital be eliminated, railways, as investments, would have no parallel; and in the statement that within five years ending in 1883, "about 40,000 miles of line were constructed at a cash cost of at least $1,100,000," being $27,500 per mile; and that "in 1884 only about 4,000 miles of new line were constructed, the cost of which did not exceed $20,000 per mile and perhaps not over $15,000 per mile."

For each mile of railway costing more than $30,000 per mile, ten can be found that have cost from $8,000 to $20,000. The eastern two hundred miles of the Kansas Division of the Union Pacific, built in the era of high prices, cost less than $20,000, although now bearing a capitalization of $105,000 per mile, but a well known manipulator — who made restitution of millions to the Erie — supervised its reorganization, which may account for the generous volume of water incorporated in the securities.

The Missouri Pacific line from Eldorado to McPherson, Kansas, a comparatively expensive prairie road, being located across the line of drainage, cost much less than $10,000 per mile, as have thousands of miles of other prairie lines.

Possibly $30,000 per mile is less than it would cost to duplicate the railways, east of Ohio, but the most of the mileage being west of that region where the cost, outside of a few mountain roads, is at a minimum, the estimate, if erroneous, certainly errs in placing the cost too high. Moreover, we have a factor of safety in the fact that the nation, to aid in building railways, has granted 197,000,000 acres of land, a large part of which has passed into the possession of the railway companies, and from which they have realized vast sums, probably more than $300,000,000, to which should be added State and municipal aid and individual donations to the amount of $150,000,000 to $250,000,000.

Taking no account of the sums loaned the Pacific railways, the people have contributed at least $2,000 per mile towards the cost of existing railways, hence we are warranted in as-

* See Poor's Manual for 1884 and 1885.

suming that $30,000 per mile is the maximum sum on which the user should furnish revenue, less such revenue as the corporations derive from rents, interests, and dividends, from lands, buildings, railways, mines, stocks, or bonds bought or brought into existence by an expenditure of any part of such $30,000 per mile or the earnings therefrom, such revenue, aside from traffic earnings, being now about $90,000,000 per annum.

It is claimed that in determining the amount of capital on which the rates of toll shall be based, the people are entitled to no voice, but, as the compensation is to be reasonable and the measure of such compensation being the cost of maintaining and operating the railway plus a fair return for the capital actually employed, the people are unquestionably entitled to a voice in determining what such compensation shall be and how it shall be arrived at, and their representatives will find the railways have cost not to exceed an average of $30,000 per mile, and could be duplicated for enough less to more than offset the enhancement in the value of right of way, depot grounds and terminals.

Railways well located and mortgaged for 80 per cent. or less of actual cost can dispose of three and one half to four and one half per cent. bonds at par, but badly located or poorly managed roads often failing to pay interest, we may call five per cent. a fair rate, and on this basis the annual net revenue of roads existing at the close of 1888, from traffic, rents, interest, dividends, and all other sources, should not exceed $234,123,000, being $67,408,000 less than the net traffic earnings reported by Poor, and taking the net earnings ($405,220,000) as shown by the Inter-State Commission, the excess is $171,097,000 wrongfully extorted from the agricultural and other industries in one year.

This difference in the amount of net earnings arises from the fact that, in Poor's Manual, only traffic earnings are tabulated,* no account being taken of the immense sums railway companies derive from rents of lands, buildings, track, and terminals, as well as in the form of dividends on stocks and bonds owned, and the profits from the sale of such securities, all amounting to vast sums and yearly increasing as the railways become consolidated and absorb more and

* Page 4 of the Introduction of Manual of 1889.

more of existing property; hence Mr. Poor's figures are incomplete and misleading, inasmuch as they fail to convey a correct idea of the total of railway earnings or the amount annually extorted from the user.

Of the $234,123,000 resulting from a five per cent. revenue on $30,000 per mile, a very large part, as will hereafter be shown, belongs to the user rather than the investor, while many parallel roads, built for construction profits, are needless, and others so badly located that the traffic will be wholly insufficient to provide revenue, and the owners must, like the owners of badly located buildings, suffer the loss entailed by lack of business sagacity. Favorably located roads can collect more than five per cent.; should they be permitted to do so? Each railway company is a distinct organization, each road a separate instrument and specially conditioned, and it is questionable if the compensation for the capital employed should, in any case, be permitted to exceed the rates fixed upon, from time to time, as a just return. As interest rates fall, so should returns from railway investments.

Justice and reason appear to have little part in determining railway rates, the environment being all potent, as in the States where efficient granger laws * have been reinforced by a strong and active commission, rates are much the lowest and highest where either the laws or the commission are inefficient; yet enough has been accomplished to show the beneficent possibilities of governmental control in suppressing some of the multifarious evil practices of railway companies, and while these practices continue they are much less common and not so flagrant as in the past, when the manager of an Inter-State railway, in order to destroy the value of the property of a coal company having no other outlet for its product, could, without a minute's notice, advance the rates on coal shipped by such company 133 per cent. above the rates charged another coal company in which such railway company and its officers were stockholders; nor with the Inter-State law in force are railway officials likely to repeat the indiscretion of such manager in writing the president of a coal company (of whose property he desired to force a sale) the subjoined letter.

* "Granger laws" are the laws enacted in the Agricultural States of the Mississippi Valley for the control of railway rates and methods.

ST. LOUIS & SAN FRANCISCO RAILWAY COMPANY,
OFFICE OF THE SECOND VICE-PRES'T AND GEN'L MANAGER,
ST. LOUIS, MO., February 9th, 1882.

President Pittsburg Coal Company, Pittsburg, Kansas.

Dear Sir: — I will pass through Pittsburg about 12 o'clock on Monday next, and would be glad to have you join me at Pittsburg, and go to Girard, and back to Pittsburg.

If we can buy your coal at a low price, I think we can possibly make a deal on that basis.

As long as you continue shipping coal, it has a demoralizing effect on the trade, *and renders the coal business unprofitable, to a certain extent, to the* "ROGERS COAL COMPANY."

Respectfully, C. W. ROGERS,
Second Vice-Pres't and Gen'l Manager.

Discriminations and other fraudulent practices, whereby the few are enriched at the expense of the public, doubtless continue, and will until railway managers, thus betraying their trusts, are sent to keep company with the men who plundered the Ocean, Fidelity, and Sixth Avenue banks; but there is, as compared with the time preceding the enactment of Inter-State and State laws, but little of the work of discrimination in progress; and great as is this evil, it is trivial as compared with those growing out of a capitalization excessive by more than one half, and which is the warrant for annually levying an immense sum in unjust tolls, by which producer and consumer are alike despoiled of a large part of their earnings.

If the courts are right in holding that the carrier is entitled to but a reasonable compensation, and that the reasonableness of the charge rests upon the cost of maintenance, operation, and the amount actually invested in the plant, then the exaction of existing rates of toll is wholly indefensible. As a bar to the rendering of justice to the user, the plea is made that should rates be reduced to what would afford but a fair return for the actual cost of the plant, it would work great hardship to the present holders of railway securities, who are assumed to have bought them in good faith, and many of whom are widows, orphans, trustees, and institutions in which the poor have deposited their scanty savings. Has this plea against justice any basis except one of sentiment? If sentiment and a charitable regard for the poor and helpless shall govern, are there not twelve times as many widows, orphans, and poor among the 60,000,000 of railway users?

From the fact that there are 10,000 holders of New York

Central stock, Mr. Poor estimates that there are 1,000,000 investors in railway securities, who, with their dependents, constitute a body of 5,000,000, and it is proposed that rather than this one thirteenth shall surrender, once for all, so much of their power to tax others as is the direct product of fraud, that they shall continue such unjust taxation.

This is not simply a proposition that one thirteenth of the population shall unjustly tax all others this year, next year, or even the third or fourth year, but that such burden, yearly increasing by the addition of more water, shall be carried by the twelve thirteenths to their graves, that when death relieves them, their children and children's children, for countless generations, shall each in its turn take up the grievous burden and carry it until they also drop into the grave, and so long as these railways exist, this one thirteenth shall possess the power to thus levy an iniquitous impost upon the entire industry of the country. Could anything be more unjust?

Shall 60,000,000 people and their descendants suffer a great and growing wrong rather than that 5,000,000 shall surrender a power to which they have no right?

The railway is public rather than private property, and while the stockholder is entitled to the usufruct and its limited control, yet such control is a trust for a specific purpose, such purpose being the service of the public for which the compensation shall be just and reasonable, but the law never contemplated that one party in interest should alone be in possession of the knowledge necessary to a determination of the amount of capital employed, and the reasonableness of the charges made, and so long as such knowledge is withheld, shareholders must expect discontent on the part of the public, and efforts to secure such control as will ensure justice; and it is this discontent which has been one of the most potent factors in bringing into existence the "Farmers' Alliance" and kindred organizations, in which millions of farmers — for the first time in history — are united for a common object.

The endowment of the railway company with the exceptional power to enter upon and take private property, and the equally exceptional limitation of the stockholders' liability to the cost of the shares held, implies special duties and obligations to the public; and the people, whose lands have been taken, who furnish the traffic, and provide the revenue, have a right to a voice in determining the justness of the rates charged.

Another plea is that the cost of transportation is less in the United States than elsewhere, hence there can be no cause of complaint. If rates are higher in Republican France or Imperial Germany, where railways exist, primarily, for military purposes, it is neither our duty to emulate them in such matters, nor to copy their costly modes of railway administration; yet we may well profit by their example in providing for stringent control of railways and the rates for carriage.

The farmer, understanding that rates are unjust by reason of an enormous fictitious capitalization, and that such rates reduce the value of his land and its products, appeals to legislation for relief, which States have sought to furnish by laws, regulating rates and methods of administration, which are denounced as acts of robbery by the men who have perpetrated the frauds of which such laws are the resultant.

The men loudest in denunciation of every attempt at control by law are those most active in the manufacture of securities, in operating the construction company, in paying unearned dividends, in selling or capitalizing cheap lines at many times their cost. These are the special champions of the widow, the orphan, and the savings bank, whom they have despoiled by the most unblushing frauds. These are the innocent, chivalrous men, high in the esteem of the street and the exchange, who wish the way left open for more nickelplating, more Wabashing, more Credit Mobiliers, and more stock and bond watering.

There is abundant evidence that where the laws have been such as to secure the greatest control,— Illinois and Iowa,— well located and judiciously managed railways are exceedingly prosperous. Many great lines derive the major part of their traffic from the granger States, yet the laws, which railway managers and investors denounce as acts of confiscation, have not prevented the payment of good dividends. Mr. Poor shows that, for twenty-five years the Chicago & Alton dividends have averaged 8.7 per cent., that the Chicago, Burlington & Quincy has paid regular cash dividends ranging from 8 to 10 per cent. per annum, and stock dividends aggregating $6,701,990. The Chicago, Rock Island & Pacific has done about as well in the way of dividends, although its traffic has been so largely drawn from Illinois and Iowa. Until certain bond and stock operations, the Chicago, Milwaukee & St. Paul paid 7 per cent. dividends, and the Chicago & Northwestern has swelled its capital account by the payment of stock dividends, while paying regular cash dividends of 6 to 8 per cent., and the Illinois Central has, for twenty-six years, paid dividends ranging from 4 to 10 per cent. per annum, and aggregating $56,989,847.

Notwithstanding these laws and that nearly or quite all these roads carry an undue amount of water, that crops have failed, and panics have prostrated the industries of the country, they have prospered, new lines been added from the tolls collected on the old, the investor received ample returns, and some of the managers enabled, by some occult process, to amass enormous fortunes, all going to show that the granger laws have not been oppressive, and that when railways fail to make fair returns it is due to faulty location, unreasonable rate wars, speculative or incompetent management, or an extraordinary excess of water in capitalization.

Possibly a flood of light may be thrown on this subject by the experience of the writer when general freight and passenger agent of a new railway. Imbued with the idea that the prosperity of the road would be subserved by encouraging immigration and fostering business, the writer formulated tariffs calculated to further such ends. Imagine his astonishment when told by the general manager they would not answer, and to be informed that the road was not being built to make money out of its operation but out of its construction, and what was required of the traffic department was the greatest present revenue possible and to make the passenger rates just low enough to take the traffic from the stages and the freight rates no lower than necessary to drive the ox teams out of the freight business.

The policy then outlined was pursued until the railway passed through the reorganization thereby made inevitable, and this cheaply-built prairie line, with free right of way and land grant and subsidy equal to its entire cost, is now capitalized for $105,000 per mile.

On most railways the basic principle underlying tariff and schedule is "All the traffic will bear," and it is to hold in check these "Chevaliers of the road" that granger laws are formulated.

It may be safely assumed that $30,000 per mile is the outside cost of existing railways, and that the aggregate, at the close of 1888, on which tolls should be based, was $4,682,-246,000; but here the question arises: How much of this sum has the railway builder furnished, and what part has been extorted from the railway user in the form of excessive tolls?

Available data does not admit of going back of 1874 when 69,273 miles were in operation, the cost of which, at $30,000 per mile, being credited to the builders; and adopting the net (traffic) earnings as shown by Poor we find that, in 1874, crediting each $30,000 with its proportion of such earnings, *pro rata*,—and adopting the capitalists' theory that the water in the capital is entitled to the same revenue as the money part thereof—the earnings of the water in the capitalization of that year amounted to $91,957,829, being equal to the cost of 3,065 miles of railway. Continuing such computations for fourteen years and crediting the railway users with the income of so much of the railway mileage as was, from year to year, built from the tolls collected on the capitalization in excess of $30,000 per mile, it appears that the users have, within fifteen years, been mulcted, in the shape of tolls based wholly on water, in the sum of *$2,422,588,455, from which those in possession have constructed 80,752 miles of new railway, leaving but 2,901 miles, costing $87,030,000, to have been built, in the same period, from funds supplied by those claiming to own all the railways. For details of these computations, see Table I.

Should it be claimed that instead of dividing the earnings *pro rata* between the real and fictitious capital, that the real is entitled to full compensation before anything is assigned to the fictitious, we will, without admitting that the preceding computations are not correctly based, proceed to first give compensation, at the rate of six per cent. per annum, for all the capital actually employed (except that furnished by the users in the form of tolls in excess of such six per cent.), and again assuming that the capital to build all the roads existing in 1874 had been furnished by the putative owners, and we find the results as set forth in Table II.

Table II. shows that from traffic earnings alone the holders of shares and bonds have received six per cent. per annum

* This is from traffic earnings alone, to which should be added a vast sum from miscellaneous sources.

The farmer, the investor, and the railway

TABLE I.

Year.	Miles of railway in operation.	Capitalization per mile.	Net traffic earnings. *Per Poor.*	Net traffic earnings per mile.	Mileage on which investors are entitled to revenue.	Proportion of earnings per mile on road built by investors at cost of $30,000 per mile.	Proportion of earnings per mile on fictitious capital.	Earnings of fictitious capital and miles of road built therefrom.			
								Earnings each year on fictitious capital.	Earnings of road built subsequent to 1874 from revenue on fictitious capital.	Total earnings from fictitious capital and from capital furnished by railway users and road built therefrom.	Miles of railway built in each year from tolls of fictitious capital and from tolls or mileage built in preceding years from excessive tolls.
1874	69,273	$58,256	$189,570,958	$2,736.57	69,273	$1,409.10	$1,327.47	$91,957,829	. . . .	$91,957,829	3,065
1875	71,759	61,652	185,506,438	2,585.13	68,694	1,258.00	1,327.13	91,165,867	$ 7,923,423	99,089,290	3,303
1876	73,508	58,562	186,452,752	2,536.50	67,140	1,299.50	1,237.00	82,196,298	16,152,432	98,348,730	3,278
1877	74,112	60,678	170,976,697	2,307.00	64,466	1,142.00	1,165.00	75,074,930	22,308,690	97,383,620	3,246
1878	78,960	59,163	187,575,167	2,375.57	66,068	1,204.41	1,171.16	77,344,577	30,689,989	108,034,566	3,601
1879	79,009	57,730	216,544,999	2,740.76	62,516	1,424.10	1,316.66	82,276,766	45,277,355	127,554,121	4,251
1880	82,146	58,624	255,557,555	3,111.01	61,402	1,591.91	1,519.10	93,234,752	64,617,581	157,852,333	5,262
1881	92,971	60,445	272,406,787	2,930.02	66,965	1,455.02	1,475.00	98,733,550	76,277,210	175,010,760	5,834
1882	104,971	61,303	280,316,696	2,670.42	73,131	1,306.90	1,363.52	99,678,766	85,098,274	184,777,040	6,159
1883	110,414	62,030	293,367,285	2,656.07	72,415	1,285.54	1,370.53	99,209,926	100,999,717	200,209,643	6,674
1884	115,672	61,366	268,064,496	2,318.32	70,999	1,133.66	1,184.66	84,077,689	103,628,904	187,706,593	6,257
1885	123,320	61,398	269,493,931	2,185.32	72,390	1,067.75	1,117.57	80,870,718	111,357,351	192,228,069	6,408
1886	125,185	61,098	300,603,564	2,401.27	67,847	1,179.02	1,222.25	82,903,995	137,748,854	220,652,849	7,355
1887	137,028	58,603	334,989,119	2,444.67	72,335	1,251.67	1,193.00	86,263,444	158,219,042	244,482,486	8,149
1888	145,387	60,731	301,631,051	2,074.61	72,545	1,024.86	1,049.75	86,125,770	151,174,756	237,300,526	7,910
. .	. . .	. . .	. . . .	. . .	. .	. . .	. . .	$1,311,114,877	$1,111,473,578	$2,422,588,455	80,752

The above computations are based on a cost of $30,000 per mile, and the unwarranted assumption that investors furnished the money to build all the roads existing in 1874.

The farmer, the investor, and the railway

TABLE II. Showing revenue of investors at six per cent. on cost of $30,000 per mile and mileage built from earnings in excess of six per cent.

Years.	Miles of Railway in operation.	Mileage on which investor's revenue is computed.	Capital furnished by investors on the basis of cost being $30,000 per mile.	Revenue of investors on basis of six per cent. on cost of $30,000 per mile.	Revenue of railways from traffic earnings. *Per Poor.*	Earnings in excess of six per cent. on $30,000 per mile, hence belonging to the railway user, but employed in building new roads.	Miles of railway built from tolls in excess of six per cent. on $30,000 per mile, and to the revenue from which investor has no right.
1874	69,273	69,273	$2,075,190,000	$124,961,400	$189,570,958	$ 64,879,558	2,163
1875	71,759	69,596	2,037,880,000	125,272,800	185,506,438	60,233,638	2,008
1876	73,508	69,337	2,080,110,000	124,806,600	186,452,752	62,646,152	2,088
1877	74,112	67,853	2,035,590,000	122,135,400	170,976,697	48,841,297	1,628
1878	78,960	71,073	2,132,190,000	127,931,400	187,575,167	59,643,767	1,988
1879	79,009	69,134	2,074,020,000	124,441,200	216,544,999	92,103,779	3,070
1880	82,146	69,201	2,076,030,000	124,561,800	255,557,555	130,995,755	4,366
1881	92,971	75,660	2,269,800,000	136,188,000	272,406,787	136,218,787	4,541
1882	104,971	83,119	2,493,570,000	149,614,200	280,316,696	130,702,496	4,357
1883	110,414	84,205	2,526,150,000	151,569,000	293,367,285	141,798,285	4,726
1884	115,672	84,737	2,542,110,000	152,526,600	268,064,496	115,537,896	3,851
1885	123,320	88,524	2,655,720,000	159,343,200	269,493,931	110,150,731	3,672
1886	125,185	86,727	2,601,810,000	156,108,600	300,603,564	144,494,960	4,816
1887	137,028	93,754	2,812,620,000	168,757,200	334,989,119	166,231,919	5,542
1888	145,387	96,572	2,897,160,000	173,829,600	301,631,051	127,801,451	4,260
—	—	—	—	—	—	$1,592,280,471	53,076

for every dollar invested and have, within fifteen years, been enabled, by the watery fiction, to extort from railway users the enormous sum of $1,592,280,471 (to which should be added about half as much more from miscellaneous earnings), with which has been built 53,076 miles of railway, for the use of which it is proposed to forever tax those who have furnished all the money employed in its construction.

Is it possible that no remedy can be found for such evils? In the National Bank the law has created another form of public trust, but one whose relations to the people are infinitely less intimate and with the services of which the public could dispense without serious results.

The railway and the bank each perform functions that the State might; yet the bank alone is held to the most rigid discharge of its duties, a maximum fixed for its rates of toll, the amount it shall loan any one party, and the kind of security determined as well as the amount of its reserve fund, its books and assets at all times subject to inspection without notice, no share issued until paid for in full, the payment of unearned dividends made a penal offence, and breaches of trust punished in an exemplary manner.

Can there be any sufficient reason why the railway corporation, with infinitely greater power and privileges, performing functions a thousand times more important, and directly affecting a hundred persons for one affected by bank administration, should not be subjected to control quite as stringent and quite as far-reaching?

Shares and bonds being the basis of tolls, should a railway company be permitted to issue share or bond until its par value in actual money has been covered into the corporate treasury?

Should the basis of tolls be laid until it has been shown that a proposed line is necessary to public convenience and will make fair returns on its cost?

Should a railway company be permitted to collect tolls until it has shown the exact cost of the instrument of transportation?

Should it not be a penal offence for a railway official to pay an unearned dividend?

Should not railway accounts, stock and bond ledgers, and assets be subjected to like inspection as those of national banks?

Would not rate wars cease, were railways once having reduced rates, debarred from ever again advancing them without governmental permission?

Should not railway companies be taxed on their capitalization as shown in issues of bonds and shares?

Should not railways be appraised at present cash value, and earnings, from all sources, be limited to what would afford a given or maximum return on such appraisal?

Or should the nation assume the ownership and operate the railways through a non-partisan commission, as the Province of Victoria, Australia, has shown to be both practical and economical?

There is no longer any question as to the power of the nation to control these great arteries of trade, nor is there outside a limited circle, any question as to the necessity of such control, and it but remains for the lawgivers to formulate such statutes as will protect user and investor, both of whom are at the mercy of a small body of men who can and do make and mar the fortunes of individuals, cities, and States, without let or hindrance.