Inquiring Into Railroad **Operations of E. H. Harriman**

Interstate Commerce Commission Transmits its Report to President-No Recommendations Made as to Instituting Criminal or Civil Prosecuitions-Purchasing of Control of Stocks in Competing Lines Simply Means Suppression of Competition-Harriman Will Reply-Says its Good Politics to Attact Him.

Washington, July 13.-A report was made public today by the interstate commerce commission of its inquiry into railroad operations of Edward Hi Harriman and of the operations of the so-called Harriman lines of railway, which has been in progress for several months. The report, which was writ-ten by Commissioner Franklin K. Lane, is the unanimous expression of the commission, The report has been trans-mitted to President Roosevelt and the department of justice. It is expected by the commission that it will be determined by the president and Atty, Gen. Bonaparte from the

and Atty. Gen. Bonaparte from the statements set out in the report wheth-er the government will institute any sort of proceedings against Mr. Harriman or the corporations involved in the inquiry. No recommendations are made by the commission as to whether criminal or civil prosecutions be instituted as a result of its inquiry. The report is an exhaustive summa-ry of the evidence adduced at the sev-etal hearings held by the commission in the courts of its inquiry. It enters fully into a discussion of the policy pursued by Mr. Harriman in obtaining control of the various lines of railway in the Harriman system and presents a fairly complete history of the opera-tions of the various lines. Excerpts statements set out in the report wheth-

tions of the various lines. Excerpts from the verbatim testimony of Mr. Hargiman are given to show, as stated in the report, "that it is only the law which prevents the concentrating in Mr. Harriman's hands of every railroad ine lying between Canada and Mexico," as the frank admission of Mr. Harriman himself made at the hearing. The

"To gather under one head all exist-ing transcontinental lines, or as many as possible, and to exclude the incomas possible, and to exclude the incom-ing of all competitors became mani-festly the Harriman policy which was inaugurated in 1901 by the issuance of \$100,000.000 of convertible bonds by the Union Pacific."

Mr. Harriman's eventual control of many of the competing transcontinental lines was prevented, it is pointed out, by the supreme court's decision in the thern Securities case. It is shown the reports that it has not been the millern rriman policy to permit the proper-brought under Union Pacific conto decline, as in every case they better today than they were when Harriman acquired them.

Particular stress is laid by the com-mission on the elimination of competi-tion in transcontinental business among the Harriman lines, and the commission indicates that that is the natter of large significance developed its inquiry. Special reference is made to the deal

Special reference is made to the deal by which Mr. Harriman secured con-trol of the San Pedro road and the manipulation of the Chicago & Alton, a very careful synopsis of the financial operations in both instances being given. Concerning the Chicago & Alton transaction the commission says: "It was admitted by Mr. Harriman that there was about \$60,000,000 of stock and liabilities issued against which no property had been acquired, and this is undoubtedly an accurate estimate,"

estimate.

The commission further says con-cerning the Alton deal that "it is evi-dent that its history is rich in flus-trations of various methods of inde-fensible financing."

COMMISSION'S CONCLUSIONS. In its conclusions the commission

says: "The effect of the control of the Scuthern Pacific by the Union Pacific has been to unify and amalgamate the

a dominating control in the lilinois Cen-tral railroad, running directly north from the Guif of Mexico to the Great Lakes, paralleling the Mississippi river; and 2,000 miles west of the Illinois Cen-tral he controls the only line of rail-road paralleling the Pacific coast and running from the Columbia river to to the Mexican border. "Within a year his sphere of influ-ence has extended castward; the Union Pacific and Oregon Short Line have ac-quired 13.62 per cent of the stock of the Bältimore & Ohio at a cost of \$45,486,-260, and have invested \$19,634,324 in New York Central and Hudson river stock. LAW IN HIS WAY.

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LAW IN HIS WAY. "That it is only the law which prevents the concentration into Mr. Harriman's hands of every railroad line lying be-tween Canada and Mexico is the frank admission of Mr. Harriman himself at the hearing. To get under one head all existing transcontinental lines, or as many as possible, and to exclude the incoming of all competitors became incoming of all competitors became of \$100,600,000 of convertible bonds by the Union Pacific. With the proceeds of these bonds the Union Pacific pur-chased control of the Southern Pacific automation of the Chicago, Burlington & Quincy Railroad company, the stock of which had been purchased jointly by the Northern Pacific and Great housing tooks and their collateral trust hongs is and their collateral by the Northern Pacific and Great Northern companies and their collateral trust bonds issued therefor. Possession of these lines would have given to the Union Pacific absolute mastry over every avenue leading to the Pacific coast within the United States save that afforded by the Great Northern on the northern boundry of the country and that offered by the Santa Fe on the southern. This plan, if executed, would have subjected to a common will and policy nearly one-half of the territory of the United States—a comparative-ly undeveloped, rapidly growing and extremely rich territory into which must necessarily extend the population and business of the eastern states. "It has been, however, no part of the Harriman policy to permit the proper-ties which were brought under the Union Facific control to degenerate and decline; as rallroads they are better broperty today with lower predes orthern companies and their collateral

decline; as railroads they are better property today, with lower grades, straighter tracks and more a ple equipment than they were when they came under that control. Large sums have been generously expended in the have been generously expended in the carrying on of engineering works and betterment, which make for the im-provement of the service, and perma-nent value of the property.

U. P. CONTROL PREVENTED.

"The control of the Northern Pacific and the Burlington by the Union Pa-cific was prevented eventually by the decision of the supreme court of the United States in the case of Harriman vs. Northern Securities company, in which that court held that it would be in violation of the Sherman act for the Union Pacific to control those rail-ways, as they were competing lines. the Union Pacific to control those rail-ways, as they were competing lines. The Southern Pacific remains within the control of the Union Pacific. "In all of its acquisition of stock control in other railroads, the Union Pacific has either purchased the stocks directly itself or through the Oregon Short Line Railroad company, which it owns and controls, and which for the purposes of this report will be consid-ered as the Union Pacific acquired 750,000 shares out of a total of 1,978,492 shares of Southern Pacific stock, and subsequently acquired 150,000 shares, or 45.49 per cent of the total stock issue of the Southern Pacific. Thereafter, when the preferred stock of the South-ern Pacific was issued, the Union Pa-cific subscribed for its proportion, to-wit, 180,000 shares out of a total of 395,688 shares; so that at the present time the Union Pacific owns 1,050,000 shares out of a total of 2,374,180 shares. S. P. A HOLDING CORPORATION. "The Union Pacific had access, over the Oregon Short Line and Oregon Rail-way & Navigation company's line, to Portland, and thence it could enter into competition with the Southern Pacific steamship lines for Alaska, oriental and South sea business. The Union Pacific also had an interest in the Occidental & Oriental Steamship line, operated out of San Francisco to oriental ports. It also appears that the Oregon Railroad & Navigation company has always had a line of steamships plying between Port-land and San Francisco, which has at times done considerable business of cer-tain classes and has been *and still could be made a factor in competition. "In 1900 the Southern Pacific company purchased a majority of the stock of the Pacific Mail Steamship company, which has for many years been the largest carrier of oriental traffic to the coun-try, and which has operated a line of steamships in connection with the Pan-ama railroad, by which Panama route traffic in large quantities has moved from Atlantic ports to Pacific coast points in competition with the all-rail carriers. S. P. A HOLDING CORPORATION. "The Southern Pacific company is a carriers

& Oregon Rallicad company, organized under the laws of California. The Cal-ifornia & Oregon Rallicoad company, of Oregon, constructed the line from Port-land to the California state line, which company still cwns that line. The Cen-tral Pacific company, therefore, owns the line extending from Ogden to San Francisco and the line from Roseville to the Oregon state line. It has a capi-tal stock of \$67.275,500 par value of com-mon stock, and \$12,800,000 of preferred-stock, all of which is owned by the Southern Pacific company; and the Southern Pacific company; and the Southern Pacific company also has a lease of its line. It was only the line from Ogden to San Francisco, how-ever, which was required by act of Con-gress to be operated in connection with the Union Pacific. "Immediately, however, upon the pur-chase of the Southern Pacific company's stock the Union Pacific began the uni-

fication of the two organizations and the exercise of a control over the South-ern Pacific, which has effected a sub-stantial elimination of competition between these two lines. HAVE COMMON DIRECTORS.

"The Union Pacific and Oregon Short The Union Pacific and Oregon basis Line-baye at each annual meeting of the stockholders of the Southern Pacific since 1902 voted a majority of the stock represented as such meetings and have basis the disector and other officers. ected the director and other offi For several years last past the Union Pacific and Southern Pacific have had a majority of common directors, the same president, vice president, director of traffic, director of maintenance and

some president, vice president, director of traffic, director of maintenance and operation, secretary, treasurer, comp-troller, auditor, legal depatment and other chief officials. Whereas, formerly the two compariese had separate com-mercial agents in the principal cities throughout the United States, soliciting traffic over their respective lines, they now have common agents and solicitors who represent the Union Pacific and Southern Pacific systems. While the Union Pacific, through the Short Line, does not own a majority of the stock of the Southern Pacific, yet is appears by the testimony that its control over it is, for all practical purposes, as abso-lute as thought it owned every share; and it was admitted by Mr. Harriman that the Union Pacific cortrols the Southern Pacific.

that the Union Pacific controls the Southern Pacific. "Before the acquisition of its stock by the Union Pacific the Southern Pacific company, with its lines of rall and steamships, was engaged in competition with the Union Pacific for traffic mov-ing between the Atlantic seaboard and the Pacific seaboard and between the Atlantic seaboard and Oriental ports. Through their several connections by rail these lines were also engaged in competition for traffic from practically all points east of the Missouri river between the great lakes and the Gulf of Mexico. From Atlantic seaboard territory east of Buffale and Pittsburg rates have generally been the same up-on business destined to the Pacific coast, whether moving by the all-rall pacific, or moving by rall to an At-lantic port, thence by water to New Or-leans and Galveston and thence by Southern Pacific ralls to Los Angeles, San Francisco or Portland. Rates from this same Atlantic seaboard territory on trafic moving by Southern Pacific ralls to Sub Atlens San Francisco or Portland. Rates from this same Atlantic seaboard territory on traffic moving by the Southern Pa-cific steamships and its rail connec-tions to Colorado common points have likewise been the same as on traffic carried by rail over the Union Pacific to such points, and on such traffic there is a great and increasing volume. It is doubtless true the competition which newloady existed was not as complete doubtless true the competition which previously existed was not as complete as if the Union Pacific had a line of its own in San Francisco, instead of turn-ing traffic over to the Central Pacific at Ogden. For all this traffic there exists at present no actual competition be-tween the Union Pacific and the South-ern Pacific lines.

TRANSCONTINENTAL POOL. "Prior to the enactment of the inter

"Prior to the enactment of the inter-state commerce law the Union Pacific and Southern Pacific belonged to what was known as the transcontinental pool, in which each was regarded as a competitor of the other and was ac-cordingly awarded an allotted percent-age of the transcontinental business; and there is on file with this commis-sion a contract made in March, 1903, known as the agreement of the trans-continental freight rate committee, to which contract both the Union Pacific and the Southern Pacific were parties and under which all of the traffic west of the Missouri river and passing through the gateways of St. Paul, Min-neapolis, Sioux City, Omaha, Kansas City and Sabine Pass, to and from Cal-fornia and Oregon, was treated as com-petitive transcontinental business. "The Union Pacific had access, over the Oregon Short Line and Oregon Rail-

the people had in view the protection of the frontier in time of war, the set-tlement of a great wilderness west of the Missouri river, and the development of its resources; and to this end it was determined to procure the con-struction of a transcontinental line and to maintain it as a free, open and con-tinuous line of communication connect-ing with all railroads reaching Coun-cil Bluffs on the east, so that the public should have the benefit of a continuous line of transportation from the east to the Pacific coast, unham-pered by reason of the separate own-ership and control of these lines of transportation. It is a fact that most of the lines of railway reaching Coun-cil Bluffs and Omaha were constructed with the view of connecting at these points with the Union Pacific railroad, and the principal transcontinental line to and from the Pacific coast; and the government has, perhaps, a peculiar obligation to maintain the freedom of this line. "In no other portion of the country is the federal government expending such

"In no other portion of the country is the federal government expending such large sums for purposes of development as in this great western region trib-utary to the Union Pacific, the South-ern Pacific, and in no other part of the United States is the commerce of the United States is the commerce of the country dependent on so few railways covering so vast a territory and con-trolled by so few men; and in no part of the United States could such con-trol have such far-reaching effect. The body of transcontinental and foreign commerce through Pacific ports has grown to enormous proportions and its encouragement and development is of vital interest to the American people. REASON FOR GETTING S. P. In no other portion of the country is REASON FOR GETTING S. P.

REASON FOR GETTING S. P. "It is claimed by the Union Pacific that the principal reason for acquir-ing the Southern Pacific was to ob-tain the Central Pacific connection from Orden to San Francisco. It is undoubtedly true that this is a desir-able connection for that company; but whether purchased or not, the Central Pacific is required to form a through line of transportation with the Union Pacific and not to discriminate against it in the receipt and transportation of freight and through traffic. The pub-lic is entitled to all the advantages of this line as a competitive line of trans-portation with transcontinental rail-ways. ways,

"The various lines which compose the Southern Pacific from New Orleans to San Francisco were also built under patronage of the federal government by the donation of many millions of acres of government land, and formed an independent and separate route. While Congress did not prohibit, in express terms, the union of these great federal railroad systems, it is hardly to be believed that such prohibition would not have been imposed had it been thought that in the course of time they would have been brought under a single control." The various lines which compose the

S. P., L. A. & S. L. ROAD.

After referring to the acquirement by Harriman of the control of the San Pedro, Los Angeles & Sait Lake Rall-read company, built by William A. Clark and associates and the making of a contract governing rates (recently abrogated on account of the California law), and an agreement not to invade each other's territory the resource coneach other's territory, the report continues

'The Union Pacific Railroad company "The Union Pacific Railroad company has not confined its corporate energies and powers to the acquisition and man-agement of lines of transporation, but has issued a great volume of stock and securities with which it has purchased stocks of other railways. "The Union Pacific and its connecting and subordinate line, the Oregon Short Line, have assumed obligations which are now outstanding amounting to ap-proximately \$1\$1,000,000, all of which has been used in the purchase of stock in

been used in the purchase of stock in other railroads, Southern Pacific, Northern Pacific, Great Northern, San-

Northern Pacific, Great Northern, San-ta Fe, etc. "The control of \$30,000,000 or \$40,000,-000 of the stock of the Santa Fe by the Union Pacific," the report says, "it is safe to assume, has not been without effect on the relations of these two companies.

"The close affiliation of the Southern Pacific and Santa Fe systems has been further shown by the recent incorpora-tion of the Northwestern Pacific com-pany, in which it is the owner of one-half capital stock. Prior to the or-ganization of this corporation, the San-ta Fe and the Southern Pacific com-panies owned certain distinct and sep-arate lines of railroad north of San Francisco bay, those owned by the San-ta Fe running southerly from Hum-boldt bay and those owned by the Southern Pacific running northerly from San Francisco bay. Both lines were actively engaged in construction work, each pushing into the territory "The close affiliation of the Southern were actively engaged in construction work, each pushing into the territory of the other; the Southern Pacific lines reaching out for the great timber dis-trict surrounding Humboldt bay and the Santa Fe lines extending southerly so as to make connection with the main line upon the bay of San Francisco. Upon the incorporation of the North-western Pacific empany all of the lines owned by the Santa Fe and South-ern Pacific were transferred to this new corporation and a contract by which the lines now in existence and the connections between the same to be constructed by the Northwestern Pa-cific shall be owned by this new com-pany, and the board of directors of the Northwestern Facific is to be divided between the Southern Pacific and the Santa Fe-an arrangement similar to that med battween the Union Pacific Santa Fe-an arrangement similar to that made between the Union Pacific and the Rock Island as to the control of the Chicago & Alton, and a history in all essentials parallel with that of the San Pedro.

rowing money to pay the dividend, Mr. Harriman, who was in control of the financial affairs of the road, caused \$17,444,177 to be credited in December, 1899, to construction expenditures un-capitalized. As a matter of fact, all money which had been annually ap-propriated by the board of directors was charged against the income of the property, in addition to paying the dividends; so that all the money so appropriated had once been paid out of income and had during many years been charged off to operating ex-penses.

of income and had during many years been charged off to operating ex-penses. "This manner of accounting would have the effect of covering up the pay-ment of the dividend out of the pro-ceeds of the mortgage and the dis-count on the bonds, so that one read-ing the annual published report of the company would not see the true state of facts. The commission cannot say this was the object, but one expert railroad accountant testified that this would be the effect. "Furthermore, instead of paying all of the coupons outstunding on the prior mortgage bonds and cancelling them as was contemplated when the \$40,000,000 mortgage was made \$937.-477 of these coupons were, from 1001 to 1905, carried as an asset in the treasury of the Alton company under the head of 'funded interest account,' and on June 80, 1905, cardited to as-sets and charged to capital account of the Chicago & Alton Railway com-pany. The assets and the profit and loss account of the company were swelled by this transaction to the ex-tent of \$937,477; thus in fact, turning a debt or obligation of the company, which should have been paid and can-celled, into an asset, and capitalizing "Having acquired the stock of the

"Having acquired the stock of the Chicago & Alton Railroad company, the syndicate organized the Chicago & Alton Railroad company under tho laws of Illinois. They transferred their stock of the railroad company to an intermediary, one Louis L. Stanton, who had no interest therein. Stanton entered into a pretended contract with the railroad company whereby, the new company was to buy from him their stock of the old company for the fol-lowing sums:

owing sums: "For their 34,722 shares of preferred took, which had cost them \$6,944,440, and on which they had received a pecial dividend of \$1,011,660, according this extent they obtained in cash to this contract, they obtained in cash \$10,000,000.

"For their 183,224 shares of common stock, transferred to the railway com-pany, which had cost them \$22,004,200, and on which they had received a spe-cial dividend of \$5,496,720, they received

cial dividend of \$5,496,720, they received 194,890 shares of preferred and 195,428 shares of common stock, a total of 390.-318 shares of the new company. "It does not appear what they sold this stock for, but it does appear that the Union Pacific Railroad company bought in 1904, 103,331 shares of the pre-ferred at \$86,50 a share. "It appears that Harriman, Schiff, Gould and Stillman also owned a line of railroad 58 miles long, which there is some evidence to show had cost them very much less than \$3,000,000. This rail-road was also transferred to the inter-mediary, Stanton, who sold it to the road was also transferred to the inter-mediary, Stanton, who sold it to the new company for \$3,000,000 cash. So that by this transaction the syndicate were to receive in cash \$13,000,000 and all the stock of the new company in exchange for about 98 per cent of the stock of the old company and the rail-road 58 miles long. "To raise the \$13,000,000 in cash, the shares of the old railroad were first

"To raise the \$13,000,000 in cash, the shares of the old railroad were first mortgaged for \$22,000,000 and the bonds were nominally sold to Kuhn, Loeb & Co, for 1\$3,000,000 cash, or a little less than 60 cents on the dollar. As a mat-ter of fact, it appears by the testimony of Mr. Harriman that Mr. Stanton never owned any of the stock of the railroad, but was a mere intermediary. "What these bonds were worth does not appear, but it does appear that they were sold in the market from 1909 down to the present time at 76½ to \$6½; and that during two or three years after that during two or three years after the issue thereof they ranged from 73 to 86%. Mr. Harriman testified that he had no books to show the profit on these bonds and had no knowledge of what he and his associates made in the

half of which was retained by them and the other half given to the syndi-cate to whom the bonds were sold. On the 750,000 shares of Southern Pa-clife which the Union Pacific purchas-ed at \$50,61 per share, the same banking house received a commission of \$2.50 a share. They received a like commission of \$2.50 per share on the Chicago & Alton stock sold to the Union Pacific at \$85.50 per share. It is significant that a member of this firm refused to disclose the extent of its interest in these securities. "The effect of the control of the Southern Pacific by the Union Pacific management of these two railway com-panles and their steamship lines and to eliminate competition between them the

liminate competition between them in ranscontinental business and in busi-

transcontinental business and in busi-ness to and from oriental ports. "The Union Pacific controls the San Pactro. Los Angeles & Salt Lake rall-road, the stock of which is deposited in the hands of a trustee. This line was originally intended as an independent road, extending from Salt Lake, where it connects with the Union Pacific and with the Denver & Rio Grande, to Los Angeles and San Pedro, Cal. There is, therefore, no competition between this line and the Union Pacific and South-ern Pacific. rn Pacific.

U. P. HOLDING IN SANTA FE.

"It appears that the Union Pacific also owns \$10,000,000 par value of the stock of the Atchison, Topeka & Santa Fe railway company, and about \$30,000,-000 more is owned by individuals con-nected with the Union Pacific, making \$40,000,000, or substantially 17 per cent of the entire capital stock of the Santa Fe system. Who owns this stock out-side of the \$10,000,000 Mr. Harriman de-cillned to state. Two directors of the clined to state. Two directors of the Union Pacific are also directors of the Santa Fe company; and there is now a division of the oriental traffic by the Pacific Mail Steamship company be-tween the Union Facific and the Santa Fe company that the state tween the Union Pacific and the Santa-Fe systems. It appears that there also has been a division of the fruit traffic between certain California territory and the east, each taking a certain per-cientage; and that north of San Fran-cisco the Union Pacific and the Santa Fe have joined and amalgamated their interests in the Northwestern Pacific railroad, and that a joint control has been inaugurated similar to that of the Alton.

"Prior to the acquistion of the South-ern Pacific by the Union Pacific, the Denver & Rio Grade system, extending from Denver, where it connects with various lines to the east, to Sait Lake ond Orden was given sound foollities various lines to the east, to Salt Lake and Ogden, was given equal facilities over the Central Pacific, and thereby practically formed another transcon-tinental line. Since the amalgamation of the Union Pacific and Southern Pacific companies and the construction of the San Pedro road, this line has been denied equal facilities in the re-celpt and transportation of business over the Central Pacific and the San Pedro lines. Its business, therefore, Pedro lines. Its business, therefore, has decreased and its ability to compete with the Union Pacific companies, has undoubtedly eliminated compatition be-tween the Alton and the Rock Island between Chicago, St. Louis and Kansas

These are conspicuous Illustrations "These are conspicuous illustrations of the development of the theory of 'community of interests' and 'harmony of management,' which Mr. Harriman suggested when he demanded represen-tation upon the Santa Fe board. "If the policy of the purchasing and controlling stocks in competing liner is permitted to continue, it must mean suppression of competition.

permitted to continue, it suppression of competition.

RECOMMENDATIONS.

"First—The function of a railroad cor-poration should be confined to the fur-nishing of transportation. Railroads should not be permitted to invest gen-erally in stocks, bonds and securities of other railway and of steamship companies, except connecting lines, for the purpose of forming through routes of transporation, including branches and feeders. It is in the interest of the public to facilitate the consolida-tion of connecting lines. The credit of a railway company is founded upon the resources and prosperity of the country through which it runs. Its surplus funds and credit should be used for the bei-terment of its lines and in extensions and in railway to develop the country "First-The function of a railroad corand branches to develop the country

territory in which the Union Factile system is located. "Railroad securities should be safe and conservative investments for the people. To this end, the risks of the railroad should be reduced to a mini-mum. Every one knows that railroad securities fluctuate more or less accord-ing to the prosperity of the times, and also by reason of the wide speculation in those securities. It, therefore, adds an element of hazard to a railroad's capital and credit to have its funds in-vested in the stocks of other companies, thereby endangering its solvenoy and its ability to pay regular dividends on its own capital stock. It it a serious menace to the fluangiad condition of the country to have large railway sys-tems fail to meet their oblications or go into the hands of receivers. Bod the object of legislation and administration should be to lessen the risks of railway

ould be to lessen the risks of rallway

so into the hands of receivers, and the object of legislation and administration should be to lessen the risks of railway investments. "Second—It is contrary to public pol-icy, as well as unlawful for railways to acquire control of parallel and com-peting lines. This policy is expressed in the federal laws on lin the consti-utions and laws of nearly every state in the Union. We have examined the constitutions and laws of all the states and find in about 40 of them prohibi-tions against consolidation of capital stock or franchises of competing railways, or the purchase and acquisition by a railway of competing lines. Com-petition between railways as well as between other industries, is the estab-lished policy of the nation. And while the acquisition of a small minority of the stock of a competing line might in decrease the competing time might in decrease the competing to that extend of directors of such railway, un-questionably has the effect of diminishing competition and lessening to that extend the between naturally competitive the should be prohibited from hav-ing any common directors or officers. "The—The time has come when some reasonable regulation should be investing to that extend the stock by one railway should be prohibited from hav-ing any common directors or officers. "Third—The time has come when some reasonable regulation should be investing of a should be indiversed upon the issuance of securities by railway should be prohibited from hav-ing any common directors or officers. "Third—The time has come when some reasonable regulation should be indiversate com-struction of new lines of railway, de-veloping new territory. It has been nec-essary in many instances to sell rail-way securities at large discount, and to allo allo the states to many times been difficult to raise the necessary capital with stock bonuses, and even in such cases it has many times been difficult to raise the necessary capital meters. "But this principle does not apply in allows the railway should be and indi

take the risk for small rates of inter-est. "But this principle does not apply to old established rallway systems hav-ing good credit. Such rallways should be prevented from inflating their se-curities for merely speculative purpos-es. Railroads should be encourriged to extend their systems and develop the country. It is of the utmost import-ance, also, that rallway securities should be safe and conservative invest-ments for the public, and should yield good and ample returns for the miney invested. Reasonable regulations will tend to make them safer and more se-cure investments, and thereby benefit not only the railroad companies, but the public."

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management of these two roads and

management of these two roads and steamship lines and to eliminate com-petition between them in transcontin-catal business and in business to and from oriental ports. "The joint control of the Alton rall-way by the Union Pacific and the Chi-cago, Rock Island & Pacific Railway companies undoubtedly eliminated competition between the Alton and the Rock Island between Chicago, St. Louis and Kansas City. "These are conspications illustrations of the community of interest and har-mony of management" which Mr. Harriman suggested when he demand-ed representation upon the Santa Fe

representation upon the Santa Fe

"If the policy of purchasing and controlling stock in competing lines is permitted to continue it must mean suppression of competition."

RECOMMENDATIONS.

RECOMMENDATIONS. The recommendations of the com-mission, which are more general than specific in terms and application, say that the function of a railroad corpor-alion should be confined to the fur-mishing of transportation and that railways should not be permitted to invest generally in the securities of other railway and steamship com-panies except connecting lines for the purpose of forming through routes of transportation including branches and feeders. Its surplus funds, says the report, should be used for the bet-terment of its lines and in extensions.

COMPETITION THE POLICY.

In conclusion the report says: "Competition between railways as well as between other industries is the established policy of the nation. And while the acquisition of small minority stock of competing lines might not decrease the competilion, yet the acquisition of any considerable yet the acquisition of any considerable umount of stock, with representation on the board of directors of such railway unquestionably has the effect of diminishing competition and les-sening to that extent its effectiveness. The time has come when some rea-sonable regulation should be imposed upon the issuance of securities by railroads engaged in interstate com-merce

"In the opinion of the commission, regulation will tend to make securities safer and more secure for inverments and therefore of benefit not only to the railroads, but to the public.

HARRIMAN DOMINATING SPIRIT.

HARRIMAN DOMINATING SPIRIT. Within three years after the re-fraction of the Union Pacific Rafi-Harriman became the dominating spirit is that corporation. As chairman of powers that are well align absolute. The investors have delegated their power to affairs of the company to an executive immittee of five members, who shall be the tack manner as such committee while the cases in which specific dir-fictions shall not have been given by the beard,' and in turn the chairman of the properties of the uses of this company, and the turn the chairman of the properties of the uses of this company, and the turn the chairman of the properties of the uses of this company, and of the uses of this company, and of the uses of this company, and of this company a note or notes for the greent transactions of this company, and of the scenter of the tack of the scenter and of the scenter of the tack of the scenter of the scenter of the tack of the scenter and of the scenter of the tack of the scenter and of the scenter of the tack of the scenter and of the scenter of the tack of the scenter and of the scenter of the scenter of the scenter and the scenter of the scenter of the scenter and the scenter of the scenter of the scenter. The investi-scenter of the scenter of the scenter, and the scenter of the scenter of the scenter and the scenter of the scenter of the scenter. The investi-scenter of the scenter of the scenter of the scenter.

"The Southern Pacific company is a holding corporation. It was organ-ized under a special charter of the state of Kentucky in 1884, and was ad-thorized to acquire by purchase or otherwise the stocks, bonds and se-curities of railway and steamship com-panies. Shortly after its organization it acquired the stocks of and con-trolled, and still does own the stocks of and control a system of railroad ex-tending from Ogden, Utah-where it connects with the Union Pacific-to San Francisco; from San Francisco through California, Arizona, New Mex-ico, Texas and Louisiana to New Or-leans, and has since acquired a line of railroad into Mexico. It also owns and controls a line of steamships from Galveston and from New Orleans to New York and Havana. It is unneces-sary to detail each separate railway corporation owning the sections of the various lines in these states; it is suff-cient to say that through stock it con-trols the entire Southern Pacific has a lease and owns the stocks; of other lines, ind mex the Sunset route. Of these lines the Union Pacific has a lease and owns the stocks; of other lines, notably Texas lines, it is simply a stockholding company, and controls them in that way.

CENTRAL PACIFIC ROAD.

them in that way.

CENTRAL PACIFIC ROAD. "Among these lines so owned and con-trolled is the Central Pacific Rallroad company, organized under the laws of Utah on July 20, 1899. This company was originally the Central Pacific Rall-way company, organized under the laws of California, which, with the Western Pacific company (which was also or-ganized under the laws of California and subsequently consolidated with 10, constructed the line from San Francisco to Ogden, where it connected with the Union Pacific. This is the line orig-mally known as the Central Pacific, which was to be operated with the Un-ion Pacific. It subsequently acquired the line from Roseville (near Sacra-mento), Cal. to the Oregon state line, which was constructed by the California



STEAMSHIP COMPETITION KILLED.

KILLED. , "By virtue of the consolidation of the Union Pacific and Southern Pacific Steamship companies all competition between these steamship lnes has been destroyed; and there is some evidence on the record tending to show the im-possibility of maintaining an indepen-dent steamship line running out of any of these ports without the consent of and arrangement with all connecting rail carriers. rail carriers.

rall carriers. "The Santa Fe company formerly had a line of steamships to the orient connecting with its road at San Diego. Under an arrangement with the Pacific Very Structure for a division Mail Steamship company for a division of the oriental business brought to this country by that company and the other steamship lines for which the Pacific Mail acts as agent (including, singular-Mail acts as agent (including, singular-ly enough, a Japanese line known as the Nippin Yusen Katsha), fuils inde-pendent Santa Fe line was abandoned. The percentage of this oriental traffic allotted to the Santa Fe and the South-ern Pacific respectively, varied from time to time; but the understanding is that the amount to be delivered to the Santa Fe shall approximate 25 per cent of the total. This San Diego steamship line was not a financial success; and it is no doubt the truth that the Santa Fe officials were pleased to be relieved of the burden of its maintenance in re-turn for a not inconsiderable portion

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THE ILLINOIS CENTRAL.

"The Illínois Central cannot be re-garded as a competing line with the Union Pacific; but it is a competing line with the Chicago & Alton, which is jointly controlled, through stock own-ership, by the Union Pacific and the Rock Island, and is manifestly a com-peting line with the Rock Island. "Since June 30 of last year the Union Pacific has purchased 29.59 per cent of the capital stock of the Illinois Cen-tral, or 281,231 shares out of a total of 950,400 shares. "It developed during the inquiry that the Union Pacific Raliroad company in the year 1903 became the owner of 103,-431 shares of the preferred stock of the Chicago & Alton Raliroad company. "In about seven years prior to June 30, 1906, the cutstanding capital in-debtedness of this company was ex-panded from \$23,251,407 to \$114,610,973, or an increase of about \$80,660,000, and there was expended in actual improve-ments and additions to the propery out of this capitalization only about \$15. "The Illfnois Central cannot be

ments and additions to the property out of this capitalization only about \$15, 000,000, leaving an increase of its stock and liabilities, without one dollar of consideration, of about \$62,660,000, or \$66,190 per mile on the \$46,66 miles of road owned by the company on June 30, 1906.

THE ALTON DEAL.

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EXCUSE HARRIMAN GAVE. "In order to find an excuse for bor-

had no books to show the profit of these bonds and had no knowledge of what he and his associates made in the transaction. "During all these years Mr. Harrman was chairman of the executive commit-tee of the Chicago & Alton Railroad company and of the Chicago & Alton Railway company, had charge of their financial affairs and was voted \$104.72; for his services as chairman of the ex-ecutive committee from 1900 to 1904. "Taking the original cost of the prop-erty as It stood upon the books of the Alton company Dec. 31, 1898, as \$39,935.-\$87, adding the thrount which hig-pears by the testimony of Mr. Harri-man, Mr. Fulton and Mr. Hillard to have been spent upon the property out of the new capital issued after Mr. Harriman and his associates obtained control of the road, to-wit, about \$18,-000,000 (including the cost of 58 miles of the Peoria road at \$3,000,000, it shows that liabilities of over \$113,894.-000 were placed upon property which had originally cost approximately 58 millions, or an increase of stock and liabilities upon the road for which not a dollar of tangible property had been added for practically \$56,000,000. "It was admitted by Mr. Harriman that there was about \$60,000,000 of stock and liabilities issued against which no property had been acquired, and this is undoubtedly an accurate estimate. It further appears by the testimony of Mr. Hillard that since the Harriman control has ended and the road was turned over to the Rock Island, the company has been com-pelled to issue \$2,250,000 of car trust notes to acquire equipment needed in the business of the company; that the

pelled to issue \$2,250,000 of car trust notes to acquire equipment needed in the business of the company; that the present management found the com-pany without any money to buy neces-sary equipment or to build 34 miles of railroad, which the company had contemplated constructing, and on which the Harriman management had placed a mortgage, sold the bonds, but had left no funds in the treasury to complete. complete.

complete. "By way of justification or excuse we are told that the methods of the financing of rallroads which prevailed in the year 1905 are now obsolete owing to a higher degree of conscien-tiousness among financiers; and, moreover, that the Chicago & Alton should not be regarded as an isolated instance, inasmuch as it was dealt with much as many other roads were

moreover, that the Chicago & Alton should not be regarded as an isolated instance, inasmuch as it was deal with much as many other roads were at that period. "The first of these statements is, we trust, true; the latter statement is not calculated to uphold the value of American railroad securities. "It is true, however, as contended, that a close examination of the meth-od of capitalization adopted in the case of the Chicago & Alton shows that while the total, of bonds and stocks was doubled, there was no such proportionate increase in the fixed charges of the railroad. Under the Blackatone management 8 per cent was paid on the stock and but a small bonded debt rested on the property, the yearly charges for dividends and interest amounted to \$2,792,986. whereas with the greatly increased present capitalization the yearly fixed charges amount to but \$3,471,590. This, of course, takes no Becount of the present common stock, upon which no dividends are paid. The plan adopted was to substitute long terms bonds and guaranteed stock bearing an exceptionally low rate of interest. Thus the property was not burdened with an interest payment proportionate to the Increase in capi-talization, no matter how great the profits made from the reorganization. However, these bonds must some time be paid; they live for 50 years as a debt of the railroad, and the stock will control a property which it did little, if anything, to create. "Incidentally, it may be observed

BANKERS BICHLY REWARDED.

"Incidentally, it may be observed that the bankers who managed these operations appear to be richly reward-ed. The testimony shows that Kuhn, Loeb & Co., received 5 per cent, of \$5,000,000 of the \$100,000,000 of Union Pacific convertable bonds, one-

