

RELATIONS

BETWEEN THE

CENTRAL PACIFIC RAILROAD COMPANY

AND THE

UNITED STATES GOVERNMENT.

SUMMARY OF FACTS.

1889.

SAN FRANCISCO:

H. S. CROCKER & Co., STATIONERS AND PRINTERS.

1889.

Central Pacific Railroad Photographic History Museum
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View of Saving to Government in Transportation Charges on Central-Union Pacific Railroad,
from completion of road to December 31, 1885 :

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Charges to United States for transportation of:		
Freight, supplies, munitions of war, etc.	\$ 5,740,753	
Passengers and troops	4,616,053	
United States mails	10,606,507	
Total charge for railroad transportation	\$ 20,963,313	
Amounts for same service at rates paid prior to railroad :		
Freight, supplies, munitions of war, etc.	\$ 61,161,307	
Passengers and troops	49,178,967	
United States mails (see Note)	49,970,780	
Total cost at ante-railroad rates	\$160,311,054	
Amount saved for United States, 1869-1885	\$139,347,741	
United States bonds and accrued interest to date, less amounts repaid by companies	\$ 86,685,907	
Amount saved in excess of bonds and interest	\$ 52,661,834	

NOTE.—The charges for transportation services rendered by the railroads have not been paid by the Government, but are retained to apply on the bonds and interest.

The weight of mails carried by stages just prior to the completion of the railroad amounted to about 1,000 pounds daily. On the railroad this has increased to 30,000 pounds. In the sum stated above, no estimate is made for this increase in weights to show the amount saved.



LETTER OF THE HON. LELAND STANFORD.

CENTRAL PACIFIC RAILROAD COMPANY.
OFFICE OF THE PRESIDENT.

SAN FRANCISCO, CAL., September 1, 1889.

G. L. LANSING,
*Secretary and Controller,
Southern Pacific Company,
San Francisco,*

Dear Sir: From the records to which you have had access during your long connection with the Central Pacific Railroad and its affiliated lines, and from the public documents of the Government, will you please prepare a summary of facts as to the relations between this company and the United States, particularly on the following points:

FIRST—As to the obligations of both parties under the several Acts of Congress comprising the contract between the Government and the company, and whether they have all been observed.

SECOND—As to the benefits to both the United States and the company which were to follow on the completion of the road, and how they have been realized.

The affairs, records and property of this company have annually, since 1878, been examined by the United States Commissioner of Railroads, assisted by his engineers and accountants; and the Pacific Railway Commission, appointed under the Act of Congress approved March 3, 1887, have made an exhaustive examination into the company's entire history and affairs. The reports of these Government officers conclusively show that all of the legal obligations to the Government, arising out of the loan of bonds or otherwise, have been fully kept and discharged

on the part of the company. The reports also show that the legal obligations of the Government to the company have not been fully complied with.

But beyond these obligations on either side, which were named in the Contract Acts and in the laws relating thereto, there were certain implied promises or benefits to be received on either side, *on which the terms of the contract as to the loan of bonds, as well as the manner and time of their payment, were based.* The facts as to these promises and the way they have been fulfilled must receive full consideration in any fair plan that may be proposed looking to the settlement of the affairs between the company and the United States. A summary of these facts taken from official sources will furnish desired information in a convenient form for the purpose of considering any such arrangement.

Yours very truly,

LELAND STANFORD,

President.

SAN FRANCISCO, October 15, 1889.

HON. LELAND STANFORD,

*President, Central Pacific Railroad Company,
San Francisco,*

Sir: In conformity with the request contained in your letter of September 1st, I beg to hand you herewith a summary of facts compiled from official sources, as to the relations between the Central Pacific Railroad Company and the United States Government.

Very truly yours,

G. L. LANSING,

Secretary and Controller.

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THEY HAVE BEEN OBSERVED.

- II. THE BENEFITS PROMISED AND HOW THEY HAVE BEEN
REALIZED.

The Central Pacific Railroad Company

—AND—

The United States Government.

SUMMARY OF FACTS,

Showing all Obligations on the part of the Company fulfilled, and all Benefits expected by the Government realized.

I.

THE LEGAL OBLIGATIONS AND THE MANNER IN WHICH THEY HAVE BEEN OBSERVED.

The relations between the Central Pacific Railroad Company and the Government are twofold. There are legal obligations on either side, which are specified in the several Acts of Congress; and there are equitable considerations which are evident only on an examination of the history and the causes which led to the passage of the Acts. The legal obligations have recently been fully examined into and reported on by the United States Pacific Railway Commission, which was appointed by the President, pursuant to the Act of Congress approved March 3, 1887. Their report and the testimony on which it is based comprise nine printed volumes octavo, which, by its size, precludes its ready use. A summary of this report as to the Central Pacific will furnish in brief form a view

of the facts as to the legal obligations of the company and the United States under the several Acts of Congress, and will show that they have been kept fully and in good faith by the company, but that they have not been complied with in all respects by the United States.

REPORT OF THE INVESTIGATING COMMISSION.

The Commissioners were appointed to make an investigation of the books, accounts and methods of the Pacific railroads which have received aid from the Government in bonds, with a view of reporting to Congress a plan which should effect a final settlement between the companies and the United States. They secured the assistance of a large force of accountants and a staff of engineers. Their labors commenced immediately upon their appointment, April 15, 1887, and concluded only on the transmission of their report to the President on December 1st. On January 17, 1888, the President transmitted the report to Congress, together with the accompanying reports of the accountants, engineers, and the testimony. The commission conducted its principal examinations relative to the Central Pacific Railroad Co. in New York and San Francisco; "but it also examined witnesses at a vast number of local points for the purpose of ascertaining the relations existing between the different railroads and the local communities, and of giving full and abundant opportunity to all persons who had business relations with these roads to state their views and make known their complaints, if any" (report, page 4).

Company grants every facility for investigation.

The accountants of the commission established themselves in the general offices of the company in June, and did not conclude their labors there until October. The Chief Accountant of the commission, Mr. Richard F.

Stevens, personally directed the examination of this company's affairs. His staff consisted of seven expert accountants. In his report to the commission (vol. 8, p. 4525), Mr. Stevens says: "On my arrival in San Francisco I presented my credentials to Senator Stanford, the President of the company. He informed me that the company was only too anxious to have a full examination of the affairs of their offices, and referred me to the Secretary of the company, and requested him to give me every facility in his power. It gives me pleasure to state that such request was heartily, thoroughly and fully complied with by the Secretary, who afforded me every facility to examine all the books and vouchers that were under his control."

The Engineer of the commission, with his assistants, made a thorough and detailed examination of all the company's lines and the property connected therewith. For this purpose every facility was afforded him by the company, its officers and employes. The commission itself spent a month in San Francisco, and much time in New York and other places, examining officers and employes of the company. During their sessions in San Francisco, the resources of the general offices were placed at their disposal. Books, records and vouchers were produced as called for; and the officers of the company allowed no other matters to interfere with the business or requirements of the commission.

The Act of Investigation was subdivided by the commission into fifty-eight headings or subjects for investigation and report. Of these, twenty-three consist substantially of charges or allegations that the railroads had violated their obligations or failed in their duty to the Government. Nineteen relate to the value of the property, the holdings of stock, salaries paid officers, payments

Subjects of
inquiry speci-
fied by Act.

to influence legislation, and other miscellaneous subjects tending to furnish general information concerning the companies, or inserted for political effect, but containing no charge either that the Government or the companies had failed in any undertaking towards each other. Six are devoted to instructions to the commission; and the remaining ten consist substantially of allegations that the Government has failed to act towards the companies with fairness, or that the latter have experienced unusual difficulties and that the former has realized unusual benefits, all of which deserve consideration in any equitable plan of settlement which Congress may propose.

Company's
obligations all
kept.

As to the first and last of these groups,—the charges against the companies and equities in their favor,—the following review of the report shows: First, as to the implied assertions contained in the twenty-three subdivisions of the Act, that this company has not kept and performed its obligations to the Government, not one is true; Second, as to the implied assertions contained in the ten subdivisions of the Act, that the company had overcome at great cost unlooked-for and extraordinary difficulties, to the great advantage and profit of the Government, and that the latter had failed to keep its obligations and act with fairness towards the company, all are true.

Obligations of
Government
not kept.

REVIEW OF CHARGES AGAINST THE COMPANY.

By the terms of the contract, as stated in the Acts of 1862 and 1864, this company was required to pay annually to the United States, on account of the bonds and interest thereon, five per cent of the net earnings of the aided road. By the terms of the Thurman Act (May 7, 1878), this annual requirement was changed to twenty-five per cent of the net earnings. These requirements have always

been fully and promptly paid by this company to the United States, as the amounts were ascertained by the Government officers appointed for that purpose. Nevertheless, insinuations and charges have been frequent at different times from irresponsible sources, that these requirements have not been kept by the company, or that the net earnings have been continually stated at less than they actually were, thus defrauding the Government of twenty-five per cent of the amounts so understated. Eight subdivisions of the Act of Investigation relate to this subject. They practically allege that the company has violated its obligations as to these payments by all of the following practices: That the books and accounts have not been so kept as to show the net earnings of the aided line separately from the non-aided lines. That earnings have been diverted from aided lines to less productive branches through constructive mileage allowances, or average mileage allowances, which practices have resulted unfairly to the interests of the United States. That earnings of the aided road have been unlawfully reduced by discriminations in favor of unaided lines, by diversion of traffic which could have been done by the aided line, by way of rebates, overcharges, pooling arrangements, etc. And, finally, that there is money due the United States from the company account of mistaken or erroneous accounts, reports and settlements. In answer to these charges, the commission have found the facts to be as follows:

“The books of the company are so kept as to show the net earnings of the aided portion. As a matter of fact, the Commissioner of Railroads has stated and settled these earnings for many years past, and has had no difficulty in ascertaining their amount.

“There has never been a diversion of earnings of aided roads to less productive branches through constructive

Charges
refuted by
Commission.

“ mileage allowances or average mileage allowances
 “ between aided and non-aided roads, or parts of roads.

“ No evidence has been presented to the commission of
 “ any discrimination of rates in favor of unaided as against
 “ aided roads.

Diversions of
 traffic for pub-
 lic advantage.

“ The evidence discloses that traffic has been diverted
 “ in a great variety of instances from the Union Pacific
 “ and Central Pacific Railroads to other lines. As illus-
 “ trations of such diversions, the commission refer to the
 “ following: The Southern Pacific, the California Pacific
 “ and the Oregon Short Line. It would have been pos-
 “ sible to have carried the traffic which was forwarded
 “ over the roads named by the Union Pacific and Central
 “ Pacific route. In the judgment of the commission, the
 “ controlling motive which has led to this alteration in
 “ the transit of freight has been the question of con-
 “ venience and public advantage. It has not arisen from
 “ the intention to reduce the net earnings applicable to
 “ the percentage due to the United States. In the report
 “ of the Postmaster-General, it is stated that this same
 “ diversion is practiced by his department, and that he
 “ selects the best and quickest routes, because he thereby
 “ promotes public convenience. * * * It appears to
 “ us that this question of the diversion of traffic must be
 “ regulated by the interests and demands of the people
 “ who use the railroads. Trade will always find the easiest
 “ and most natural channel.”

Payments for
 rebates, pools,
 etc.

As to rebates, overcharges, pooling arrangements, etc.,
 they state: “ An overcharge occurs when a freight bill
 “ is erroneously stated at a larger amount than proper
 “ by reason of overweight, overmeasurement or mistake
 “ in the rate charged. The practice is to refund to
 “ the parties against whom a mistake has been made
 “ the amount of the overcharge on a proper voucher. A

"rebate is an agreed reduction from the ordinary open
 "rate. It is adjusted in the same way. All overcharges,
 "rebates and pool balances which form part of the many
 "millions of dollars which have been paid by the bond-
 "aided roads in the adjustment of these matters have been
 "actually and in fact paid out by these companies. No
 "evidence was produced before the commission of any
 "pretended or fraudulent vouchers relating to the matter.
 "As far, then, as the system of bookkeeping is concerned,
 "it is not open to criticism. The payment of these sums
 "did not tend in any way to reduce or diminish the real
 "earnings of the companies.

"There are no amounts due the United States because
 "of mistaken or erroneous accounts.

"By the Act of 1864, all of the bond-aided companies
 "were required to apply five per cent of their net earn-
 "ings to the payment of the interest accrued on their
 "debts to the United States. By the Act of May 7, 1878,
 "this requirement was increased as to the Union and Cen-
 "tral Pacific Companies to twenty-five per cent of the
 "net earnings. In the opinion of the commission, these
 "requirements have been fully satisfied."

United States
 requirements
 fully satisfied.

Mr. Stevens, the Chief Accountant of the commission,
 after his examination of the company's accounts, con-
 cludes to the same effect, as follows: "The company have
 "up to the present time complied with all the require-
 "ments of the laws prescribing payments to the United
 "States; and all demands of the Government have been
 "promptly met."

As to the proceeds from lands, the commission find
 that "no lands granted to the companies have been
 "diverted from their lawful use."

Proceeds from
 lands.

Land patents.

In answer to the charge that the railroads had delayed in taking out patents for lands, the commission state: "It appears from the evidence that frequently the bonded companies did delay taking out their patents, with the object and for the purpose of avoiding the taxation to which they would be subjected after the perfection of their patents." In this statement, as in certain other cases, the commission group all of these companies together; and a complaint which is found against one is charged equally to all. It is in this way that many charges made against other of the roads are popularly thought to apply to the Central Pacific; and the commission has not altogether escaped the common confusion. The testimony furnished the commission on this subject by the Central Pacific shows that it has never been derelict in applying for patents, and that the failure of the United States land-office to furnish patents as fast as applied for has caused the company great loss in the sales of lands and in the business which would have arisen on their occupancy. The delinquency of the Government in making surveys and furnishing patents has increased from year to year, till, on June 30, 1887, this company had applications on file for 622,612.54 acres which the United States land-office had failed to act upon. The hopeless condition into which the United States general land-office has fallen in furnishing patents was shown by the official reports to be such that, "if no further lists of selections are presented to the department, and the average amount of business can be transacted in the railroad division in the future as in the past, it will require thirty-two years to complete the examination of the land already selected by lists of selections now before the department for examination" (testimony of President Stanford). The company has estimated its loss

Loss to company by delays of U. S. in issuing patents.

from the delays of the Government in issuing patents at \$500,000.

In the inquiry regarding loans by the company, and the names of the lenders and borrowers, reference was doubtless made to the irresponsible statement some time in circulation, that the directors were in the habit of borrowing from the company, to the injury of the latter. The report of the accountant of the commission shows that the company was nearly always a borrower from its principal directors. In speaking of the construction of the road, the commission make the following statement on this subject of loans :
 " It is doubtless true that after July 7, 1864, and during
 " the entire period ensuing, to the completion of the road,
 " *these gentlemen* (Stanford, Huntington, Hopkins and
 " Crocker) *used their personal credit* in order to assist in
 " the consummation of the great enterprise. It is also
 " true that the construction itself was conducted under
 " circumstances of extraordinary difficulty. The engi-
 " neering feat of successfully attacking and scaling the
 " Sierra Nevada mountains is scarcely surpassed by any
 " railroad construction in the world. The difficulties
 " encountered by reason of the snow and violent winter
 " storms, the vast excavations and fills required, the
 " expensive sheds needed for the protection of the road, are
 " vividly portrayed in the evidence of witnesses."

Loans made
by company.

Regarding the investments in other companies and branch lines, it appears that these investments were made by means of consolidation and also by lease. The consolidated lines are not subject to the United States lien, but have greatly increased the earning power of the company, and as feeders have furnished much additional traffic to the aided line. The commission, following the popular cry,

Investments in
branch lines.

comment on the leased lines in an injured tone, but without showing any injury. After considering the whole subject from this attitude of adverse criticism, they are compelled to the conclusion that, "the actual operation of the leases has, however, on the whole, been a source of profit to the Central Pacific Railroad Company."

Discriminations, etc.

As to the charges against this company of discriminations, pools and other devices, the commission conclude :
 "We are informed that the minority Commissioner has reported, as proved, an interminable succession of alleged discriminations, preferences and advantages granted for corrupt or improper purposes, and violations of duty of a similar character. We must respectfully protest against such conclusion, because it is based on no evidence worthy the name. It is a judgment rendered against the party inculpated without a sufficient hearing. Whenever the practice prevails, it has been found impossible for any railroad company in the country to maintain itself except by participation in the practice.

Pools.

"Pools are not in their essence either good or bad. When resorted to for the purpose of attempting a monopoly and the imposition of burdensome rates, they should be severely condemned. When resorted to for the purpose of preventing ruinous competition, they may serve a good purpose. Fierce competition begets the worst form of rebates and secret allowances. Its result is often the destruction of the weak carriers and the integration of their more powerful rivals, which, after destroying their weaker competitors, establish and maintain rates that are destructive to trade. Pooling agreements, with proper provisions for publicity as to the terms of the contract between the constituent members, and as to the rates to be charged, if subjected to suitable

“supervision and control, are beneficial both to railroads and to the communities which deal with them. Their existence in one form or another is almost universal in Europe. But the subject seems to have no bearing on the matter referred to the commission.”

The commission devote much space to complaints against the company for the issue of stock in part payment to the contractors for construction of the road, instead of requiring full payment in cash for all stock issued. They also complain that the company has paid dividends, though repeatedly stating that “no dividends have been unlawfully declared,” and seem to exceed somewhat their duties, as defined by the Act under which they were appointed, in gratuitously furnishing their *views on the policy* of paying dividends which were lawfully paid.

Capital stock and dividends.

In their strictures on the issue of capital stock and the payment of dividends, the commission again confuse the Central Pacific as to its legal obligations with the other Pacific railroads where distinction is most necessary to a correct understanding of the facts. They also ignore the fact that the capital stock is now largely held by third parties, who purchased practically upon the guaranty of the Government that all earnings in excess of the Thurman Act requirements would be available for dividends. Though their statements on this subject amount to a misrepresentation, yet we cannot believe that such was their intention. The conclusions of the commission rather resulted from their attitude towards the company, the impossibility of sufficiently digesting the immense mass of evidence before them in the time at their disposal, and, in the same limited time, to correctly trace the effects on each of the several companies of the various laws which have been passed concerning them. As the vital criticism on

Commission confuse the Central Pacific with other Pacific railroads.

this company made by the commission is on this point, and as the errors in their conclusions follow from their misapprehension as to the facts, it is proper here to correct the errors which they have published.

The commission state that: "By the second section of the Act of July 2, 1864, the Union Pacific Railroad Company was required to make assessments upon its stockholders of not less than five dollars per share, and at intervals not exceeding six months from and after the passage of the Act until the par value of all the shares subscribed should be fully paid. Money only was to be received for any such assessment, or as equivalent for any portion of the capital stock authorized. The commission report that this obligation has not been kept by any of the bond-aided railroad companies."

Central Pacific
organized
under laws of
California and
United States.

The commission seem ignorant of the fact that this section of the Act does not apply to the Central Pacific Railroad Company. This company was incorporated under the general railroad laws of California of 1861; and its duties regarding the issue of capital stock are as therein only provided. The provisions of these laws have been strictly followed by the company in its issue of stock. Indeed the issue of this stock, instead of being in violation of the laws under which the company was organized, was made necessary by them. This condition of affairs arises from the fact that the company, while organized and incorporated under the laws of the State of California, received also certain rights, and subjected itself to certain conditions under the laws of the United States. In accepting the terms of the Acts of Congress, it could not ignore the requirements of the State laws.

Limit of
United States
lien.

So far as the issue of stock or bonds of this company and the dividends paid out by it affect the lien of the United States in any way, the facts are as follows:

The commission show, by quoting the decision of the Supreme Court in *United States vs. The Kansas Pacific Ry. Co.* (99 U. S., 455), "that the lien of the United States is limited to that portion of the railroad in consideration of which the bonds were issued; that is to say, it applies only to the road between Ogden and San Jose, and has no application to any of the branches or leased lines."

The bonds issued by the United States to the Central and Western railroads amount to \$27,855,680. *This amount was provided for by the Act of July 1, 1862* (secs. 5 and 11). By section ten of the Act of July 1, 1864, the company was authorized to issue its first mortgage bonds for an *equal amount*, "and of even tenor and date, time of maturity, rate and character of interest." And the lien of the United States was made subordinate to such bonds of the company. By authority of this Act, the company issued its first mortgage bonds on the aided road to the amount of \$27,853,000. On December 1, 1862, the company issued \$1,483,000 in convertible bonds under the laws of California; and on July 1, 1864, it issued \$1,500,000 California State Aid bonds under authority of a special Act of the State legislature. These last two issues have since been redeemed or provided for from the operation of the sinking fund established for that purpose. They do not, therefore, affect the lien of the Government. The laws of California regarding the issue of bonds by railroads provide that they shall not exceed in all the amount of their capital stock (General R. R. Law of 1861, sec. 15). The testimony presented to the commission in San Francisco conclusively showed that this stock could not have been sold. No one was willing to purchase it, though every effort was made by the company to secure subscriptions. Had it depended on cash

payments for stock, therefore, the road would not have been built. To carry on the work, it was necessary to issue the bonds authorized by the laws of the United States and of California. But to issue these, capital stock for an equal amount must be issued to comply with the State law. This was accomplished by issuing it in part payment for the work done. The stock at that time had little or no value. It could not be sold for any price.

stock issued as
required by
law.

The issue of this stock, therefore, was not in violation of the United States law, which did not apply to this company. But it was required, under the laws of California, to enable the company to legally issue its bonds as authorized by the Act of Congress.

The burden of the complaint of the commission is that the contractors for the construction of the road were directors of the company, and were practically its only stockholders at the time of such issue of stock in payment for construction. But, under such circumstances, they fail to show what difference it can make whether the stock is represented by 5,000 shares or 500,000 shares. The value of the property is not changed by the increase of its nominal capital. The earning power of the road is not affected; nor is the amount available for dividends more or less than before. The obligations as to the Government are the same in either case; and the lien of the United States is exactly as the Contract Acts provide. None of the stock could have any value until all prior obligations had been provided for. The surplus after such provision would belong to the stockholders of the company, whether the capital stock were more or less. Should the stock thus come to have a value, and should there be a surplus over all requirements available for dividends, it would properly belong to the holders of the stock,—those who organized the enterprise, who devoted their means, credit and lives

to the undertaking, and who carried it to a successful completion.

Dividends were first paid in 1873, and continued each year till 1877, when it was found that the United States requirements under the Contract Acts were not sufficient to meet the accruing obligations on the United States bonds, which were, however, payable only at their maturity. Dividends were then discontinued till the deficit was supposed to be finally provided for by the Thurman Act. *By section eight of this Act the company was excused from discharging, out of other funds than that provided by the Act, their debt to the United States. And by section six of the Act the company was allowed to pay dividends from any surplus there might be after providing for the requirements of the Act.* Accordingly, in 1880, dividends were resumed and continued till 1884.

Dividends paid legally and only as contemplated by Congress.

For the above periods, during which dividends were paid, the commission state: "Tested by the simple question of earnings, it is true that all of the above-named dividends appear by the income account of the company to have been earned. * * * While finding that none of the dividends have been paid in violation of any statutory provision, we do not wish to be misunderstood as approving the policy of distributing the assets of these respective companies in this manner."

GOVERNMENT RESPONSIBLE FOR CONDITION OF DEBT.

The reason for not approving the policy of paying dividends legally earned is stated by the commission to be, that the payments to the United States required by the Acts of Congress are not sufficient to meet the accruing indebtedness; so that, at the maturity of the bonds, there will be a large balance due for which no provision has

been made. This state of affairs is not, however, chargeable to the company, but is the direct result of the management of the matter by the United States. The company offered to provide for this debt when it was in a position financially to do so. But the Government took the control of the subject from the company's hands. In assuming the control, it could not escape the responsibility; and in excusing the company from making other payments than it then forcibly prescribed, the Government evidently did not intend to shrink from the obligation it had assumed.

Reasons for
United States
debt not being
provided for.

It is important that the reasons why this debt has not been provided for should be stated, that the responsibility may rest where it belongs. The original Acts of 1862 and 1864 provided that the debt and interest should be paid in thirty years after the completion of the road; and until the debt should be paid the company should annually pay thereon five per cent of the net earnings of the aided road and one-half the charges for transportation of United States mails, troops, munitions of war, etc. It was shown by official reports, during the debates on the bill, that the Government was paying over \$7,000,000 a year for transportation on the plains; and it was believed that these requirements would finally provide for the debt.

The road was completed in 1869, in seven years less time than was allowed by the contract. In 1877 it became fully apparent, on account of reduced rates charged for United States mails, troops, etc., and the ending of the Indian wars, by which the Government saved many times the amount of the debt, that the annual requirements provided by the contract would not be sufficient to meet the debt at its maturity. Dividends were therefore discontinued, and were not again paid until the deficit was provided for by Congress in the passage of the Thurman Act. The

subject then received the attention of the company and of Congress. The matter was at different times before both houses of Congress; and it became more and more evident that harmonious action could not be had between the United States and the company.

Thereupon the company, on January 30, 1878, approved a plan, and ratified it by the formal adoption and publication of proper resolutions, which would positively provide for the payment of the debt and interest at maturity. This plan contemplated a sinking fund in the treasury of the company, into which semi-annual payments were to be made, which, with their income from investments, would be sufficient "to overtake and cancel said remainder of indebtedness by the date of maturity, if invested in a sinking fund with an interest accumulation of four per centum semi-annually; * * * and that if, by reason of a lower rate of interest prevailing on first-class investments within this State, or if, from any other cause, it shall appear to the Finance Committee that said sinking fund is unable to earn and accumulate at the aforesaid rate of eight per cent per annum, then and in that case they shall cause a proportionately larger sum to be applied semi-annually to said fund, so as to make up any deficiency. And all said sums shall be appropriated from the common treasury of the company, out of any moneys remaining after the payment of operating and administrative expenses, the interest upon its debt, and the installments to the several sinking funds provided therefor, and before any moneys shall be paid out as dividends upon the capital stock" (extract from published resolutions).

Company's
offer to provide
for debt.

This plan was proposed by the company at a time when it could have been carried out. It was the most successful period in its history. Had the Government allowed the

matter to remain in the management of the company, it would have pledged by this plan not only the earnings of the aided line, but its entire net profits, whether earned on aided, non-aided or leased lines.

The company was, however, relieved from making this final provision for the debt. The Government assumed the control and responsibility of the matter by the Act of May 7, 1878, known as the Thurman Act. *Section eight of this Act excuses the Central Pacific Railroad Company from the duty of discharging, out of other funds than that provided by the Act, its debt to the United States.*

The company thereupon, on August 21, 1878, rescinded the resolutions which had provided for the establishment of a sinking fund in its own treasury.

Dividends
practically
promised by
Congress.

After the Thurman Act had gone into effect, payments thereunder were fully made; and a sufficient surplus remained available for dividends, which were then resumed, and regularly paid until 1884. The commission show, as above stated, that all the requirements of the company under the Thurman Act have been fully and promptly complied with, and that no dividends have been declared except from the surplus profits of the company, and after the annual payments under the Act had been made. It was not only contemplated by this Act that any such surplus as there might be should be used in the payment of dividends; but handsome dividends were predicted by both the Senate and House Committees in their reports on the bill.

By section six of the Thurman Act, the payment of dividends is specifically allowed after the requirements of the Act are provided for.

The House Committee, in their report to Congress on the subject of a sinking fund, states that the companies "are making large profits, and are abundantly able to indem-

“nify the Government against future loss, and pay hand-
 “some dividends besides on the par value of the stock.
 “* * * With the Central Pacific Company, the net
 “earnings are NEARLY FIFTEEN PER CENT ON THE NOMI-
 “NAL CAPITAL STOCK” (44th Cong., 1st Session, Rep.
 No. 440, p. 14).

The Judiciary Committee of the Senate, in submitting the Thurman Bill, stated that this company would be able to make payments under the Bill of \$1,900,000 per annum, “*and have a surplus sufficient for handsome dividends to its shareholders.*” They continue, “that after paying the requirements of the Acts of 1862 and 1864 and all other charges, the annual amount that will be divided among the shareholders, should no sinking fund be created, will be nine per cent on the nominal value of the stock,—\$4,883,795. If the bill we report become a law, this amount would be diminished by the amount required to be paid into the sinking fund, say \$1,400,000, leaving \$3,483,795 after the payment of all expenses and interest, and the payments into the sinking fund, to be divided among the shareholders, being 4.4 per cent on the nominal value of their stock” (45th Cong., 2d Ses., Rep. III, p. 9).

The Supreme Court also, in the sinking-fund cases, dwells upon the protection to the stockholders by the Thurman Act, and implies the promise that, after the terms of the sinking-fund Act are complied with, no further obstacle will be in the way of continued dividends so far as the debt to the Government is concerned. In the case of *U. P. R. R. vs. U. S.*, the Court in October, 1878, said : “The company has been in the receipt of large earnings since the completion of its road ; and, after paying the interest on its own bonds at maturity, has been dividing

“ the remainder, or a considerable portion of it, from time
 “ to time, among its shareholders, without laying by any-
 “ thing to meet the enormous debt which, considering the
 “ amount, is soon to become due. It is easy to see that in
 “ this way the stockholders of the present time are receiv-
 “ ing, in the shape of dividends, that which those of the
 “ future may be compelled to lose. It is hardly to be pre-
 “ sumed that this great weight of pecuniary obligation can
 “ be removed without *interfering with dividends hereafter,*
 “ *unless at once some preparation is made by sinking fund*
 “ *or otherwise to prevent it.*”

The needed sinking fund which would provide for the
 debt and so not interfere with dividends thereafter was
 established by the Act which the court was at the time
 considering. The Act was not alone for the benefit of the
 Government. It was for the benefit of the corporation
 itself, and for the holders of its *stock* and bonds. “The
 Act,” the court continues, “establishes a sinking fund for
 “ the payment of its debts when they mature, but does not
 “ pay the debts. * * This is no more for the benefit of
 “ the creditors than it is for the corporation itself. It tends
 “ to give permanency to the value of the *stock* and bonds,
 “ and is in the direct interest of a faithful administration
 “ of affairs. It simply compels the managers for the time
 “ being to do what they ought to do voluntarily. The
 “ fund to be created is not so much for the security of the
 “ creditors as the ultimate protection of the public and
 “ the *corporators*. * * * It takes nothing from the
 “ corporation or the stockholders which actually belongs
 “ to them. It oppresses no one and inflicts no wrong. It
 “ simply gives *further assurance of the continued solvency*
 “ *and prosperity* of a corporation in which the public are
 “ so largely interested, and adds another guaranty to the
 “ permanent and lasting value of its vast amount of securi-

“ ties. * * * The right of the stockholders to a
 “ division of the earnings of a corporation is a privilege
 “ derived from the charter. When the charter and the
 “ amendments first became laws, and the work on the
 “ road was undertaken, it was by no means sure that the
 “ enterprise would prove a financial success. No statu-
 “ tory restraint was then put upon the power of declaring
 “ dividends. It was not certain that the stock would
 “ ever find a place on the list of marketable securities, or
 “ that there would be any bonds subsequent in lien to
 “ that of the United States which could need legislative
 “ or other protection.”

That the sinking fund in the United States Treasury has not amounted to as much as Congress predicted is a misfortune to the company. Had the net earnings and the United States transportation charges been as great as predicted, the debt would have by that means been provided for. That they have not been as much is, however, no fault of the company, and does not change the terms of the annual requirements. The responsibility for the operation of the sinking fund was assumed by the Government upon taking the matter out of the company's hands. The excuse of the company from making other provisions for the debt stands, whether the fund has realized its expectations or not. After paying the amounts required by the Act, the surplus, if any, is still available for dividends to stockholders according to the promises contained in the Act, and in the decisions of the Supreme Court. And the predictions of the Committees of Congress justified the stockholders in believing that such surplus would continue to allow large dividends.

The protection given stockholders by this Act, together with the reports of the committees, and the decisions of the courts in connection with it, and the implied promises

The failure of the Thurman Act no fault of the company.

Stock purchased by many small holders under the protection offered by Congress.

of continued dividends thus made by the Government, gave the public confidence in the value of the stock, and led many with small means to purchase it as a permanent investment. It had, in their opinion, practically the guaranty of the Government. The cloud of the United States lien had been removed by the Government's promise that it would be provided for by the payments into the fund. As soon as it was demonstrated that the sinking-fund payments could be made and still leave a surplus available for dividends, the stock found ready purchasers; and it has since that time been divided into small holdings. The commission state that: "But little stock " was sold by Stanford, Huntington, Hopkins and Crocker " until 1880. Between 1873 and 1877, they were sub- " stantially the only stockholders of the Central Pacific " Railroad."

The present large number of small holders have purchased under the implied promises of the Government of the final settlement of the debt by the operation of this Act. The predictions of large dividends have failed. For this there is now no remedy. But the assurances that no more would be required from the income than twenty-five per cent of the net earnings of the aided line have the same force as when they were made. That the net earnings have not been as much as predicted is to a large extent owing to the competition of parallel lines, which were also aided in their construction by the United States; and the fact that the sinking-fund has not increased by compound interest, as was expected, is owing to its management by the Government.

Contract Acts
amended by
Thurman Act.

The Thurman Sinking Fund Act was an amendment to the Contract Acts of 1862 and 1864 (see sec. 13). The original Acts required the payment of one-half charges on United States transportation, and *at least five per cent* of

the net earnings. The amended Act requires the payment of the whole of the charges on United States transportation, five per cent of the net earnings, and such an additional sum as shall make in all *twenty-five per cent* of the net earnings. *It excuses the company from making other payments than these*, and after such payments are made allows any surplus there may be for the payment of dividends.

The essence of this change in the agreement is not the amount that is to be paid, but that it shall be all the charges on United States transportation, and in addition thereto a sum sufficient to make twenty-five per cent of the net earnings. In the event of a foreign war, the transportation of troops might in a year amount to enough to cancel the debt, as the charges would all be withheld by the United States. That they have not been so great as anticipated is a cause of congratulation on the part of the Government; for it would have lost many times more by war and the necessity for the transportation than it would profit by the full payment of the bonds and interest.

The popular charges made against this company which are echoed in the Act of Investigation are thus found to be without foundation. This conclusion the commission were compelled to report regarding all of the allegations excepting those relating to land patents and the issue of capital stock; and their exception in these cases arose from confusing the laws affecting the several Pacific railroads, and erroneously judging this company by certain obligations and acts chargeable only to others.

Conclusion as to charges against company.

These facts fully establish this company's claim that it has kept and performed in good faith every obligation towards the United States; that in its dealings with the Government it has never neglected any duty; and that

lack of sufficient provision for the debt is from no fault of the company, but from the Government's management of the matter.

EQUITIES CLAIMED BY THE COMPANY.

In contrast to these conclusions as to the popular charges are the claims in favor of the company, consisting of certain equities suggested by the Act. These are briefly as follows:

Completion of
road seven
years before
time allowed.

The road was opened for through traffic May 10, 1869. The law allowed the company until July 1, 1876. The Government and the public thus received the benefit of its use seven years earlier than was required of the company by the contract. The commission state that: "This early completion of the road was doubtless of great benefit to the United States. The advantage of reduced rates for transportation of troops, supplies, munitions of war and the mails was thereby secured and enjoyed six (seven) years sooner than would have been the case if the bond-aided companies had taken the full measure of time permitted by law."

On account of this early completion, the cost of construction was greatly increased. At the time the road was constructed, the prices of labor and materials in California, Nevada and Utah were enormously inflated, not only on account of the war prices which then prevailed, and the war risks which were incurred in transporting material from the East by sea, but also by the great mining excitement which prevailed in California and Nevada, and employed nearly all the available labor. It is shown by the testimony of engineers who had charge of the construction of the road that the cost exceeded fifty per cent more than it would have been if the completion had been delayed until 1876.

During the time of construction, all payments made on the Pacific Coast were in United States gold. The bonds of the United States issued to the company were made *payable in currency*. Gold during all the period of construction was at a high premium. The company has shown that, in order to get the gold coin necessary to pay its bills, it was compelled to sell the bonds at a discount of \$7,120,073.55. The company is charged interest by the United States on the par value of these bonds at six per cent for thirty years, which on the discount lost makes the sum of \$12,816,132.39. The total charge, therefore, to the company, for which it received really no equivalent, is \$19,936,205.94.

Loss on
United States
currency
bonds.

A further loss, which is a fair complaint by the company in connection with these bonds, is that the Government did not provide for their refunding at a lower rate of interest, as has been done with other United States bonds. The company has thus been charged unnecessarily with interest at six per cent for the thirty years, which could readily have been reduced to three per cent for half their term. This oversight of the Government increases the charge to the company over \$12,500,000.

As to the saving to the Government in the cost of transportation, the commission say: "The evidence, so far as the commission were able to obtain the same, establishes the fact that, before the completion of the Pacific rail-ways, the cost of transportation was many times greater than it now is. Reference is made on this subject to the report of the War Department herewith submitted, and to the evidence of Kimball and Stanford, and the exhibits attached to Stanford's statement." A summary from these exhibits is stated hereinafter.

Saving in
United States
transportation.

Although the company has at all times promptly paid the United States requirements under the several Acts of

Cash due com-
pany unpaid.

Congress, the Government has neglected to pay the company for transportation services performed by it on non-aided and leased lines, even after the decision of the Supreme Court that such payments should be made to the company in cash (October term, 1885). This unjust and illegal withholding of moneys has been made for all the roads which were ever leased to or operated by the Central Pacific Railroad Company, and continues to the present time, when the roads are operated by the Southern Pacific Company. The amount thus retained by the Government which was due these companies in cash on December 31, 1888, and has not yet been paid, is \$2,584,052.56, of which \$1,068,161.67 is due the Central Pacific, and \$1,515,890.89 is due the Southern Pacific Company. Regarding these payments, the commission say: "In "the judgment of the commission, after the determina- "tion by the Court of Claims and the Supreme Court of "the United States in the case of the Denver Pacific R. R. "against the United States (relating to the obligation of "the United States to pay over these amounts), it was the "duty of the Government to pay over, without delay, to "the respective companies, all moneys due for services "rendered by leased or auxiliary roads belonging to the "bond-aided roads. * * * Whatever amount there "may be due to the Central Pacific R. R. Co., arising out "of transportation, or services rendered by the branch "lines, or by the unaided portion of the road, ought to be "promptly paid to that company. It appears from the "evidence, and the report of the Commissioner of Rail- "roads, that the Central Pacific R. R. Co. has discharged "all the obligations arising out of the Acts of 1862, 1864 "and 1878, respecting the transportation applicable to the "interest and bond account, and applicable to the sinking- "fund account, and also for the requirement calling for

“additional payments to the sinking fund until the amount of such payments should equal twenty-five per cent of the net earnings. The United States has therefore no demand or claim on account of which it can justly retain any amount which is due from it to the Central Pacific R. R. Co.; and the amount so due ought to be paid and discharged without delay.”

The commission admit that much larger payments would have been made on the debt to the United States by the twenty-five per cent of the net earnings had not the Government subsidized opposition roads, and thus taken traffic from the Central-Union line, which it was contemplated that this line would have had, at least to the maturity of the debt. Transcontinental transportation for the United States in the same way has been diverted from aided to non-aided roads by the Government, thus reducing the payment on the debt to be made by these charges. They further state that, “The United States has granted very large amounts of aid in lands to other roads, which have become competitors of the Union Pacific Railway Co. and the Central Pacific R. R. Co.” The testimony presented to the commission shows that the traffic diverted to other lines, which were aided in their construction by the United States, has amounted to \$37,000,000, the Central Pacific proportion of which is about forty-six per cent, or say \$17,000,000.

United States
aid to compet-
ing lines.

The relations between the debtor company and the creditor Government concerning this diverted business are these: The contract contemplated that the debtor should discharge its loan by the annual payment of a percentage of the income from the mortgaged property. The creditor then proceeds to establish competing institutions, which greatly reduce the income of the property. This it does to advance its interests in other ways which are of much

greater importance than the collection of its debt in full. The percentages of income are promptly paid by the debtor; but they are less in amount than was contemplated, because of the act of the creditor. Any equitable settlement for the balance of the debt must, it is claimed by the debtor, consider these facts, payment in full now being impossible.

Embarrassment to company by legislation.

As to the embarrassment to the company by hostile legislation concerning which inquiry was asked by the Act, the commission report: "It is of the opinion that these roads " have been embarrassed by the frequency with which " bills intended to affect them have been introduced into " the legislatures of States and Territories through which " they pass. Many of these bills contained provisions " which, if adopted, would have been ruinous to the rail- " roads. Very frequently the persons introducing such " bills failed to realize the effect which their passage " would produce. The constant threat of the adoption " of such measures has been a source of embarrassment " to all the bond-aided companies, and has forced them to " protect themselves by frequent and constant attendance " before committees of the legislatures."

Losses to company by United States sinking fund.

The sinking fund in the Treasury of the United States, established by the Thurman Act, is invested, as provided by the Act, by the Secretary of the Treasury. The investments have been made in such a manner that there was in the fund, on December 31, 1888 :

In bonds	\$3,021,000 00
In cash	48,689 06
Total in fund	\$3,069,689 06

The amount paid into the fund to the same time is \$3,469,641.62. The fund was established July 1, 1878.

As a result, therefore, of its operation under the Government management for the nine and a half years, there is \$399,952.56 less in the fund than has been paid in by the company.

The testimony to the commission showed that this company had been injured by the Government's management of the fund in premium paid and interest lost to July 1, 1887, by the sum of \$1,612,966.72. The loss to December 31, 1888, on this account, amounts to \$2,000,215.68. They report on this subject that: "It was the belief of Senator Thurman, as appears from the debates in Congress, that the sinking fund created under this Act would accumulate at the rate of five per cent per annum compounded, and would, at the maturity of the debt, produce a sum sufficient to liquidate the same. It evidently was the opinion of the Supreme Court that the sinking-fund would be managed by the Secretary of the Treasury so as to give entire satisfaction, and do full justice to the railway companies affected thereby. All these expectations have been disappointed. The fund does not increase at five per cent per annum, or at three per cent per annum. In fact it has lost money, and is worth to-day less than the principal originally invested. * * * This in the opinion of the commission ought to be fully remedied."

The commission examined into the operation of the lease of this company's lines to the Southern Pacific Company, and the criticisms which have been made in connection therewith, and conclude as follows: "In the judgment of the commission, the terms of the lease are just and equitable as between the companies; and its operation has as yet given no just cause of complaint."

Lease to
Southern
Pacific Com-
pany.

Conclusion as to failure of United States in its duty towards this company.

The commission thus find that the Government, in its acts towards this company, has violated the letter of its obligations in several particulars, and the spirit of the contract in many others. And all of the allegations, which practically were contained in the Act of Investigation, to the effect that the Government has failed in its duty towards the company, are shown to be true.

In view of these facts, the company has claimed that any equitable settlement with the United States for the balance remaining due on the debt must consider this failure of good faith on the part of the Government, and the injuries thus done the company. The wording of the Act of Investigation clearly suggests that these failures of the Government in its duty, if found to be true, should be considered as equities on the side of the company.

BILL, PROPOSED BY COMMISSION—NO SETTLEMENT.

The salient feature of the bill proposed by the commission is to find the present value of the debt, and for this amount to issue to the United States bonds of the company to run fifty years, to bear three per cent interest, and to be retired by the annual application of a sinking fund. The whole to be secured by a mortgage on all the company's property, including the aided and non-aided lines. The payments required from the company under this bill as estimated by the commission are, for the first ten years, \$1,726,000 per annum; for the remainder of the time, \$1,973,000 per annum.

This bill cannot be considered as a real effort towards the settlement of the debt, as it requires payments which the commission themselves state would be beyond the power of the company to make. Its acceptance by the company, if it were adopted by Congress, would but end in failure and

the renewed discussion of the whole matter, with the addition of further complications. In recognition of this, the commission state that: "It is hardly to be expected that any Act resembling the Act submitted in the case of the U. P. Ry. will be accepted by the Central Pacific R. R. Co." They suggest, therefore, that: "If the Central Pacific R. R. Co. should reject the terms proposed because of its inability to comply with them, and it should be deemed advisable to effect a permanent settlement with that company, a method by which that result might be obtained would be a reduction of the interest to a rate lower than three per cent. The propriety of such an action might, in the judgment of the commission, be justly referred to a board to be designated by Congress, or to Congress itself."

II.

THE BENEFITS PROMISED TO THE GOVERNMENT AND THE COMPANY, AND HOW THEY HAVE BEEN REALIZED.

The obligations imposed by the Acts can only be fairly interpreted by a consideration of the benefits which were to accrue to both the United States and the company by the construction of the road. These promised benefits for the Government and the public were the cause of the grant of aid; and the benefits predicted for the company in the way of earnings and charges on transportation for the United States were the promises on which the terms of the loan as to the manner and time of its repayment were based. A review of these promised benefits on either side will therefore assist to a fuller understanding of the relations between the Government and the company resulting from the loan, and the obligations in connection therewith.

CAUSES OF THE UNITED STATES AID.

The causes which led the Government to aid the construction of the road are ably expressed by Mr. Justice Davis of the Supreme Court in delivering the opinion of the Court in *United States vs. Union Pacific Railroad* (91 U. S. Rep., 79), as follows: "Many of the provisions in "the original Act of 1862 are outside of the usual course "of legislative action concerning grants to railroads, and "cannot be properly construed without reference to the "circumstances which existed when it was passed. The "War of the Rebellion was in progress; and, owing to "complications with England, the country had become "alarmed for the safety of our Pacific possessions.

“ The enterprise was viewed as a National undertaking
 “ for a National purpose; and the public mind was directed
 “ to the end in view rather than to the particular means
 “ for securing it. Although the road was a military neces-
 “ sity, there were other reasons active at the time in pro-
 “ ducing an opinion for its completion besides protection
 “ of an exposed frontier. There was a vast unpeopled
 “ territory lying between the Missouri and Sacramento
 “ Rivers which was practically worthless without the facil-
 “ ities afforded by a railroad for the transportation of per-
 “ sons and property. With its construction, the agricultu-
 “ ral and mineral resources of this territory could be
 “ developed, settlements made where settlements were
 “ possible, and thereby the wealth and power of the
 “ United States largely increased; and there was also a
 “ pressing want, in time of peace even, of an improved
 “ and cheaper method for the transportation of the mails,
 “ and of supplies for the army and the Indians.

Supreme
 Court as to
 cause of aid.

“ It was in presence of these facts that Congress under-
 “ took to deal with the subject of this railroad. The
 “ difficulties in the way of building it were great, and
 “ by many intelligent persons considered insurmountable.

“ The scheme for building a railroad two thousand
 “ miles in length, across mountains, over deserts, and
 “ through a country inhabited by Indians jealous of intru-
 “ sion upon their rights, was universally regarded at the
 “ time as a bold and hazardous undertaking. It is nothing
 “ to the purpose that the apprehended difficulties in a great
 “ measure disappeared after trial, and that the road was
 “ constructed at less cost of time and money than had
 “ been considered possible. No argument can be drawn
 “ from the wisdom that comes after the fact.

“ The project of building this road was not conceived
 “ for private ends; and the prevalent opinion was that it

“could not be worked out by private capital alone. It was a National work, originating in National necessities, and requiring National assistance. The primary object of the Government was to advance its own interests; and it endeavored to engage individual co-operation as a means to an end,—the securing a road which could be used for its own purposes.”

On the same subject, the United States Commissioner of Railroads (Rep. 1883, p. 13) concludes that: “The purposes of Congress in granting the liberal aid extended to these companies were held to be important elements in arriving at the true construction of their present relations to the Government. All these purposes have been much more than realized; and it has been frequently and officially stated that the actual saving, year by year, to the Government greatly exceeds the whole annual interest paid.”

Specification
of causes for
grant.

The chief causes which led to the grant of aid may be summarized as follows: (1) That it was a political necessity, and would prevent the loss to the Union of the Pacific States; (2) That it was a military necessity, and would enable the Government, by rapid movement of troops, to resist the invasion of a foreign enemy; (3) That it would end the Indian wars; (4) That it would furnish a cheaper and more rapid means of transportation for mails, troops and munitions of war; and (5) That it would lead to the development of the resources of the vast and then unpeopled territory between the Missouri and Sacramento Rivers.

On the other hand, there were certain predictions made of benefits that were to be received by the company from the operation of the road. The most important of these were: (1) That one-half the charges for transportation

services performed for the United States would amount to as great a sum as the accruing interest on the subsidy bonds ; (2) That the commerce between Asia and Europe would be carried across the American continent ; and (3) That the net earnings of the line from the above and other sources would be so great that five per cent of the amount applied on the principal of the bonds would be sufficient to pay them on or before their maturity.

We may now review these several considerations in the light the results realized.

A POLITICAL NECESSITY.

At the time the Pacific Railroad Acts were passed, it was still a question whether States would be allowed to withdraw from the Union. The probability of the withdrawal of the Pacific States at any time or for any reason was not then looked upon as an impossibility. It was in fact by many thought to be very probable. The West was separated from the East by the Rocky Mountains,—a natural barrier which in all other parts of the world has divided the nations from one another, and which with us is geographically known as the great continental “divide.” With the peoples living on either side of so vast a continent separated by a natural boundary, local interests frequently urge the adoption of different policies. As this is a government of the majority, the only remedy for the Pacific Coast minority in case of a contest would be in secession. The population of the coast at that time consisted chiefly of Mexicans, and emigrants from the Eastern States who had reached there by way of the Isthmus of Panama, or more commonly by the long overland route of toil and hardship. With the means of communication then available, few of these would ever revisit the scenes

of their youth; and their children would look upon the Eastern States as a foreign land. Without the means of rapid and easy communication, the feeling of relationship would gradually die away; and differences of sentiment and of interest would increase and expand in time with the growth of population and the development of the country.

The secret of the harmonious control under a Republican form of government of so vast and varied a population, extending over so great an area as the United States, is found in railroad transportation. Without that easy communication and intercourse which the railroad alone affords, the tendency of the different parts would be from one another, instead of following the present course towards homogeneity of ideas and harmony of interests. Whether the fears regarding the continued allegiance of the Pacific States would or would not have been realized had no Pacific railroad been built, they were by its construction completely dispelled. So far, then, as the political cause of the aid is concerned, it must be admitted that the end desired has been realized.

A MILITARY NECESSITY.

The importance of railroad transportation to the Pacific as a means of concentrating troops for defense from invasion by foreign force, or to quell domestic disturbances, had long been urged before Congress. In 1862, the strained condition of our foreign relations caused it to be considered a necessity. We had been on what, at that time, appeared to be the eve of a war with England. Her demands in the Trent affair had been acceded to from a sense of helplessness, and not of right. It was stated that orders had gone out to the British fleet in the Pacific to strike at San Francisco as soon as news arrived of the commencement of hostilities. The Pacific Coast would

value as a
military
railway.

be comparatively defenseless in the event of such a war. At that time the British fleet there numbered two ships to our one, four steam vessels to our one, and three guns to our one. Had such a war taken place, there is every probability that the British possessions on the Pacific Coast to-day would extend from the Arctic Circle to the Gulf of California.

The apprehensions of the past, well grounded as they were, are now forgotten. Yet the defense of the Pacific States to-day in the event of a foreign war would be the railroads. Within a week's notice the resources of the continent could be massed at San Francisco. Without the defense furnished by rapid transportation, it would be necessary to maintain a navy equal to the most formidable afloat, and to spend many millions annually in the fortifications of our harbors. The present availability of all the resources of the country at any point of attack or need by the means of railroad transportation is thus commented on in the report of the General of the Army:

“Our population is now sufficiently great to admit of
 “the formation of armies of any size that may be desired.
 “Our railway mileage is in the neighborhood of 115,000
 “miles (1883), penetrating every part of our vast domain,
 “and especially those regions from which supplies would be
 “drawn. It is not probable that a foreign foe will ever
 “undertake an invasion of our country. But, should
 “such an event occur, we would not be called upon to
 “organize forces at all comparable in number with those
 “used during the civil war; and the ease with which
 “they could be supplied goes without saying. With our
 “great extent of vulnerable coast, it would be a simple
 “matter for an enemy to land an invading force; but,
 “before it could be prepared to move inland, it would be
 “opposed by an army amply sufficient to destroy it,
 “drawn from every direction and concentrated by means

Views of
 General of
 the Army.

“ of the railways. With harmony existing among our people, as at present, a successful invasion of our territory may well be considered impracticable.”

TO END THE INDIAN WARS.

A third reason for the aid was the belief that the construction of the road would end the Indian wars. The old system of fighting the Indians was stated to be as fruitless as it was extravagant. The savages were mounted. They were the best horsemen in the world. They attacked almost unseen, and were out of sight and beyond pursuit in a moment. They had no permanent homes and no fixed property, no crops to watch, no stores to guard, no invasions to fear. During the season of grass, to war on them was to pursue shadows in an endless circle. December left the vast field of strife exactly as April found it, save that the graves of white soldiers roughened the surface; while few had seen a mound that marked the grave of a dead Indian. It was said that the Indians would be awed and subdued by the road and its influences; that as fast as the line advanced they would recede before it; and a row of white settlements would spring up along its path.

An idea of the extent to which these predictions have been fulfilled may be gained by a statement upon the subject made by General Sherman. He is perhaps the person best fitted to estimate the importance as a military measure of the Pacific railroads. Between 1849 and the year of his retirement, he tells us, he had crossed the continent by every known route; and experience continually forced upon his mind the necessity of railroads as a final solution of the Indian question. In his last report as General of the Army, he says (Report, 1883, p. 5): “ I now regard the Indians as substantially eliminated “ from the problem of the army. There may be spas-

General Sherman on ending Indian wars.

“ modic and temporary alarms; but such wars as have
 “ heretofore disturbed the public peace and tranquil-
 “ lity are not probable. The army has been a large
 “ factor in producing this result; but it has not been the
 “ only one. Immigration and the occupation by indus-
 “ trious farmers and miners of lands vacated by the
 “ aborigines have been largely instrumental to that end;
 “ but the *railroad* [the italics are the General’s], which
 “ used to follow in the rear, now goes forward with the
 “ picket line in the great battle of civilization with bar-
 “ barism, and has become the *greater* cause. I have in
 “ former reports for the past fifteen years treated of this
 “ matter; and now, on the eve of withdrawing from active
 “ participation in public affairs, I beg to emphasize much
 “ which I have spoken and written heretofore. The recent
 “ completion of the last of the four great transcontinental
 “ lines of railway has settled forever the Indian question,
 “ the army question and many others which have hitherto
 “ troubled the country. * * * I regard the building
 “ of these railways as the most important event of modern
 “ times, and believe that they account fully for the peace
 “ and good order which now prevails throughout our
 “ country, and for the extraordinary prosperity which
 “ now prevails in this land. A vast domain, equal to
 “ two-thirds of the whole surface of the United States,
 “ has thus been made accessible to the immigrant; and,
 “ in a military sense, our troops may be assembled at
 “ strategic points and sent promptly to the places of dis-
 “ turbance, checking disorders in the bud.”

SAVING IN UNITED STATES TRANSPORTATION CHARGES.

The saving in transportation charges was one of the
 greatest direct benefits which the Government expected

from the building of the Pacific railway. That the predicted benefits in this respect have been more than realized has repeatedly been shown by officers of nearly every department of the Government. The reports of the Secretary of War, the Secretary of the Navy, the Secretary of the Interior, the Secretary of the Treasury and the Postmaster-General, all bear testimony to the same effect. The charge to the United States for transportation of troops and army supplies on the route now covered by the Central-Union Pacific line prior to the construction of the road has been usually stated as about ten times the annual charge since then. On April 8, 1862, the chairman of the House Committee on Pacific railroads (Mr. Campbell), in committee of the whole, stated: "On the ground of economy, which we all admit to be of the first moment in the present condition of public affairs, the construction of a Pacific railroad will save the Government annually a large sum, which truth I now propose to demonstrate" (see *Cong. Globe*). He then presented official communications, showing the annual expenditure in time of peace, under ordinary circumstances, for Government transportation to the Pacific Coast, to be \$7,357,781. And he continues: "Take then the annual interest (estimated at \$3,892,080 for Central-Union line, though actual interest proved to be but \$3,305,531) from the annual expenditure, and we have left a sinking fund of \$3,465,701, a sum more than sufficient to extinguish the bonds before they become due, or, what is the same thing in effect, saved to the Government by cheapening expenditure in that direction."

Transportation charges paid prior to road.

Quartermaster-General Meigs shows that the cost to the Government for the transportation of military stores westward across the plains, for the fiscal year ending June 30,

1865, was \$6,388,856. "This expenditure," the Quartermaster-General states, "would be reduced, by the "opening of the railroads, by a sum which would aid "materially in paying interest upon the cost of their construction" (Rep. Secy. of War, 1865-66, Vol. I, p. 113).

A further idea for the former cost to the Government is given in the report of the Pacific Railway Committee of the Senate dated February 19, 1869, in which it is stated, that the Indian wars for the thirty-seven years then past cost the Nation 20,000 lives and \$750,000,000, or about \$20,000,000 annually. During the years 1864 and 1865, the Quartermaster's department alone spent \$28,574,228 for military supplies against the Indians (40th Cong., 3d Session, Sen. Rep. Com., 219).

Cost of Indian wars.

Compared with these former expenditures, it is interesting to note the present charges to the Government on the Central-Union line for transportation of troops, passengers, military supplies and other freight, which for the past ten years is given below:

Present cost of army transportation.

YEARS.	Central Pacific.	Union Pacific.	Total Line.
1878	\$192,951	\$518,279	\$711,230
1879	253,141	552,912	806,053
1880	294,782	598,782	893,564
1881	513,592	576,209	1,089,801
1882	95,917	447,014	542,931
1883	82,957	448,029	530,986
1884	173,939	300,594	474,533
1885	44,059	225,142	269,201
1886	38,362	217,806	256,168
1887	28,531	141,072	169,603
Total for ten years .	\$1,718,231	\$4,025,839	\$5,744,070

Wagon
freight rates.

Transportation for the army was the chief item of expense formerly incurred in conducting campaigns against the Indians. This service was performed with wagon trains by contract. The rates ranged from \$3.00 to \$1.60 per hundred pounds per hundred miles (see Rep. Secy. of War, 1867-68, Vol. I, p. 533; 1868-69, part 1, p. 829). The lowest of these rates equals thirty-two cents per ton per mile. The average rates per ton per mile charged by the Central Pacific and its associated lines for the past ten years were as follows :

Railroad freight rates.	Central Pacific.	Rate per ton per mile, cents.
	1878	2.75
	1879	2.43
	1880	2.34
	1881	2.16
	1882	1.81
	1883	1.92
	1884	1.96
	1885	1.83
	1886	1.38
	1887	1.49

It will thus be seen that, as to both the amounts and rates, the charges for army transportation have been reduced to a fraction of what they were before the completion of the road. A similar conclusion has been reached from an investigation on the subject made by order of the General of the Army, which is stated as follows: "Taking the " route from Fort Leavenworth to Fort Union for exam- " ple, the average cost by wagon per hundred pounds " per hundred miles, for the sixteen years from 1855 " to 1870, both inclusive, was \$1.77 (or 35.4 cents per ton " per mile); whilst by rail it is now less than one-tenth " of that amount. This represents the relative cost of

“ wagon and railway transportation, bearing in mind that
 “ any variation is always such as to show more strongly
 “ the advantages of railway transportation. In some cases
 “ transportation by wagon is twenty times more costly than
 “ by railway ” (Rep. General of the Army, 1883, p. 213).

From the foregoing facts, it is apparent that the reduction in charges to the United States for military supplies and stores is owing to the reduction in rates, which have fallen from thirty-two cents per ton per mile, as the lowest ante-railroad rate, to the average of 1.49 cents in 1887.

Reduction in rates.

The charges for mail transportation, and the data relative to the weights and character of the service, are all furnished by the annual reports of the Postmaster-General. The rates paid just prior to the completion of the railroad between the termini of the Pacific railroads from Cheyenne, Wyoming, to Virginia City, Nevada, for carrying an average daily weight of mails of from 1,000 to 1,500 pounds, was \$1,589.17 per mile per annum (Rep. P. M. Gen., 1868, p. 7; 1869, p. 9). The rates since the completion of the railroad have ranged from about \$250 to \$500 per mile per annum. But this was for carrying an average daily weight of from 5,300 to 30,000 pounds. The mails by rail are carried in postal cars built according to the Government's plans, affording every facility for the distribution of mails *en route*, and so expediting their prompt and proper delivery. In the certainty, celerity and security of the service, there can be no comparison between the old conditions of affairs and the new. Their relations present a contrast.

Charges for U. S. mails.

An exhibit of the amounts saved to the United States in the transportation of troops, military supplies and mails,

furnished from official sources, appears in the report of the United States Pacific Railway Commission (p. 2583 *et seq.*). A summary of this exhibit is as follows:

1869-1876.

Summary of saving.

Exhibit of saving to the United States in transportation charges by the construction of the Central-Union Pacific Railroad line, from the completion of the road to July 1, 1876.

TRAFFIC.	U. S. Transportation Charges on Central-Union Pacific.	Cost to U. S. at rates paid prior to Railroad.	Saving to U. S. to June 30, 1876.
Freight	\$1,793,556 00	\$15,509,977 00	\$13,716,421 00
Troops, etc	2,162,296 00	18,698,671 00	16,536,375 00
Mails	3,689,343 00	21,199,725 00	17,510,382 00
Total	\$7,645,195 00	\$55,408,373 00	\$47,763,178 00

1869-1886.

Exhibit of saving to the United States in transportation charges by the construction of the Central-Union Pacific Railroad line, from the completion of the road to January 1, 1886.

TRAFFIC.	U. S. Transportation Charges on Central-Union Pacific.	Cost to U. S. at rates paid prior to Railroad.	Saving to United States.
Freight	\$5,740,753 00	\$61,161,307 00	\$55,420,554 00
Troops, etc	4,616,053 00	49,178,967 00	44,562,914 00
Mails	10,606,507 22	49,970,780 47	39,364,273 25
Total	\$20,963,313 22	\$160,311,054 47	\$139,347,741 25

The United States bonds and accrued interest thereon issued on the same line, to the same date, less the amounts repaid by the companies, was shown to be \$ 86,685,907 86

The saving to the United States in transportation charges to January 1, 1886, was 139,347,741 25

Thus exceeding the debt and interest to the amount of 52,661,833 39

Saving more than bonds an interest.

Supposing an equal average annual saving were to continue to the maturity of the debt, the result would be as follows:

Exhibit of saving to the United States in transportation charges by the Central-Union Pacific line, to the maturity of the United States bonds.

Estimate of saving to maturity of bond

KIND OF SERVICE.	Average Yearly Amount saved by Government.	Amount saved in Thirty Years to Maturity Debt.
Freight	\$3,463,785 00	\$103,913,550 00
Troops, etc.	2,785,182 00	83,555,460 00
Mails	2,385,714 00	71,571,420 00
Total	\$8,634,681 00	\$259,040,430 00

It appears then that during the first seven years in which the road was in operation before it was expected or required to be completed by the Contract Acts, the Government saved, in transportation charges, \$47,763,178, an amount during this short time nearly equal to the whole amount of bonds. The sum saved to the end of 1886, or for about

half the time the bonds were to run, amounted to \$139,347,741, exceeding by over \$52,000,000 the whole amount of bonds and interest to the same date, less the amounts which had been repaid by the companies. Had the loan therefore been a donation, it would still be more than justified by the results.

DEVELOPMENT OF THE WEST.

A further cause for the issue of United States bonds was to develop the resources of the continent west of the Missouri River. Here is a territory comprising in area almost two-thirds of the whole United States, the greater part of which could never have had a market if it were not for railroad transportation, and so would practically be unavailable for settlement. A glance at the map will show how all-important the railroad here is. The States east of the Missouri River are provided to a great extent with navigable streams, the Great Lakes, or the ocean. But the country from the Missouri River to the Sacramento is destitute of similar waterways, with one or two unimportant exceptions where a difficult navigation is possible for a part of the year. The two great mountain chains of the continent separate the East from the West; and the lack of navigable streams prevents communication by water through the intervening valleys. The territory not being supplied with its fair proportion of these highways of nature must otherwise depend on wagon transportation. For this, however, the distances are too magnificent. It is a country which railways only could develop; and much emphasis was placed on that fact at the time the aid was granted. That the prophecies regarding the development of this territory have been fulfilled will hardly be denied. The following observation on the change which has taken

place was made by General Sherman in 1882: "No person who has not been across the continent by the several routes can possibly comprehend the changes now in progress there. Nearly two-thirds of the domain of the United States lies west of the Mississippi; and at the close of the Civil War the greater part of it was occupied by wild beasts, buffalo, elk, antelope and deer, and by wilder Indians. Now, by the indomitable courage, industry and thrift of our people, this vast region has become reduced to a condition of comparative civilization. Three great railroads now traverse the continent, with branches innumerable; and a fourth is making rapid progress. States, territories, cities and towns have grown up; neat cattle have already displaced the buffalo; sheep and goats have displaced the elk, deer and antelope; and crops of wheat, rye, barley and oats are now grown in regions believed hitherto to be desert or inaccessible. This is the real cause of the great prosperity which now blesses our country and swells the coffers of our National treasury" (Rep. Secy. of War, Vol. I, 1882-83, p. 5).

Changes wrought by road.

THE PREDICTED BENEFITS REALIZED.

Though much more might be added illustrating the benefits realized by the Government and the people from the early construction of the road, sufficient has been said to show that the promises made have all been kept. The resulting benefits to the Government and the people have exceeded the most sanguine anticipations of the advocates of aid. The railroad affords a sufficient protection to the Pacific Coast against foreign invasions; while it binds it with ties of daily increasing strength with the rest of the Union. The Indian wars have been practically brought

to an end ; and the transportation services for the Government are performed at a small fraction of their former cost ; while the development of the resources of what was the uninhabited West, and the homes which have thus been furnished to hundreds of thousands, is of value beyond all calculation. It was to secure these results that the aid of bonds was granted ; and it is the opinion expressed by those officers of the Government whose duties have brought them into familiarity with the facts, that even had the grant been a donation instead of a loan it would still have been more than justified by the results.

RAILROADS AIDED BY CANADA AND MEXICO.

If there is now a doubt in the mind of any officer of the United States as to the wisdom of the aid to the Pacific railroads, it is a sentiment not shared by the governments joining us on the north and on the south. The Republic of Mexico and the Dominion of Canada have made every effort and almost exhausted their resources to secure railroads to their distant frontiers and unite the scattered parts of their vast domains. The benefits to this country following from the subsidies to the Pacific railroads have, in the minds of the Dominion Government, justified the enormous subsidies to the Canadian Pacific. The summary of these subsidies is given in the Report on International Commerce of the United States, 1884 (p. 97 *et seq.*). It includes a loan of \$47,500,000, a donation of 25,000,000 acres of land, including only that suitable for settlement, the construction by the Government and transfer to the company free of cost of 714 miles of railway, estimated in value to be worth \$30,000,000, freedom from taxation for twenty years, and protection from competition of parallel lines for twenty years from the date of its charter. The

concessions and subventions by the Republic of Mexico during the last decade have exceeded its present power to pay. Whether these Governments were wise in making such enormous subsidies, by comparison with which the grants by the United States sink into insignificance, it is not necessary here to inquire. That they have been made is sufficient evidence that in the judgment of our neighbors the benefits resulting to the United States by the construction of the Pacific railroads would have justified subsidies of much greater value than those which were granted.

BUSINESS PREDICTED FOR THE ROAD.

While these prophesied benefits to the Government and the country have been more than realized, there were certain predicted benefits to the companies. These have almost as signally failed. The transportation charges on United States troops, supplies and mails, one-half of which it was predicted would be sufficient to meet the accruing interest on the bonds, now produces but a fraction of the requisite sum. The cost of transportation on the plains for several years prior to 1862, as reported to Congress during the discussion of the Pacific Railroad Bill, amounted, as has been shown, in times of peace, to the annual sum of \$7,357,781. This was at a time when the Missouri River formed the frontier line.

As settlements spread westward, the territory to be protected was rapidly extended; and the expenses of army transportation were correspondingly increased. But had the charges made by the railroads been what they were prior to 1862, half the amount would have been sufficient to pay the accruing interest; and there would now be no discussion as to how to provide for the deficiency. The

fact of their amounting to but a fraction of their former sum is a circumstance of much greater profit to the Government than if they had equaled the amount predicted. While this is the cause of the inadequacy of the United States lien, it is followed also by a gain to the Government in transportation charges much greater than the interest on the bonds. As the companies are held for the interest as well as the principal of the bonds, the failure of the predicted amount of charges for United States transportation is a misfortune alone to the railroads, while it largely adds to the benefits received by the Government.

Commerce of
Asia.

A source of most profitable traffic which was predicted to pass over the Pacific railroad on its completion was the commerce between Asia and Europe. The commerce of the world was to cross the American continent. This was much dwelt upon as a prospective source of great revenue to the companies. For instance, the Government Directors of the Union Pacific Railroad, in reporting on the prospects of that road to the Secretary of the Interior, prophesied that, in adding this final link between the East and the West, a new thoroughfare would be formed: "Between Europe, California and China, we shall naturally become, to a large extent, the carrier of the world's products, and take the place that Venice and Holland once held" (Rep., Jan. 30, 1867).

Suez Canal
competition.

But while the rails of the two roads were daily nearing one another, which were, when joined, to unite the Atlantic and Pacific, work was progressing on the opposite side of the world which led to the waters of the Indian Ocean into the Mediterranean Sea. The Pacific railroad was completed May 10, 1869. In the following November, the Suez Canal was opened. The completion of the canal dispelled all hope of carrying across America the trade

between Asia and Europe. A portion of the commerce between the United States and China or Japan crosses this continent; but the commerce of Europe passes through the canal. On this subject we have the testimony of Mr. W. H. Whitely, the Custom-House Attorney for the Pacific railroad in San Francisco, who, in reply to a communication from the Treasury Department, says: "I have attended to the Custom-House business of the Central Pacific Railroad Co. since 1875; and, with the exception of silk-worm eggs, and two or perhaps three consignments of valuable furs for, I think, London, England, there has been no such thing as commerce between Asia and Europe via San Francisco, and there never will be so long as the Suez Canal is navigable. * * * * There is a tradition in this office that, soon after the opening of the overland road, we received a consignment of raw silk for England; but I cannot locate it. No tea, to the recollection of the oldest inhabitant, has ever been consigned this way; and no sons of men now living will see such a transaction. Every effort has been made to increase what so many imagine to be an important commerce. It is of no use. The natural advantages of an all-water route in steamers via the Suez Canal cannot be overcome" (Rep. Internal Com. U. S., 1884, p. 111).

The development of the ocean freight steamer, which has occurred since the opening of the Pacific railroad, has further increased competition by sea, so that now not only does commerce between Asia and Europe go through the canal, but much traffic between China and New York also takes the same course.

The failure of these two predictions to a great extent prevented the consummation of a third prophesy, namely,

Failure of predicted earnings.

that five per cent of the net earnings would be sufficient to pay the principal of the bonds. When it was found that this prediction was not realized, the Thurman Act, in 1878, provided for the deficit by requiring the annual payment of twenty-five per cent of the net earnings from the companies. And now it is found that, if the whole of the net earnings were required from the bond-aided line, the sum, on the Central Pacific at least, would fall short of meeting even the accruing interest on the bonds. This result is caused by the reductions in rates which have constantly taken place on these roads (see Rep. U. S. Comr. of R. R's., 1883, pp. 5-6), and latterly by a loss of traffic through competition with other Pacific railroad lines which were also aided in their construction by the Government, as well as with the Canadian Pacific Railway, which not only has received enormous subsidies from the Dominion Government, but is not subject to the restrictions imposed on American roads by the Interstate Commerce Law.

CONCLUSION.

From the foregoing statement of facts, the following conclusions may be drawn as to the present relations between the company and the Government.

Obligations of
company
observed.

The contract obligations have all been complied with by the company to date. When it became apparent that the current payments on the bonds and interest as provided by the Contract Acts were not sufficient to provide for the debt when due, the company through its Board of Directors provided for the establishment of a sinking fund in its treasury, which should be adjusted from time to time so as to fully pay the bonds and interest at maturity. The formal resolutions for that purpose were printed; and copies were placed in the hands of the proper officers of

the United States. The Government, however, decided to take the matter from the company's charge, and, by the Thurman Act of May 7, 1878, assumed control of the matter by exacting certain annual payments into a sinking fund in the United States treasury. By the same Act (section 8), the company was excused from making other payments on account of its debt to the United States, except those provided therein. The companies were also allowed (section 6) to pay dividends from any surplus earnings remaining after meeting the Thurman Act requirements. Following this assumption of the control by the Government, dividends which had been suspended in 1877, pending discussion of the debt settlement, were resumed in 1880.

Control assumed by government.

Had the control of the debt not been assumed by the Government in 1878, the company would have been able to provide for it. The company's plan would have paid the debt. The net result of the Government's plan to December 31, 1888, is a loss to the road of \$2,000,000 by the wasteful investments of the sinking fund money in the custody of the Secretary of the Treasury. This loss is nobody's gain.

The United States bonds issued are at the mileage rate named in the Act; and the company's bonds for an equal amount were also issued as the contract provides. The lien of the United States is subject to the prior lien of the company's bonds, and covers only the aided line of road (see 18 U. S. Reports, p. 235).

United States lien.

The value of the United States lien which depends on the earning power of the aided line is far short of the debt, the accrued amount of which, less the repayments thereon made by the company, is about \$50,000,000. Even if there were not back interest to provide for, the annual interest, amounting to \$1,671,341, would considerably exceed the current earnings.

Aided line
earnings.

The net earnings of the aided line, subject to the payments which are prior in lien to the United States bonds, represent the extreme sum which the company can be required to pay by any construction of the agreement. The annual amount of these earnings have shown a gradual decrease since the completion of other transcontinental lines; and now the competition of the Canadian Pacific, subsidized by the Dominion Government and not subject to the restrictions of the Interstate Commerce Law, further reduces our income and adds to the uncertainty of its future. The average earnings of the aided line amount currently to about \$1,000,000 per annum; but, in three years out of the past six, they have fallen considerably below this sum. A payment on the debt amounting to \$1,000,000 a year could not be secured with certainty, except by the voluntary guaranty of other associated lines. Neither can any additional payments be secured prior to the maturity of the bonds in 1898, except by the consent of the company.

settlement
must consider
equities.

The position of the Government as to this loan is simply as a private creditor; and, if it were a private person, there would be no difficulty in effecting a settlement which would be just and honorable alike to the debtor and creditor. Such a settlement would consider not only the value of the security and the extreme annual payments possible to exact, but the equities would be stated as an offset to the mere legal demands. Not the least among these are the benefits realized by the creditor from the use of the property, which are all in excess of his expectations, and which are accompanied to a large extent by corresponding failure in the promised returns to the company.

G. L. LANSING.