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REPORT

OF THE

COMMISSION

AND OF THE

MINORITY COMMISSIONER

OF THE

United States Pacific Railway Commission,

APPOINTED

UNDER THE ACT OF CONGRESS APPROVED MARCH 3, 1887,
ENTITLED "AN ACT AUTHORIZING AN INVESTIGATION
OF THE BOOKS, ACCOUNTS, AND METHODS OF
RAILROADS WHICH HAVE RECEIVED AID
FROM THE UNITED STATES, AND
FOR OTHER PURPOSES."

ROBERT E. PATTISON, OF PENNSYLVANIA, *Chairman*,
E. ELLERY ANDERSON, OF NEW YORK,
DAVID T. LITTLER, OF ILLINOIS,
Commissioners.

REPORTED BY

CHARLES P. YOUNG, of New York,
SECRETARY AND STENOGRAPHER TO THE COMMISSION.

WASHINGTON:
GOVERNMENT PRINTING OFFICE.

1887.

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R E P O R T .

To the President:

The United States Pacific Railway Commission, the members of which were appointed by you on the 15th day of April, 1887, pursuant to the provisions of the act of Congress of March 3, 1887, respectfully present to you the following report of their proceedings and conclusions:

The Commission was organized immediately after the appointment of its members by the selection of the Hon. Robert E. Pattison as its chairman.

Deeply impressed with a sense of the magnitude and importance of the duties which had been assigned to it, the Commission took such measures as seemed most appropriate to secure a complete performance of all the matters referred to it, so as to enable it to report intelligently to you, and to make full answers to the many subjects which it was required to investigate.

The Commission selected as its chief accountants Mr. Richard F. Stevens and Mr. William Calhoun. To Mr. Calhoun and his assistants was assigned the duty of a complete examination from the very inception to the present date of the accounts of the Union Pacific Railway Company, including therein the accounts of the Kansas Pacific prior to the consolidation of 1880, and the accounts of the Central Branch Union Pacific.

To Mr. Stevens and his assistants was assigned the duty of making a similar examination into the accounts of the Central Pacific and of its various branch and auxiliary lines and the accounts of the Sioux City and Pacific Railroad Company.

The Commission also selected Col. Richard P. Morgan, jr., a practical and experienced railroad engineer, and to him with his assistants was assigned the duty of personally inspecting all the railroads that had been aided with United States bonds and all their branches.

Mr. Calhoun assigned the duty of the examination of the accounts of the Central Branch Union Pacific to G. F. Perrenoud, and Mr. Stevens assigned the similar work respecting the Sioux City and Pacific Railroad Company to Mr. Henry J. Anderson.

The examination of these accounts and of the vouchers and papers connected therewith has been extremely laborious. None of the reports were completed before the month of November, and the final report and tables affecting the Union Pacific Railway Company were received by the Commission near the close of that month. It has therefore been impossible for us to make any critical examination of the results reached

by the accountants and the inspecting engineer. We submit herewith the respective reports of these gentlemen with the tables, statistics, and exhibits thereto appertaining, which will be found in Volume 8 of the Evidence and Proceedings herewith submitted.

The Commission itself immediately entered upon the duty of personally examining the directors and officers of the respective roads and all witnesses who, in its judgment, were possessed of any knowledge which could shed light on the subject-matter of the investigation.

The principal examinations have been conducted in New York, Boston, Omaha, and San Francisco; but the Commission has 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.

The evidence, statements, and tables relating to the Union Pacific Railway are mainly contained in the first four volumes of the evidence herewith submitted. The evidence, statements, and tables relating to the Central Pacific Railway are mainly contained in volumes 5 and 6.

For the purpose of presenting its conclusions intelligently, the Commission has divided this report into three parts.

The first part relates solely to the present condition of the respective companies, existing relations between the companies and the United States, and to the remedial measures which, in its judgment, should be adopted.

The second part of the report contains a review of the financial operations of the bond-aided companies from their origin to the present time.

The third part contains answers to the various interrogations contained in the bill under which the Commission was constituted.

PART FIRST.

PRESENT CONDITION OF THE UNION PACIFIC RAILWAY COMPANY, ITS RELATIONS TO THE GOVERNMENT, AND CHARACTER OF REMEDIAL LEGISLATION REQUIRED.

The Union Pacific Railway proper consists of a well-constructed, single-track road, extending from Council Bluffs, Iowa, on the Missouri River, to a point 5 miles west of Ogden, in the Territory of Utah, a distance of 1,038.35 miles. It also includes the railways formerly known as the Kansas Pacific and the Denver Pacific. They consist of a well-constructed, single-track railroad, extending from Kansas City, Mo., to Denver, Colo., and thence to Cheyenne, Wyo., there uniting with the Union Pacific Railway. The branch from Leavenworth, Kans., to Lawrence, Kans., was a part of the Kansas Pacific Railroad as originally constructed.

The respective lengths of these railroads are as follows:

	Miles.
From Kansas City to Denver	639.32
From Denver to Cheyenne.....	106
From Leavenworth to Lawrence	31.90
Total.....	777.22
Add to this mileage the mileage of the Union Pacific main line.....	1,038.35

There results as the total mileage of the Union Pacific Railway Company, exclusive of its branches 1,815.57

The United States subsidy bonds did not apply to the entire lengths of the railroads above described. On the Union Pacific Railroad they were issued from Omaha at a point 3.97 miles west of Council Bluffs to a point 5 miles west of Ogden, Utah; on the Kansas Pacific Railway, from a point half a mile west of Kansas City, Mo., to a point distant therefrom westerly 393.94 miles. The original location of the Kansas Pacific Railway had contemplated its junction with the Union Pacific Railroad at the intersection of that railroad with the 100th meridian. By an act of Congress passed July 3, 1866, its location was altered so as to permit it to extend directly to Denver, Colo., and to make its connection with the Union Pacific Railroad at a point not more than 50 miles westerly from the meridian of Denver, in Colorado. It was also provided by this act that the said company should be entitled to only the same amount of the bonds of the United States as it would have been entitled to if it had connected its said line with the Union Pacific Railroad at the 100th meridian. The bonds were in fact issued for a distance which is the equivalent of the line as originally located. This equivalent is reached at the point above mentioned, 393.94 miles from the initial point.

The railways above described are fully provided with terminal facilities, side tracks, station-houses and railway equipment, and, with the exception of the shops, machines, and tools at Omaha, represent a well-built and well-equipped property, which is fully able to discharge all the services that may be required of it.

The territory in which these railways are located, for a distance of about 250 miles west of the Missouri River, is an agricultural country of great fertility, the population of which is rapidly increasing, and which affords abundant promise of a future development which must largely increase the earnings of the roads, to which this region is tributary. Beyond this section the road passes through a country gradually increasing in elevation and decreasing in fertility, in natural resources and in population, until the base of the Rocky Mountains is reached. From Denver to Cheyenne the character of the country again improves, centers of population are more numerous, and the many deposits of mineral wealth in the Rocky Mountains tend to increase the earning power of the railway in this locality. From Cheyenne to Ogden the resources of the country are again scanty, and do not hold out the immediate promise of any very extensive increase in the earning power of the railroad, except through the connections reached by the Oregon Short Line and the Utah Railroads.

Within the territory extending westerly 250 miles from the Missouri River a number of branch roads have been constructed or acquired which connect with the Kansas Pacific and Union Pacific and with the Missouri River between Kansas City and Omaha. The territory served by these branches is agricultural, and they afford convenient railroad facilities to the easterly half of the States of Kansas and Nebraska.

Another system of branch roads has been developed in Colorado, centering at Denver. Railway connection has been effected by these branches with Leadville, Boulder, Georgetown, and other localities where deposits of the precious metals are found, and also with coal mines and stone quarries in the vicinity of the main line.

From Granger, near the western end of the Union Pacific, the Oregon Short Line extends some 540 miles in a northwesterly direction, and connects at Huntington with the line of the Oregon Railway and Navigation Company, which extends to Portland on the Pacific coast.

From Ogden the Utah Northern stretches up into northern Montana and reaches Butte, one of the most active mining camps in the West; and the Utah Central affords connection with Salt Lake City and the mineral region lying south and west.

The mileage of these branches exceeds the mileage of the main road. The Commission has taken a great deal of evidence relating to their cost, their operation, and their effect on the system. The almost unanimous voice of all the witnesses examined by us declares that the branch roads add largely to the earning power of the Union Pacific Railway. Many of them go so far as to assert that without these feeders the Union Pacific would be bankrupted in a few years. It appears from the accounts of these branches that, having regard only to the operation of the branches themselves, some of them do not pay the expense of operation. Many of them do not earn enough to pay interest on cost in addition to the expense of operation, and only a few of them succeed in earning a surplus beyond expenses and fixed charges. But the officers of the road, and many other intelligent witnesses, declare that this circumstance has no bearing on the question whether the branches are or are not an advantage. They assert that in addition to the actual earnings derived from local operation there is a large profit derived from the earnings of all business interchanged between the branches and the main road, by reason of the haul over the main road. In the opinion of the Commission this statement is correct, and the argument unanswerable.

In order to ascertain as nearly as possible the amount of benefit derived from the interchanged business, the comptroller of the Union Pacific Railway prepared and furnished to the Commission the following table:

[The Union Pacific Railway Company.]

Statement showing the net income of the auxiliary lines of the Union Pacific system; the estimated net earnings of the parent company from traffic interchanged with such lines, and the interest accrued on the bonds issued on such lines; and in the same connection the interest actually payable on the bonds thus issued on such lines, but which are not owned by the Union Pacific Railway Company.

Road.	Net income, as per annual report, excluding interest on bonds.	Sixty per cent. of interchange traffic.	Direct and indirect income.	Interest on bonds.	Balance surplus or deficit.	Interest on bonds added only.	Balance of surplus.
Omaha and Republican Valley	\$4,443.75	\$362,568.34	\$367,012.09	\$157,990	\$209,022.09	\$140	\$366,872.09
Omaha, Niobrara and Black Hills	39,067.08	163,372.21	202,389.29	68,390	133,989.29	.....	202,379.29
Echo and Park City	17,660.17	129,507.49	147,167.66	28,800	118,367.66	.....	147,167.66
Colorado Central	414,371.82	573,927.40	988,299.22	336,030	652,269.22	5,480	982,819.22
Salt Lake and Western	20,383.25	41,536.97	70,920.22	64,800	6,120.22	.....	70,920.22
Denver, South Park and Pacific	*66,581.56	37,977.31	*28,604.25	301,500	*330,104.25	133,680	*162,384.25
Utah and Northern	460,069.54	639,235.66	1,100,205.20	388,010	712,195.20	40,250	1,059,955.20
Oregon Short Line	500,756.29	656,741.12	1,157,497.41	889,755	267,742.41	889,755	267,742.41
Greeley, Salt Lake and Pacific	*21,679.48	54,727.90	33,048.42	56,560	*23,511.58	.....	33,048.42
Lawrence and Emporia	*16,384.21	5,875.44	*10,508.77	27,900	*38,408.77	.....	*10,508.77
Laramie, North Park and Pacific	*1,158.70	987.91	*170.79	.....	*170.79	.....	*170.79
Junction City and Fort Kearney	49,776.78	170,767.39	220,544.17	85,000	135,544.17	.....	220,544.17
Solomon	27,632.92	180,060.37	207,693.29	34,500	173,193.29	.....	207,693.29
Salina and Southwestern	25,305.38	94,827.84	120,133.22	32,400	87,733.22	.....	120,133.22
Denver and Boulder Valley	15,639.75	48,798.34	64,438.09	.....	64,438.09	.....	64,438.09

*Deficit.

Statement showing the net income of the auxiliary lines, etc.—Continued.

Road.	Net income, as per annual report, excluding interest on bonds.	Sixty per cent. of interchange traffic.	Direct and indirect income.	Interest on bonds.	Balance surplus or deficit.	Interest on bonds added only.	Balance of surplus.
Golden, Boulder and Caribou.....	\$6,464.29	\$6,662.72	\$13,127.01	\$4,800	\$8,327.01	.....	\$13,127.01
Georgetown, Breckenridge and Leadville...	*4,117.72	3,158.26	*959.46	8,800	*9,849.46	.....	*959.46
Kansas Central.....	*78,523.62	11,398.19	*67,125.43	80,880	*148,005.43	\$11,160	*78,285.43
Montana.....	18,304.40	52,037.44	70,341.84	.....	70,341.84	.....	70,341.84
Denver and Middle Park.....	*2,333.42	925.63	*1,407.79	.....	*1,407.79	.....	*1,407.79
Denver, Marshall and Boulder.....	12,005.16	6,488.65	18,493.81	5,400	13,093.81	.....	18,493.81
Manhattan and Blue Valley.....	6,406.63	11,640.14	18,046.77	.....	18,046.77	.....	18,046.77
Salina, Lincoln and Western.....	8,774.76	23,848.20	32,622.96	7,785	24,837.96	.....	32,622.96
Total.....	1,446,123.26	3,277,070.92	4,723,194.18	2,579,390	2,143,804.18	1,080,465	3,642,729.18

* Deficit.

COMPTROLLER'S OFFICE, BOSTON, May 27, 1887.

The cost of moving the interchanged business over the main line is, for obvious reasons, less than the cost of moving freight or passengers between local points on the road. The reasons are that the average haul is longer, that the freight moved is mainly in car-load lots, and that there is but one terminal on the main line for interchanged business, while there must be two termini for local business. The average cost of operation of the Union Pacific Railway was, for the year 1886, 58 per cent. of its gross earnings. The average for the past seven years has been 53.60 per cent. The estimate of the company's officers is that the cost of carrying the interchanged traffic over the main road does not exceed 40 per cent. The second column of the above table contains a statement of 60 per cent. of the gross amount of the interchanged traffic. The question of the advantage of the branch system depends substantially on the accuracy of this column.

As there exists a difference of opinion in the Commission it may be appropriate to notice in some detail the argument of the minority Commissioner. He asserts that, as much of the interchanged traffic is competitive business, it is unreasonable to assume that the cost of carriage is lower than the average of all the traffic of the company, which is 58 per cent. It is true that many of the points of delivery of the interchanged traffic are competitive points, but it is equally true that much of this business is not competitive; and the same characteristics also apply to the business of the main line. It is fair to assume that the interchanged traffic commands the average rates, and that, therefore, the circumstances above alluded to, of the length of the uninterrupted haul and the saving in terminal expenses, do reduce the cost of carriage below the average of 58 per cent.

The minority Commissioner insists that interest on the cost of these branches, and on some portion of the cost of the main line, must be deducted from the net earnings, direct and indirect, of the branches, before it can be concluded that they are a benefit and that they increase the earnings of the main railroad. But this argument tenders a false issue. The branches exist, the money spent in their purchase or con-

struction can not be reclaimed, and the practical question is whether their operation, irrespective of their cost, is or is not an advantage. The Union Pacific Railway is itself the holder of a large majority of their bonds, and could effect no important saving of interest payments by discontinuing them. But as matter of fact the investment in branch lines, taken in its entirety, does pay a large surplus. In the table above referred to the interest on all the bonds is stated. It amounts to \$2,579,390; and, after deducting this amount from the direct and indirect income, \$4,723,194.18, the balance remaining is \$2,143,804.18.

The minority Commissioner claims that there are certain sums due for money advanced to these branches for which no bonds have been issued, and that interest on these sums should be added to the interest on the bonds. This amount is \$5,697,670.44. (See Union Pacific balance sheet, p. 91 of the company's Report for 1886.) For the purpose of testing the result of the investment, this is doubtless correct; but the amount of the interest will not exceed \$350,000, and is not sufficient to affect the result.

In conclusion, we refer to the evidence of the following witnesses on this subject:

Edward P. Alexander (Vol. 2, pp. 846-848). Mr. Alexander is the president of the Central Railroad and Banking Company of Georgia, and served as a Government director in 1885. At page 852 the witness declares, basing his conclusion on personal and familiar knowledge of the Union Pacific Railway system, that there can be no question "that the existing system of branch lines (the subject of criticism perhaps, as parts of it are) has been the actual salvation of the road, and that it is of the utmost importance to its future prosperity that that system should be promptly and very considerably expanded."

Charles F. Adams (Vol. 1, page 82) testifies that the amount of the business delivered to the Union Pacific Railway proper through the branch system amounts to about \$5,000,000 a year, entirely apart from anything that appears in the accounts of the branches themselves.

At page 640 (Vol. 2) he testifies that the branch-line business is the most profitable business that the main line can possibly do.

At page 642, after giving figures showing the cost of moving a freight train destined for the Oregon Short Line over the Union Pacific road between Omaha and Ogden, he shows that the profit to the Union Pacific Company on such a train for the haul on the parent line would be \$2,000, and concludes with the emphatic declaration, "in that business lies the salvation of the Union Pacific."

At pages 976 and 978 he repeats this illustration, applying it to the Echo and Park City and to the Oregon Short Line Railways.

Thomas L. Kimball, the general manager of the Union Pacific Railway Company, testifies, at page 1074 (Vol. 3), that "without the branches, without the traffic that we have secured by our system of branches, the Union Pacific road would be bankrupt to-day."

At page 1075 he testifies that if the branch lines in the State of Colorado were shut out to-day, the earnings of the Union Pacific proper on the Colorado business would shrink \$1,000,000 in twelve months.

Thomas J. Potter, the present general manager and first vice-president of the road, has had a life-long experience as a railroad man. His familiarity with all the practical administration of the business of railroads is unsurpassed by any one in the United States. He served for many years in the management of the Chicago, Burlington and Quincy Railroad Company. A large portion of the country through which that railroad extends presents the same characteristics as to population and

resources as exist on the line of the Union Pacific. His opinion will be found in the evidence, pages 3871 to 3873. He approves most emphatically of the branch-line system of the Union Pacific as it exists to-day, and urges the necessity of its development, concluding as follows:

Having spent most of my active railroad life in connection with and in the midst of the development of these great "systems" of railway to which I have referred, and which have grown from single stems to vast aggregations of branches, each averaging from 3,000 to 6,000 miles of prosperous and successful railway, it appears clear to my mind that the surest, if not the only, way to insure the permanent success of the Union Pacific system is to pursue the same policy that has produced these results.

Francis E. Warren, who was governor of the Territory of Wyoming in 1885 and 1886, testifies (Vol. 4, pp. 2072-2076) as to the advantages of the branch lines to the Union Pacific Railroad, and especially to their advantages to the territory served by them.

C. W. Riner testifies (Vol. 4, p. 2080) to the same effect.

The opinions of the United States Commissioners of Railroads coincide fully with those above quoted.

Theophilus French, in his Report for 1880 (p. 25) says:

The policy of investing in these branch lines is undoubtedly the best for insuring the continuance of profitable business for the main line, and as long as the Government has such a large interest as creditor, it can not but sanction and confirm such investments.

This opinion is quoted with approval by Commissioner William H. Armstrong in his Report for 1882, page 33. The Government directors have invariably commended and approved the branch-line system. (See their Reports for 1876, p. 19; 1877, p. 12; 1878, p. 20; 1879, p. 9; 1880, p. 10.)

In the Government directors' Report of 1883, at page 10, will be found the following declaration on this subject:

If anything further were needed to vindicate the wisdom of the policy of constructing feeding lines, it is shown by the fact that while the earnings of the main line have fallen off during the past years from a variety of causes, but chiefly because of opening of rival routes and the competition in rates, the deficiency has been almost made good by the increase of earnings of the branch roads of the system.

In the same report the increased earnings derived from the branch system is declared to be of the utmost promise for the future, and that without the feeding roads the main line would have seriously suffered from ruinous competition. The report concludes:

We continue of the opinion expressed in our last report, that the construction and operation of the feeding lines have been of incalculable value to the road in rendering it in some measure independent of competing routes for through business.

In the report for 1885 we find the following declaration:

The directors can not emphasize too strongly the value to the Union Pacific of its auxiliary or branch-line system as a whole. Some of the lines, it is true, are injudiciously located, and in this way only operated at a loss, but as feeders to the main line all have a value which does not appear on their own balance sheets. In fact, without them the main line would to-day be a bankrupt property.

That report is signed by Edward P. Alexander, J. W. Savage, M. A. Hanna, Frederic R. Coudert, and Franklin McVeagh.

In addition to the evidence above referred to, a circular letter has been addressed by the president of the Union Pacific Railway Company to James H. Wilson, E. P. Alexander, Isaac Hinckley, and others, and their opinions have been asked on a statement of the conditions of the problem as to the ratio of profit to the Union Pacific Railway Company on the interchangeable traffic of the Oregon Short.

Line or other branches of the Union Pacific, while such traffic is moving over the main road between Omaha and the point of junction. These gentlemen have all had the benefit of a long and personal experience in the management of railroads, and are extremely familiar with all matters pertaining to their operation. They all agree in the opinion that the cost of moving such interchangeable traffic is less than 40 per cent. of the gross amount of earnings received therefrom. The circular letter and the answers will be found printed at length in volume 7.

The policy of all the great trunk lines in the East has always been to foster their local business by the construction of branches. The same policy has marked the history and assured the great financial success of the Illinois Central. The same policy is now declared and adopted by the Chicago and Northwestern, the Chicago, Burlington and Quincy, the Atchison, Topeka and Santa Fé, the Missouri Pacific, all of which great railroads are now pushing their extensions and connections through territories in which the conditions of population and business are substantially the same as in the territory traversed by the Union Pacific Railway. Reason, experience, and practice unite in their approval of this policy; and a conclusion so fortified should prevail against that of the minority Commissioner, which certainly is not in accord with the evidence of the witnesses or the judgment of the experts, and rests solely on his own unsupported opinion.

Apart from the mere financial question, the communities served by the branch roads demand their construction and extension. They are of immense service to the farmers, settlers, and miners, and transform the barren prairies into grain-bearing farms. Every mile of road adds many thousand dollars to the value of the lands adjacent. The policy of branch-line development is beneficial to the railroad, to the local communities, and increases the solvent power of the corporation. It is not a sufficient answer to this conclusion that this policy has been abused by imprudent and even fraudulent expenditures in the past. The remedy is to punish the wrong-doer, and not to suppress the natural growth of the railroad.

In this connection it is also claimed that the apparent earnings of these branch roads are distorted and misstated by the application of a constructive mileage factor, which, it is alleged, magnifies their earnings at the expense of the main road. This whole matter has been exaggerated and is not worth the attention it has received and the expense of its examination. Railroad charges are based on rates per mile. If the freight is earned by two or more railroads, and the circumstances are the same, the usual and just division of the amount earned is in the proportion of actual mileage carried on each railroad. But if the circumstances are not the same, this rule would not be a just rule. If one of the roads consisted only of a short, expensive bridge, or of a tunnel, and controlled the business, it would be ridiculous to expect such road to be content with its proportion of the whole mileage. The relation of the branches to the main line is such that the circumstances of the transit are not similar. The haul is short on the branches, the terminal expenses heavy, and the business small, as compared with the whole business done on the main line. It is, therefore, only just that the branches should receive more than the straight mileage proportion.

The allowance of constructive mileage is merely a convenient method of settling the local or higher rate of compensation to be allowed to the branch road. The assertion that thereby the main road is made to pay a part

of the expense of the branches is totally incorrect. The main road has no right to demand a straight mileage division. Equity and fair dealing require that it should pay to the branches just compensation for the services rendered, and this is all that it does. The practice of adjusting such divisions of earnings between roads, where the circumstances of the transit are different, is universal. It obtains in favor of the Union Pacific itself as against the great railroads east of the Missouri River; and the evidence shows that the advantages thus obtained exceed the allowances to the branch lines. (See Vol. 3, pp. 1072, 1073.)

A careful and complete examination of this subject was made by a committee of the Illinois legislature. The Illinois Central Railroad Company was liable to the State for 7 per cent. of its gross earnings. The practice of constructive mileage obtained between this company and its branches, and complaint was made that the result was to decrease the payments to the State. After an exhaustive investigation, the conclusion reached was that the constructive mileage allowance was just and proper, and the action of the railroad company was approved. (See evidence of T. J. Potter, Vol. 7, p. 3871.)

The dimensions of the whole subject are insignificant, and it would be one of the signal advantages of the substitution of fixed payments for percentage of net earnings, that it would put an end to wasteful and profitless discussion over a matter with which the Government has no practical concern.

The total mileage of the Union Pacific Railway proper, according to the report of the company for 1886, is 1,832.45 miles. The total mileage of the connecting branches, according to the same authority, is 2,761.93 miles. (See Company's Report for 1886, p. 116.)

The Union Pacific Railway Company is also the owner of stocks and bonds in railways not immediately connecting with the main road, and, to a small extent, in enterprises not at all connected with the railway business. (See Company's Report for 1886, page 95.)

In the accounts of the company, the financial business of the railway, the branches and the enterprises separate from the railway business, is described as the "Union Pacific system." The financial business of the main line is described as the "Union Pacific Railway."

A full and detailed description of the physical structure and condition of the parent road, and of the respective branches, will be found in Colonel Morgan's report and the appendices therein referred to. It is sufficient for the present purpose to say that this system is operated as a whole, that the branches and main line are mutually dependent on each other for support and development, and that, through their union, they represent a vastly greater relative earning power than would either the branches or main line itself, if they were dismembered. The net earnings of the system, taken for the past three years (by which term is now meant their gross earnings, less their operating expenses and taxes), have averaged \$9,800,000, of which sum \$8,200,000 should be credited to the parent line and \$1,600,000 to the branch system.

The actual value of the system, as gathered from Colonel Morgan's intelligent examination, based both on cost of construction, on the increased value of terminal facilities and right of way, and also on a close and critical examination of the earning powers of the main line, may be approximately stated at \$150,000,000.

The lien of the United States, resulting from the provisions of the acts of 1862 and 1864, as decided in *United States v. The Kansas Pacific Railway Company* (99 U. S., 455), only applies to that portion of the

Union Pacific Railway lying between Omaha and Ogden, and to that portion of the Kansas Pacific Railway lying between a point half a mile west of Kansas City and a point distant therefrom westerly 393.94 miles.

By the ninth section of the Thurman act it is provided that all sums due to the United States from the Union Pacific Railroad Company and the Central Pacific Railroad Company (including therein the Western Pacific Railroad Company), whether payable presently or not, shall be a lien upon all the property, estate, rights, and franchises of every description granted or conveyed by the United States to any of said companies, respectively or jointly, and also upon all the estate and property, real, personal, and mixed, assets and income of the said several railroad companies, respectively, from whatever source derived, subject to any lawful prior and paramount mortgage, lien, or claim thereon.

An attentive examination of the decision rendered by the Supreme Court of the United States in the Sinking Fund cases (99 U. S., 700), in which the constitutionality of the Thurman act was sustained, will, in the judgment of the Commission, lead to the conclusion that the court in that case determined that Congress had power as sovereign to require these companies to make reasonable provision out of their current earnings for the payment of their future obligations. But the court in the same cases did decide that as to the contract created by the acts of 1862 and 1864 between the United States and the said companies, Congress had no power to alter its terms by accelerating the maturity of the debt or by altering the mutual obligations existing between the United States as creditor and the companies as debtors, as fixed by the acts of 1862 and 1864.

The reservation of the right to alter and repeal the original acts was therefore, a reservation of the right to alter the organic law under which the companies in question exercised their corporate functions at the will of Congress, but it did not extend to an alteration or amendment which would affect the obligations of the companies as debtors to the United States as creditor. The security reserved to the United States was fixed by the acts of 1862 and 1864, and the companies accepted the terms of those acts, and constructed their roads on the faith of the provisions therein contained. All persons dealing with these companies and acquiring their securities and stocks have likewise relied on the conditions specified in these acts.

It is difficult, therefore, to understand how the United States by the enactment of a statute can declare that the lien of a security held by it shall extend to property which, before the enactment of the statute, was not subject to the lien. It is true that general taxes, income taxes, revenue obligations, and many other liabilities have been declared, both by Congress and by the legislatures of the respective States, to be liens on a debtor's property. But this power has never, to the knowledge of the Commission, been exercised in a case where the terms of the mutual obligations have been determined by an act under which rights had been acquired, and where the security of the Government was sought to be extended by the amendatory act to property not originally included in such security.

If the above consideration of the law be the true one, the lien of the United States would not affect any of the branch roads or connections, and it is a grave question whether it would include the connection between Omaha and Council Bluffs and the terminal facilities in Kansas City. It would not apply to the railroad between Denver and Cheyenne, nor to that portion of the Kansas Pacific lying between the point 393.94 miles west of Kansas City and Denver City, nor would it include

the terminal facilities at Denver City. It would be impracticable to estimate the value of this property, shorn of its branches and of most of its important terminals.

The total funded debt of the Union Pacific Railway Company on the 31st of December, 1886, exclusive of the obligations to the United States, was \$81,969,127.50. Of this amount \$33,532,000 are now prior to the statutory lien of the United States. The balance of this funded debt, amounting to \$48,437,127.50, is described as follows:

The land-grant bonds are secured by a mortgage of the public lands granted to the Union Pacific Railroad Company.

The amount of these bonds outstanding on December 31, 1886, was \$2,036,000. It appears from the accounts of Frederick L. Ames, as trustee of this mortgage, that the proceeds of these lands will suffice to pay the outstanding bonds within two years, and will leave a surplus after all the assets shall have been realized of about \$16,000,000. (Vol. 2, pages 945 and 946.)

The sinking fund bonds, of which about \$14,500,000 are outstanding, are a second mortgage on the public lands granted to the Union Pacific Railroad Company, and are also a lien on the road itself between Council Bluffs and Ogden, junior to the lien of the United States. It appears from the testimony of Frederick L. Ames, above referred to, that the assets in his hands as trustee of the land grant will be more than sufficient to satisfy and discharge all of the sinking-fund bonds.

The Omaha Bridge bonds and Omaha Bridge renewals, of which there are about \$1,800,000 outstanding, are a first lien on the bridge spanning the Missouri River between Council Bluffs and Omaha.

The collateral trust 6 per cent. bonds, 1879, of which there are outstanding \$4,423,000, are not secured by any lien of either the Union Pacific or Kansas Pacific Railroads, but are secured by a deposit of bonds and stocks of a number of the branch roads owned by the Union Pacific Railway Company. The amount of the bonds so deposited was, on the 31st December, 1886, \$5,529,000, a detail of which will be found in the company's Report for 1886, at page 96.

The collateral trust 5 per cent. bonds of 1883, of which the amount outstanding is \$4,567,000, are not secured by any lien on the railroad itself, but by the deposit of certain other bonds and stock of branch roads owned by the Union Pacific Railway Company. The amount of bonds so deposited is \$6,204,000, a detail of which will be found at page 96 of the company's Report for 1886.

The Denver extension bonds, of which \$6,242,000 are outstanding, are a first lien on that portion of the Kansas Pacific Railroad lying between the 393.94 mile point and Denver.

The Kansas Pacific consolidated mortgage bonds, of which there are about \$16,000,000 outstanding, are secured by a general lien on the whole of the railroad between Kansas City and Denver, subsequent to the lien of the first mortgage, amounting to \$6,303,000, and the lien of the United States, amounting also to \$6,303,000, and to the lien of the Denver Pacific extension bonds, amounting to \$6,242,000. These Kansas Pacific consolidated bonds are also secured by a mortgage of the public lands granted to the Kansas Pacific Railway Company. The value of the assets held by the trustees of the consolidated mortgage, in addition to the lien of that mortgage on the railroad itself, is about \$12,000,000. (See evidence of Calef, Vol. 1, p. 304.)

In addition to the foregoing amounts there are some small sums due on various mortgages made by the Kansas Pacific Company before consolidation, but the total amount thereof which is outstanding does not exceed \$200,000, and they need, therefore, not be considered in deter-

14 REPORT OF THE U. S. PACIFIC RAILWAY COMMISSION.

mining the amount of security which the Union Pacific Railway Company is able to give to the United States.

It appears, therefore, that as far as the main line is concerned the Union Pacific Railway Company has issued \$48,000,000 bonds which are subsequent to the lien of the United States. Of these bonds the following amounts may be considered as covered by securities other than that of the main line itself; that is to say:

Land-grant bonds.....	\$2,056,000
Sinking-fund bonds.....	14,348,000
Collateral-trust bonds.....	4,423,000
Consolidated-mortgage bonds to the extent of the surplus of the public lands beyond the land-grant mortgages; say.....	10,000,000
Collateral 5 per cent. bonds.....	4,567,000
Total.....	35,394,000

Deducting these from the \$48,000,000 of bonds which are subsequent to the statutory lien, it follows that a mortgage of the Union Pacific Railway Company executed to-day to the United States would be subject to the burden of about \$13,000,000 bonds in addition to the first mortgage and the debt due to the United States.

The total bonds issued on the branch system was about \$42,500,000. Of these bonds about \$18,000,000 are in the hands of the public; about \$12,000,000 are held under the collateral-trust mortgages above mentioned. The balance is under the control of the Union Pacific Railway Company, and would be affected by the lien of a mortgage now given to the United States.

In addition to the bonds above described, the Union Pacific Railway Company is the holder of stock of the par value of \$43,275,774.12. The details of the companies represented by the stock referred to will be found at page 97 of the company's report for 1886. A large majority of these stocks have no intrinsic value whatever. The value of these properties consists, as has before been explained, in their relations to the main line and from the traffic derived by the main line from their operation.

While, therefore, it can not be claimed that their inclusion in a mortgage presently to be given would add to the security of the United States any important present available market value, these stocks, carrying the control of the branch lines, would, in the judgment of the Commission, constitute an important and valuable increase of the security held by the United States, by conveying the power to control the entire main line and the branches in one general and harmonious operation.

The indebtedness of the Union Pacific Railway Company to the United States, as existing to-day, is substantially as follows:

The Union Pacific Railroad.....	\$27,236,512.00
The Kansas Pacific Railroad.....	6,303,000.00
The Union Pacific Railroad, interest accrued to November 1, 1887, but not due.....	32,039,343.53
The Kansas Pacific Railroad, interest accrued to November 1, 1887, but not due.....	7,768,113.09
Total.....	73,346,968.62
The amount in United States bond and interest account for both companies is.....	\$15,440,891.94
The amount in sinking-fund account to November 1, 1887, is.....	7,734,084.32
	23,174,976.26
So that the present balance of obligations of the Union Pacific Railway is.....	50,171,992.36

This amount should not be confounded with the present value of the debt, for the reason that the United States is under the obligation of continuing the payment of 6 per cent. on the outstanding subsidized bonds until their maturity, and the company is liable to refund such payments at the maturity of the bonds.

The principal of debt of Union Pacific and Kansas Pacific is\$33,539,512.00
Add 180 per cent. interest 60,371,121.60

Total debt at maturity 93,910,633.60
Deduct amount to credit of both companies in bond and interest account, November 1, 1887 15,540,891.94

Balance at maturity of bonds 78,369,741.66

The average date of maturity of the debt of both companies is July 10, 1897.

The approximate present value of \$78,369,741.66 discounted at 3 per cent., compounded, is\$58,491,256.00
Deduct amounts in sinking fund 7,734,083.00

Present value 50,757,173.00

This result is only intended as an approximation to explain the operation of the bills herewith submitted and will of course be altered if actually applied at the date named in those bills.

The requirements under the provisions of the mortgage proposed by the bill would be as follows, for the first ten years:

Three per cent. of \$50,757,000 \$1,522,710.00
One-half of 1 per cent. of outstanding bonds 253,785.00
1,776,495.00

And after the expiration of ten years the annual requirement would be \$2,030,280.

The following table has been received from the United States Treasury Department:

Pacific railroads.

Roads.	Principal.	Average date of maturity.	Accrued interest to November 1, 1887.	Interest repaid by companies to November 1, 1887.	Amounts in sinking fund November 1, 1887.
Central Pacific	\$25,885,120.00	Nov. 18, 1897	\$30,182,686.47	\$6,194,012.35	\$2,710,036.76
Kansas Pacific	6,303,000.00	Nov. 21, 1896	7,768,113.09	3,539,249.31	.....
Union Pacific	27,236,512.00	Sept. 3, 1897	32,039,343.53	11,901,642.63	6,182,683.82
Central Branch Union Pacific	1,600,000.00	Oct. 19, 1896	1,965,808.26	316,124.12	.....
Western Pacific	1,970,560.00	Sept. 5, 1898	2,180,594.54	9,367.00	.....
Sioux City and Pacific ..	1,628,320.00	Jan. 1, 1898	1,887,660.69	131,923.62	.....
	64,623,512.00	*Sept. 12, 1897	76,024,206.58	22,082,319.03	8,862,720.58

*Average date for all.

Central Pacific, including Western Pacific, December 9, 1897; Union Pacific, including Kansas Pacific, July 10, 1897.

The market value of the bonds held in the sinking funds, stated as of the 1st of November, 1887, is, as we are informed by the Treasury Department, as follows:

Union Pacific Railroad Company	\$7,732,050.50
Cash in the sinking fund	2,033.82
Market value of Union Pacific sinking fund, November 1, 1887..	\$7,734,084.32
Central Pacific Railroad Company	3,418,959.25
Cash in the sinking fund	36.76
Market value of Central Pacific sinking fund, November 1, 1887..	3,418,996.01
Total market value of sinking fund, November 1, 1887	11,153,080.33

We have received from Prof. E. B. Elliott, the Government Actuary, a table showing the condition of the sinking funds of the bond-aided railroad companies, as of November 1, 1887, and a table showing the present worth of their respective debts, as of the 1st of July, 1888. In Professor Elliott's computation he deducts the credits in the bond and interest accounts from the total of the principal and interest paid and to be paid, and discounts the remainder for the period between the average date of maturity and the 1st day of July, 1888. He has made this computation both at simple and compound interest, and the two lower lines of his table show the present values obtained by these methods. He has not deducted the amounts in the sinking fund from the final result.

It may be observed in this connection that the addition of 180 per cent. to the principal of the debt does not give a strictly accurate result, for the reason that the bonds were not delivered on the day they bear date. The United States has paid the interest on the bonds only from the day of their delivery. The total amount of interest paid and to be paid by the United States up to the maturity of the bonds will be somewhat less than 180 per cent. The method pursued in this report in computing present values, as has been stated, was merely approximate, and for the purpose of ascertaining the amount of the annual requirements under the bills proposed. The rule for ascertaining the present worth, contained in section 1 of the bills proposed, accords with the rule followed by Professor Elliott in his computations, and will give a strictly accurate result.

The following are the tables, with the letter which accompanied them:

UNITED STATES TREASURY DEPARTMENT,
Washington, D. C., December 1, 1887.

SIR: In reply to the supplementary questions in behalf of the Pacific Railway Commission, proposed by its statistician November 23, to wit:

(1) What was the market value as of November 1, 1887, of the securities and cash in the sinking funds of each of the bond-aided Pacific railroads; that is, of the Union Pacific and the Central Pacific?

(2) Par value of securities and cash in said sinking funds, as of November 1, 1887.

(3) Total of amounts paid by each company into said sinking funds, including all credits to them.

(4) What will be the present worth, as of July 1, 1888, of the debt due by each of the bond-aided Pacific railroads?

I would say that my answers to the questions 1, 2, and 3 are expressed in the accompanying Table A.

In answer to fourth question, I would say that the present worth of indebtedness, as of July 1, 1888, not taking into account the disposition of the sinking fund, in which the Government has a contingent interest, is shown in the accompanying Table B, where the data were arrived at, respectively, by the following process: To the principal to be paid at maturity is added the interest, at the rate of 6 per cent. per an-

num, from the dates of delivery of the bonds to the several companies, to maturity. From this is deducted the payments on the bond and interest account to November 1, 1877, increased by estimated additions to July 1, 1888. The remainder is then discounted from maturity to July 1, 1888, at the rate of 3 per cent. per annum.

In my letter of the 19th ultimo the par value of the securities in the sinking funds of the several roads was employed.

Yours, respectfully,

E. B. ELLIOTT,
Government Actuary.

Hon. HUGH S. THOMPSON,
Assistant Secretary of the Treasury.

TABLE A.—Condition of the sinking fund of the bond-aided Pacific railroad companies November 1, 1887.

	Securities.		Cash.	Total market value and cash.	Amount paid into the Pacific Railroad sinking fund, transportation service and cash, from commencement to Nov. 1, 1887.
	Par value.	Market value.			
Central Pacific.....	\$2,710,000	\$3,418,559.25	\$36.76	\$3,418,596.01	\$3,681,862.91
Kansas Pacific.....					
Union Pacific.....	6,150,650	7,732,050.50	2,033.82	7,734,084.32	7,674,154.39
Central Branch Union Pacific ..					
Western Pacific.....					
Sioux City and Pacific.....					
Total.....	8,860,650	11,150,609.75	2,070.58	11,152,680.33	11,356,017.30

E. B. ELLIOTT,
Government Actuary.

UNITED STATES TREASURY DEPARTMENT,
December 1, 1887.

TABLE B.—Statement of the present values of the debts of the bond-aided roads discounted at 3 per cent., both at simple interest and at interest compounded semi-annually.

	Principal to be paid at maturity.	Interest paid and to be paid.	Total principal and interest at maturity.
Central Pacific.....	\$25,885,120	\$45,786,454.67	\$71,671,574.67
Kansas Pacific.....	6,303,000	11,188,943.09	17,491,943.09
Union Pacific.....	27,236,312	48,115,835.85	75,352,147.85
Central Branch Union Pacific ..	1,600,000	2,826,608.26	4,426,608.26
Western Pacific.....	1,970,560	3,462,469.74	5,433,029.74
Sioux City and Pacific.....	1,628,320	2,880,935.89	4,509,255.89
Aggregate	64,623,512	114,261,247.50	178,884,759.50

	Bond and interest account, November 1, 1887.	Estimated addition to July 1, 1888.	Total credit on bond and interest account.	Remainder at maturity.
Central Pacific	\$6,194,012.35	\$134,600	\$6,328,612.35	\$65,342,962.32
Kansas Pacific.....	3,539,249.31	76,500	3,615,749.31	13,876,193.78
Union Pacific.....	11,901,642.63	258,900	12,160,542.63	63,191,805.22
Central Branch Union Pacific ..	316,124.12	6,900	323,024.12	4,103,584.14
Western Pacific.....	9,367.00	200	9,567.00	5,423,462.74
Sioux City and Pacific.....	131,923.62	2,900	134,823.62	4,374,432.17
Aggregate.....	22,092,319.03	480,000	22,572,319.03	156,312,440.47

18 REPORT OF THE U. S. PACIFIC RAILWAY COMMISSION.

TABLE B.—Statement of present values of debts of bond-aided roads, etc.—Continued.

	Average date of maturity.	Period from July 1, 1888, to maturity.	Worth as of July 1, 1888, discounted from said remainder at 3 per cent. per annum.	
			Simple discount.	Compound discount (semi-annual).
		<i>Years.</i>		
Central Pacific.....	Nov. 18, 1897	9.380088	\$50,993,320.80	\$49,419,042.29
Kansas Pacific.....	Nov. 21, 1896	8.387302	11,086,731.90	10,809,486.53
Union Pacific.....	Sept. 3, 1897	9.170919	49,557,235.20	48,090,764.07
Central Branch Union Pacific.....	Oct. 19, 1896	8.3	3,285,495.65	3,204,992.83
Western Pacific.....	Sept. 5, 1898	10.17521	4,155,095.92	4,005,805.95
Sioux City and Pacific.....	Jan. 1, 1898	9.5	3,404,226.85	3,296,604.50
Agregate.....			122,482,106.32	118,826,696.17

E. B. ELLIOTT,
Government Actuary.

The United States sinking fund above referred to is the result of the operation of the Thurman act, passed in May, 1878. Its framers expected that this fund would reach much larger proportions, but these anticipations have not been realized. This failure has been due to two prominent causes:

First. The very large decrease in the net earnings of the company, on which the 25 per cent. reserved by the act was to be computed; which decrease has, in the main, been caused by the very large reductions in freight and passenger rates which have occurred during the past four years.

Second. The failure of the fund to earn compound interest at the rate of 5 per cent., as had been expected.

Other causes may have contributed, but the two named are the controlling causes to which the failure of the Thurman act is due. It is universally conceded by every person of intelligence who has given the subject any study, that it is and will be absolutely impossible for the Union Pacific Railway or system to pay the indebtedness to the United States at its maturity.

In approaching an examination of the subject of remedial legislation, we have endeavored to be guided by the directions of the Act, and to submit a scheme which shall secure to the United States full payment of all debts due it from said company, with a reasonable rate of interest, having due regard to the financial ability of said company, and the proper conduct of its business, in such manner as shall afford efficient service to the public.

The principal considerations which have moved us are the following:

First. The system requiring annual payments of a percentage of net earnings is undesirable, and should be radically altered. The method of percentage of net earnings leads to endless disputes and difficulties. The distribution of net earnings as between the system and the aided road is a complicated and difficult problem, requiring a vast amount of accounting, and leading, at all points, to differences of opinion as to the propriety of including alleged earnings or deducting alleged expenses. These differences of opinion have developed into an incessant course of litigation, recrimination, complaints of unjust dealing on one side, and complaints of unjust avoidance of obligation on the other.

In the bills which are herewith submitted the payments to be made by the respective companies are fixed by the semi-annual amount of the interest accruing on their bonds, and by a fixed percentage of the *out-standing* bonds, which is directed to be paid annually into a sinking fund. In the event of a refusal on the part of the companies to accept

the terms offered to them by these bills, the Commission has found it impossible to substitute for the present system a method of fixed payments, however earnestly desiring to do so.

The difficulty that we have encountered arises from the fact that the amount which the United States, under existing laws, has the right to apply to the amount of accruing interest is determined by the act of July 2, 1864, at 5 per cent. of the net earnings and one-half the charges for transportation service. So long as this obligation exists and is in force it would seem to be impossible to avoid the difficulty arising out of the requirement to pay a percentage of net earnings. If the obligation to pay anything on account of interest were waived, and in lieu thereof an increased amount were required to be paid into the sinking fund established by the Thurman act, the difficulty would be obviated and the system of fixed payments might be established, limited only by the entire net earnings of the company. But the effect of this alteration of the law would be to relieve companies from the obligations of any present payments on account of interest, and would be equivalent to giving them an advantage during the ten years to intervene before the maturity of their obligations, which would amount, in the case of the Union Pacific Railway Company, to about \$1,500,000, and in the case of the Central Pacific Railroad Company to about \$1,000,000, assuming future payments to be about equivalent to those made in 1886.

If, however, Congress should deem the advantage to be derived from a system of fixed payments to be more than an equivalent for the possible loss of the amounts stated, the thirteenth and fourteenth sections of the bills submitted could be amended, so that in place of requiring the percentages of net earnings, therein stated to be paid and applied in accordance with the provisions of the Thurman act, a fixed sum could be required from each company, all of which should be directed to be paid into the sinking fund, and the provisions requiring any payment to be applied on the interest account could be repealed. In the judgment of the Commission, Congress could not arbitrarily direct a fixed payment to be divided equally between the sinking fund and the interest account.

The method of fixed payments avoids all the difficulties above referred to, avoids the uncertainties arising from fluctuating business, can be so adjusted as to give a much better assurance of a successful result, and is, therefore, more just to the Government of the United States. All of the officers of the Union Pacific Railway have declared that if such amount be fixed so as to be within the limits of their financial ability to pay, they will accept it, and agree to make the payments required.

The second consideration which has impressed us with much force is the necessity of divorcing, as far as possible, the Government and the railroad company. It is not seemly that the sovereign power of the United States should be subjected to the constant and belittling litigations that have so persistently occurred ever since the issue of these bonds. It is not becoming that in these controversies the United States should be held to have abdicated its sovereignty, and, through its officials, be made to contend for petty successes or to suffer defeats in the forum of its own courts. We have, therefore, deemed it our duty to formulate a scheme which shall remove, as far as possible, all occasion for future contention or friction.

A third consideration which we have deemed material relates to the security held by the United States. The necessary result of an accumulation of unpaid interest at 6 per cent. for a period of thirty years, even without compounding interest, is to well-nigh treble the indebtedness.

The reservations in the original enactments of 5 per cent. of net earnings and one half the United States transportation earned, had but little effect in reducing the amount of the debt. The Thurman act, as we have seen, has not proved much more efficient.

Underlying the debt due the United States is the lien of the first mortgage authorized by the act of 1864, and equaling the amount of the Government debt. It can hardly, therefore, be matter of surprise that the debt to the United States, swollen to over twice its original amount, is protected by a very slender security under the statutory lien. That lien, as held in the case before cited (United States against the Kansas Pacific Railway Company) is limited to that portion of the railroad in consideration of which the said bonds were issued; that is to say, to the road between Omaha and Ogden, without branches, and to 393 $\frac{3}{4}$ miles of road west of Kansas City.

If this statutory lien were held by individuals, it is clear that its security would be almost valueless. The inability of such holders, on foreclosure, to control the adjoining connections, or to control the branches, would render it impossible for them to adequately protect themselves by a purchase. The Government has the advantage of unlimited power, and could, under a foreclosure of its lien, take and hold so much of the railway as is subject thereto. But for many reasons this is a result which can not be desired by any intelligent legislator. There are to be found advocates of governmental operation of the railway system of the whole country, but we think we may assume that it would not seem desirable to any reasonable person that the Government should be placed in possession of a single fraction of a disjointed railroad, substantially without beginning, end, or connections, and should undertake the business of carrying passengers and freight in competition with numerous and well-equipped rivals and without the possibility of serving the general interests of the country by controlling the rates and operations of these common carriers throughout the land.

If, therefore, a foreclosure of the statutory lien should be attempted at the maturity of the debt, or at an earlier date, if, by some device in the law, a prompter maturity could be brought about, it would necessarily result in the sale of the road to the highest bidder other than the United States. But it is not conceivable that any of the rivals of the Union Pacific would become bidders for the fragmentary portion of the railroad covered by the statutory lien. No such rivals, it may be safely assumed, would be willing to bid the amount of the first-mortgage debt. The only possible purchaser would then be the Union Pacific Railway Company itself, or those prominent in its affairs. It follows that a compulsory foreclosure of the statutory lien would probably result in canceling the debt to the United States, and presenting it as a bonus to the company itself, or to its directors. We have, therefore, deemed it most desirable to devise such measures as will increase the extent and efficiency of the security held by the United States, and give to it, instead of the existing fragmentary statutory lien, an efficient and complete mortgage under which it can hold and control, as its security, a lien affecting the entire system and all its branches.

A fourth consideration, which we have deemed of great importance, concerns the relations of the officers and directors of the Union Pacific Railway to that corporation. The history of that company as developed in the second part of the report, will show that its assets have been in former years largely misapplied, and that its financial ability to meet its just obligations has been largely impaired by the action of men who held *fiduciary* relations to the corporation.

In *The United States v. The Union Pacific* (98 U. S., p. 569) the Supreme Court of the United States decided that the Government could not, of its own motion or through act of Congress, successfully institute any suit or proceedings by which officers of this corporation, who had appropriated its assets to their own use, could be compelled to refund the same, either to the corporation itself or to apply the value of such converted assets to the satisfaction of the claim of the Government. The essential ground taken by the court is that in such suit the United States must be treated as an ordinary creditor, and that, until the debt is due, it has no better standing than any creditor at large to enforce equitable remedies looking to the greater security or to the preservation or ultimate payment of its claim.

While the decision contains suggestions that some other remedy might possibly have been provided which could have been enforced, it is impossible, on a careful reading of that case, to avoid the conclusion that if it be adhered to no law can be devised under which offending trustees can be successfully prosecuted in the name of the United States, in a civil suit, until after the maturity of the debt.

Without intending in any wise to criticise this decision, which is the law of the land, we can not forbear saying that the conclusion reached was a great public misfortune. It seems to leave the wrongs complained of without any efficient remedy. The wrong was done to the United States as the creditor of the company. The court does not seem to have considered that the loan made by the Government to the company was, in a very large measure, made on the faith of the *company's promise to pay*, as distinguished from the security taken by the statutory lien, and that the value of this *promise to pay* was substantially destroyed by the acts complained of.

The extent to which the court failed to recognize the enormously different result to the Government arising from the financially weak state of the corporation can be judged from the remark made by the court, at page 615. After referring to the right to appropriate one-half of the transportation service and 5 per cent. of the net earnings, the court says:

It is not wholly unreasonable to suggest that the amount which the company may be compelled to pay annually under these two provisions will be sufficient, as a sinking fund to pay the entire debt, principal and interest, before it falls due.

Since these words were written the 5 per cent. has been increased to 25 per cent., the half transportation to the whole transportation, and still but little progress has been made in making provision for this large obligation. We are satisfied that the people of the United States, and their representatives in Congress, have been largely controlled in their opposition to measures heretofore presented for the adjustment of these matters, because of a natural unwillingness to permit these wrongs to go unredressed and without any effort whatever to properly prosecute and punish the offenders. We have, therefore, inserted in the bill which we recommend a section requiring the Union Pacific Railway Company in accepting the terms of the adjustment offered, to consent that as to all causes of action existing or to exist against any trustee, director or officers of the company, for any cause whatsoever, the company shall, on the application of the Department of Justice of the United States, bring any suit or take any proceedings that shall be directed by that Department, and prosecute such suit or proceedings, under its direction, to final consummation.

The bill, as prepared by us, is annexed to this report.

THE PRESENT CONDITION OF THE CENTRAL PACIFIC RAILROAD COMPANY, ITS RELATIONS TO THE GOVERNMENT, AND THE CHARACTER OF REMEDIAL LEGISLATION REQUIRED.

The subsidized portion of the Central Pacific Railroad extends from a point 5 miles west of Ogden, in the Territory of Utah, to Sacramento City, in the State of California, a distance of 737.50 miles, and from Sacramento City to San José, at the south end of the bay of San Francisco, a distance of 123.16 miles.

The railroad from Sacramento City to San José was formerly known as the Western Pacific Railroad. It actually connects with the Central Pacific Railroad on the American River, a point about 2 miles northeast of Brighton Station, but most of the traffic is carried around from Brighton Station, over a road known as the Sacramento and Placer-ville Railroad, which passes through the main portion of the city of Sacramento, and reaches the Central Pacific Railroad Company proper, at a point on that road distant about 2 miles west of the point of junction between the Western Pacific and Central Pacific Railroads.

The amount of the subsidy granted to the Central Pacific for its construction between Ogden and Sacramento City was \$25,885,120. The amount of the subsidy granted to the Western Pacific Railroad Company was \$1,970,560. The grant to the Western Pacific Railroad Company was all at the rate of \$16,000 per mile, and covers a length of railroad equal to 123.16 miles, which is the distance from the point of junction on the American River to San José.

The Central Pacific Railroad, as it now exists, embraces by consolidation a number of extensions and branches which are not included in the subsidized portion of the road. These consolidations took place in 1870, and their effect was to add to the system the following railroads, which are not included in the line above described, from Ogden to San José.

First. The railroad called the San Francisco, Oakland and Alameda Railroad, extending from Niles to Oakland, on the bay of San Francisco, and opposite the city of San Francisco, a distance of 24.31 miles, with some additional extensions for the purpose of connecting with the ferries.

Second. The California and Oregon Railroad, now extending from Roseville, Cal., to the boundary of the State of Oregon, a distance of 296.47 miles.

Third. The San Joaquin Valley Railroad, extending from Lathrop south-erly to Goshen, a distance of 146.08 miles (see Vol. 5, pp. 2407 and 2408).

The corporation formed by these consolidations is the present Central Pacific Railroad Company, comprising a total mileage of 1,357.29 miles, of which 860.77 miles are subsidized, and 496.52 miles are unsubsidized. The subsidized portion of the road, it will be noticed, had no direct communication with San Francisco.

Prior to 1885 a large number of local branch roads were operated by the Central Pacific, under leases. These roads were located in the most productive and populous portion of the State, and the traffic inter-changed with them contributed largely to the business and income of the Central Pacific. In addition to these branch lines, a complete system of railway had been conceived and executed by men prominently connected with the Central Pacific, extending from Goshen, Cal., to *Needles*, at the boundary of Arizona, thence across the Territory of Arizona, the Territory of New Mexico, through a portion of the State of Texas to El Paso, and thence to Houston, Tex., and thence to New Orleans, where connection is made with the East by water.

This system, which is known as the Southern Pacific system, was also, prior to 1885, operated by the Central Pacific. At that time a change was made. All the leases held by the Central Pacific of roads south of Goshen were canceled. The system was divided in two parts—the one including the Central Pacific and the leased lines north of Goshen, and the other the Southern Pacific Railroad and the leased lines south of Goshen. Both systems were leased to a Kentucky corporation known as the Southern Pacific Company.

Under this lease, the Southern Pacific Company assumes payment of all the obligations of the Central Pacific, by way of interest, and also of the Government requirements; but it does not assume the principal of its indebtedness. The Southern Pacific Company also agrees to pay to the Central Pacific Railroad an annual rental, which is fixed at a minimum of \$1,200,000.

In addition to this amount of \$1,200,000 the Southern Pacific Company agrees to pay over to the Central Pacific Railroad Company an amount sufficient to make the entire amount of its payments equal to the actual net earnings of the road which shall remain after paying operating expenses, taxes, interest, and Government requirements. The lease provides, however, that the amount of such payment in excess of \$1,200,000 shall not exceed \$2,400,000.

The railroad from Ogden to Reno passes through a desolate region, unsuited to any of the purposes of cultivation, much of it a barren wilderness, and almost absolutely devoid of population. From Reno to Truckee, on the eastern slope of the mountains, the country improves somewhat in character, but not sufficiently to warrant any expectation of such increased population or production as would cause any sensible appreciation of the revenues of the company. From the western base of the Sierra Nevadas to Sacramento City, a distance of about 100 miles, the road passes through a better country, and as it approaches Sacramento City the lands become productive and fertile, and the settlements, villages, and towns increase in numbers and magnitude. The country traversed by the Western Pacific is well adapted to secure to that portion of the company a fair and increasing revenue.

Taken as a whole, the evidence does not disclose in the subsidized line a capacity for net earnings (meaning thereby the earnings remaining after deducting from gross earnings only operating expenses, taxes, betterments and improvements) which will exceed \$3,000,000 per annum. The interest on the first mortgage bonds applicable to the aided road, with a reasonable allowance for new construction and betterments, will amount to \$2,000,000 per annum. The report of Colonel Morgan, based on an examination of the physical condition of the road, and after a careful scrutiny of its earning capacity, has led him to the conclusion that a fair valuation of this property, (meaning thereby the entire Central Pacific Railroad as at present consolidated, its equipment, terminals, and shops), is \$110,000,000. This estimate, in the judgment of the Commission, is excessive and out of proportion with the cost of reproduction as fixed by Colonel Morgan, which is \$50,863,540.

The statutory lien given to the United States, under the case cited above (United States against the Kansas Pacific Railway Company, 99 U. S., p. 455), 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 José, and has no application to any of the branches or leased lines. All that has been said in regard to the unsatisfactory nature of the statutory lien in the case of the Union Pacific Railway Company applies with equal force to the Central Pacific Railroad Company.

Its bonded debt is as follows:

First mortgage, Series A, B, C, and D	\$6,378,000
First mortgage, Series E, F, G, H, and I	19,505,000
California and Oregon first mortgage, Series A and B	11,800,000
Western Pacific, Series A	1,970,000
Western Pacific, Series B	765,000
Land grant, first mortgage	4,570,000
Fifty-year bonds of 1886	7,063,000
San Joaquin Valley Railroad	6,080,000
California State aid	284,000
San Francisco, Oakland and Alameda	687,000
Income bonds	3,285,000

Total	62,387,000
Government lien	27,855,680

Total funded debt..... 90,242,680

The entire amount of the funded debt, as detailed above, is a lien on the Central Pacific Railroad, or some part of the same, and there are no auxiliary securities which can be looked to to bear or lighten any portion of the burden, except as to the land-grant bonds, amounting to \$4,570,000, and except to some extent, as to the Fifty year bonds, which are also a lien on the land grant. The land grant of the company may produce a sufficient amount to pay off the bonds first mentioned. But, even on this assumption, there remains a total funded debt, exclusive of the obligations to the United States, both for principal and interest, amounting to \$57,817,000. This amount exceeds the estimated cost of reproducing all these roads.

A present mortgage given by the Central Pacific Railroad, embracing the entire 1,357.29 miles of the railroad, as now consolidated, would therefore give but little additional security to the present statutory lien. It has, however, as in the case of the Union Pacific, the advantage of gathering together and placing within the control of the creditor a complete mortgage of the entire railroad, including the California and Oregon, the San Joaquin Valley, the San Francisco, Oakland and Alameda branches and the terminal facilities at Oakland and San Francisco.

The amount of the debt due from the Central Pacific Railroad to the United States is as follows:

The Central Pacific Railroad, Ogden to Sacramento	\$25,885,120.00
Interest accrued to November 1, 1887, but not due	30,112,686.47
The Central Pacific Railroad, formerly Western Pacific, Sacramento to San José	1,970,560.00
Interest accrued to November 1, 1887, but not due	2,180,594.54

Making total indebtedness of..... 60,218,961.01

There must be deducted from this sum the amount of the bond and interest account held by the United States	\$6,203,379.35
Amount of sinking fund held by the United States	3,418,996.01
	9,622,375.36

So that the balance of the obligation amounts to..... \$50,596,585.65

This sum, however, must not be confounded with the present value of the indebtedness, for the reasons before stated.

The principal of the debt of the Central Pacific, including the Western Pacific, is	\$27,855,680.00
Add 180 per cent. interest	50,140,224.00

Total debt at maturity	77,995,904.00
Deduct amount to credit of both companies in bond and interest account, November 1, 1887	6,203,379.35

Balance at maturity of bonds 71,792,524.65

The average date of maturity of the debt of the Central Pacific is November 18, 1897.

The average date of maturity of the debt of the Western Pacific is September 5, 1898.

The approximate present value of \$71,792,524.65, discounted at 3 per cent. compounded, is	\$52,750,000.00
Deduct amounts in sinking funds.	3,418,996.01
Present value.....	49,331,003.99

The requirements under the provisions of the mortgage proposed by the bill would be as follows, for the first ten years :

Three per cent. of \$49,331,003.99 is	\$1,479,930.00
One-half of 1 per cent. of outstanding bonds.....	246,555.00
	1,726,585.00

And after the expiration of ten years the annual requirement would be \$1,973,240.

The same considerations which have influenced the action of the Commission in regard to the Union Pacific are equally applicable to the Central Pacific Railroad. It is extremely desirable to terminate the system of percentage payment of net earnings and to substitute therefor annual payments of fixed sums. It is equally desirable to terminate the incessant controversies and litigations arising between this company and the Government in relation to their mutual duties and obligations.

The unsatisfactory nature of the statutory security is even more marked in the case of the Central Pacific Railroad Company than in that of the Union Pacific Railway Company. All of the important connections between the Central Pacific Company and San Francisco and that portion of the State of California adjacent thereto both on the north and on the south, are effected by means of branch railways which have been leased to the Central Pacific or to the Southern Pacific Company. The bonds and stocks of these leased lines are chiefly owned by individual directors in the Southern Pacific Company. These branch lines are not, as in the case of the Union Pacific Railway Company, largely controlled or directed by the parent corporation.

In the judgment of the Commission the value of the property subjected to the statutory lien, taken by itself and without the auxiliary aid to be derived from the connecting lines, would not be sufficient to more than pay the indebtedness which is prior to the claim of the United States.

The consideration before referred to, relating to the recovery of misappropriated assets from the officers and directors of the Central Pacific Railroad Company, applies with great force to that corporation. The review of the history—elsewhere contained in this report—of the affairs of the Central Pacific Railroad Company justifies the assertion that the deplorable and defenseless financial condition of that company has been caused by the incessant depletion of its treasury and misappropriation of its property by those whose sacred duty it was to protect and defend the company.

The application of the remedy to the Central Pacific Railroad Company is a difficult task. It is hardly to be expected that any act resembling the act submitted in the case of the Union Pacific Railway Company will be accepted by the Central Pacific Railroad Company. On the other hand, in the event of a refusal to accept, the application of the entire net earnings resulting from that portion of the road in consideration of which the bonds were issued, is insufficient to meet the

accruing interest paid and to be paid by the United States. It is also insufficient to accomplish a repayment of the present worth of the obligation, even at the reduced rate of 3 per cent. per annum, for the reason that the entire net earnings will not amount to 3 per cent. of the present value of the debt. An enforcement of its statutory lien, either at the maturity of the debt or at an earlier period, if the debt or any portion of the same could be made to mature before the date now fixed by law, would result in a sale at which it could hardly be expected that any bid in excess of the amount due on the first-mortgage bonds would be made. The Union Pacific Railway, and perhaps other railways now extending their roads westward, might become competitors; but it is not to be supposed that any of them would give for this property, in addition to the amount of the first-mortgage debt, a sum in any way approximating the amount due the Government. The probable result would be, as in the case of the compulsory sale of the Union Pacific Railway, that the indebted corporation, or some of its prominent officers acting in their own behalf, would acquire the title to this road; so that the ultimate effect would be merely presenting to them as a gift substantially the whole amount due to the United States.

We herewith submit a bill applicable to the Central Pacific Railroad Company, prepared on the same principle applied to the Union Pacific Railroad Company, except that in the event of a refusal to accept its provisions, the entire net earnings of the subsidized portion of the road shall be applied to the sinking fund and interest account, as directed by the Thurman act. The financial inability of the company to meet these requirements is the result, as before stated, of the profligate and wanton dispersion of the assets of the company in dividends, the aggregate amount of which exceeded \$34,000,000, and the extravagant contracts, persisted in to the present time, as evidenced in the case of the construction contracts for the northerly end of the California and Oregon Railroad, by the Pacific Improvement Company, entered into in October, 1886.

We have also suggested elsewhere a method by which, if it should be deemed advisable to effect an adjustment at a rate of interest which will bring the annual payments within the limits of the present net earnings of the Central Pacific Railroad Company, a board may be established with power to adjust and determine that question.

THE PRESENT CONDITION OF THE CENTRAL BRANCH UNION PACIFIC RAILROAD COMPANY, ITS RELATIONS TO THE GOVERNMENT, AND THE CHARACTER OF THE REMEDIAL LEGISLATION REQUIRED.

This road extends from Atchison to Waterville, Kans., a distance of 100 miles. The railroad is well constructed, fairly equipped, and traverses a country well adapted to maintain its present earning power and probably to increase it. (See Colonel Morgan's Report, as to the physical condition of this road and its equipment, Vol. 8.)

Beyond Waterville a number of branches have been constructed westerly, which were consolidated in 1879 and became the Atchison, Colorado and Pacific road. There is also another branch road connecting with the Atchison, Colorado and Pacific road, though not consolidated with it, known as the Atchison, Jewell County and Western Railroad.

The cost of reproducing the Central Branch Union Pacific road in its present condition is estimated by Colonel Morgan at \$2,004,000. The average net earnings of the road for the past three years were \$341,000 annually. (See Mr. Perrenoud's Report, Vol. 8.)

The average net income, after paying all interest and two dividends,

one of \$50,000 in 1885 and one of \$100,000 in 1886, was \$176,000 per annum. The average net income, if these dividends had not been paid, would have exceeded \$225,000.

The Central Branch Union Pacific Railroad Company is the owner and holder of 7,959 shares of the stock of the Atchison, Colorado and Pacific Railroad Company, and of 1,050 shares of the Atchison, Jewell County and Western Railroad Company, and thereby controls both these corporations.

These branch roads are leased to the Central Branch Union Pacific Railroad Company for a term of twenty-five years from 1885, the terms of the lease being that the lessee company pays all expenses of operation, taxes, and \$1,000 per mile per annum. The total length of the branch roads is 287 miles. Their aggregate indebtedness is about \$4,000,000. The rental paid by the Central Branch Union Pacific Railroad Company is just sufficient to discharge all the interest obligations. The actual earnings of these branch lines for the years 1884, 1885, and 1886 produced a surplus to the Central Branch Union Pacific Railroad Company, after the payment of operating expenses, taxes, and the rental aforesaid, amounting to an annual average of about \$53,000. (See Report of Mr. Perrenoud, Vol. 8.)

The actual income of this company remaining after the payment of all operating expenses, rentals for leased roads, taxes, and interest on bonds, including the net income of branches, exceeds \$250,000.

The bonded debt of the road is as follows:

First-mortgage bonds.....	\$1,600,000.00
Funding bonds.....	630,000.00
Debt to the United States.....	1,600,000.00

Total, exclusive of accrued interest due to the Government.... 3,830,000.00

The amount of the debt due to the United States is as follows:

Debt due United States	\$1,600,000.00
Interest accrued to Nov. 1, 1887, but not due	1,965,808.26

Total indebtedness.....	3,565,808.26
Deducting from this sum the amount of the bond and interest account held by the United States	316,124.12

The present balance of obligation amounts to..... 3,249,684.14

The present worth of the obligations of this company to the Government is as follows:

Principal of debt.....	\$1,600,000.00
180 per cent. interest.....	2,880,000.00

Total debt at maturity	4,480,000.00
Less amount standing to credit of company in bond and interest account	316,124.12

Balance due at maturity of bonds.....	4,163,875.88
Present value discounted at 3 per cent. per annum, compounded	3,250,000.00

The total requirement under the provisions of the mortgage proposed by the bill would be as follows for the first ten years:

3 per cent. of \$3,250,000.00	\$97,500.00
One half of 1 per cent. of outstanding bonds.....	16,250.00

	113,750.00
And after the expiration of ten years the annual requirement would be.	130,000.00

All the computations as to the present worth of the obligations of the bond-aided roads are merely approximations made for the purpose of showing the operation of the bills herewith submitted.

The Commission has elsewhere pointed out the objectionable character of the funding mortgage and the retention of the defaulted coupons appertaining to the first-mortgage bond, which is prior to the lien of the United States as security for these funding bonds. Until these coupons are paid there is no propriety in dividing up any portion of the assets of the company as dividends to the stockholders.

The company has sent to the Commission within the past few days a communication to the effect that proper steps have been taken, by resolutions of its board, to establish a sufficient sinking fund to provide for and pay off all of the funding bonds for which these defaulted coupons are held as security. This is very well as far as it goes, but, in the judgment of the Commission, will not justify the declaration or payment of any dividends until these coupons shall all be paid and discharged.

We submit with this report a bill applicable to the Central Branch Union Pacific Railroad Company.

THE PRESENT CONDITION OF THE SIOUX CITY AND PACIFIC RAILROAD COMPANY—ITS RELATIONS TO THE GOVERNMENT AND THE CHARACTER OF REMEDIAL LEGISLATION REQUIRED.

The Sioux City and Pacific Railroad is a well-constructed, single track road, extending from Sioux City, Iowa, to Fremont, Nebr., its length being 101.58 miles. At California Junction a short branch extends to Missouri Valley Junction, a distance of 5.84 miles, at which point it connects with the Chicago and Northwestern Railway.

The average net earnings for the past three years, 1884, 1885, and 1886, were \$237,362.

The bonded indebtedness, exclusive of the Government debt, is as follows:

First-mortgage bonds, \$1,628,000.

An issue of preferred stock was made by this company, amounting to \$169,000. In order to pay for the branch or extension from California Junction to Missouri Valley Junction, the Sioux City and Pacific Railroad Company, in 1872, issued \$169,000 of preferred stock, on which it agreed to pay annually a dividend of 7 per cent. The possession, control, and operation of this extension or branch is essential to the successful operation of the Sioux City and Pacific road itself. It may, therefore, be assumed that the amount required to meet this dividend will always have to be provided out of the earnings of the company.

Principal of the Government debt	\$1,628,320.00
Accrued interest to November 1, 1887, but not due.....	1,887,660.69

Total	3,515,980.69
Less amount standing to the credit of the company in the United States bond and interest account.....	131,923.62

Present balance of obligation	3,384,057.07
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The present value of this debt is as follows:

Principal of debt	1,628,320.00
180 per cent. interest	2,930,976.00

Total debt at maturity.....	4,559,296.00
Deduct amount standing to the credit of the company in the United States bond and interest account	131,923.12

Balance remaining.....	4,427,372.38
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Present value discounted at 3 per cent. per annum, compounded, \$3,320,000.

The amount which would be required to comply with the requirements of the act herewith submitted applicable to this company would be:

3 per cent. of the amount as above ascertained.....	\$99,600.00
One-half of 1 per cent. of the total amount of bonds during the first ten years	16,600.00
	<hr/> 116,200.00 <hr/>

And after the expiration of ten years the annual requirement would be one-half of 1 per cent. in addition, being annually..... 132,800.00

It would appear from the average net earnings of this company during the past three years that its income would be sufficient, after the payment of interest on its first-mortgage bonds, to comply with the requirements of the proposed bill. The company, however, is owned and controlled by the Chicago and Northwestern Railway Company. Its earnings are largely dependent on the relations existing between these two companies. The Chicago and Northwestern has its own connections with Sioux City, and with Fremont, and could divert a very large portion of the traffic which is now done by the Sioux City and Pacific Railroad Company.

The road itself is of but slight importance and does not form part of any complete system of railroads.

For the purpose, therefore, of making further provision for reaching an adjustment, and making a final disposition of the indebtedness of this company to the United States, the Commission has suggested, as in the case of the Central Pacific Railroad Company, that the matter be referred to a board to be appointed by Congress for the purpose of concluding such adjustment. A bill relating to the Sioux City and Pacific Railroad Company is also herewith reported.

The adjustment of the relations between the Pacific railway companies and the Government, which has been undertaken in the bills above referred to, requires very careful attention in order to properly preserve all the securities of the United States.

All the bills pending in the Forty-ninth Congress made provisions for the immediate maturity of the entire demand of the United States in the event of any default in the payment of any of the installments provided for by the bills. It would have been almost impossible, in the judgment of the Commission, to have enforced this provision. The properties subjected to the statutory lien of the laws of 1862 and 1864 have become subject to a variety of junior liens. These same liens also apply to those portions of the Pacific railroads which had not been subsidized. An attempt, therefore, to extend, by statute, the lien of the United States, and to provide for an earlier maturity of the debt than that originally contemplated, even though assented to by the railroad company itself, would have been resisted by the holders of the junior securities as a violation of the rights which they had acquired in good faith, and for valuable consideration, before the attempted extension and before the accelerated maturity.

It is abundantly settled by numerous decisions of the courts that a mortgagee and a mortgagee can not, by mutual agreement, alter the terms of an existing contract as against a junior incumbrancer. This difficulty the Commission has covered, in so far as it can be covered, by retaining the statutory lien until all such junior liens shall have been paid and discharged of record, and also by providing that the United States have the right to redeem such junior liens and be subrogated to all the rights of the holders thereof.

The most important of these junior incumbrances are as follows:

On the Union Pacific Railway, the Kansas consolidated mortgage

and the Union Pacific sinking-fund mortgage, under each of which the outstanding bonds amount to about \$15,000,000. The liens of both of these mortgages extend to the land grant of the respective companies, and to securities other than the railroad affected by the original statutory lien, so that they are abundantly protected, and could, without risk of loss, be redeemed by the United States, and thus secure for the latter the subrogated right to enforce the lien of the security which protects these bonds.

The material points of difference between the bills herewith submitted and the measures pending in the last Congress are as follows:

First. In the computation of the present value of the debt it is directed that the amount held in the sinking fund of the United States shall be deducted after discounting the net amount of that debt at the maturity of the bonds, and not before effecting such discount. This is manifestly just, because the amount in the sinking fund, which is now the property of the companies, is presently turned over to the United States as its property. The accretions to this fund from the present time to the date of maturity will be the property of the United States, and it therefore follows that a discount on this portion of the total debt at the date of maturity should be allowed for the interval between that date and the present time. This discount is not allowed if the amount in the sinking fund is deducted from the total debt at maturity before effecting the discount instead of afterward.

Second. The bill directs the discount to be computed at 3 per cent., compounded, instead of being discounted at 3 per cent. without compounding, which was the direction in the former bills. The present worth of the debt is the sum which, if invested to-day at the agreed rate of interest, would produce the net amount of the debt at the date of maturity. As the bonds for which the bill makes provision require the semi-annual payment of interest to the United States at 3 per cent., it is manifest that if these payments are considered as possessing the same earning power as the bonds—that is, the power of earning interest at the rate of 3 per cent.—the bonds would produce, at the date of maturity of the present debt, an amount equal to their face value increased by interest compounded at the rate of 3 per cent. It therefore follows that if the net amount of the debt at the date of maturity be given, and we desire to ascertain the sum which, at the present time, should be paid in bonds bearing 3 per cent. to reproduce the original sum at the date of maturity, that sum must be discounted at compound interest for the period in question.

Third. It is proposed to add to the statutory lien of the United States the security of a contract mortgage, with bonds for the sum of \$1,000 each, bearing interest at the rate of 3 per cent., payable semi-annually, with the further security of a sinking fund for the redemption of the principal of the debt at the expiration of fifty years. The object of this modification is to strengthen and increase the security of the United States, and especially to make an enforcement of its rights practicable in the event of a default. The enforcement of a statutory lien of this magnitude could result in nothing but the acquisition by the United States of such portions of the railroad as were subject to the lien. There could be no public bidding under such proceedings, and the title to be conveyed would cover but a fraction of the entire railroads. A foreclosure of the contract mortgage drawn in accordance with the provisions of the bill is a proceeding with which the courts and those interested in the construction and operation of railroads are entirely familiar, the *nature* of the title to be acquired is abundantly settled, and the *exercise of all the ordinary remedies* would be found easy of application, and

more fruitful of results than in the case of a statutory lien. In addition to these advantages, the bonds themselves, after regular payments of interest had been established, would acquire a fixed market value, and could, if that were desirable, be easily disposed of at a price fairly representing what they were worth. Under any system of statutory lien, with equated annual or semi-annual payments, as proposed by the bills pending in the last Congress, it would be impossible for the United States, under any circumstances, to dispose of its interest.

Fourth. The provisions of the bill for an issue of bonds bearing interest are simpler and more easily understood than those calling for a series of equated payments. If it be agreed that 3 per cent. is a fair rate of interest, there is no difficulty in understanding that bonds issued to-day and bearing 3 per cent. interest, are the equivalent of the same sum which they will produce, with the interest added, compounded at the same rate, at their maturity.

Fifth. The provision for the sinking fund is more than sufficient to produce the whole principal of the debt at the expiration of fifty years, on the assumption that the trustees will keep their funds invested at the average rate of 4 per cent. The interests of the United States are secured by requiring that one of those trustees shall be an officer of the United States. It has seemed to the Commission better policy to give to these trustees a reasonable liberty of action in making the investments for the sinking fund, only requiring all their proceedings to be made known, so that the course of their investments can at all times be under the supervision of the Secretary of the Treasury.

The bill provides that in the event of any default, which shall continue for six months, either in the payment of interest on the bonds or in the payments required for the sinking fund, the entire debt shall, at the option of the United States, immediately mature. This provision will certainly secure an absolute compliance with all the requirements of the act, if it be in the power of the respective companies to comply with the same.

Sixth. The provisions forbidding the declaration of dividends except from the earnings of the fiscal year preceding the year in which they are declared, and after all payments for interest and sinking fund requirements shall have been made, is manifestly necessary. The practice has been to declare such dividends so long as the general income account of the company contained a credit balance sufficient to cover the dividends. These income balances are accumulated from year to year, and do not, in fact, represent actual cash or earnings on hand. The funds which they do originally represent are always used for the general purposes of the road, for payments due for construction and equipment, extensions, or for the discharge of any miscellaneous obligations. The balance of the income account, therefore, does not in fact represent value, except on the assumption that the investments made always produce the due equivalent of their cost, and never deteriorate. The reverse of this is almost always the fact. The construction accounts of all the railroads in the United States, as stated in their balance-sheets, represent a sum vastly greater than the actual cost or value of such construction. The same is true of many of the other accounts representing assets. These considerations are especially applicable to all the assets of the Pacific railway companies; and, in the opinion of the Commission, justify the restriction proposed as to the power to declare dividends.

Seventh. The provision requiring the companies to agree to institute, on the demand of the Department of Justice, all such suits and proceedings as may be required by it to be brought against any officers

or agents against whom a misappropriation of assets or other cause of action is or may hereafter be alleged, seems to be the only practicable remedy for the violation of duty which it is believed has occurred. The decision in the case of the United States *v.* The Union Pacific Railroad Company and others (98 U.S., 569) forbids the beginning of such suits in the name of the United States, at least until after the maturity of the debt, in 1897; but it is held, in the same case, that the cause of action belongs to the corporation. The facts proved before this Commission are surely sufficient to constitute probable cause for alleging violation of duty against many of these officers and directors. These companies can, therefore, have no justifiable reason for rejecting this provision of the act.

Eighth. In the event of the failure of any of these companies to accept the provisions of the act, the requirements of the Thurman act are amended so as to apply respectively to the existing conditions of each of the said companies. The Union Pacific Railway Company is required to pay 40 per cent. per annum of the net earnings of both the Union Pacific Railroad and the Kansas Pacific Railroad. If the present circumstances of this company continue, the sum produced by this requirement would be about \$2,000,000 per annum.

The Central Pacific Railroad Company is required to pay all of the net earnings of the subsidized portion of the railroad, to be ascertained as provided in the Thurman act. Under the present conditions of this company this requirement would produce about \$1,000,000 per annum.

The Central Branch Union Pacific Railroad Company is required to pay 75 per cent. of the net earnings of its subsidized road. The result of this requirement would be about \$150,000 per annum.

The Sioux City and Pacific Railroad Company is required to pay all of its net earnings. But the earnings of this road are so largely under the control of the Chicago and Northwestern Railway Company that it is impossible to foretell what the result of this requirement will be. In any event it would be insufficient to provide for the payment of the principal and interest of the debt.

It does not seem to the Commission that the companies have any right to complain of the percentages proposed. It is true that neither the principal nor the interest due to the United States will mature until 1897; but it is equally true that it is the duty of these companies to make adequate provision for the payment of their obligations at maturity. The percentages called for in no case exceed the amount required to attain the proposed object. Under the decisions of the courts, all sums required to keep the roads in full and efficient operation, and in complete repair, and such payments for construction and betterment as are properly chargeable to income, are to be allowed before the net earnings are ascertained. The only burden, therefore, is placed on the stockholders; and, as is clearly stated in the Sinking Fund case (99 U. S., 700), it is the duty of the corporation to make provision for the discharge of its obligations before making any division whatever among its stockholders.

The Commission has found it impossible to provide any scheme for payments of fixed amounts which shall apply to the case of a refusal to accept the provisions of the act. The amounts which the United States has a right to apply to the payment of the accruing interest, are fixed by the acts of 1862 and 1864 at 5 per cent. of the net earnings and one-half of the cost of United States transportation. The court, in the Sinking Fund case above cited, declared that the United States, as sovereign, had the right to require that the company should make provision for the discharge of its obligations at maturity; but it also declared

that the United States, as creditor, had no power to accelerate the maturity of its debt, to extend its lien, or to change in any substantial manner the contract contained in the acts of 1862 and 1864. If, therefore, a fixed payment were proposed, it would be impossible to adjust the proportion applicable to the payment of interest and the proportion retained for the sinking fund, without first ascertaining the amount of the 5 per cent. of the net earnings and of the half-transportation charges which, under the original acts, were applicable to payment of interest. If the United States should waive any payments on interest account, and require the entire amount collected from the companies to go into a sinking fund, there would be no difficulty in providing for a system of fixed payments. But this method would involve a loss to the United States by reason of the omission to collect the payments due on the interest and bond account, which the Commission, under the terms of the law appointing it, did not feel at liberty to recommend.

The Commission is satisfied, from its investigation of the affairs of the Union Pacific Railway Company and of the Central Branch Union Pacific Railroad Company, that those companies can, without difficulty, accept the terms of the proposed acts. The earnings, however, of the Central Pacific Railroad Company and of the Sioux City and Pacific Railroad Company are not such as to make it probable that they could comply with the acts if they should accept the same.

We have elsewhere stated that, in our judgment, the Central Pacific Railroad Company is not entitled to any allowance by reason of the peculiar equities which it has presented and urged. It is doubtless true that the earning power of this road, and of the other bond-aided roads, has been very largely reduced during the past years. This is, in a great measure, true of all industrial enterprises of whatever nature. The real equity to which this company, in common with all persons engaged in any commercial or industrial pursuits, is entitled, is that by reason of the decreased return obtained on their investments, they are required to pay a lesser rate of interest for the use of money; and this equity has been abundantly covered by the provisions of the acts, which extend their obligations and reduce their rate of interest to 3 per cent. per annum. The present worth of the Central Pacific Railroad Company's debt, computed as directed in the act, will be found to be about \$50,000,000. The requirements for interest and for the sinking fund on the terms contained in the acts would be about \$1,750,000 per annum. This sum exceeds the total net earnings of the subsidized portion of the road, and approximates the total net income of the whole company as it now exists.

The Commission feels that it has reached the limits of its jurisdiction when it has reported a scheme for securing the entire debt, and provided that, in the event of its non-acceptance, all of the net earnings of the railroad shall be collected and applied, on interest, or placed in a sinking fund. If the Central Pacific Railroad Company should reject the terms proposed, because of its inability to comply with them, and it should still 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 3 per cent. The propriety of such action might, in the judgment of the Commission, be justly referred to a board to be designated by Congress, or to Congress itself.

These same considerations apply to the Sioux City and Pacific Railroad Company. The direction and amount of its traffic is largely controlled by the Chicago and Northwestern Railway Company. Without

the co-operation of that company, its business can be almost entirely taken from it, and its value would not be sufficient to pay the lien which is superior to that of the United States. In the event, therefore, of a similar rejection by the Sioux City and Pacific Railroad Company of the terms proposed by the bill applicable to that company, based on its inability to comply with the conditions proposed, it would seem that if an immediate and final adjustment is desired, it should be referred to a board to be created as above suggested, or that Congress should act directly without the intervention of a board.

In concluding this portion of its report the Commission desires to express its deep regret that a unanimous result has not been reached. We have patiently examined and endeavored to comprehend the reasons which appear to prevent the minority Commissioner from uniting in the recommendations herein contained. Elsewhere we have replied in some detail to some of the specific matters referred to by him in his report. Its perusal certainly appears to lend additional force to the proposition that the existing relations between the United States and these companies should be severed, and a permanent adjustment effected. The minority Commissioner seems to have grouped together matters relating to these respective railroads without any attempt at a distribution of the actual wrongs complained of, either as between the corporations themselves or as between the corporations and the individual officers and directors of whom complaint is made, and indicts them all under a sweeping bill of charges containing generally no specifications whatever, and based, as far as the companies themselves are concerned, on no acts which distinguish these companies from other railroad corporations in the United States, but on the stock in trade of all those who oppose what they call "monopolies" at all times, at all hazards, and under every possible circumstance. His report reads like a complaint in divorce for cruelty and desertion—an endless mixture of petty complaints united to real grievances, all tending only to show that the union of the parties can not produce a desirable result. This is the logic of the events themselves, and leads inevitably to the conclusion which the Commission has reached. The sovereign should not be mated with the subject. And it is because we are so deeply impressed with that conclusion that we have devised and recommended the bills which, in our judgment, will, as far as possible, lead to a severance and adjustment of these relations.

A BILL to amend an act entitled "An act to aid in the construction of a railroad and telegraph line from the Missouri River to the Pacific Ocean, and to secure to the Government the use of the same for postal, military, and other purposes," approved July first, eighteen hundred and sixty-two; also to amend an act approved July second, eighteen hundred and sixty-four; also an act approved May seventh, eighteen hundred and seventy-eight, both in amendment of the said first mentioned act; and to provide for a settlement of the claims growing out of the issue of bonds to aid in the construction of the Union Pacific and Kansas Pacific Railroads, and to secure to the United States the payment of all indebtedness of said companies.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled:

SECTION 1. That the Secretary of the Treasury be and he is hereby authorized and directed to ascertain the amount of the respective indebtedness of the Union Pacific Railroad Company and the Kansas Pacific Railway Company to which the subsidy bonds of the United States were advanced in aid of the construction of their respective railroads as of the first day of July, eighteen hundred and eighty-eight, upon the same principle as if the whole sum of the bonds advanced to the said companies, and the interest paid and to be paid by the United States thereon, and not heretofore repaid by credits on account thereof, were to be paid to the United States in cash on said day; and the said sum shall be computed and ascertained as follows:

First. Add to the principal of the said bonds the interest paid and to be paid thereon by the United States up to the maturity thereof.

Second. Deduct from this sum the amount of the interest which shall at the time of such computation have been reimbursed to the United States by the payments and credits which appear in the bond and interest account of the said companies with the United States.

Third. Compute the worth of the amount so found as of the first day of July, one thousand eight hundred and eighty-eight, on the basis that money is worth three per centum per annum by discounting the said amount at three per centum per annum compounded semi-annually for the period between the date of average maturity of the said bonds and the first day of July, one thousand eight hundred and eighty-eight.

From the sum so ascertained, there shall be deducted the amounts in the sinking fund properly applicable to the said companies, computing the value of any bonds in said sinking fund at their market value at the time of such computation, as estimated by the Secretary of the Treasury. The final sum so computed and ascertained shall be deemed the sum that would be required to be paid in cash on the said first day of July, eighteen hundred and eighty-eight, by said companies for the purpose of completely discharging their entire debt to the United States.

SEC. 2. That the Union Pacific Railway Company, successor to the Union Pacific Railroad Company and the Kansas Pacific Railway Company, be and it hereby is authorized to make, execute, and deliver to two trustees, to be appointed as hereinafter provided, its certain indenture of mortgage, which shall bear date the first day of July, one thousand eight hundred and eighty-eight, covering and embracing the entire property of the said Union Pacific Railway Company, real, personal, and mixed, of whatsoever nature and wheresoever situated. The said Union Pacific Railway Company shall also assign to the said trustees all its right, title, and interest in any bonds or stock or leases of branch lines or auxiliary companies in which the said Union Pacific Railway Company has any interest. A proper and complete description and inventory of all the property affected by said mortgage shall be prepared and filed with the Secretary of the Treasury.

The said mortgage and the property therein described shall be held by the said trustees as security for the payment of the principal and interest of the bonds issued thereunder and authorized by this act. But this section shall not be construed to prevent said company from using and disposing of any of its property or assets in the ordinary, proper, and lawful course of its current business, in good faith and for valuable consideration, and not in violation or diminution of the security and lien of the Government: *Provided*, That every such disposition of any stocks, bonds, or other securities owned by said company, whether by sale, pledge, or otherwise, shall be reported to the Secretary of the Treasury by the said company within thirty days after such disposition has been made, and that the bonds stocks or other obligations acquired with the proceeds of the property so disposed of shall in like manner, and with the same power to dispose of the same, be subject to the lien of the said mortgage, and that true and proper descriptions and lists of the same shall be from time to time prepared and filed with the Secretary of the Treasury.

SEC. 3. One of the trustees of the said mortgage hereby authorized shall be appointed by the Union Pacific Railway Company, subject, however, to the written approval of the President of the United States. The second trustee shall be appointed by the President of the United States, who may in his discretion appoint the same person trustee of other mortgages of any roads that have received Government aid in bonds and which may be executed to secure any debt to the United States. He shall receive an annual salary not exceeding ten thousand dollars, to be fixed and paid by the Secretary of the Treasury.

SEC. 4. The Union Pacific Railway Company is hereby authorized to make, execute, and issue, under the mortgage aforesaid, its bonds equal in amount to the present worth of the debt due the United States, ascertained as above provided, each of which shall be for the principal sum of one thousand dollars and shall be payable fifty years after the first day of July, eighteen hundred and eighty-eight. The said bonds shall bear interest at the rate of three per cent. per annum, payable semi-annually on the first days of January and July of each year, and shall at the time of execution and delivery of the said mortgage be delivered to the Secretary of the Treasury.

SEC. 5. The mortgage aforesaid shall contain a covenant providing that in the event of any default continuing for six months in the regular payment of interest on the said bonds, or of the sinking-fund payments required by this act, the entire debt due to the United States shall immediately mature at the option of the United States, and shall also contain such other terms and stipulations as may be deemed necessary to efficiently secure the said bonds, and as may be approved by the Secretary of the Treasury of the United States. It shall also be made, executed, and recorded so as to conform to the laws of the various States or Territories in which the property described in the mortgage is situated, and shall be of such form, tenor, and effect as shall make the security of the said mortgage a valid and legal one under the laws of such States or Territories.

SEC. 6. The said Union Pacific Railway Company shall annually on the first day

of July in each year, commencing on the first day of July, eighteen hundred and eighty-nine, pay to the trustees named in the said mortgage the sum of one-half of one per cent. of the entire amount of the outstanding bonds issued under the said mortgage until and including the year eighteen hundred and ninety-eight, and after that date shall pay annually the sum of one per centum thereof. The annual payments so made shall be held by the trustees as a sinking fund applicable to the redemption of the principal of the said bonds at maturity, whether arising from the expiration of their term or by reason of a default in the payment of interest. The said trustees shall have full power to invest, reinvest, and change the investment of the funds, securities, and moneys held by them in the said sinking fund. It shall be the duty of the said trustees, on or before the first day of August of each year, after the first day of July, eighteen hundred and eighty-nine, to report to the Secretary of the Treasury the condition of the property held by them, and of the said sinking fund, and all investments thereof made by them.

SEC. 7. The existing statutory lien of the United States shall remain in full force as security for the debt due from the said Union Pacific Railroad Company and the Kansas Pacific Railway Company to the United States until all the liens on the property affected by the said mortgage, and existing at the time of its delivery and subsequent to the said statutory lien, shall have been paid, satisfied, and discharged of record. In any proceedings for the enforcement of such statutory lien, or of the mortgage provided for in this act, the United States shall have the right to pay to any holder of bonds or obligations secured under such subsequent liens, or to the trustees of any mortgage securing the same, the value of such bonds or obligations, and shall thereupon be subrogated to all the rights of such holders in any property held as security for such bonds or obligations.

SEC. 8. No dividends on capital stock or otherwise shall be paid by the said Union Pacific Railway Company, unless the same shall have been actually earned during the fiscal year preceding the year in which said dividend shall be declared, nor unless such company shall have paid all interest on any of its bonded debt and all sinking-fund obligations, and unless the said earnings, after deducting all interest accrued but not payable at the time of the declaration of such dividends, shall be sufficient to justify the payment thereof. In no event shall it be lawful for the said company to pay any dividend exceeding the rate of four per centum per annum, unless the said company shall, at the time of declaring such dividends in excess of four per centum per annum, pay an amount equal to the excess over four per centum per annum so declared to the said trustees of the said mortgage for the purposes of the sinking fund, and unless the earnings of the said fiscal year shall be sufficient to justify the payment of such excess, and also the said payment to the trustees of the sinking fund. Any amount so received by the said trustees shall be held and invested by them for the purpose and subject to the provisions of section six.

Any director or officer who shall pay or declare, or aid in paying or declaring, any dividend prohibited by this act shall be punished by imprisonment not exceeding two years, and by fine not exceeding five thousand dollars.

SEC. 9. Nothing in this act contained shall be deemed to in any manner affect the obligation of the said company to keep its said railroads and telegraph lines in proper repair and use, and at all times to transmit dispatches over said telegraph lines and transport mails, troops, munitions of war, and supplies of public stores upon said railroads for the Government, or any Department thereof, whenever required to do so, at fair and reasonable rates of compensation, not to exceed the lowest rates paid by any private party for the same kind of service. In the discharge of these duties the said company shall be subject to and bound by the provisions of any Act of Congress, and the authority exercised thereunder, relating to postal, military, or any other Government transportation, and shall give the Government preference in the use of the same for all the purposes aforesaid as mentioned in the sixth section of the Act of July first, eighteen hundred and sixty-two, and all Acts amendatory of the said Act.

SEC. 10. The Union Pacific Railway Company may at any time after the execution and delivery of the said bonds, but only so long as the said bonds are held and owned by the United States, pay all or any of the said bonds by paying the amount thereof, together with the interest accrued thereon, to the Secretary of the Treasury, who shall thereupon cancel the bonds so paid and deliver the bonds so canceled to the said company. No bonds so canceled shall be reissued, nor shall other bonds in lieu thereof be issued by the said company.

SEC. 11. The said Union Pacific Railway Company and the Union Pacific Railroad Company and the Kansas Pacific Railway Company shall, whenever requested in writing by the Department of Justice of the United States, and so long as the United States shall be the holder and owner of any of the bonds authorized by this act, cause any actions at law or suits in equity or other proceedings to be instituted and prosecuted in the name of said companies, or either of them, against any person who is or has been a director, officer, agent, or employé of the said company, for the purpose of enforcing any cause of action whatever arising or which may hereafter arise out of any alleged violation of duty, misappropriation of assets, or any other act or trans-

action whatsoever, in respect to which the said Department of Justice shall allege that it desires such action, suit, or other proceeding to be instituted and prosecuted. All such actions, suits, and proceedings shall be conducted by the Attorney-General of the United States, and he shall be fully authorized by the said companies, or either of them, to appear for them as attorney or solicitor in such actions, suits, or proceedings, and shall have the entire control of the same from the inception thereof to the end of such prosecution, and also the right to take and prosecute any appeal or appeals from any decision or determination made therein. Any sum of money which may be recovered under the provisions of this section shall be paid over by the said Union Pacific Railway Company, or by the Union Pacific Railroad Company, or by the Kansas Pacific Railway Company to the said trustees for the purposes of the sinking fund established by the sixth section of this act.

SEC. 12. This act shall take effect upon the acceptance of its terms by resolution of the board of directors of the Union Pacific Railway Company over its corporate seal, signed by its president and attested by its secretary, and upon such consent being filed or deposited with the Secretary of the Treasury within one month after the passage of this act, subject, however, to the completion of the settlement and adjustment in this act proposed and provided; and if such acceptance be not so filed, the said company shall take no benefit from this act. Upon the filing of said acceptance, the execution and delivery of said mortgage and the bonds referred to in the fourth section of this act to the Secretary of the Treasury, he is authorized and directed to sell any securities held in the sinking fund for said companies. Any excess realized from such sale above the value of such securities, as estimated under the first section of this act shall be paid to the said company, and any deficiency below such value shall be paid by the said company upon demand made by the Secretary of the Treasury after such sale. The delivery of the said bonds and the adjustment provided for by this act shall be completed on or before the first day of October, eighteen hundred and eighty-eight.

SEC. 13. If the said Union Pacific Railway Company shall fail to accept the foregoing provisions of this act, or if the settlement and adjustment provided for by this act shall fail to be completed on the first day of October, eighteen hundred and eighty-eight, there shall be charged to and collected from the said Union Pacific Railroad Company, and the said Kansas Pacific Railway Company, and their successors and assigns so failing, from and after the first day of July, eighteen hundred and eighty-eight, forty per centum of their annual net earnings, to be ascertained as provided in section one of the act of May seventh, eighteen hundred and seventy-eight, in lieu of the twenty-five per centum provided for in said act; and to that end said act of May seventh, eighteen hundred and seventy-eight, commonly called the "sinking-fund act," and any or all amendments or modifications thereof, shall be, and the same are hereby, extended to the Kansas Pacific Railway Company.

SEC. 14. In the event of the non-acceptance of the provisions of this act by the said Union Pacific Railway Company or of the failure to complete the settlement hereinbefore provided for on or before the first day of October, eighteen hundred and eighty-eight, it is further provided that section three of the said act of May seventh, eighteen hundred and seventy-eight, and also section five of the act of March third, eighteen hundred and eighty-seven, be, and the same are hereby, so amended as to allow the Secretary of the Treasury to sell any of the securities held by him in the sinking fund of the said companies, and to invest the proceeds of the securities so sold and any other funds held by him in the sinking funds, in the first-mortgage bonds of any of the Pacific Railroads, aided with bonds of the United States, or in any bonds or securities of the United States, in his discretion.

SEC. 15. If the said Union Pacific Railway Company shall accept the provisions of this act in the manner and within the time herein provided, then, from and after the completion of the said adjustment and settlement, all provisions of law relating to the appointment of Government directors shall be, and the same are hereby, repealed, and the said office is hereby abolished, and all provisions of law relating to the collection of any percentage of net earnings, and to the withholding or application of any moneys due or to become due from the United States for any services rendered by the said Union Pacific Railway Company or any of its branches or auxiliary or leased lines are hereby repealed, and all such amounts shall (provided the said company shall not be in default in the payment of the interest on the bonds or in the payments to the sinking fund required by this act) be paid to the said company as soon as such amounts shall have been ascertained and audited. (And all provisions of law forbidding the said company from mortgaging or pledging its property shall be repealed, and the company shall, after the acceptance of the terms of this act as hereinbefore provided, have and possess all the usual powers of borrowing money on its credit or on security of any of its assets, or of constructing or extending its railway, or of acquiring for such purpose title to land by condemnation proceedings as are granted to and exercised by railway corporations in the respective States and Territories in which the said Union Pacific railway is or may be situated.) The said Union Pacific Railway Company is also empowered to extend the time for the maturity of any bond or bonds of the Union Pacific Railroad Company or of the Kansas Pacific Railway

Company which by the terms of the act of July second, eighteen hundred and sixty-four, have priority of lien over the statutory lien of the United States for such terms or terms of years as it may deem proper: *Provided, however*, That such extension shall be at a rate of interest not to exceed four per centum per annum, payable semi-annually, and the lien of the United States both under the statutory lien and under the mortgage authorized by this act, shall continue to be subordinate to that of the bonds so extended: *Provided, however*, That all interest accrued on the said bonds at the time of such extension shall have been fully paid, and that the amount thereof shall not exceed the principal of the debt which was allowed priority over the debt due to the United States: *And provided also*, That the lien of the said bonds shall not be extended to any property other than that now covered by the mortgage securing the said bonds.

SEC. 16. If the Union Pacific Railway Company shall accept the terms of this act and complete the said adjustment, it is hereby authorized, at any time before the first day of July, eighteen hundred and eighty-nine, to convey and release to the United States all of the public lands heretofore conveyed by patent, or to which it may still be entitled under the terms of its grant and which remain unsold, and which shall be at the time of the release free from incumbrance. The Secretary of the Treasury shall, on the certificate of the Secretary of the Interior stating the number of acres which have been so released, allow to the Union Pacific Railway Company the value of such lands at the rate of one dollar and twenty-five cents per acre as a cash payment on account of the bonds authorized by this act, and shall cancel and deliver to the said company as many of the said bonds as shall, with the accrued interest thereon, equal the value of the said lands at the said rate per acre.

SEC. 17. It shall be the duty of the Attorney-General to cause the provisions of this act to be enforced, and he shall take all steps needful to that end, and shall make report to the President each year or oftener thereon, which report shall be laid before Congress. And until the settlement in this act provided for shall be completed, all existing provisions of law relating to said companies respectively, shall remain in force; and on and after the said first day of July, eighteen hundred and eighty-eight, sections thirteen and fourteen of this act shall, if said settlement fail to be completed, take effect.

SEC. 18. That this act shall be deemed and taken to be a public act to all intents and purposes, and shall be subject to alteration, amendment, or repeal, as in the judgment of Congress the public good may require.

A BILL to amend an act entitled "An act to aid in the construction of a railroad and telegraph line from the Missouri River to the Pacific Ocean, and to secure to the Government the use of the same for postal, military, and other purposes," approved July first, eighteen hundred and sixty-two; also to amend an act approved July second, eighteen hundred and sixty-four; also an act approved May seventh, eighteen hundred and seventy-eight, both in amendment of the said first-mentioned act; and to provide for a settlement of the claims growing out of the issue of bonds to aid in the construction of the Central Pacific and Western Pacific, and to secure to the United States the payment of all indebtednesses of said companies.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled:

SECTION 1. That the Secretary of the Treasury be, and he is hereby, authorized and directed to ascertain the amount of the indebtedness of the Central Pacific Railroad Company and the Western Pacific Railroad Company to the United States as of the first day of July, eighteen hundred and eighty-eight, upon the same principle as if the whole sum of the said bonds advanced to the said companies, and the interest paid and to be paid by the United States thereon, and not heretofore repaid by credits on account thereof, were to be paid to the United States in cash on said day; and the said sum shall be computed and ascertained as follows:

First. Add to the principal of the said bonds the interest paid and to be paid thereon by the United States up to the maturity thereof.

Second. Deduct from this sum the amount of the interest which shall, at the time of such computation, have been reimbursed to the United States by the payments and credits which appear in the bond and interest account of the said companies with the United States.

Third. Compute the worth of the amount so found as of the first day of July eighteen hundred and eighty-eight, on the basis that money is worth three per centum per annum, by discounting the said amount at three per centum per annum, compounded semi-annually for the period between the date of average maturity of the said bonds and the first day of July eighteen hundred and eighty-eight. From the sums so ascertained, there shall be deducted the amounts in the sinking fund properly applicable to said companies, computing the value of any bonds in said sinking fund at market value at the time of such computation, as estimated by the Treasury. The final sum so computed and ascertained shall be required to be paid in cash on the said first day.

and eighty-eight, by said companies for the purpose of completely discharging their entire debt to the United States.

SEC. 2. That the Central Pacific Railroad Company (the successor to the Central Pacific Railroad Company of California, and to the Western Pacific Railroad Company) be, and it hereby is, authorized to make, execute, and deliver to two trustees, to be appointed as hereinafter provided, its certain indenture of mortgage, which shall bear date the first day of July, eighteen hundred and eighty-eight, covering and embracing the entire property of the said Central Pacific Railroad Company as at present consolidated, real, personal, and mixed, of whatsoever nature or wheresoever situated. And the said Central Pacific Railroad Company shall also assign to the said trustees all its right, title, and interest in any bonds, stocks, or leases of branch lines or auxiliary companies in which the said Central Pacific Railroad Company has any interest. A proper and complete description and inventory of all the property affected by said mortgage shall be prepared and filed with the Secretary of the Treasury. The said mortgage and the property therein described shall be held by the said trustees as security for the payment of the principal and interest of the bonds issued thereunder and authorized by this act. But this section shall not be construed to prevent said company from using and disposing of any of its property or assets in the ordinary, proper, and lawful course of its current business, in good faith and for valuable consideration, and not in violation or diminution of the security and lien of the Government: *Provided*, That every such disposition of any stocks, bonds, or other securities owned by the said company, whether by sale, pledge, or otherwise, shall be reported to the Secretary of the Treasury by the said company within thirty days after such disposition has been made, and that the bonds, stocks, or other obligations acquired with the proceeds of the property so disposed of shall in like manner, and with the same power to dispose of the same, be subject to the lien of the said mortgage, and that true and proper descriptions and lists of the same shall be from time to time prepared and filed with the Secretary of the Treasury.

SEC. 3. One of the trustees of the said mortgage hereby authorized shall be appointed by the Central Pacific Railroad Company, subject, however, to the written approval of the President of the United States. The second trustee shall be appointed by the President of the United States, who may, in his discretion, appoint the same person trustee of other mortgages of any roads that have received Government aid in bonds, and which may be executed to secure any debt to the United States. He shall receive an annual salary, not exceeding ten thousand dollars, to be fixed and paid by the Secretary of the Treasury.

SEC. 4. The Central Pacific Railroad Company is hereby authorized to make, execute, and issue, under the mortgage aforesaid, its bonds, equal in amount to the present worth of the debt due to the United States, ascertained as above provided, each of which shall be for the principal sum of one thousand dollars, and shall be payable fifty years after the first day of July, eighteen hundred and eighty-eight. Said bonds shall bear interest at the rate of three per centum per annum, payable semi-annually on the first days of January and July of each year, and shall, at the time of the execution and delivery of the said mortgage, be delivered to the Secretary of the Treasury.

SEC. 5. The mortgage aforesaid shall contain a covenant providing that, in the event of any default continuing for six months in the regular payment of interest on said bonds, or of the sinking-fund payments required by this act, the entire debt due the United States shall immediately mature at the option of the United States, and shall also contain such other terms and stipulations as may be deemed necessary to efficiently secure the said bonds, and as may be approved by the Secretary of the Treasury of the United States. It shall also be made, executed, and recorded so as to conform to the laws of the various States or Territories in which the property described in the mortgage is situated, and shall be of such form, tenor, and effect as shall make the security of said mortgage a valid and legal one under the laws of such States or Territories.

SEC. 6. The said Central Pacific Railroad Company shall annually, on the first day of July in each year, commencing on the first day of July, eighteen hundred and eighty-nine, pay to the trustees named in the said mortgage the sum of one-half of one per centum of the entire amount of the outstanding bonds issued under the said mortgage, until and including the year eighteen hundred and ninety-eight, and after that date shall pay annually the sum of one per centum thereof. The annual payments so made shall be held by the trustees as a sinking fund, applicable to the redemption of the principal of the said bonds at maturity, whether arising from the expiration of their term or by reason of a default in the payment of interest. The said trustees shall have full power to invest, reinvest, and change the investment of the funds, securities, and moneys held by them in the said sinking fund. It shall be the duty of the said trustees, on or before the first day of August of each year, after the first day of July, eighteen hundred and eighty-nine, to report to the Secretary of the Treasury the condition of the property held by them, and of the said sinking fund, and of all investments thereof made by them.

SEC. 7. The estate of each mortgagor of the United States shall remain in full force as security for the debt due from the said Central Pacific Railroad Company to the United States until all the debt in the property affected by the said mortgage and existing at the time of its delivery and assignment to the said mortgagor shall have been paid, satisfied, and discharged of record. In any proceedings for the enforcement of such statutory lien or of the mortgage provided for in this act, the United States shall have the right to pay to any holder of bonds or obligations secured under such act, or to the trustees of any mortgage securing the same, the value of such bonds or obligations, and shall thereupon be subrogated to all the rights of such holders in any property lent as security for such bonds or obligations.

SEC. 8. No dividends on capital stock or otherwise shall be paid by the said Central Pacific Railroad Company, unless the same shall have been actually earned during the fiscal year preceding the year in which said dividends shall be declared, nor unless the company shall have paid all interest on any of its bonded debt, and all sinking-fund obligations, and unless the said earnings, after deducting all interest accrued, but not payable at the time of the declaration of such dividends, shall be sufficient to justify the payment thereof. In no event shall it be lawful for the said company to pay any dividends exceeding the rate of four per centum per annum, unless the said company shall at the time of declaring such dividends in excess of four per centum per annum, pay an amount equal to the excess over four per centum per annum so declared to the said trustees of said mortgage for the purposes of the sinking fund, and unless the earnings of the said fiscal year shall be sufficient to justify the payment of such excess and also the said payment to the trustees of the sinking fund. Any amount so received by the said trustees shall be held and invested by them for the purpose and subject to the provision of section six.

Any director or officer who shall pay or decree or aid in paying or declaring any dividend prohibited by this act shall be punished by imprisonment not exceeding two years, and by fine not exceeding five thousand dollars.

SEC. 9. Nothing in this act contained shall be deemed to, in any manner, affect the obligation of the said company to keep its said railroads and telegraph lines in proper repair and use, and at all times to transmit dispatches over said telegraph lines, and transport mails, troops, munitions of war, and supplies of public stores upon said railroads for the Government, or any department thereof, whenever required so to do, at fair and reasonable rates of compensation, not to exceed the lowest rates paid by any private party for the same kind of service. In the discharge of these duties, the said company shall be subject to and bound by the provisions of any Acts of Congress, and the authority exercised thereunder, relating to postal, military, or any other Government transportation, and shall give the Government preference in the use of the same for all the purposes aforesaid, as mentioned in the sixth section of the act of July first, eighteen hundred and sixty-two, and all acts amendatory of said act.

SEC. 10. The Central Pacific Railroad Company may, at any time after the execution and delivery of the said bonds, but only so long as the said bonds are held and owned by the United States, pay all or any of the said bonds by paying the amount thereof, together with the interest accrued thereon, to the Secretary of the Treasury, who shall thereupon cancel the bonds so paid and deliver the bonds so canceled to the said company. No bonds so canceled shall be reissued, nor shall other bonds in lieu thereof be issued by the said company.

SEC. 11. The said Central Pacific Railroad Company and the Central Pacific Railroad Company of California, and the Western Pacific Railroad Company shall, whenever requested in writing by the Department of Justice of the United States, and so long as the United States shall be the holder and owner of any of the bonds authorized by this act, cause any actions at law, or suits in equity, or other proceedings, to be instituted and prosecuted in the name of said companies, or either of them, against any person who is or has been a director, officer, agent, or employé of the said companies, for the purpose of enforcing any cause of action whatever arising, or which may hereafter arise, out of any alleged violation of duty, misappropriation of assets, or any other act or transaction whatsoever, in respect of which the said Department of Justice shall allege that it desires such action, suit, or other proceedings to be instituted and prosecuted. All such actions, suits and proceedings shall be conducted by the Attorney-General of the United States, and he shall be fully authorized by the said companies, or either of them, to appear for them as attorney or solicitor in such actions, suits, or proceedings, and shall have the entire control of the same from the inception thereof to the end of such prosecution, and also the right to take and prosecute any appeal, or appeals, from any decision or determination made therein. Any sums of money which may be recovered under the provisions of this section shall be paid over by the Central Pacific Railroad Company to the said trustees, for the purposes of the sinking fund established by the sixth section of this act.

SEC. 12. This act shall take effect upon the acceptance of its terms by resolution of the board of directors of the said Central Pacific Railroad Company, over its corporate seal, signed by its president and countersigned by its secretary, and

consent being filed or deposited with the Secretary of the Treasury within one month after the passage of this act, subject, however, to the completion of the settlement and adjustment in this act proposed and provided; and if such acceptance be not so filed, the said company shall take no benefit from this act. Upon the filing of said acceptance and the execution and delivery of the said mortgage and the bonds referred to in the fourth section of this act, the Secretary of the Treasury is authorized and directed to sell any securities held in the sinking fund for said companies. Any excess which may be realized from such sale above the value of such securities, as estimated under the first section of this act, shall be paid to the said company, and any deficiency below such value shall be paid by the said company upon demand made by the Secretary of the Treasury after such sale. The delivery of the said bonds, and the adjustment provided for by this act, shall be completed on or before the first day of October, eighteen hundred and eighty-eight.

SEC. 13. If the said Central Pacific Railroad Company shall fail to accept the foregoing provisions of this act, or if the settlement and adjustment provided by this act shall fail to be completed on the first day of October, eighteen hundred and eighty-eight, there shall be charged to and collected from the said Central Pacific Railroad Company and the said Western Pacific Railroad Company, and their successors and assigns, from and after the first day of July, eighteen hundred and eighty-eight, all of the annual net earnings of the subsidized portions of said railroads, to be ascertained as provided in section one of the act of May seventh, eighteen hundred and seventy-eight.

SEC. 14. In the event of the non-acceptance of the provisions of this act by the said Central Pacific Railroad Company, or of the failure to complete the settlement heretofore provided, on or before the first day of October, eighteen hundred and eighty-eight, it is further provided that section three of the said act of May seventh, eighteen hundred and seventy-eight, and also section five of the act of March third, eighteen hundred and eighty-seven, be, and the same are hereby, so amended as to allow the Secretary of the Treasury to sell any of the securities held by him in the sinking funds of said companies, and to invest the proceeds of the securities so sold, and any other funds held by him in the said sinking funds, in the first-mortgage bonds of any of the Pacific railroads aided with bonds of the United States, or in any bonds or securities of the United States, at his discretion.

SEC. 15. If the said Central Pacific Railroad Company shall accept the provisions of this act in the manner and within the time herein provided, then, from and after the completion of the said adjustment and settlement, all provisions of law relating to the collection of any percentage of net earnings, and to the withholding or application of any moneys due or to become due from the United States for any services rendered by the said Central Pacific Railroad Company, or any of its branches or auxiliary or leased lines, are hereby repealed, and all such amounts shall (provided the said company shall not be in default in the payment of the interest on the bonds or in the payments to the sinking fund required by this act) be paid to the said company as soon as such amounts shall have been ascertained and audited.

The said company, in the same event, is also empowered to extend the time for the maturity of any of its bonds which, by the terms of the act of July second, eighteen hundred and sixty-four, have priority of lien over the statutory lien of the United States, for such term or terms of years as it may deem proper: *Provided, however*, That such extension shall be at a rate of interest not to exceed four per cent. per annum, payable semi-annually; and the lien of the United States, both under the statutory lien and under the mortgage authorized by this act, shall continue to be subordinate to that of the bonds so extended: *Provided, however*, That all interest accrued on the said bonds at the time of such extension shall have been fully paid, and that the amount thereof shall not exceed the principal of the debt which was allowed priority over the debt due to the United States: *And provided, also*, That the lien of the said bonds shall not be extended to any property other than that now covered by the mortgage securing the said bonds.

SEC. 16. If the Central Pacific Railroad Company shall accept the terms of this act, and complete the said adjustment, it is hereby authorized, at any time before the first day of July, eighteen hundred and eighty-nine, to convey and release to the United States all of the public lands heretofore conveyed by patent, or to which it may still be entitled under the terms of its grant, and which remain unsold, and which shall be at the time of the release free from incumbrance. The Secretary of the Treasury shall, on the certificate of the Secretary of the Interior stating the number of acres which have been so released, allow to the Central Pacific Railroad Company the value of such lands at the rate of one dollar and twenty-five cents per acre, as a cash payment on account of the bonds authorized by this act, and shall cancel and deliver to the said company as many of the said bonds as shall, with the accrued interest thereon, equal the value of the said lands at the said rate per acre.

SEC. 17. It shall be the duty of the Attorney-General to cause the provisions of this act to be enforced, and he shall take all steps needful to that end, and shall make report to the President each year, or oftener, thereon, which report shall be laid before Congress. And until the settlement in this act provided for shall be completed,

all existing provisions of law relating to said companies respectively, shall remain in force; and on and after the said first day of July, eighteen hundred and eighty-eight, sections thirteen and fourteen of this act shall, if said settlement fail to be completed, take effect.

SEC. 18. This act shall be deemed and taken to be a public act to all intents and purposes, and shall be subject to alteration, amendment, or repeal, as in the judgment of Congress the public good may require.

A BILL to amend an act entitled "An act to aid in the construction of a railroad and telegraph line from the Missouri River to the Pacific Ocean, and to secure to the Government the use of the same for postal, military, and other purposes," approved July first, eighteen hundred and sixty-two; also to amend an act approved July second, eighteen hundred and sixty-four; also an act approved May seventh, eighteen hundred and seventy-eight, both in amendment of the said first-mentioned act; and to provide for a settlement of the claims growing out of the issue of bonds to aid in the construction of the Central Branch Union Pacific Railroad and to secure to the United States the payment of all the indebtedness of said company.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled:

SECTION 1. That the Secretary of the Treasury be, and he is hereby, authorized and directed to ascertain the amount of the indebtedness of the Central Branch Union Pacific Railroad Company to the United States as of the first day of July, eighteen hundred and eighty-eight, upon the same principle as if the whole sum of the bonds advanced to the said company, and the interest paid and to be paid by the United States thereon, and not heretofore repaid by credits on account thereof, were to be paid to the United States in cash on said day; and the said sum shall be computed and ascertained as follows:

First. Add to the principal of the said bonds the interest paid and to be paid thereon by the United States up to the maturity thereof.

Second. Deduct from this sum the amount of the interest which shall, at the time of such computation, have been reimbursed to the United States by the payments and credits which appear in the bond and interest account of the said company with the United States.

Third. Compute the worth of the amount so found as of the first day of July, eighteen hundred and eighty-eight, on the basis that money is worth three per centum per annum, by discounting the said amount at three per centum per annum, compounded semi-annually for the period between the date of average maturity of the said bonds and the first day of July, eighteen hundred and eighty-eight. The final sum so computed and ascertained shall be deemed the sum that would be required to be paid in cash on the said first day of July, eighteen hundred and eighty-eight, by said company, for the purpose of completely discharging its entire debt to the United States.

SEC. 2. The said Central Branch Union Pacific Railroad Company is hereby authorized to make, execute, and deliver to two trustees, to be appointed as hereinafter provided, its certain indenture of mortgage which shall bear date the first day of July, eighteen hundred and eighty-eight, covering and embracing the entire property of the said Central Branch Union Pacific Railroad Company, real, personal, and mixed, of whatever nature and wheresoever situated. The said Central Branch Union Pacific Railroad Company shall also assign to the said trustees all its right, title, and interest in any bonds, stocks, or leases of branch lines or auxiliary companies in which the Central Branch Union Pacific Railroad Company has any interest. A proper and complete description and inventory of all the property affected by said mortgage shall be prepared and filed with the Secretary of the Treasury. The said trustees shall hold the said mortgage and the property therein described as security for the payment of the principal and interest of the bonds issued thereunder and authorized by this act.

But this section shall not be construed to prevent said company from using and disposing of any of its property or assets in the ordinary, proper, and lawful course of its current business, in good faith and for valuable consideration, and not in violation or diminution of the security and lien of the Government: *Provided*, that every such disposition of any stocks, bonds, or other securities owned by the said company, whether by sale, pledge, or otherwise, shall be reported to the Secretary of the Treasury by the said company within thirty days after such disposition has been made; and that the bonds, stocks, or other obligations acquired with the proceeds of the property so disposed of shall in like manner, and with the same power to dispose of the same, be subject to the lien of the said mortgage, and that true and proper descriptions and lists of the same shall be from time to time prepared and filed with the Secretary of the Treasury.

SEC. 3. One of the trustees of the said mortgage hereby authorized shall be appointed by the Central Branch Union Pacific Railroad Company, subject, however, to the written approval of the President of the United States. The second trustee shall be appointed by the President of the United States, who may, in his discretion, appoint the same person trustee of other mortgages of any roads that have received Govern-

ment aid in bonds, and which may be executed to secure any debt to the United States. He shall receive an annual salary not exceeding five thousand dollars, to be fixed and paid by the Secretary of the Treasury.

SEC. 4. The Central Branch Union Pacific Railroad Company is hereby authorized to make, execute, and issue, under the mortgage aforesaid, its bonds equal in amount to the present worth of the debt due to the United States, ascertained as above provided, each of which bonds shall be for the principal sum of one thousand dollars, and shall be payable fifty years after the first day of July, eighteen hundred and eighty-eight. The said bonds shall bear interest at the rate of three per centum per annum, payable semi-annually on the first days of January and July of each year, and shall, at the time of the execution and delivery of the said mortgage, be delivered to the Secretary of the Treasury.

SEC. 5. The mortgage aforesaid shall contain a covenant providing that, in the event of any default in the regular payment of interest on said bonds, or of the sinking fund payments required by this act, continuing for six months, the whole of the said debt due to the United States, shall, at the option of the United States, immediately mature; and shall also contain such other terms and stipulations as may be deemed necessary to efficiently secure the said bonds, and as may be approved by the Secretary of the Treasury of the United States. It shall also be made, executed, and recorded, so as to conform to the laws of the State in which the property covered by the mortgage is situated, and shall be of such form, tenor, and effect as shall make the security of the said mortgage a valid and legal one under the laws of the said State.

SEC. 6. The said Central Branch Union Pacific Railroad Company shall annually, on the first day of July in each year, commencing on the first day of July, eighteen hundred and eighty-nine, pay to the trustees named in the said mortgage, the sum of one-half of one per centum of the entire amount of the bonds outstanding under the said mortgage, until and including the year eighteen hundred and ninety-eight, and after that date shall pay the sum of one per centum thereof annually. The annual payments so made shall be held by the trustees as a sinking fund applicable to the redemption of the principal of the said bonds at maturity, whether arising from the expiration of their term or by reason of default in the payment of the interest. The said trustees shall have full power to invest, reinvest, and change the investment of the funds, securities, and moneys held by them in the said sinking fund. It shall be the duty of the said trustees on or before the first day of August of each year, after the first day of July, eighteen hundred and eighty-nine, to report to the Secretary of the Treasury the condition of the property held by them and of the said sinking fund, and of all investments thereof made by them.

SEC. 7. The existing statutory lien of the United States shall remain in full force as security for the debt due from the said Central Branch Union Pacific Railroad Company to the United States until all liens on the property covered by said mortgage, and existing at the time of its delivery, and which liens are subsequent to the said statutory lien, shall have been paid, satisfied, and discharged of record. In any proceedings for the enforcement of said statutory lien, or the mortgage provided for in this act, the United States shall have the right to pay to any holder of bonds or obligations secured under such subsequent liens, or to the trustees of any mortgage securing the same, the value of such bonds or obligations, and shall thereupon be subrogated to all the rights of such holders in any property held as security for such bonds or obligations.

SEC. 8. No dividends on capital stock or otherwise shall be paid by the said Central Branch Union Pacific Railroad Company, unless the same shall have been actually earned during the fiscal year preceding the year in which said dividends shall be declared, nor unless said company shall have paid all interest on any of its bonded debt and all sinking fund obligations, and unless the said earnings, after deducting all interest accrued, but not payable at the time of the declaration of such dividends, shall be sufficient to justify the payment thereof. In no event shall it be lawful for said company to pay any dividend exceeding the rate of four per centum per annum, unless the said company shall, at the time of declaring such dividends in excess of four per centum per annum, pay an amount equal to the excess over four per centum per annum so declared, to the trustees of the said mortgage for the purposes of the said sinking fund, and unless the earnings of the said fiscal year shall be sufficient to justify the payment of such excess and also the said payment to the trustees of the sinking fund. Any amount so received by the said trustees shall be held and invested by them for the purpose and subject to the provisions of section six.

Any director or officer who shall pay or declare or aid in paying or declaring any dividend prohibited by this act, shall be punished by imprisonment not exceeding two years, and by fine not exceeding five thousand dollars.

SEC. 9. Nothing in this act contained shall be deemed to in any manner affect the obligation of the said company to keep its said railroad and telegraph lines in proper repair and use, and at all times to transmit dispatches over said telegraph lines, and to transport mails, troops, munitions of war, and supplies of public stores on said

railroad for the Government, or any Department thereof, whenever required to do so, at fair and reasonable rates of compensation, not to exceed the lowest rates paid by any private party for the same kind of service. In the discharge of these duties the said company shall be subject to, and bound by, the provisions of any Act of Congress and the authority exercised thereunder, relating to postal, military, or any other Government transportation, and shall give the Government preference in the use of the same for all the purposes aforesaid, as mentioned in the sixth section of the act of July first, eighteen hundred and sixty-two, and all acts amendatory of the said act.

SEC. 10. The Central Branch Union Pacific Railroad Company may, at any time after the execution and delivery of the said bonds, but only so long as the said bonds are held and owned by the United States, pay all or any of the said bonds by paying the amount thereof, together with the interest accrued thereon, to the Secretary of the Treasury, who shall thereupon cancel the bonds so paid and deliver the bonds so canceled to the said company. No bonds so canceled shall be reissued, nor shall other bonds in lieu thereof be issued by said company.

SEC. 11. The Central Branch Union Pacific Railroad Company shall, whenever requested in writing by the Department of Justice of the United States, and so long as the United States shall be the holder and owner of any of the bonds authorized by this act, cause any actions at law or suits in equity, or other proceedings, to be instituted and prosecuted in the name of the said company against any person who is or has been a director, officer, agent, or employé of the said company for the purpose of enforcing any cause of action whatever, arising, or which may hereafter arise, out of any alleged violation of duty, misappropriation of assets, or any other act or transaction whatsoever in respect to which the said Department of Justice shall allege that it desires such action, suit, or other proceedings to be instituted and prosecuted. All such actions, suits, and proceedings shall be conducted by the Attorney-General of the United States, and he shall be fully authorized by the said company to appear for it as attorney or solicitor in such action, suits, or proceedings, and shall have the entire control of the same from the inception to the end thereof, and also the right to take and prosecute any appeal or appeals from any decision or determination made therein. Any sums of money which may be recovered under the provisions of this section shall be paid over by the said Central Branch Union Pacific Railroad Company to the said trustees, for the purposes of the sinking fund established by the sixth section of this act.

SEC. 12. This act shall take effect upon the acceptance of its terms by resolution of the board of directors of the said Central Branch Union Pacific Railroad Company over its corporate seal, signed by its president and countersigned by its secretary, and upon such consent being filed or deposited with the Secretary of the Treasury within one month after the passage of this act, subject, however, to the completion of the settlement and adjustment in this Act proposed and provided; and if such acceptance be not so filed, then the said company shall take no benefit from this act. The delivery of the said bonds and the adjustment provided for by this Act shall be completed on or before the first day of October, eighteen hundred and eighty-eight.

SEC. 13. If the said Central Branch Union Pacific Railroad Company shall fail to accept the foregoing provisions of this act, or if the settlement and adjustment provided by this act shall fail to be completed on the first day of October, eighteen hundred and eighty-eight, there shall be charged to and collected from the said Central Branch Union Pacific Railroad Company, from and after the first day of July, eighteen hundred and eighty-eight, seventy-five per centum of the annual net earnings of the subsidized portions of said railroad, to be ascertained as provided in section one of the act of May seventh, eighteen hundred and seventy-eight, and to that end the said act of May seventh, eighteen hundred and seventy-eight, commonly called the "sinking fund act," and any and all amendments or modifications thereof, shall be and the same are hereby extended to the Central Branch Union Pacific Railroad Company in the same manner as though the said company had been specifically named in the said act.

SEC. 14. In the event of the non-acceptance of the provisions of this act by the said Central Branch Union Pacific Railroad Company, or of the failure to complete the settlement hereinbefore provided, on or before the first day of October, eighteen hundred and eighty-eight, it is further provided that section three of the said act of May seventh, eighteen hundred and seventy-eight, and also section five of the act of March third, eighteen hundred and eighty-seven, be and the same are hereby so amended as to allow the Secretary of the Treasury to sell any of the securities which he may at any time hold in the sinking fund of the said company, and to invest the proceeds of the securities so sold, and any other funds held by him in the said sinking fund, in the first-mortgage bonds of any of the Pacific railroads aided with bonds of the United States, or in any bonds or securities of the United States, at his discretion.

SEC. 15. If the said Central Branch Union Pacific Railroad Company shall accept the provisions of this Act in the manner and within the time herein provided, then, from and after the completion of the said adjustment and settlement, all provisions of law relating to the collection of any percentage of net earnings, and to the

withholding or application of any moneys due or to become due from the United States for any services rendered by the said Central Branch Union Pacific Railroad Company, or any of its branches or auxiliary or leased lines, are hereby repealed, and all such amounts shall (provided the said company shall not be in default in the payment of the interest on the bonds or in the payments to the sinking fund required by this act) be paid to the said company as soon as such amounts shall have been ascertained and audited. The said company, in the same event, is also empowered to extend the time for the maturity of any of its bonds which, by the terms of the act of July second, eighteen hundred and sixty-four, have priority of lien over the statutory lien of the United States, for such term or terms of years as it may deem proper: *Provided, however*, That such extension shall be at a rate of interest not to exceed four per centum per annum, payable semi-annually, and the lien of the United States, both under the statutory lien and under the mortgage authorized by this act, shall continue to be subordinate to that of the bonds so extended: *Provided, however*, That all interest accrued on the said bonds at the time of such extension shall have been fully paid, and that the amount thereof shall not exceed the principal of the debt which was allowed priority over the debt due to the United States: *And provided also*, That the lien of the said bonds shall not be extended to any property other than that now covered by the mortgage securing the said bonds.

SEC. 16. If the Central Branch Union Pacific Railroad Company shall accept the terms of this act and complete the said adjustment, it is hereby authorized, at any time before the first day of July, eighteen hundred and eighty-nine, to convey and release to the United States all of the public lands heretofore conveyed by patent, or to which it may still be entitled under the terms of its grant, and which remain unsold, and which shall be at the time of the release free from encumbrance. The Secretary of the Treasury shall, on the certificate of the Secretary of the Interior stating the number of acres which have been so released, allow to the Central Branch Union Pacific Railroad Company the value of such lands at the rate of one dollar and twenty-five cents per acre, as a cash payment on account of the bonds authorized by this act, and shall cancel and deliver to the said company as many of the said bonds as shall, with the accrued interest thereon, equal the value of the said lands at the said rate per acre.

SEC. 17. It shall be the duty of the Attorney-General to cause the provisions of this act to be enforced, and he shall take all steps needful to that end, and shall make report to the President each year, or oftener, thereon, which report shall be laid before Congress. And until the settlement in this act provided for shall be completed, all existing provisions of law relating to said company shall remain in force, and on and after the said first day of July, eighteen hundred and eighty-eight, sections thirteen and fourteen of this act shall, if said settlement fail to be completed, take effect.

SEC. 18. This act shall be deemed and taken to be a public act to all intents and purposes, and shall be subject to alteration, amendment, or repeal, as in the judgment of Congress the public good may require.

A BILL to amend an act entitled "An act to aid in the construction of a railroad and telegraph line from the Missouri River to the Pacific Ocean, and to secure to the Government the use of the same for postal, military, and other purposes," approved July first, eighteen hundred and sixty-two; also to amend an act approved July second, eighteen hundred and sixty-four; also an act approved May seventh, eighteen hundred and seventy-eight, both in amendment of the said first-mentioned act, and to provide for a settlement of the claims growing out of the issue of bonds to aid in the construction of the Sioux City and Pacific Railroad and to secure to the United States the payment of all the indebtedness of said company.

Be it enacted by the Senate and House of Representatives of the United States of America, in Congress assembled:

SECTION 1. That the Secretary of the Treasury be, and he is hereby, authorized and directed to ascertain the amount of the indebtedness of the Sioux City and Pacific Railroad Company to the United States as of the first day of July, eighteen hundred and eighty-eight, upon the same principle as if the whole sum of the bonds advanced to the said company, and the interest paid and to be paid by the United States thereon, and not heretofore repaid by credits on account thereof, were to be paid to the United States in cash on said day; and the said sum shall be computed and ascertained as follows:

First. Add to the principal of the said bonds the interest paid and to be paid thereon by the United States up to the maturity thereof.

Second. Deduct from this sum the amount of the interest which shall, at the time of such computation, have been reimbursed to the United States by the payments and credits which appear in the bond and interest account of the said company with the United States.

Third. Compute the worth of the amount so found as of the first day of July, eighteen hundred and eighty-eight, on the basis that money is worth three per centum per annum, by discounting the said amount at three per centum per annum, compounded semi-annually for the period between the date of average maturity of the said bonds and the first day of July, eighteen hundred and eighty-eight. The final sum so

computed and ascertained shall be deemed the sum that would be required to be paid in cash on the said first day of July, eighteen hundred and eighty-eight, by said company for the purpose of completely discharging its entire debt to the United States.

SEC. 2. The said Sioux City and Pacific Railroad Company is hereby authorized to make, execute, and deliver to two trustees, to be appointed as hereinafter provided, its certain indenture of mortgage, which shall bear date the first day of July, eighteen hundred and eighty-eight, covering and embracing the entire property of the said Sioux City and Pacific Railroad Company, real, personal, and mixed, of whatever nature and wheresoever situated. The said Sioux City and Pacific Railroad Company shall also assign to the said trustees all its right, title, and interest in any bonds, stocks, or leases of branch lines or auxiliary companies in which the Sioux City and Pacific Railroad Company has any interest. A proper and complete description and inventory of all the property affected by said mortgage shall be prepared and filed with the Secretary of the Treasury. The said trustees shall hold the said mortgage and the property therein described as security for the payment of the principal and interest of the bonds issued thereunder and authorized by this act.

But this section shall not be construed to prevent said company from using and disposing of any of its property or assets in the ordinary, proper, and lawful course of its current business, in good faith and for valuable consideration, and not in violation or diminution of the security and lien of the Government: *Provided*, That every such disposition of any stocks, bonds or other securities owned by the said company, whether by sale, pledge, or otherwise, shall be reported to the Secretary of the Treasury by the said company within thirty days after such disposition has been made, and that the bonds, stocks, or other obligations acquired with the proceeds of the property so disposed of shall, in like manner, and with the same power to dispose of the same, be subject to the lien of the said mortgage, and that true and proper descriptions and lists of the same shall be, from time to time, prepared and filed with the Secretary of the Treasury.

SEC. 3. One of the trustees of the said mortgage hereby authorized shall be appointed by the Sioux City and Pacific Railroad Company, subject, however, to the written approval of the President of the United States. The second trustee shall be appointed by the President of the United States, who may, in his discretion, appoint the same person trustee of other mortgages of any roads that have received Government aid in bonds, and which may be executed to secure any debt to the United States. He shall receive an annual salary, to be fixed and paid by the Secretary of the Treasury, and which shall not exceed five thousand dollars.

SEC. 4. The Sioux City and Pacific Railroad Company is hereby authorized to make, execute and issue, under the mortgage aforesaid, its bonds equal in amount to the present worth of the debt due to the United States, ascertained as above provided, each of which bonds shall be for the principal sum of one thousand dollars, and shall be payable fifty years after the first day of July, eighteen hundred and eighty-eight. The said bonds shall bear interest at the rate of three per centum per annum, payable semi-annually on the first days of January and July of each year, and shall, at the time of the execution and delivery of the said mortgage, be delivered to the Secretary of the Treasury.

SEC. 5. The mortgage aforesaid shall contain a covenant providing that in the event of any default in the regular payment of interest on said bonds, or of the sinking-fund payments required by this act, continuing for six months, the whole of the said debt due the United States shall, at the option of the United States, immediately mature; and shall also contain such other terms and stipulations as may be deemed necessary to efficiently secure the said bonds, and as may be approved by the Secretary of the Treasury of the United States. It shall also be made, executed, and recorded so as to conform to the laws of the States in which the property covered by the mortgage is situated, and shall be of such form, tenor, and effect as shall make the security of the said mortgage a valid and legal one under the laws of the said States.

SEC. 6. The said Sioux City and Pacific Railroad Company shall, annually, on the first day of July in each year, commencing on the first day of July, eighteen hundred and eighty-nine, pay to the trustees named in the said mortgage the sum of one-half of one per centum of the entire amount of the bonds outstanding under the said mortgage, until and including the year eighteen hundred and ninety-eight, and after that date shall pay the sum of one per centum thereof annually. The annual payments so made shall be held by the trustees as a sinking fund applicable to the redemption of the principal of the said bonds at maturity, whether arising from the expiration of their term or by reason of default in the payment of the interest. The said trustees shall have full power to invest, reinvest, and change the investment of the funds, securities, and moneys held by them in the said sinking fund. It shall be the duty of the said trustees, on or before the first day of August of each year, after the first day of July, eighteen hundred and eighty-nine, to report to the Secretary of the Treasury the condition of the property held by them, and of the said sinking fund, and of all investments thereof made by them.

SEC. 7. The existing statutory lien of the United States shall remain in full force as security for the debt due from the said Sioux City and Pacific Railroad Company

to the United States until all liens on the property covered by said mortgage, and existing at the time of its delivery, and which liens are subsequent to the said statutory lien, shall have been paid, satisfied, and discharged of record. In any proceedings for the enforcement of said statutory lien, or the mortgage provided for in this act, the United States shall have the right to pay to any holder of bonds or obligations secured under such subsequent liens, or to the trustees of any mortgage securing the same, the value of such bonds or obligations, and shall thereupon be subrogated to all the rights of such holders in any property held as security for such bonds or obligations.

SEC. 8. No dividends on capital stock, or otherwise, shall be paid by the said Sioux City and Pacific Railroad Company, unless the same shall have been actually earned during the fiscal year preceding the year in which said dividends shall be declared, nor unless said company shall have paid all interest on any of its bonded debt and all sinking-fund obligations, and unless the said earnings, after deducting all interest accrued but not payable at the time of the declaration of such dividends, shall be sufficient to justify the payment thereof. In no event shall it be lawful for said company to pay any dividend exceeding the rate of four per centum per annum, unless the said company shall, at the time of declaring such dividends in excess of four per centum per annum, pay an amount equal to the excess over four per centum per annum, so declared, to the trustees of the said mortgage, for the purposes of the said sinking fund, and unless the earnings of the said fiscal year shall be sufficient to justify the payment of such excess, and also the said payment to the trustees of the sinking fund. Any amount so received by the said trustees shall be held and invested by them for the purpose and subject to the provisions of section six.

Any director or officer who shall pay or declare or aid in paying or declaring any dividend prohibited by this act, shall be punished by imprisonment not exceeding two years, and by fine not exceeding five thousand dollars.

SEC. 9. Nothing in this act contained shall be deemed to in any manner affect the obligation of the said company to keep its said road and telegraph lines in proper repair and use, and, at all times, to transmit dispatches over said telegraph lines, and to transport mails, troops, munitions of war, and supplies of public stores on said railroad, for the Government or any department thereof, whenever required to do so, at fair and reasonable rates of compensation not to exceed the lowest rates paid by any private party for the same kind of service. In the discharge of these duties the said company shall be subject to and bound by the provisions of any Act of Congress, and the authority exercised thereunder, relating to postal, military, or any other Government transportation, and shall give the Government preference in the use of the same for all the purposes aforesaid, as mentioned in the sixth section of the act of July first, eighteen hundred and sixty-two, and all acts amendatory of the said act.

SEC. 10. The Sioux City and Pacific Railroad Company may, at any time after the execution and delivery of the said bonds, but only so long as the said bonds are held and owned by the United States, pay all or any of the said bonds by paying the amount thereof, together with the interest accrued thereon, to the Secretary of the Treasury, who shall thereupon cancel the bonds so paid and deliver the bonds so canceled to the said company. No bonds so canceled shall be reissued, nor shall other bonds in lieu thereof be issued by said company.

SEC. 11. The Sioux City and Pacific Railroad Company shall, whenever requested in writing by the Department of Justice of the United States, and so long as the United States shall be the holder and owner of any of the bonds authorized by this act, cause any actions at law or suits in equity or other proceedings to be instituted and prosecuted in the name of the said company against any person who is or has been a director, officer, agent, or employé of the said company, for the purpose of enforcing any cause of action whatever arising, or which may hereafter arise, out of any alleged violation of duty, misappropriation of assets, or any other act or transaction whatsoever in respect to which the said Department of Justice shall allege that it desires such action, suit, or other proceedings to be instituted and prosecuted. All such actions, suits, and proceedings shall be conducted by the Attorney-General of the United States, and he shall be fully authorized by the said company to appear for it as attorney or solicitor in such action, suits, or proceedings, and shall have the entire control of the same from the inception to the end thereof, and also the right to take and prosecute any appeal or appeals from any decision or determination made therein. Any sums of money which may be recovered under the provisions of this section shall be paid over by the said Sioux City and Pacific Railroad Company to the said trustees for the purposes of the sinking fund established by the sixth section of this act.

SEC. 12. This act shall take effect upon the acceptance of its terms by resolution of the board of directors of the said Sioux City and Pacific Railroad Company, over its corporate seal, signed by its president and countersigned by its secretary, and upon such consent being filed or deposited with the Secretary of the Treasury within one month after the passage of this act, subject, however, to the completion of the settlement and adjustment in this act proposed and provided; and if such acceptance be not so filed, then the said company shall take no benefit from this act. The deliv-

ery of the said bonds, and the adjustment provided for by this act, shall be completed on or before the first day of October, eighteen hundred and eighty-eight.

SEC. 13. If the said Sioux City and Pacific Railroad Company shall fail to accept the foregoing provisions of this act, or if the settlement and adjustment provided by this act shall fail to be completed on the first day of October, eighteen hundred and eighty-eight, there shall be charged to and collected from the said Sioux City and Pacific Railroad Company, from and after the first day of July, eighteen hundred and eighty-eight, all of the annual net earnings of the subsidized portions of said railroad, to be ascertained as provided in section one of the act of May seventh, eighteen hundred and seventy-eight, and to that end the said act of May seventh, eighteen hundred and seventy-eight, commonly called the "sinking-fund act," and any and all amendments or modifications thereof, shall be, and the same are hereby, extended to the said Sioux City and Pacific Railroad Company, in the same manner as though the said company had been specifically named in the said act.

SEC. 14. In the event of the non-acceptance of the provisions of this act by the Sioux City and Pacific Railroad Company, or of the failure to complete the settlement hereinbefore provided, on or before the first day of October, eighteen hundred and eighty-eight, it is further provided that section three of the said act of May seventh, eighteen hundred and seventy-eight, and also section five of the act of March third, eighteen hundred and eighty-seven, be and the same are hereby so amended as to allow the Secretary of the Treasury to sell any of the securities which he may at any time hold in the sinking fund of the said company, and to invest the proceeds of the securities so sold, and any other funds held by him in the said sinking fund, in the first-mortgage bonds of any of the Pacific railroads aided with bonds of the United States, or in any bonds or securities of the United States, at his discretion.

SEC. 15. If the said Sioux City and Pacific Railroad Company shall accept the provisions of this act in the manner and within the time herein provided, then, from and after the completion of the said adjustment and settlement, all provisions of law relating to the collection of any percentage of net earnings, and to the withholding or application of any moneys due or to become due from the United States for any services rendered by the said Sioux City and Pacific Railroad Company, or any of its branches or auxiliary or leased lines, are hereby repealed, and all such amounts shall (provided the said company shall not be in default in the payment of the interest on the said bonds, or in the payments to the sinking fund required by this act), be paid to the said company as soon as such amounts shall have been ascertained and audited.

The said company, in the same event, is also empowered to extend the time for the maturity of any of its bonds which, by the terms of the Act of July second, eighteen hundred and sixty-four, have priority of lien over the statutory lien of the United States, for such term or terms of years as it may deem proper: *Provided, however*, that such extension shall be at a rate of interest not to exceed four per cent. per annum, payable semi-annually; and the lien of the United States, both under the statutory lien and under the mortgage authorized by this act, shall continue to be subordinate to that of the bonds so extended: *Provided, however*, That all interest accrued on the said bonds at the time of such extension shall have been fully paid, and that the amount thereof shall not exceed the principal of the debt which was allowed priority over the debt due to the United States; *And provided also*, That the lien of the said bonds shall not be extended to any property other than that now covered by the mortgage securing the said bonds.

SEC. 16. If the said Sioux City and Pacific Railroad Company shall accept the terms of this act and complete the said adjustment, it is hereby authorized, at any time before the first day of July, eighteen hundred and eighty-nine, to convey and release to the United States all of the public lands heretofore conveyed by patent, or to which it may still be entitled under the terms of its grant, and which remain unsold, and which shall be, at the time of the release, free from incumbrance. The Secretary of the Treasury shall, on the certificate of the Secretary of the Interior stating the number of acres which have been so released, allow to the Sioux City and Pacific Railroad Company the value of such lands at the rate of one dollar and twenty-five cents per acre, as a cash payment on account of the bonds authorized by this act, and shall cancel and deliver to the said company as many of the said bonds as shall, with the accrued interest thereon, equal the value of the said lands at the said rate per acre.

SEC. 17. It shall be the duty of the Attorney-General to cause the provisions of this act to be enforced, and he shall take all steps needful to that end, and shall make report to the President each year, or oftener, thereon, which report shall be laid before Congress. And until the settlement in this act provided shall be completed, all existing provisions of law relating to said company shall remain in force, and on and after the said first day of July, eighteen hundred and eighty-eight, sections thirteen and fourteen of this act shall, if said settlement fail to be completed, take effect.

SEC. 18. This act shall be deemed and taken to be a public act to all intents and purposes, and shall be subject to alteration, amendment, or repeal, as in the judgment of Congress the public good may require.

PART SECOND.

STATEMENT OF THE FINANCIAL OPERATIONS OF THE BOND-AIDED
ROADS.

It is not the object of the Commission to present in any detail the actual history of these enterprises. Its intention is only to describe in general terms their construction and development, in so far as may be necessary to understand their financial condition at various periods.

The following is a general statement of the aid extended to these companies by the United States:

Bonds.

Union Pacific.....	\$27,236,512	
Kansas Pacific.....	6,303,000	
Central Branch Union Pacific.....	1,600,000	
Sioux City and Pacific.....	1,628,320	
Central Pacific.....	25,885,120	
Western Pacific.....	1,970,560	
		\$64,623,512

Lands.

	Acres.	Rate per acre.	Amount.	
Union Pacific.....	11,309,844	\$1.25	\$14,137,305	
Kansas Pacific.....	6,000,000	1.25	7,500,000	
Central Branch Union Pacific.....	222,560	1.25	278,200	
Sioux City and Pacific.....	43,336	1.25	54,170	
Central Pacific.....	8,000,000	1.25	10,000,000	
Western Pacific.....	453,794	1.25	567,243	
Total.....	26,029,534			32,536,918
Total, bonds and lands.....				97,160,430

The explanation of the constant and restless discussion and inquiry which has for many years pervaded Congress, the press, and, it may be said, the whole people of this country, in relation to these Pacific companies, is certainly due to the fact that there exists a settled conviction that by the application of ingeniously contrived devices in the construction and operation of these railways the bounty of the Government, intended for the support, development, and insurance of the financial strength of these corporations, has been slowly but surely filtered into the pockets of a few favored officers and managers, who have not scrupled to use their powers as directors and trustees for their own personal advantages.

This Commission finds it impossible to state its views of the object of the Government in making the munificent grant of lands and the great aid of its credit, in better language than that contained in the report of the Wilson committee to the House of Representatives, made on the 20th of February, 1873. The language of that report is as follows:

Your committee can not doubt that it was the purpose of Congress in all this to provide for something more than a mere gift of so much land, and a loan of so many bonds on the one side, and the construction and equipment of so many miles of railroad and telegraph on the other.

The United States was not a mere creditor, loaning a sum of money upon mortgages. The railroad corporation was not a mere contractor, bound to furnish a specified structure and nothing more. The law created a body politic and corporate, bound, as a trustee, so to manage this great public franchise and endowments that not only the security for the great debt due the United States should not be impaired, but so that there should be ample resources to perform its great public duties in time of commercial disaster and in time of war.

This act was not passed to further the personal interests of the corporators, nor for the advancement of commercial interests, nor for the convenience of the general public alone; but in addition to these, the interests, present and future, of the Government, as such, were to be subserved. A great highway was to be created, the use of which for postal, military, and other purposes was to be secured to the Government "at all times," but particularly in time of war. Your committee deem it important to call especial attention to this declared object of this act, to accomplish which object the munificent grant of lands and loan of the Government credit was made. To make such a highway and to have it ready at "all times," and "particularly in time of war," to meet the demands that might be made upon it; to be able to withstand the loss of business and other casualties incident to war and still to perform for the Government such reasonable service as might under such circumstances be demanded, required a strong solvent corporation, and when Congress expressed the object and granted the corporate powers to carry that object into execution, and aided the enterprise with subsidies of lands and bonds, the corporators in whom these powers were vested and under whose control these subsidies were placed, were, in the opinion of your committee, under the highest moral, to say nothing of legal or equitable obligations, to use the utmost degree of good faith toward the Government in the exercise of the powers and disposition of the subsidies.

The conclusion reached by this Commission, based upon their own examinations of the officers of the respective companies, upon the examination of the accounts of the companies by the experts of the Commission, and upon the report of the inspecting engineer of the Commission, is that, with a single exception, to be presently noted, all of the duties and obligations above referred to have been constantly and persistently disregarded. The result is that those who have controlled and directed the construction and development of these companies have become possessed of their surplus assets through issues of bonds, stocks, and payments of dividends, voted by themselves while the great creditor, the United States, finds itself substantially without adequate security for the repayment of its loans.

The single exception above referred to we desire, at the threshold of this portion of the report, to indicate and to emphasize. We refer to the administration of the Union Pacific Railway Company since the spring of 1884. In our judgment it is fully and entirely exonerated from the condemnation to be passed on the transactions of other roads, and relating to other periods. We are satisfied that this administration has devoted itself honestly and intelligently to the herculean task of rescuing the Union Pacific Railway from the insolvency which seriously threatened it at the inception of its work; that it has devoted itself by rigid economy, by intelligent management, and by an application of every dollar of the earning capacity of the system to its improvement and betterment, to place that company on a sound and enduring financial foundation.

This effort has been continued during the past year with increased intelligence and vigor, and we think it to be largely due to this administration that the United States to-day, in our judgment, holds in the Union Pacific Railway, and through the value which it derives as an integral part of the Union Pacific system (if protected by proper legislation), full security for the repayment of its whole debt and of the interest.

STATEMENT OF THE FINANCIAL OPERATIONS OF THE UNION PACIFIC RAILROAD AND RAILWAY COMPANY.

In order to avoid useless repetitions of matters that have been heretofore thoroughly investigated, and as to which the evidence has already been placed before Congress, the Commission accepts, as its conclusions, the results reached by the Wilson committee as applicable to the *construction of the Union Pacific Railroad between Omaha and Ogden,*

a distance of 1,029.38 miles. These conclusions have been corroborated by our examinations. We refer to the reports of Mr. Calhoun (vol. 8), and to the evidence of G. M. Dodge (vol. 7, page 3790), and of Peter A. Dey (vol. 7, page 1425).

It will be remembered that the proof taken by the Wilson committee established substantially the following propositions:

First. That the Union Pacific Railroad, from Omaha to Ogden, was constructed under three contracts known as the "Hoxie contract," the "Ames contract," and the "Davis contract."

Second. That through the intervention of assignments made by the holders of these contracts to trustees, and through the intervention of a construction company known as the "Credit Mobilier of America," the profits derived from these contracts were secured to the officers and promoters of the Union Pacific Railroad itself. The persons who received these profits determined the amount thereof by their own votes.

Third. The result of these three contracts was as follows:

Cost to railroad company:		
Hoxie contract.....		\$12,974,416.24
Ames contract.....		57,140,102.94
Davis contract.....		23,431,768.10
Total.....		93,546,287.28
Cost to contractors:		
Hoxie contract.....	\$7,806,183.33	
Ames contract.....	27,285,141.99	
Davis contract.....	15,629,633.62	
		50,720,958.94
		42,825,328.34
To this should be added the amount paid Credit Mobilier on account of 58 miles.....		1,104,000.00
Total profit on construction.....		43,929,328.34

Fourth. The actual cost of construction under these three contracts was substantially equivalent to the proceeds of the first-mortgage bonds of the company and of the Government bonds, as shown by the following table:

First-mortgage bonds issued.....	\$27,213,000.00
Sold at a discount of.....	3,494,991.23
Net proceeds.....	23,718,008.77
Government bonds issued.....	27,236,512.00
Sold at a discount of.....	91,348.72
Net proceeds.....	27,145,163.28
Aggregate net proceeds of both classes.....	50,863,172.05
Cost of whole road to the contractors.....	50,720,953.94
Difference between proceeds of bonds and cost.....	142,213.11

Fifth. That the actual profits realized from the three contracts, after reducing the bonds issued to their cash value and charging the stock issued at 30 cents on the dollar, were \$23,366,319.81. These profits are stated as follows:

Ames and Davis contracts.

Bonds (cash value).....	\$11,310,900.00
Twenty-four million stock, at 30.....	7,200,000.00
Cash.....	2,346,000.00
	20,856,900.00

52 REPORT OF THE U. S. PACIFIC RAILWAY COMMISSION.

The profits on the Hoxie contract, as before stated, were \$6,272,-232.71.

Treating all of this as stock, except \$1,125,000 of first-mortgage bonds, divided as hereinafter stated, the profits, cash values, on this would be as follows:

\$1,125,000 first mortgage bonds, at 85.....	\$965,250.00
\$5,147,232.71 stock, at 30	1,544,169.81

Total cash profit.....	23,366,319.81
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Sixth. The benefits arising from the Hoxie contract were secured by an assignment to Thomas C. Durant, Cornelius S. Bushnell, Charles A. Lambard, and H. S. McComb (all directors of the Union Pacific Railroad Company), and Gray.

The profits arising from the Ames contract were secured to the stockholders of the Credit Mobilier, and the contract itself was assigned, in trust, to Thomas C. Durant, Oliver Ames, John B. Alley, Sidney Dillon, Cornelius S. Bushnell, Henry S. McComb, and Benjamin E. Bates, all of whom were stockholders in the Union Pacific Railroad Company and in the Credit Mobilier.

The profits arising from the Davis contract were secured to the Credit Mobilier stockholders by an assignment to the same trustees.

The conclusions above referred to are entirely corroborated by our examinations. While the actual cash profits of the construction of the road are estimated at \$23,366,319.81, the obligations incurred by the railroad company represent a very much larger sum, being measured by the bonds and stock at their par values.

The statement of the construction account, contained in the balance sheet of 1870, immediately after the completion of the road, is \$97,273,549.06. The immediate effect of this vast issue of paper obligations on the financial position of the company is manifest. Without referring to the stock, on which no dividends were declared for some years, it is apparent that the annual interest charge was vastly greater than it would have been had the road been constructed for a sum approximating the actual cost of construction. The actual amount of the payment for interest for the year 1870 was \$4,749,350.52. (See Calhoun's report, volume 8.) The gradual effect of the absorption of the earnings of the company by excessive payments for interest, and in subsequent years for dividends, is fully detailed in Mr. Calhoun's report, to which reference is hereby made. Without entering these figures at length, it will be apparent to every one that the result of these payments was to weaken the financial condition of the Union Pacific Railroad Company, and in time to bring about its insolvency, unless counteracted by a large development of its business and an increase of its earning power.

Simultaneously with the completion of the road, in May, 1869, the company found itself obliged to increase its bonded debt. Between the 31st of October, 1869, and the 7th of September, 1871, it issued income bonds to the extent of \$9,457,000, for which it received \$6,614,600. During substantially the same period it issued its first land-grant bonds, to the extent of \$10,744,000, for which it received \$6,230,050.

1870 to 1880.

It appears from Mr. Calhoun's report (volume 8) that the earnings of the Union Pacific Railroad from 1870 to 1879, both inclusive, amounted to \$109,017,066.77; operating expenses for the same period, \$50,659,933.04; leaving as net earnings for the ten years, \$58,357,133.73.

During the years in question the business increased from \$7,625,277.11 to \$13,201,077.66. The operating expenses, which in 1870 were \$4,677,414.84, in 1879 were \$5,475,503.44. The percentage of operating expenses decreased from 61.34 per cent. in 1870 to 41.48 per cent. in 1879. This decrease was the result of two causes:

First: By charging to construction account items which should have been charged to operating expenses.

Second: By the high passenger and freight rates which prevailed during those years.

The interest charges for the same period amounted to \$49,438,109.50, but the accountant has included the interest on the Government debt in this amount.

The company commenced the declaration of dividends July 1, 1875, and the total amount paid out for dividends to the 1st of January, 1880, was \$11,942,125. (See Calhoun's report, volume 8.) The actual figures of the income account of the company show, in each year, a sufficient balance to support the dividends declared and paid. This result, however, is reached by excluding from the income account the interest accruing on the debt to the United States. As the courts have decided that this interest is not payable until the maturity of the bonds themselves, it is true that the declaration of the dividends was made out of the actual earnings, and was not a violation of law.

But this exhaustion of the company's resources, in view of the fact that the liability for the interest existed and was growing year by year, was extremely improvident, and tended inevitably to the result which is so clearly seen to-day in the inability of the company to provide for the maturing debt.

In 1873 Mr. Jay Gould became the owner of a controlling interest in the Union Pacific Railroad Company by the purchase of 100,000 shares of its capital stock, and subsequently increased it to 200,000 shares. (See evidence of Mr. Gould, volume 1, page 451.) In 1878 Mr. Gould parted with a large portion of his interest. (See evidence of Addison Cammack, volume 1, page 278.) At the close of 1879, the period of consolidation, his interest was reduced to 27,000 shares. (See evidence of Mr. Gould, volume 1, page 475.)

During 1877, 1878, and 1879 the policy of constructing branch lines, as feeders to the main line, commenced. But the great expenditure for these purposes was not incurred until after 1880.

Shortly after the report of the Wilson committee and the passage of the act of 1873, an action was brought in the circuit court of the United States, District of Connecticut, by the United States against the Union Pacific Railroad Company, its officers, directors, and other persons who were alleged to have been guilty of misappropriating the assets of the company. The complaint in that suit contained a great number of specified charges of misconduct, referring to violations of law in the issue of stock, or in the declaration of dividends, or in receiving moneys to which they were not entitled, as proceeds of construction contracts, and for other illegal acts of a like nature.

The Union Pacific Railroad Company demurred to the complaint, on the ground that the United States had disclosed no cause of action which entitled it to relief, but that the cause of action, if any, was the property of the corporation itself. This demurrer was sustained, Justice Hunt delivering the opinion of the court in November, 1873, and his decision was affirmed in October, 1878, by the Supreme Court (United States against the Union Pacific and others, 98 U. S., 569).

It appears from the minutes of the Union Pacific Railroad Company that while this litigation was pending, certain proceedings were taken by the directors of that company, whereby, by their own acts and votes, they undertook to release themselves from any obligations or liabilities to the said railroad company. (See volume 2, pages 711 to 722; 868 to 871.)

The Commission refer to these somewhat extraordinary proceedings, in order that they may be considered in connection with section 11 of their proposed bill, though it would seem too clear for argument that a release executed by a corporation, in pursuance of a vote controlled by the parties claiming the benefit of the release, must be absolutely valueless and without effect.

STATEMENT OF THE FINANCIAL OPERATIONS OF THE KANSAS PACIFIC RAILWAY COMPANY FROM 1864 TO JANUARY 1, 1880.

The early proceedings relating to the organization of the Leavenworth, Pawnee and Western Railroad Company, its efforts to procure favorable legislation in Congress, the negotiations for the acquisition of Indian lands, and the early steps relating to the right of way of the company, the transfer of the initial interests to Messrs. Frémont and Hallett, and the transfer from Frémont and Hallett to the parties represented in the subsequent construction of the company, are matters which have no possible bearing on the present relations of the company to the Government. The Commission, therefore, merely refers to the evidence of General James C. Stone (volume 3, page 1595), John P. Usher (volume 3, page 1672), for information as to this period of the history of the Kansas Pacific Railway Company.

In 1865, the name of the corporation was changed from the Leavenworth, Pawnee and Western Railroad Company to the Union Pacific, eastern division. By the ninth section of the act of 1862, this corporation was required to be constructed from Kansas City westwardly, so as to form a junction with the then contemplated Union Pacific Railroad, at a point located on the one hundredth meridian.

The original scheme contemplated a Pacific Railroad commencing at a point to be fixed on the one hundredth meridian. Authority was then conferred on various corporations starting from different points on the Missouri River, to unite with this contemplated Pacific Railroad at the given point on the one hundredth meridian. By section 14 of the act, the Union Pacific Railroad Company itself was required to construct a railroad from a point on the western boundary in the State of Iowa, to be fixed by the President of the United States, so as to form a connection with the contemplated Pacific Railroad at the said point on the one hundredth meridian.

The purpose of Congress evidently was to encourage and assist the construction of a number of railroads commencing at various points on the Missouri River, and all converging to the given point on the one hundredth meridian. It will be seen from an inspection of the map that the Kansas Pacific Railroad, in order to comply with these requirements, would have to be constructed on a line following substantially the Republican River valley and bending northwardly from Fort Riley. By an act passed July 3, 1866, the Kansas Pacific Railroad was authorized to change the location of its general route, and the point of required connection with the Union Pacific Railroad was changed to a point "not more than 50 miles westwardly from the meridian of Denver in Colorado."

The road was actually constructed in substantially a westerly direction from Kansas City to Denver. The serious work of construction commenced in the summer of 1865. On October 31, 1868, about 400 miles were ready for operation, and the road was completed to Denver in October, 1872, a total distance of 638 miles. The Government subsidy applies to 393.94 miles of road west of Kansas City, this length of road being the equivalent of the distance from Kansas City to the originally contemplated junction with the Union Pacific on the one hundredth meridian.

The Commission does not deem it necessary to relate in detail the various issues of bonds and stock during the period of construction. It is sufficient to say that all of the construction contracts were of the character described by one of the witnesses as "exhaustive contracts." That is to say, all of the bonds, stocks, and assets of the company were distributed to the contractors, and through them to the persons actually interested in the enterprise, including the officers and directors of the company, and at such rates as to result, when construction was completed, in the total obligations amounting to \$32,088,950, of which sum \$9,437,950 were stock and \$22,651,000 were bonds, bearing interest at 6, 7, and 8 per cent. (See report of Calhoun, volume 8.)

An enumeration of the various mortgages affecting the property of this company and of their relations to each other and to different divisions of the road will be found in the evidence of A. H. Holmes (volume 1, pp. 118 to 137).

The result of the operation of this company from 1867 to 1879 can be best gathered from an inspection of Mr. Calhoun's tables (volume 8).

The total gross traffic for these years was.....	\$41,645,174.22
The aggregate operating expenses and miscellaneous expenditures during these same years were.....	32,424,956.12

Leaving net earnings for thirteen years.....	9,220,218.10
The bond and interest account, exclusive of the United States interest for these same years, was.....	15,745,287.43

Leaving, after subtracting the net earnings, a deficit of.....	6,525,069.33
Or, if the United States accrued interest be included, a deficit of....	11,330,772.42

In 1873 this company became practically insolvent. In 1874 it was placed in the hands of Henry Villard and C. S. Greeley, as receivers, and remained in their hands substantially until the period of consolidation. From 1873 to 1879 the company was in a chronic state of insolvency. (See Calhoun's report, volume 8.)

The history of the Denver Pacific Railroad Company up to the period of consolidation in 1880 really forms part of the history of the construction of the Kansas Pacific Railway. The Denver Pacific extends from Denver, Colo., to Cheyenne, Wyo., a distance of 106 miles. The road was built about 1869. It is impossible to give any reliable details relating to its construction, as the necessary books appear to be missing or have been unintelligibly kept. (See Calhoun's report, volume 8.)

This road was not aided in bonds. Its construction account is lumped at \$6,500,000, representing an issue of \$2,500,000 of mortgage bonds and \$4,000,000 of capital stock.

The receipts, expenditures, and net earnings, from 1870 to 1879, are stated in Mr. Calhoun's report (volume 8).

The total receipts for these ten years aggregate.....	\$3,122,141.37
The expenditures.....	1,709,477.20

The net earnings.....	1,412,664.17
The average per annum of the net earnings for the ten years was....	141,266.42
The annual interest charge is about.....	137,000.00

The stock of the Denver Pacific had no intrinsic value whatever. The railroad, however, formed a connecting link between the Kansas Pacific at Denver and the Union Pacific at Cheyenne, and this circumstance gave to the stock, as representing the control of this link, the only value it possessed.

In 1876 ten thousand shares of this stock were held by Arapahoe County, Colo., these shares having been received in exchange for some county-bond aid extended to the railroad. Fifteen thousand shares of the stock were held by R. E. Carr, as trustee, and 14,979 shares by Carr and Perry, as trustees. The last two items, amounting to 29,979 shares of stock, were held by those trustees for the benefit of the Kansas Pacific Railway Company, and had been received in payment of advances made by that company to the Denver Pacific Railroad Company.

In 1877 the Kansas Pacific Railway Company, in one of its desperate struggles to ward off threatened foreclosure, issued a funding mortgage, amounting to \$1,500,000, for the purpose of paying a large amount of defaulted coupons, on which foreclosure was threatened. The trustees of that mortgage were William J. Lewis and C. H. Burnham, and the 29,979 shares of Denver Pacific stock were transferred to those trustees, with other property, and formed part of the security for the payment of the funding bonds. These bonds bore 10 per cent. interest per annum, and the conditions of the mortgage were extremely severe. (See evidence of A. H. Holmes, volume 1, pages 130 and 133.)

During the years the Commission is now referring to, an angry controversy had existed between the Union Pacific and the Kansas Pacific Railroad Companies. The Kansas Pacific Railway Company claimed the right to pass freight and passengers westwardly from Cheyenne over the Union Pacific, and to receive traffic at the same point from the Union Pacific for transit over its road eastwardly, at substantially the same rates which the Union Pacific charged on its own business. This demand the Union Pacific had resisted for many years.

In 1877, when the Kansas Pacific Company was substantially *in extremis* and its securities were selling for merely nominal prices, Mr. Jay Gould and other officers of the Union Pacific commenced to purchase them. In the early part of 1878 the securities so acquired amounted to several millions of dollars at their par value. They consisted of the stock of the company, of its income bonds, subordinated and unsubordinated, of the Denver extension bonds, the funding bonds, and some of the issues of the branch lines.

In 1878 a scheme was devised for the reorganization of the Kansas Pacific and Denver Pacific Companies. Its general features were as follows:

A committee was to be formed to hold the securities of the company, which should be delivered to it at certain agreed rates for the stock and different classes of bonds. The interests of the various parties in this pool, which were represented by the reduced figures of the par value of their securities, multiplied by the agreed factor for reduction, were to be liquidated by the issue of new stock, dollar for dollar, in such amounts as to equal the reduced values. The scheme applied to all the stock and securities of the company, except the debt to the Government, and the first-mortgage bonds, which equaled it in amount, and the Denver extension bonds. The agreement in question will be found in volume 1, pages 162 to 166, and it will appear that its effect would have been to reduce a total of stock and bonds amounting to \$17,330,350 to the sum of \$4,855,300.

The Kansas Pacific Railway Company, reorganized on this basis, would have had a bonded indebtedness of \$18,848,000, representing the first-mortgage bonds and the Government lien, and \$4,855,300 of stock. (See table, volume 1, p. 165.)

The parties to this pooling agreement were Mr. Jay Gould and a few other directors of the Union Pacific for smaller quantities of interest on one side, and a number of the directors and officers of the Kansas Pacific, the latter being known as the "Saint Louis parties," on the other. Every effort was made to discover the financial history of this agreement (see evidence of Ham, volume 1, page 221; Holmes, volume 1, page 272; Sidney Dillon, volume 1, page 272; Villard, volume 1, pages 428, 430), but without success.

Early in 1879 Mr. Jay Gould bought out the interest of the Saint Louis parties. (See evidence of Gould, volume 1, page 400; Usher, volume 3, page 1695.) The immediate effect was to vest in Mr. Gould the substantial control of the Kansas Pacific Railway. A complete change was effected in the board of directors, and Mr. Sidney Dillon, the then president of the Union Pacific Railroad Company, became also president of the Kansas Pacific Railway Company. Through the control of the Kansas Pacific Railway and its ownership of the Denver Pacific stock, Mr. Gould substantially controlled the latter company, and Mr. Sidney Dillon was also elected its president.

Immediately after this reorganization the scheme for the reduction of the volume of the Kansas Pacific securities appears to have been abandoned, and in lieu thereof it was proposed to retire the outstanding securities and defaulted coupons by means of a general consolidated mortgage. By the terms of this mortgage, the outstanding bonds and coupons were to be commuted at the same rates provided by the agreement of April 24, 1878. (See evidence of Gould, volume 1, page 534; Calef, volume 1, page 592.) No provision whatever was made in the consolidated mortgage for the stock of the Kansas Pacific, and it appears from the evidence that at this period of time the stock had been withdrawn from the operation of the pool (see evidence of Holmes, volume 1, page 169; Ham, volume 1, page 224), and was held by Mr. Gould. At this same time he had acquired the stock formerly held by the Saint Louis parties, and was the owner of about 80,000 shares thereof, each share being of the par value of \$50, or 40,000 full shares. Frederick L. Ames, F. Gordon Dexter, Russell Sage, E. H. Baker, Sidney Dillon, and Elisha Atkins, who were directors in the Union Pacific Railroad Company, also owned smaller portions of this stock; so that these gentlemen, together with Mr. Gould, held a majority of the entire capital stock. At this same time, as has been before stated, Mr. Gould had parted with the larger portion of his interest in the stock of the Union Pacific, so that his interest was reduced to 27,000 shares.

From the explanations given above it will be seen that Mr. Gould's interest in the Union Pacific Railroad Company had been reduced to a very small figure as compared with his original holding, and that his interest in the securities of the Kansas Pacific Railway Company had correspondingly increased.

In order to fully understand the attitude of his financial interests at the time of the consolidation between the Kansas Pacific, Denver Pacific, and Union Pacific companies, which took place shortly after the period which we have now reached, it is necessary to trace the disposition made of the stock of the Denver Pacific Company. It was held, as we have heretofore stated, by the trustees of the funding mortgage which had been created in an attempt to extricate the Kansas Pacific

Railway Company from its difficulties. These funding bonds form part of the securities the retirement of which was contemplated by the pooling agreement of April 24, 1878. After the consolidated mortgage of May, 1879, had been substituted for that scheme, the funding bonds, all of which had been purchased by Mr. Gould and his associates, were converted under the terms of that mortgage, and the 29,979 shares of Denver Pacific stock, which were held by the trustees of the funding mortgage, were assigned to the trustees of the consolidated mortgage, and formed part of the security which they held for the protection of the bonds issued thereunder. These shares of stock were still held in this trust at the time the agreement for the consolidation was effected, as hereinafter described.

In Mr. Calhoun's report (volume 8) will be found an estimate of the relative earning powers of the Union Pacific, the Kansas Pacific, and the Denver Pacific, compared for an average of ten years preceding the date of consolidation. The annual net earnings per mile and average annual interest per mile are there shown as follows:

	Annual net earnings per mile.	Average annual interest per mile.
Union Pacific	\$5, 616. 66	\$3, 185. 39
Kansas Pacific	1, 601. 77	2, 294. 71
Denver Pacific	1, 332. 70	1, 749. 89

For computation of average annual payments for interest per mile, see Calhoun's report, volume 8.
For computation of average net earnings per mile, see same report, volume 8.

It appears from the evidence that the business of the Kansas Pacific had largely improved during the latter part of 1878 and the year 1879. But that company was still in default on a very large amount of its coupons, and there was nothing in the improvement covering a single year that could possibly justify the conclusion that its earning power had been permanently established on a basis that would enable it to pay all arrears of its indebtedness and earn a dividend on its stock.

These, then, were substantially the relations held by these three companies to each other on the eve of the consolidation. The Union Pacific had since 1873 met all its obligations, and its net earnings (exclusive of the Government interest obligations) had been sufficient to enable it to pay regular dividends for six years. The Kansas Pacific had barely emerged from the chronic bankruptcy which had afflicted it for many years. An intelligent and skillful reorganization of its affairs and a favorable increase in the amount of its business had largely enhanced the value of its securities. The condition of the Denver Pacific had not materially changed. Its stock had no intrinsic value whatever, except as affording a means for controlling the link between Denver and Cheyenne. (See evidence of A. H. Holmes, vol. 1, p. 132.)

The scheme of a consolidation between these three companies appears to have had its inception in the spring and summer of 1879. In October of that year Messrs. Gould, Sage, Dexter, Atkins, F. L. Ames, and Baker addressed a communication to Solon Humphreys and Grenville M. Dodge, requesting them to investigate the three railroads and to report what in their judgment would be a fair plan for consolidation.

The interests held by various directors of the Union Pacific Railway Company in the stock of the Kansas Pacific Railway Company, at this same period, were as follows:

Jay Gould (vol. 1, page 463).....	\$4, 000, 000. 00
F. Gordon Dexter (vol. 2, page 700).....	125, 700. 00

E. H. Baker (vol. 2, page 745).....	\$27,400.00
Russell Sage (vol. 1, page 393).....	443,000.00
Elisha Atkins (vol. 2, page 754).....	45,600.00
Frederick L. Ames (vol. 2, page 687).....	179,600.00
Sidney Dillon (vol. 1, page 201).....	305,900.00
	<hr/> 5,127,200.00

All of the persons above named held, in addition to the stock, large amounts of the consolidated bonds and other securities of the Kansas Pacific Railroad Company, or of its branch lines. Mr. Gould was also the owner of \$1,800,000 bonds of a company known as the St. Joseph and Western Railroad Company; also, \$784,000 bonds of the St. Joseph Bridge Company; also, \$59,000 St. Joseph and Denver Pacific Railroad receiver's certificates. In all of these securities his associates above named had small interests, obtained by them from Mr. Gould at cost to him.

Messrs. Ames, Dexter, Atkins, and Baker resided at Boston. Much discussion appears to have occurred during the month of October between these gentlemen and Messrs. Gould, Dillon, and Sage, relating to the subject of consolidation. They all favored consolidation, but differed as to the terms. (See evidence of F. L. Ames, volume 2, page 661; Dexter, volume 2, pages 702 to 704; Atkins, volume 2, page 755; Baker, volume 2, page 739; Oliver Ames, volume 2, pages 612, 613, and 808.)

The bonded indebtedness of the respective companies was in no wise disturbed or affected by the consolidation. No exchange of these securities for other securities of the consolidated company was ever contemplated. The only possible ground of difference, therefore, must have related to the rate at which the stock of the constituent companies should be accepted in exchange for stock of the consolidated company. The terms ultimately reached were that the Kansas Pacific stock and the Denver Pacific stock should be accepted as the equals in value, dollar for dollar, of the Union Pacific Railroad stock.

Early in November, negotiations for a consolidation came to an abrupt end. The Boston gentlemen above referred to declined to accept a consolidation on the terms demanded by Mr. Gould. The rupture appears to have been a sharp and angry one. (See evidence of Dexter, volume 2, pages 703, 704; Oliver Ames, volume 2, page 808.)

Mr. Gould immediately went to Kansas, and in an incredibly short space of time effected a purchase of the following railways: On the 13th of November, 1879, apparently without extensive negotiation or deliberation, he bought from Commodore C. K. Garrison the Missouri Pacific Railroad, extending from Saint Louis to Kansas City, a distance of about 300 miles, and paid therefor the sum of \$3,000,000. (See evidence of Gould, volume 1, page 477; vol. 2, p. 529.) At the same time, and as part of the same transaction, he purchased a controlling interest in the Kansas Central, a narrow-gauge road about 166 miles long, extending from Leavenworth, Kans., on the Missouri River, about 25 miles north of Kansas City, and extending thence westerly parallel with the Kansas Pacific and at an average distance of 30 miles therefrom. He paid for a controlling interest in the stock and bonds of this road \$479,000.

On and shortly after the 7th day of November, 1879, he purchased from Oliver Ames a controlling interest, represented by 7,616 shares of stock, of the Central Branch Union Pacific Railroad Company, extending from Atchinson, about 50 miles north of the Kansas Pacific, and thence westerly and parallel with the Kansas Pacific, a distance of 100

miles. This purchase included also a controlling interest in five small branch roads connecting with the Central Branch Union Pacific at its westerly terminus, embracing, in all, about 250 miles of railroad, which five branches had been consolidated into one company known as the Atchinson, Colorado and Pacific Railroad Company.

The financial condition of the Central Branch Union Pacific will appear in another part of this report. The purchase by Mr. Gould was subject to the first mortgage of the company, amounting to \$1,600,000; also to a funding mortgage, representing the defaulted coupons of that company, amounting to \$630,000; subject also to the statutory lien of the Government, amounting to \$1,600,000, and to the arrears of interest which had accrued on the debt to the United States.

The average rate paid by Mr. Gould for the stock of the Central Branch Union Pacific was \$238 per share. (See evidence of Gould, volume 1, page 524; Oliver Ames, volume 2, page 807 to 812.) The stock of that company had sold within a year of this transaction as low as 10 cents on the dollar, and there was nothing at all in the financial condition of the company which justified, as a mere business transaction, the payment of any sum approximating in any degree the amount paid by Mr. Gould. (See evidence of Nichols, volume 7, page 4114; see report of Perrenoud, volume 8.)

The object of these purchases by Mr. Gould is explained by him with great clearness in his own evidence. He states that he had formed a plan of constructing a Pacific railway from Saint Louis to the Pacific Ocean by extending the Kansas Pacific through the Loveland Pass to Salt Lake City, and thence to San Francisco by the Central Pacific. (See evidence of Gould, volume 1, page 505.) At page 509, when asked how great an injury the extension of the Missouri Pacific, according to his views, would have been to the Union Pacific, he answers: "It would have destroyed it."

It seems to be clearly established by the evidence that, after he had failed to obtain the consent of the Boston directors to the plan of consolidation on his terms, which were that the Kansas Pacific stock should be accepted as equal to the Union Pacific stock, dollar for dollar, he determined at any cost to construct a rival road and thereby destroy the Union Pacific. His interest in the latter road had decreased from 200,000 shares in 1878 to 27,000 shares at the close of 1879. It is only with this object in view that the extraordinary purchases of the Missouri Pacific, the Kansas Central, and the Central Branch, Union Pacific Railroads (effected with extraordinary celerity, at prices which did not seem to bear any relation to the then values of the properties acquired, all completed within a few days and without negotiations, and all forming integral parts of the general purpose which the witness himself admits he had in view), can be explained. His purposes were immediately made public, and the effect on the Boston directors, were it not for the magnitude of the interests involved, would appear almost ludicrous. They appear to have been, one and all, terror-stricken. (See evidence of Oliver Ames, vol. 2, p. 808; Dexter, vol. 2, p. 704; Baker, vol. 2, p. 740.)

There followed a series of interviews between these gentlemen and Mr. Gould, which finally culminated in an agreement which led to the consolidation of the companies, effected at the house of Mr. Gould on the evening of January 14, 1880. The witnesses all describe Mr. Gould as being conciliatory, persuasive, and much more reasonable than during the prior negotiations. Persistent efforts on the part of the examiners failed to disclose in what respect, if in any, he modified the terms

of consolidation which had been rejected in the early part of November. (See evidence of Dexter, volume 2, pp. 705, 706, and Baker, volume 2, p. 739, 740.)

As before stated, the only security involved in the consolidation was the stock; and as the terms finally reached involved the acceptance of the Kansas Pacific stock as the equal, dollar for dollar, of the Union Pacific stock, it is clear that no modification or abatement whatever of the terms previously demanded by Mr. Gould was conceded by him in this interview. He dominated the situation. In a few days' time he had acquired a completed railroad, extending from Saint Louis to Denver, fully equipped and in complete operation. His colleagues in the Union Pacific management were informed that it was his purpose to carry his enterprise through to the Pacific Ocean. They were informed and believed that the accomplishment of this enterprise would destroy the Union Pacific.

With this explanation of the relative position held by these gentlemen to each other during the interview at Mr. Gould's house on the 14th of January, 1880, the accomplishment of his design and the speedy, but complete, surrender to his demands, evidenced by the paper that was there executed, ceases to be a matter of wonder.

The agreement that was executed will be found in volume 2, page 668, and is as follows:

KANSAS PACIFIC RAILWAY COMPANY,
New York, January 14, 1880.

Memorandum of terms of agreement for consolidation of Union Pacific with Kansas Pacific, in which the Denver Pacific, St. Joseph and Western and Union Pacific, Eastern Division, are included.

All necessary papers and any further agreements to be prepared by Judge Dillon on his return. The Union and Kansas Pacific, with all their respective assets and properties and liabilities, are to be put together, at par of their respective capitals—\$36,762,300 and \$10,000,000—to which is to be added the capital of the Denver Pacific, \$4,000,000, making the capital of the Union Pacific Railway Company, as the new line shall be called, \$51,762,300.

The Denver Pacific capital, now an asset of the Kansas Pacific, is to be used, after conversion into Union Pacific Railway stock, to pay for shares and bonds of St. Joseph and Western Railroad and St. Joseph Bridge, as hereafter stated, and for other purposes.

The St. Joseph and Western Railroad first-mortgage bonds and stocks, to the extent of a controlling interest in the same, to be bought of parties now owning it, at par for bonds, and \$20 a share for stock, payment to be made in Union Pacific Railway stock at par.

The road to be leased to the Union Pacific Railway Company for the interest on first-mortgage bonds, or otherwise as may be determined. The bridge at Saint Joseph is to be bought of parties now owning controlling interest in the bonds and shares of the same, at par for bonds with the shares thrown in, and payment to be made either in shares of Union Pacific Railway at par, or Kansas Pacific consolidated-mortgage bonds at par.

The Union Pacific, Eastern Division, is to be taken at cost to Mr. Gould, and paid for in same securities that he gave, viz, about one-half in Kansas Pacific consolidated-mortgage bonds and one-half in new Union Pacific 6 per cent. trust bonds, both at par.

R. S.
JAY GOULD.
FRED'K L. AMES.
E. H. BAKER.
F. G. DEXTER.
SIDNEY DILLON.
E. ATKINS.

The St. Joseph and Western Railroad first-mortgage bonds and stocks, which were to be bought of the parties then owning the same at par for bonds and \$20 a share for stock, were bonds and stocks owned by the very parties who signed the agreement, Jay Gould, however, owning a very large majority of these securities.

the counsel for the company, and will be found in volume 1 (pages 307 to 310). The proceedings at the meeting, which were simply a blind compliance with the agreement before mentioned, are detailed in the evidence. (See evidence of Sage, volume 1, page 387; Gould, volume 1, pages 518, 520.)

The effect of the consolidation was to increase the stock of the Union Pacific Railroad from \$36,668,000 to \$50,668,000, and to increase the bonded indebtedness from \$88,471,285.23 to \$126,818,046.09, and the miscellaneous indebtedness from \$4,072,854 to \$9,677,018. These figures include the amounts due the Government for principal and accrued interest, less amounts repaid. On the other hand, it is undoubtedly true that the business of the consolidated company was transacted with greater economy and with more advantage and less friction from competition than before the consolidation. It is difficult, if not impossible, to compare the result as it is with the result as it would have been if the consolidation had not taken place.

Many of the witnesses have testified that the actual result of the consolidation was favorable, and the weight of the evidence favors that conclusion. If we test the consolidation by the assets of the respective roads, or their respective earning powers, the terms imposed on the Union Pacific Railway Company do not appear to be such as would have been reached by a fair arbitration.

Mr. Calhoun, in his report, has applied this test by examining the condition of the respective companies, as disclosed by their balance sheets. He states in his report that the balance sheet of the Kansas Pacific Railway Company disclosed a deficiency which amounted to about \$7,000,000, but that this debit balance was reduced, by an arbitrary increase of the value of certain securities detailed by him, to the sum of \$2,000,000. His report shows a credit on the balance sheet of the Union Pacific Railway Company of \$5,000,000, and a small credit balance on the balance sheet of the Denver and Pacific Railway Company. He states, as his conclusion as an accountant, that the terms of the consolidation were not just because of these conditions in the relative situations of the constituent companies.

This conclusion is hardly satisfactory, for the reason that it is conceded that there was such a large proportion of water in the paper statements of all three companies as to prevent placing any reliance on the accuracy of the credit and debit balances, which are relatively insignificant when compared with the totals of the balance sheets.

Mr. Calhoun has also compared in his report the average gross earnings per mile of each of these three companies, their net earnings and their interest charges, for the period of ten years preceding the consolidation. This estimate would lead to a more reliable conclusion than that based on the examination of the assets, figured at exaggerated values, in their balance sheets.

The officers of the Union Pacific Railway Company prepared for the Commission a statement showing the relative earnings of the Union Pacific and Kansas Pacific divisions (the latter division including the Denver Pacific), for the years 1879, 1880, 1881, and 1882. (See volume 2, pages 897, 898.) They have also prepared a table of earnings and expenses per mile of road from 1879 to 1886. (See volume 2, page 972.) But there are so many considerations which are not reflected in these figures, and which depend on circumstances on which they shed no light, that it is practically impossible to answer the question whether or not, on the whole, the consolidation, in fact, resulted advantageously.

There is no room for doubt that, in the development of harmonious relations between these companies and the avoidance of competition,

a resignation by an officer of the army, when on duty, after having formed the plan and design of betraying those confided to his care.

Perhaps the most ingenious feature of this whole scheme was the device by which the intended consolidated company was provided with stock for the purpose of paying to Mr. Gould and his associates the agreed prices for the branch lines securities referred to in the agreement of January 14, 1880. That agreement contains the following clause:

The Denver Pacific capital, now an asset of the Kansas Pacific, to be used after conversion into Union Pacific Railway stock, to pay for shares and bonds of Saint Joseph and Western Railroad Company and St. Joseph Bridge, as hereafter stated, and for other purposes.

This stock had no value whatever, except as controlling the connection between Denver and Cheyenne. It was held, as we have before shown, by Jay Gould and Russell Sage, as trustees of the Kansas Pacific consolidated mortgage, for the protection of the bonds issued under that mortgage.

It would certainly have puzzled a convention of lawyers to have devised a method by which this stock, so held on the 14th of January, 1880, could have been applied, within ten days thereafter, to the purposes intended by the agreement above quoted. And yet this extraordinary feat was performed. A suit was manufactured, in which the Kansas Pacific Railway Company was made the plaintiff, and Jay Gould and Russell Sage the defendants, and the entire machinery of complaint, answer, trial, decree, and execution was carried to a finish by the 23d day of the same month. The details of this singular and expeditious litigation are familiar to every one conversant with this consolidation, and are fully detailed in the testimony. (See evidence of Holmes, volume 1, page 146; Sydney Dillon, volume 1, page 488; Calef, volume 1, page 290; Jay Gould, volume 1, page 487; Goodwin, volume 1, page 242; Sage, volume 1, page 352.)

Mr. Gould was also the owner of 10,000 shares of the Denver Pacific stock, which he had purchased at 10 cents on the dollar from Arapahoe County, Colo., about a year previous to that. This stock he delivered to the Kansas Pacific Railway Company at cost. The 29,986 shares of stock, extricated from the trust, together with the 10,000 shares of stock last mentioned, were immediately taken by Mr. Ham, the treasurer of the Kansas Pacific Railway Company, and by him delivered to the Union Trust Company, the transfer agent of the Union Pacific Railway Company. (See evidence of Ham, volume 1, page 227.) He received, in exchange, new certificates of the Union Pacific Railway Company's stock. Thirty-four thousand six hundred and forty-one shares of the stock so received were delivered to Jay Gould on the 16th February, 1880, in payment for the bonds, stocks, and securities referred to in the agreement of January 14, 1880. (See Mink's letter, volume 1, pages 305 to 307.)

The subsequent proceedings relating to consolidation are merely formal, and it will only be necessary to refer to the evidence. The report which Messrs. Humphreys and Dodge had been requested to make in October, and which had given no signs of life before the 14th of January, 1880, duly made its appearance two days afterwards, on the 16th of January. (See this report, volume 1, page 318.) That report, by a singular coincidence, if nothing more, is a mere reproduction of the terms contained in the agreement of January 14, 1880, executed at Mr. Gould's house.

The articles of consolidation were prepared between the 14th of January and the day of their execution on the 24th of January, 1880, by

the counsel for the company, and will be found in volume 1 (pages 307 to 310). The proceedings at the meeting, which were simply a blind compliance with the agreement before mentioned, are detailed in the evidence. (See evidence of Sage, volume 1, page 387; Gould, volume 1, pages 518, 520.)

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Mr. Calhoun has also compared in his report the average gross earnings per mile of each of these three companies, their net earnings and their interest charges, for the period of ten years preceding the consolidation. This estimate would lead to a more reliable conclusion than that based on the examination of the assets, figured at exaggerated values, in their balance sheets.

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There is no room for doubt that, in the development of harmonious *relations between these companies* and the avoidance of competition,

a great advantage was gained for the Union Pacific Railway Company. We do not, however, mean to be understood as implying that even though the result has been beneficial, the methods by which it was attained are not to be condemned.

THE CONSOLIDATED COMPANY FROM 1880 TO DATE OF REPORT.

Immediately after the consolidation the policy of the construction of branch lines received rapid development. For the purpose of providing the funds required, an additional issue of \$10,000,000 of stock was authorized, and this stock was accordingly issued in 1880 and 1881, and produced its full equivalent at par for the benefit of the company. A full statement of all moneys expended for branch-line construction will be found in McDowall's report (volume 8).

The most important branches, and those involving the largest expenditures, were the Julesburg Branch, constructed in 1880 and 1881, and the Denver and South Park Branch, constructed in 1881, 1882, and 1883.

The Julesburg Branch, extending from La Salle to Julesburg Junction on the Denver Pacific, is about 140 miles long, and was constructed directly by the construction department of the Union Pacific.

The Denver and South Park road is a narrow-gauge railway, extending from Denver to Leadville, carried directly through the abrupt passes of the Rocky Mountains, and attaining an elevation of about 11,000 feet above the sea. This enterprise had its inception in the excitement resulting from the rich mineral deposits discovered at and near Leadville. The railroad was projected by John Evans, formerly governor of Colorado, and the details of its early construction and of its cost will be found in the evidence of Wheeler (volume 4, pages 1732 and 1773) and Evans (volume 4, page 1849). In the month of November, 1880, Mr. Gould agreed to buy out Governor Evans's interest. The terms of this purchase are stated in the evidence of Governor Evans (volume 4, pages 1853, 1854). Mr. Gould, at the same time took an assignment of the contract of the Denver and South Park Railroad Construction Company for completing and extending the railroad. (See evidence of Mink, volume 2, pages 903, 904.)

All Mr. Gould's interest in the Denver, South Park and Pacific Railway Company was assigned by him, in the January following, to the Union Pacific Railway Company. The details of this transaction will be presently noticed. The Union Pacific Railway Company continued the extension of this railroad, under its construction department, receiving from the Denver, South Park and Pacific Company an issue of bonds under a consolidated mortgage (which was subject to the first mortgage of \$1,800,000, as to the first 150 miles of the road), and also stock of the company, which was entered at cost price, so as to balance the actual construction account.

The result of the purchase and construction is stated in detail by Mr. Mink (volume 2, pp. 902 to 906). The total cost of the road to the Union Pacific Railway Company is as follows:

30,993 shares of stock bought from Jay Gould, January 25, 1881	\$3,099,300.00
30,358 shares issued to Union Pacific Railway Company for construction, cost	1,265,412.49
\$2,797,000 consolidated first-mortgage bonds, issued for construction, cost	2,746,905.86
\$1,800,000 first-mortgage bonds, subject to which the purchase was made	1,800,000.00
	<hr/>
	8,911,618.35

The operation of this road from the year 1883 to and including 1886 has been very disastrous, and the balance-sheet for 1886 shows an accumulated indebtedness against the road, in addition to its capital stock and the bonds above referred to, of \$2,380,458.32.

It is hardly necessary to detail all the other branch lines which were developed at this period. The three branches as to which the consideration and purchase has been given in detail (the Denver, South Park and Pacific Railway Company, the Central Branch Union Pacific Railroad Company, and the Kansas Central Railroad Company) were all bought from Mr. Gould, and the terms at which they were acquired were such as to make it impossible to avoid a disastrous result.

The great majority of the other branches of the system have been selected with judgment, constructed with economy, and are shown, by the immense preponderance of the evidence in this case, to be a source of revenue and a great advantage to the system.

The connection of Mr. Gould with the Union Pacific Railway Company substantially ceased in 1883. His account-current is contained in volume 2 (pages 964 to 969). In addition to the sale of his securities in connection with the consolidation, which has been described at length and which is credited to him in this account, he is also credited with the sum of \$3,099,300 for the 30,993 shares of stock of the Denver, South Park and Pacific Railway Company, acquired by him from Governor Evans. The purchase of this stock was made by Mr. Gould for his own account. The books of the Union Pacific Railway Company do not disclose any action whatever taken with reference to the purchase. Shortly after the purchase he appears to have ascertained from the seller that the venture was not a promising one. (See letter of Evans, pages 1857 to 1859). This letter was dated January 7, 1881. The credit to Mr. Gould in his account-current was made on the 25th of that month. No corporate action whatever appears to have been taken with reference to this transaction. Mr. Gould *willed* it and it was done.

An examination of this account-current discloses the enormous amounts obtained by Mr. Gould from the Union Pacific Railway Company for the securities referred to in the agreement of January 14, 1880, and for the stock of the Denver, South Park and Pacific Railway Company. It appears from an entry on the debit side of the account that he is charged with \$1,500,000 against the amounts standing to his credit in his account, and that such charge is made in consideration of \$2,000,000 bonds of the Kansas Pacific consolidated mortgage which were transferred to him at 75 cents on the dollar. He was one of the trustees of the mortgage, and appears, as far as the evidence discloses the fact, to have fixed the rate at which the bonds should be issued to himself.

There remains but one subject calling for notice belonging to the period of Mr. Gould's dominion over this company. The Kansas Pacific consolidated mortgage had, as we have seen, its inception in a scheme by which the outstanding securities of the company were to be exchanged at commutation rates for the consolidated bonds. The action of the trustees has directly reversed this policy. Except in their dealings with the Union Pacific Railway Company the rates prescribed by the mortgage have been utterly ignored. A detailed statement of the issue of these bonds, and the rates at which the outstanding securities were surrendered, will be found in Stevens's analytical account of the issues of consolidated bonds, volume 8. (See also Calef's evidence, *volume 1*, pages 592 to 597).

The three years following the consolidation were years of great business activity, and the receipts of the Union Pacific Railway for 1880, 1881, 1882, and 1883 were largely increased.

The gross receipts for these four years were	\$89, 273, 322. 32
The operating expenses for the same period.....	43, 438, 335. 89
Leaving as net earnings.....	45, 834, 986. 43
The interest and other charges, less miscellaneous receipts, were.....	\$21, 936, 417. 09
Dividends paid during the same years.....	15, 643, 448. 13
Total.....	37, 579, 865. 22
Leaving to accumulate as surplus	8, 255, 121. 21

In the face of the very large and apparently profitable business indicated by the foregoing figures the Union Pacific Railway Company found itself, early in 1884, on the verge of bankruptcy. Competition, increasing year by year in severity, had enormously decreased its net earning power. The burden of its fixed charges was oppressive. The extravagant sums paid for the branch railroads, which had little or no earning power and which had been bought from Mr. Gould, and the lavish and reckless distribution of the assets of the company in dividends, all combined to produce this result. Its floating debt had reached a figure exceeding \$10,000,000. Its last dividend, paid in April, 1884, scraped the very edge of its income account, if it did not overdraw it. The fierce and ever-increasing competition continued to depress its freight rates and its passenger earnings. Its credit was impaired, and it found itself without the means of meeting its immediate obligations.

It is with a sense of great relief that the Commission turns from the history of this company from 1873 to 1883 to the conservative, energetic, and intelligent management which has characterized the administration of the Union Pacific Railway Company from the spring of 1884 to the present time. The causes which had brought the company to the verge of bankruptcy had been active for many years. Their effect, though not immediately apparent to those not fully conversant with its business, was deep seated. The cure was necessarily a slow one; and the patient, though restored to health, still needs care and attention. The record of the business of the company, as reflected in the figures, does not show any marked increase in its earning powers. But their declining tendency has been checked. The floating debt has been extinguished, strict economy has been observed in the operation of the railroad; and none of its expenditures for additional construction or betterments are open to criticism.

From the 1st of January, 1884, to the 1st of January, 1887, the gross earnings of the Union Pacific Railway have been.....	\$53, 232, 134. 31
The operating expenses.....	28, 433, 866. 45
Net earnings.....	24, 798, 267. 86
Fixed charges and miscellaneous expenses	20, 612, 439. 88
Payments to the United States.....	3, 179, 196. 34
Dividend paid April, 1884	1, 065, 197. 00

Within these years the company has disposed of bonds and stock in its investment account, which have realized the sum of \$6,550,000. The aggregate thus produced from revenue and by sales of securities, amounting to \$16,200,000, has been applied as follows:

Extinguishment of floating debt.....	\$8, 251, 367. 68
Betterment of the road and branch-line construction.....	6, 708, 632. 32
To increase of equipment.....	1, 240, 000. 00

All of these expenditures have, in the judgment of the Commission, been judiciously and prudently made. The same policy has been pursued during the current year. The result is that the Union Pacific Railway Company has been entirely extricated from the difficulties which surrounded it at the close of 1883, and stands to-day as a solvent corporation, in excellent physical condition as to all of its construction, well equipped, and promising excellent results in the future.

STATEMENT OF THE FINANCIAL OPERATIONS OF THE CENTRAL PACIFIC RAILROAD COMPANY.

In 1859 and 1860, when the subject of the Central Pacific Railroad construction was first discussed, Sacramento City was the initial point and was regarded as affording, through the river and bay, substantial communication with tide water. In 1860 Mr. T. D. Judah, an engineer of great experience, made some surveys for the purpose of locating the most practicable route for the construction of a railroad over the Sierra Nevadas. (See evidence of Stanford, vol. 5, p. 2617.) The result of his investigations formed a subject of discussion between Mr. Leland Stanford, Mr. Charles Crocker, Mr. Collis P. Huntington, Mr. Mark Hopkins, and some other gentlemen residing in Sacramento. The extraordinary and rich yields of the Comstock Lode, located on the east side of the Sierra Nevadas, lent a strong stimulus to the further development of this enterprise. Mr. Judah visited Washington, and the result of his efforts, in connection with similar efforts representing Western enterprises starting from the Missouri River, was the passage of the act of July 1, 1862.

The Central Pacific was a California corporation, and, under the laws of that State, subscriptions for stock are invalid until a 10 per cent. cash payment has been made.

Prior to the passage of the act of July 2, 1864, about one million shares of the stock had been subscribed for, and a commencement was made in the construction of the railroad from Sacramento eastward.

Sections 1 to 18 (a section being substantially the equivalent of a mile) were completed in January, 1864; sections 19 and 20 in April, 1864; sections 21 to 24 in April, 1864; sections 25 to 27 in March, 1864; sections 28 to 29 in April, 1864; sections 30 to 31 in July, 1864; sections 32 to 54 in March, 1866; sections 55 to 133 in December, 1868; sections 139 to the 690th mile in July, 1869. (See evidence of E. H. Miller, jr., volume 5, page 3037.) Forty-seven and one-half miles beyond the 690th mile were acquired from the Union Pacific Railroad Company in 1869.

By the ninth section of the act of 1862 the Central Pacific Railroad Company was authorized to construct its railroad from the Pacific coast at or near San Francisco, or the navigable waters of the Sacramento River, to the eastern boundary of California, upon the terms and conditions and with all the advantages contained in the act.

On December 4, 1862, the Central Pacific Railroad assigned to Timothy Dane and others the right to construct all that portion of the railroad and telegraph lying between the city of Sacramento and the city of San Francisco which the said Central Pacific Railroad Company was authorized to construct by the act of 1862, together with all the Central Pacific Company's rights, grants, and donations, etc.

On the 31st of October, 1864, the assignees having waived their rights under this assignment, the Central Pacific Railroad Company made the *same assignment* of these rights and privileges to the Western Pacific

Railroad Company of California. (See notes to Exhibit 9, Stevens's report, volume 8.)

There were at this time already in existence two railroads, known as the San Francisco and Alameda and the San Francisco and Oakland, which controlled valuable ferry privileges connecting Oakland and Alameda with the city of San Francisco. (See evidence of Cohen, volume 5, pages 2391, 2392.) Another line, known as the San Francisco Bay Company, was constructed for the purpose of effecting communication between Niles and Oakland. (See evidence of Cohen, volume 5, page 2395.)

At about this same period a project was formed for establishing communication between the Central Pacific and the State of Oregon. With this object in view, a company known as the California and Oregon Railroad Company was formed and commenced the construction of its railroad from Roseville to Coles, which is on the State boundary.

Another railroad was constructed for the purpose of effecting a connection between the Western Pacific and Goshen. This road begins at Lathrop, a point on the Western Pacific Railroad, and extends southerly to Goshen, a distance of 146 miles.

By a series of consolidations, all of the above-mentioned companies became integral parts of the Central Pacific Railroad Company.

The first consolidation took place between the San Francisco Bay Railroad Company and the Western Pacific Railroad Company, on the 28th day of October, 1869. (See volume 5, page 2407.)

The next consolidation was effected between the Central Pacific Railroad Company of California and the Western Pacific Railroad Company, including the San Francisco Bay Railroad Company through the prior consolidation. This consolidation was effected on the 22d of June, 1870. (Volume 5, page 2407.)

The San Francisco and Oakland Railroad Company consolidated with the San Francisco and Alameda Railroad Company on the 28th of June, 1870, the name of the new company being the San Francisco, Oakland and Alameda Railroad Company. (See volume 5, page 2408.)

The final consolidation was effected between the Central Pacific Railroad Company, the California and Oregon Company, the San Francisco, Oakland and Alameda Railroad Company, and the San Joaquin Valley Railroad Company. This consolidation bears date the 20th day of August, 1870, and the corporation organized thereunder is the present Central Pacific Railroad Company. (See volume 5, page 2408.)

The portion of this railroad, in consideration of which the bonds of the United States were issued, is that which extends from Ogden to Sacramento, and thence to Niles and San José. No bonds were issued for the connecting railroads between Niles and Oakland, or on the Californian and Oregon Railroad, or on the San Joaquin Branch.

The history of the construction of each of these several railroads will be reported in order.

CONSTRUCTION OF THE CENTRAL PACIFIC FROM SACRAMENTO TO OGDEN.

The 31 miles of the Central Pacific, commencing at Sacramento, were constructed between 1862 and July, 1864, through the intervention of several small contractors constructing independent sections of the road. The cost of the first eighteen sections was \$400,000, or about \$22,250 per mile. The construction presented no peculiar features (excepting that the bridge across the American River was an expensive structure),

and may be accepted as furnishing a fair criterion of the average expense of production where the conditions of construction and cost present no exceptional aspects.

About the time of the completion of the construction of the thirty-first section, the act of July 2, 1864, was passed. Under this act the donations to the company were vastly increased, and it was authorized to mortgage the railroad for an amount equal to the Government aid, and to give to such mortgage a priority of lien.

Messrs. Stanford, Huntington, Hopkins, and Crocker were at this time directors of the Central Pacific and had absolute control of its affairs. The board numbered nine. The other members were James Bailey, T. D. Judah, L. A. Booth, D. W. Strong, and Charles Marsh, who were entirely under the control of the four persons named above. On the 24th of December, 1862, Charles Crocker resigned from the board. On the 26th of December, 1862, the board voted to award to Charles Crocker & Co. the construction contract from section 32 to 54, both inclusive. This construction was completed March, 1866.

This contract, for reasons presently to be explained, can not be found. Its general terms were that the contractors were to be paid on estimates of amount of work, and at rates fixed for the different classes of work. (See evidence of E. H. Miller, jr., volume 5, page 3041.) The payments, as originally provided, were to be five-eighths in cash and three-eighths in stock, the stock being counted at 50 cents on the dollar. By a subsequent modification the stock was counted at 30 cents on the dollar. (See evidence of E. H. Miller, jr., volume 5, page 3041.)

On the 1st of May, 1865, a committee, consisting of Leland Stanford, Mark Hopkins, and E. H. Miller, jr., was appointed for the purpose of examining and reporting upon the question of contracting for and continuing the construction of the railroad. That committee reported on the 9th of May, 1865, in favor of continuing the construction by contract instead of conducting the same directly by the company. (See volume 5, pages 3046, 3047.)

On the 6th of June, 1865, Mark Hopkins and E. H. Miller, jr., reported in favor of continuing, through Charles Crocker & Co., the construction of the road. (See volume 5, pages 3048, 3049.) It appears from the evidence that this construction, beyond section 54, was to be paid for on estimates of amounts and at rates specified in a resolution accompanying the report. This resolution provided that the rates which had been paid under the contract for sections 32 to 54 should be continued. (See evidence of E. H. Miller, jr., page 3049.)

The report of June 5, 1865, was written by Mr. E. B. Crocker, the brother of Charles Crocker. (See evidence of E. H. Miller, volume 5, page 3050.) In compliance with the recommendations of this report, Charles Crocker & Co. continued the construction of the railroad from section 54 to section 138, at the eastern boundary of the State of California.

A number of the estimates of the amounts of work done and of the rates paid for the work were produced before the Commission. Three of these estimates, from sections 55 to 67, and from sections 68 to 92, and from sections 93 to 138, will be found at pages 3044, 3045, and 3059 (volume 5). Some idea of the cost of this construction to the Central Pacific Railroad can be gathered from these estimates. The price for grubbing and clearing the land was \$2,000 per mile. Excavation was divided into six classes, and was paid for as follows: For the first class, 45 cents per cubic yard; second class, 65 cents per cubic yard; third class, \$1.47½ per cubic yard; fourth class, \$2.50 per cubic yard; fifth

class, \$5 per cubic yard; sixth class, \$8 per cubic yard; in tunnels, \$20 per cubic yard. The masonry for the second and third classes was \$25 per cubic yard; fourth class, \$20 per cubic yard; fifth class, \$10 per cubic yard.

These estimates are final estimates, and show that the cost of construction for sections 55 to 67, under the Crocker contract, was \$2,081,507.15. This distance of 13 miles, therefore, cost an average of about \$160,000 a mile. This work was exclusive of the iron rail (volume 5, page 3045). The final estimate for sections 68 to 92 shows that the amounts paid by the company for this construction was \$4,965,504.51, or an average of about \$198,000 per mile, exclusive of the iron rail. The total amount paid Crocker & Co. for construction from section 1 to section 138 (excluding sections 22, 23, 24, 25, 26, 27, 28, and 29, which were constructed by other parties) was, in cash, \$8,536,015.46, and bonds, \$100,000, and stock reduced to cash value, \$5,121,609.27, making a total of \$13,657,624.73. (See evidence of Stevens, volume 6, page 3509.)

The total amount of stock issued to Charles Crocker & Co. for this construction was \$14,701,710.22. This stock, at the agreed rates of 50 cents on the dollar and 30 cents on the dollar, was the equivalent of \$5,121,609.27, as above stated. (See evidence of Stevens, volume 6, page 3509.) The total construction under the Crocker & Co. contracts was 130 miles. Counting the stock at the agreed prices of 50 cents on the dollar and 30 cents on the dollar, the average per mile was about \$100,000. Counting it at its par value, the average per mile would be about \$178,000.

The Commission endeavored, by the examination of numerous witnesses, to ascertain the cost of this construction to Charles Crocker & Co. (See evidence of Strowbridge, volume 6, pages 3103 to 3111, and 3147; Arthur Brown, volume 6, pages 3602 to 3605; Clement, volume 6, pages 3202, 3233.)

The rates appearing on the face of the estimates above referred to are largely in excess of the rates fixed by those witnesses as the usual rates at the time of construction. (See evidence of Clement, volume 6, pages 3206, 3210.)

Leland Stanford testified that Charles Crocker had no partners; but it appears from his own evidence (volume 5, page 2637) that all of the stock received by Charles Crocker under these contracts was turned over to the corporation known as the Contract and Finance Company, in which Stanford, Huntington, Hopkins, and Crocker were substantially the sole stockholders. The amount of stock so turned over was about \$14,000,000. (See evidence of Stanford, volume 5, pages 2648 and 2649). It is clearly established by the evidence that these four gentlemen were at all times equally interested in the results of these contracts, and that, whether the formal relation of partner existed between them or not, it was understood and agreed between them that they should share equally in all the profits of the enterprise.

The Crocker contracts were awarded to C. Crocker & Co. by the votes of Stanford, Huntington, Hopkins, and Crocker. The profits arising out of these contracts were divided among these four persons; and this same singular feature will be found to pervade all contracts for construction, for repairs, for branch lines, for leases of the auxiliary lines, for the express business, for the sale of material, and for the sale of coal, as to all of which, through the intervention of construction companies, express companies, or development companies (in which these four persons were substantially the only stockholders), all of the con-

tracts have been awarded by the votes of Stanford, Huntington, Hopkins, and Crocker. (Stanford's evidence, volume 5, page 2789.) In all of these cases the profits resulting therefrom have been divided between them. In some exceptional cases there has been a fifth party in interest—either Mr. E. B. Crocker, the brother of Charles Crocker, or Mr. David M. Colton; in which cases the profits have been divided by fifths instead of by fourths.

In the opinion of the Commission the course pursued in this respect is wholly indefensible. The agreement of the company, when it received the munificent aid extended by the United States, was to repay the loan and so much of the interest as had not been repaid by transportation or percentages of net earnings at the expiration of thirty years. The course pursued by Stanford, Huntington, Hopkins, and Crocker was necessarily absolutely destructive of any possible security. This result will appear more clearly as the detail of the contracts effected is developed.

The railroad was constructed between section 138 and Promontory Point by a corporation known as the Contract and Finance Company. That company was formed ostensibly for the purpose of inviting the co-operation of outside capital. It was alleged that the personal liability which attached, under the laws of California, to the ownership of the stock of the Central Pacific, deterred many persons from taking any part in the enterprise; and the object of forming the Contract and Finance Company seems to have been to obviate that difficulty by causing the construction to be done through that company. (See evidence of Huntington, volume 1, page 10; Stanford, volume 5, page 2624.) That company was formed in 1867. Its capital stock was \$5,000,000. This stock was divided into three equal shares, which were issued to William E. Brown, T. J. Milliken, and B. R. Crocker. The stock so taken was understood by the incorporators to be held for Stanford, Huntington, Hopkins, Charles Crocker, and E. B. Crocker, and the three incorporators, who became the managers of the company, represented these five persons. (See evidence of William E. Brown, volume 5, page 2895.) Subsequently, E. B. Crocker's interest was assigned to the other four parties in interest, so that they each owned a quarter interest in the Contract and Finance Company. (See evidence of Stanford, volume 5, page 2638.)

In December, 1867, a contract was submitted by Leland Stanford to the board of directors of the Central Pacific Company, on behalf of the Contract and Finance Company, to construct the road from section 138 to Promontory Point. There were present at that meeting Stanford, E. B. Crocker, Mark Hopkins, and E. H. Miller, jr. The board accepted the contract on the terms proposed. (See evidence of E. H. Miller, jr., volume 5, page 3062.) The terms of the contract were substantially \$86,000 per mile, one half payable in cash, the other half payable in stock. For this the Contract and Finance Company was to complete the road, build all the depots, station-houses, turn-tables, round houses, furnish all the equipment, freight shops and machinery shops, and everything necessary to the running of the road. (See evidence of E. H. Miller, jr., volume 5, page 3062.)

Under this contract the road was constructed between the points indicated, a total of 552 miles, at a cost of \$23,726,000 in stock, and \$23,726,000 in gold. It is a noticeable fact that Mr. Miller testifies that at the time he voted for this contract, and at the time he voted for the Crocker contract and its extension, he was not informed that the directors of the Central Pacific were also beneficiaries under the contracts. (See evidence of E. H. Miller, jr., volume 5, pages 3061,

3062.) The Commission has made diligent effort to ascertain the actual cost of construction of the railroad to the Contract and Finance Company, and, in their opinion, have arrived at a conclusion which can not be far from the truth. An accurate answer to this question would be shown by the books of Charles Crocker & Co., and of the Contract and Finance Company. These books were not produced, and, in the opinion of the Commission, were purposely destroyed by direction of Stanford, Huntington, Hopkins, and Crocker. The evidence on this point appears to be conclusive.

(1) In 1870, suits were brought or threatened by Charles A. Lambard, Samuel Brannan, and others, against Stanford, Huntington, Hopkins, and Crocker, as owners of stock of the Central Pacific Railroad Company, alleging that those persons had been guilty of many violations of their duties as directors, and that they had voted profitable contracts to themselves; that by means of these contracts they had procured possession of substantially all of the assets of the company remaining after the expenditure of the actual cost of construction. The Commission do not mean to intimate that all of the charges contained in these complaints are sustained by the evidence; but it does appear that the four persons named did vote contracts to themselves, under which large profits were made and divided. The allegations contained in these complaints were such as would compel men of honor, if these allegations were false, to defend themselves at any cost. It appears from the evidence that all these suits were settled, and that the stock owned by the plaintiffs were bought at rates varying from \$400 a share to \$1,000 a share. (See evidence of Stanford, volume 5, page 2641; volume 6, pages 2775, 2779.)

The evidence on which the successful prosecution of such suits would necessarily depend was contained in the books of Crocker & Co. and of the Contract and Finance Company; because the actual cost of construction to these companies compared with the actual payments made by the Central Pacific Railroad Company would disclose the profits divided between Stanford, Huntington, Hopkins, and Crocker. They, and they alone, were interested in the suppression of this evidence.

(2) In 1873 the disclosures made by the examinations, conducted by the Wilson committee, excited much public attention and indignation with reference to similar practices affecting the Union Pacific Railroad Company through the intervention of the Credit Mobilier. Comparatively little attention was given by that committee to the affairs of the Central Pacific Railroad Company. Mr. Huntington, however, was examined as a witness. He was examined as to the profits resulting from the construction of the Central Pacific road. He described them as being confined to the stock of the company, and that the share received by him amounted to \$1,000,000 of this stock. (See report of the Wilson committee, evidence of Huntington, page 703.) This evidence was given more than two years after the completion of the Central Pacific Railroad, and Mr. Stanford has testified that each of the parties in interest received \$13,000,000 of the stock of the company as his share of the profits. (See evidence of Stanford, volume 5, pages 2655 and 2656.)

Mr. Huntington must, therefore, have known, when he was testifying before the Wilson committee, that his statement was not a true one.

The report made by the Wilson committee concerning the Central Pacific Railroad was that they were unable to obtain the facts and figures they desired because the persons and books to be examined were in California, and they had not at their command the time necessary

for reaching them. The recommendation of this committee in regard to the Union Pacific, which afterwards was enacted into the act of March 3, 1873, directed the Attorney-General to prosecute the offending officers of the Union Pacific Railroad Company. This circumstance, and the danger that similar disclosures would lead to a similar result as to the officers of the Central Pacific, formed another strong inducement for the suppression of the books of Charles Crocker & Co. and of the Contract and Finance Company.

(3) The books in question are identified by John Miller, William E. Brown, Daniel Z. Yost, and others as large journals and ledgers containing several hundred pages each, numbering, in all, from 12 to 15 volumes; and their disappearance by accident or inadvertence is simply impossible. Mr. Yost testifies that the last he saw of them Hopkins was personally engaged in packing them in boxes. (See evidence of Yost, volume 5, page 2712.)

These books had been kept for several years by William E. Brown. He was succeeded in 1873 by John Miller, who acted as secretary and book-keeper of the Contract and Finance Company after Mr. Brown ceased to act in 1873. Both Mr. Brown and Mr. Miller testified that before Miller took charge of the books, William E. Brown prepared a complete and new set, consisting of day-book, journal, and ledger, into which set of books he personally transcribed all the balances of the unclosed accounts contained in the books of the Contract and Finance Company. These books have since been produced before the Commission, and the fact is as stated.

John Miller testified that he saw the books, both of the Contract and Finance Company and of Charles Crocker & Co., in their usual place in the rooms occupied by the Contract and Finance Company; that he was personally in charge of the room during the day in which they disappeared; that he left the room for a short time, at the lunch hour, leaving Mr. Brown there, and that on his return the books had disappeared. (See evidence of John Miller, volume 5, page 2879.) William E. Brown denies any knowledge of their whereabouts, or of the circumstances of their disappearance. (See volume 5, page 2990.) Mr. Crocker gives it as his opinion that the books were destroyed by Mark Hopkins as having no value. (See evidence of Crocker, volume 7, page 3665.)

Putting all these facts together—the existence of a strong motive on the part of Stanford, Huntington, Hopkins and Crocker to suppress the books; the impossibility of accounting for their disappearance, except in pursuance of the act or direction of one of these four persons; the evidence of Yost that he saw Hopkins engaged in packing the books in boxes; the evidence of John Miller of their sudden disappearance, and the statement of Mr. Crocker connecting their disappearance with Mark Hopkins—it is impossible to avoid the conclusion that the suppression of these books has been intentional and willful.

In estimating, therefore, the actual cost of construction of the Central Pacific Railroad, of any of the branches which were constructed through contracts with the Contract and Finance Company, of any repairs done by that company, or supplies furnished by it, we feel compelled to accept the rule of law which applies to all cases of suppressed evidence, and which raises against the party implicated in the suppression the very strongest presumption that the suppressed evidence, if produced, would testify against the party suppressing the same.

It is our judgment that the actual cost of construction of the Central Pacific Railroad from Sacramento to Promontory Point, and the purchase from the Union Pacific Railroad Company of forty-seven and one-

half miles, a total distance of 737.50 miles, did not exceed the sum of \$36,000,000.

We base this conclusion on the examination of many witnesses as to the actual cost of railroad building and material during the years of construction, on the evidence taken of the character of the country, on the agreed price paid by the Central Pacific to the Union Pacific for 47½ miles of the road between Promontory Point and a point 5 miles west of Ogden; and in reaching this conclusion we have made, in our judgment, full allowance for all that appears in the evidence relating to the peculiar and difficult character of the work, to the excessive cost of building the road over the Sierra Nevadas, to the impediments offered by snow and stormy weather, to the unusual item of cost arising out of the construction of snow-sheds, and to the increased cost resulting from the rapidity with which the work was carried on and the necessity of expensive and unusual transportation of all material required for the construction of the road.

As this investigation is not in the nature of an accounting, it seems unnecessary to detail the facts and the figures. Mr. Stanford's admission is that the \$54,000,000 of stock distributed by the Contract and Finance Company was substantially a net profit, subject only to the liquidation of an indebtedness of the Contract and Finance Company, not exceeding \$3,000,000. (See evidence of Stanford, volume 5, page 2669; William E. Brown, volume 5, page 2979.)

The existence of this indebtedness can hardly be said to be satisfactorily proved in the absence of the books. It appears, moreover, positively proved from the books of the Central Pacific Railroad Company that during the construction of the road the Central Pacific Railroad Company had paid to the Contract and Finance Company, in lieu of a part of its cash payments, the sum of \$6,000,000 in notes. (See Stevens's report, No. 7, volume 8.) It appears also that in 1871 these notes were still in the possession of the Contract and Finance Company (see evidence of E. H. Miller, jr., page 3438), and that they were paid by an issue of land-grant bonds delivered to that company at the rate of 86½ per cent., the rate being fixed in this, as in all cases, by the vote of Stanford, Huntington, Hopkins, and Crocker. (See evidence of Stevens, volume 6, page 3532.)

The construction of the Central Pacific approached Promontory Point in the spring of 1869. At this same time the construction of the Union Pacific Railroad had proceeded west of Ogden and was approaching the same point. The parties interested in the Central Pacific pushed their construction east of Promontory Point, and for a while the two roads were engaged in parallel construction. An agreement was subsequently made by which the Central Pacific Railroad Company purchased from the Union Pacific Railroad Company the railroad constructed by the latter between Promontory Point and a point 5 miles west of Ogden. For this section of the road the Central Pacific Railroad Company paid to the Union Pacific Railroad Company \$3,000,000 in bonds, or an average of \$63,000 per mile.

Grenville M. Dodge was examined as to this construction and as to the character of the country. He fixed the cost at a high price, but an examination of his evidence will show that the memoranda of cost produced by him was not based on any personal knowledge, and was evidently prepared by the Union Pacific Railroad Company for the purposes of its sale to the Central Pacific Railroad. (See evidence of Dodge, volume 7, page 3795.) It may be safely assumed that the payment of the sum agreed upon was a full reimbursement to the Union

Pacific of the actual cost of construction. Mr. Dodge also testifies that this construction was much heavier than that between Omaha and Cheyenne (volume 7, page 3,796).

CONSTRUCTION OF THE WESTERN PACIFIC RAILROAD.

The Western Pacific Railroad Company was organized in 1862. On December 6, 1862, an approximate estimate of the cost of constructing the road from San José to Sacramento and equipping the same was made by William I. Lewis. The total of the estimate was \$5,400,000. (See Stevens's report, Exhibit No. 9, volume 8.) This estimate was based on an assumed length of 120 miles. Construction progressed slowly until the spring of 1867, when the contractors became embarrassed, and on the 8th of June, 1867, an agreement was made between the contractors, Stanford, Huntington, Hopkins, and Crocker, and E. B. Crocker and the Western Pacific Railroad Company, by the terms of which the contractors assigned all their interests to the Contract and Finance Company, together with all their shares of the capital stock of the Western Pacific Railroad Company, and also all outstanding stock; and the Contract and Finance Company agreed to discharge the indebtedness of the contractors, and that they should retain a portion of the land grants to which they were entitled under their contract with the Western Pacific Railroad Company.

On the same day an agreement was made between the Western Pacific Railroad Company and the Contract and Finance Company, by which the Contract and Finance Company agreed to complete the construction of the road and to equip the same, and the Western Pacific Company agreed to deliver to the Contract and Finance Company, in payment of such construction and equipment, all of its unissued stock, all of the unsold lands, all Government bonds to be received, and all bonds of the Western Pacific Railroad Company remaining unsold. The balance sheet showing the condition of this company at the time of the consolidation with the San Francisco Bay Company will be found in Stevens's Exhibit 9 (volume 8).

The San Francisco Bay Company was organized on the 25th of September, 1868, the principal stockholders being Stanford, Huntington, Hopkins, C. Crocker, and E. B. Crocker. Its object was the construction of a railroad, commencing at Goat Island, in the Bay of San Francisco, and connecting with the Western Pacific Railroad. Stanford was the president, E. B. Crocker the vice-president, Mark Hopkins the treasurer, E. H. Miller the secretary. These four gentlemen, together with Mr. Charles Crocker, constituted the board of directors. On the 21st of October, 1869, the board adopted a resolution that the said company pay to the Contract and Finance Company, for the work done and materials furnished in building its railroad, the sum of \$3,265,000, of which amount \$2,395,000 was to be paid in the capital stock of the company.

The resolution further provided for a consolidation between the San Francisco Bay Railroad Company and the Western Pacific Railroad Company, on the basis of a total authorized capital stock of \$10,400,000; each stockholder in the constituent companies to receive such number of shares in the new company as should equal the number of shares held by them, respectively, in the constituent companies. The San Francisco Bay Railroad was about 26½ miles in length. The Western Pacific Railroad Company, thus consolidated, represented 123 miles of railroad, from Sacramento to San José, and 26½ miles of railroad of the

San Francisco Bay Railroad Company—in all 149½ miles of road. It was received into the Central Pacific Railroad subject to a bonded indebtedness of \$4,874,000, and with a capital stock of \$7,900,000, which was exchanged, dollar for dollar, for stock of the Central Pacific Railroad Company.

The actual cost of construction of this railway, or of the principal portion of it, is contained in the books of the Contract and Finance Company, and therefore can not be accurately ascertained. Most of the construction was through a country which presented no peculiar difficulties, and it may be safely assumed that the entire stock converted into the stock of the Central Pacific Railroad Company represented no contribution whatever of money or value, and that the cost of construction did not exceed the bonded and floating indebtedness of the road.

The San Francisco and Oakland Railroad Company and the San Francisco and Alameda Railroad Company were short roads, built to connect with the ferries crossing the bay. They were consolidated on the 28th of June, 1870, the consolidated company being known as the San Francisco, Oakland and Alameda Railroad Company. The stock of the new company was fixed at \$2,000,000. The ferry franchises owned by this corporation were exceedingly valuable, and, in the judgment of the Commission, its consolidation with the Central Pacific Railroad Company, which occurred on the 20th of August, 1870, on the basis of \$2,000,000 capital stock, which was exchanged for stock of the Central Pacific Railroad Company, was an advantage to the consolidated company.

CONSTRUCTION OF SAN JOAQUIN VALLEY RAILROAD.

At the time of the consolidation of this company with the Central Pacific Railroad Company the construction had barely commenced, the only item charged to the construction being \$30,500, which appears to have resulted from a subscription to stock before consolidation and to have been returned to the subscribers.

The San Joaquin Railroad, from Lathrop to Goshen, a distance of 146 miles, was built under a contract with the Contract and Finance Company, which can not be found. The payments made by the Central Pacific Railroad Company to the Contract and Finance Company, for account of this construction, will be found in Mr. Stevens's report (Exhibit No. 11, volume 8). These payments consist of \$5,080,000 bonds of the Central Pacific Railroad, secured by a mortgage upon the San Joaquin branch, dated October 1, 1870; also \$2,080,000 of the capital stock of the Central Pacific Railroad Company. These payments were made by the votes of Stanford, Huntington, Hopkins, and Crocker, while they were the owners and controllers of the Contract and Finance Company, in the same manner as has been found to apply to all contracts with the Contract and Finance Company.

CONSTRUCTION OF THE CALIFORNIA AND OREGON RAILROAD.

The construction of the California and Oregon Railroad was commenced in the spring of the year 1868, at which date a contract was entered into between that company and the Contract and Finance Company for the construction and equipment of its railroad from its intersection with the Central Pacific Railroad to a point at or near the town of Red Bluff, in Tehama County. The agreed price for construc-

tion was \$20,000 in gold coin and \$30,000 in capital stock of the company per mile.

A balance sheet showing the condition of the California and Oregon Railroad Company on the 22d of August, 1870, just prior to consolidation, will be found in Stevens's report (Exhibit No. 8, volume 8). At the time of the consolidation, 77.6 miles were completed.

The total charges for construction were.....	\$3,879,975.60
The total of miscellaneous assets was	101,664.56
Total.....	3,981,640.16
The total liabilities were :	
Stock issued under construction contract.....	1,838,300.00
Due Contract and Finance Company :	
Stock.....	\$497,000
Cash	1,344,800
	1,841,800.00
First-mortgage bonds	263,000.00
Land department	11,652.01
Profit and loss	26,888.15
Total.....	3,981,640.16

After the consolidation, the construction of the railroad to Tehama was continued by the Contract and Finance Company, at the contract price of \$30,000 in stock and \$20,000 gold coin per mile. The details of this construction will be found in the evidence of Stanford (volume 5, pages 2659 to 2665).

From Tehama to Red Bluffs, a distance of 12.11 miles, and from Red Bluffs to Redding, a distance of 34.88 miles, the construction was continued under contracts with the Contract and Finance Company. The details of the payments will be found in Stevens's Exhibits, Nos. 10 and 11, in volume 8. The construction from Redding to Delta, a distance of 38.48 miles, was conducted by the Central Pacific Railroad Company itself. The details of the cost of construction will be found in Stevens's Exhibits, No. 25. The railroad was completed to this point in 1885.

The actual cost of the construction of the road by the Contract and Finance Company is contained in the books of that company, and can not, therefore, be accurately ascertained. This railroad from Delta to the State line, a distance 103 miles, was constructed by the Pacific Improvement Company, and, as all the facts relating to the construction have been laid before the Commission, they may be referred to as accurately illustrating the method pursued by the directors of the Central Pacific Railroad Company.

The Contract and Finance Company was dissolved in 1874, and its assets distributed among the four stockholders, Stanford, Huntington, Hopkins, and Crocker. Another corporation was formed for the same object, known as the Western Development Company. Its capital stock was the same as the Contract and Finance Company, \$5,000,000, and the interests were the same at the inception—one-fourth each to Stanford, Huntington, Hopkins, and Crocker. Afterwards these four persons transferred one-ninth to David M. Colton, retaining two-ninths each. (See evidence of Stanford, volume 5, page 2658.)

The Western Development Company was mainly concerned with the Central Pacific Railroad Company in contracts for repairs and some minor construction contracts. Its principal work was in the construction of the leased lines and of lines connected with the Southern Pacific Railroad Company.

The Pacific Improvement Company was subsequently formed for the same general purpose. Its stock was \$5,000,000. The ownership was in Stanford, Huntington, Hopkins, and Crocker, Mr. Hopkins's interest being represented by his administratrix. (See evidence of Stanford, volume 5, pages 2660, 2661.) No money was paid for the stock of any of these companies, the available funds needed by the company being in the form of direct loans of money or credit by the stockholders to the respective companies.

The contract between the Central Pacific Railroad Company and the Pacific Improvement Company for the construction of the California and Oregon Railroad between Delta and the State line was made in October, 1886. The text of the contract will be found in the testimony of E. H. Miller, jr. (volume 5, pages 2354, 2355 and 2356). This contract was awarded to the Pacific Improvement Company by the votes of Stanford, Huntington, Hopkins, and Crocker. (See evidence of Stanford, volume 5, page 2664.) The construction company agreed to build the road and furnish the equipment, and also to secure control of another railroad known as the Oregon and California, extending from Portland, in the State of Oregon, to a junction with the California and Oregon at the State line. But the compensation to the Pacific Improvement Company for the construction of the unfinished portion of the Oregon and California road was to be paid by the Oregon and California Company, and was not included in the consideration named in the contract between the Central Pacific Railroad Company and the Pacific Improvement Company. (See the contract, volume 5, page 2354.)

The consideration for the construction of these 103 miles of railroad and of the equipment, as stated in the contract, was 80,000 shares of the stock of the Central Pacific Railroad Company, \$8,000,000, and \$4,500,000 of the bonds of the Central Pacific Railroad Company, part of which bonds were issued under a mortgage of the California and Oregon Railroad and part issued under a mortgage of the Central Pacific Railroad Company, dated October 1, 1886. The stock was to be delivered on the execution of the contract, the bonds as the work progressed. The stock was accordingly delivered in October, 1886. All of the bonds have been delivered except \$317,000. (See evidence of Douty, volume 5, page 2703.) The amount reserved is sufficient to cover the cost of the completion of the contract. (Same page.)

The average market value of the Central Pacific stock, taken from the actual quotations of the New York Stock Exchange, during the month of October, 1886, was \$48. At this rate, the \$8,000,000 stock was worth, in cash, \$3,840,000. The bonds paid to the Pacific Improvement Company were worth par. They were accepted by the Central Pacific Railroad Company from the Pacific Improvement Company in payment of a loan due by them to the Central Pacific sinking fund. (See evidence of Stanford, volume 5, page 2666.)

The actual cash value then paid to the Pacific Improvement Company for the construction from Delta to the State line, and for the equipment, was—

In stock	\$3, 840, 000
In bonds	4, 500, 000
Total.....	8, 340, 000

The books of the Pacific Improvement Company, showing the actual cost of this construction and of the equipment, were examined by Mr. Stevens, and this cost, exclusive of the unfinished work, which Mr. Douty testified would not exceed the \$317,000 of bonds which had been

retained, was \$3,138,609.32. (See evidence of Stevens, volume 6, page 3528.) The accuracy of the conclusions reached by Mr. Stevens was conceded by the counsel for the Central Pacific road. (See Haymond's statement, volume 6, page 3534.)

In the statement of cost of construction contained in the table at page 3531 the retained \$317,000 bonds have been added to the above figure, making the total cost of the completed road and equipment, \$3,505,609.32. As compensation for this expenditure, Stanford, Huntington, and Crocker have voted to themselves stock and bonds of the value, as above stated, of \$8,340,000. And this extraordinary transaction is being consummated to-day, in the face of this investigation and in violation of every duty which these directors owe to the stockholders of that company and to the Government as its chief creditor.

It has been remarked before that the conclusion reached in the case of the United States against the Union Pacific Railroad Company to recover misappropriated assets from the directors, that no such suit could be sustained until after the maturity of the debt, was unfortunate. The application of this principle to the transaction now under discussion presents the results of this decision with peculiar force.

The United States *can not* sue, because the debt is not due. The corporation *will not* sue, because it is controlled by the wrong-doers. The stockholders *dare not* sue, because, under the laws of California, they are personally liable for the obligations of the company. (See Bergin's statement, volume 5, page 2670.)

In addition to the railroads hereinbefore described, which constitute the corporation now known as the Central Pacific Railroad Company, a large number of branch and auxiliary lines have been, from time to time, constructed through the Contract and Finance Company, the Western Development Company, and the Pacific Improvement Company. These roads, as completed, were leased to the Central Pacific Railroad Company. A statement of the terms of these leased roads will be found in the evidence of E. H. Miller, jr. (volume 6, pages 3443 to 3449). The amount of the rental was always fixed at a sum sufficient to pay the interest on the bonds of the leased roads. In several instances it was fixed at a figure which permitted the declaration of dividends on the stock. (See evidence of Douty, volume 5, page 2691.)

The accountant of the Commission has examined the books of the Western Development Company and of the Pacific Improvement Company, and has ascertained from these books the actual cost of the construction done by those companies. He has also ascertained from the same books the consideration received in bonds and in stock or cash for such construction. These figures are given in detail in the table contained in volume 6, page 3531. It will be seen that as to all these railroads the bond issue exceeds the actual cost of construction. These bonds, though nominally issued to the construction companies, were, of course, the property of the stockholders, Stanford, Huntington, Hopkins, and Crocker; and the result of the leases was to compel the Central Pacific Railroad Company to pay the interest on these bonds, and, in the cases before referred to, dividends on the stock. The actual operation of the leases has, however, on the whole, been a source of profit to the Central Pacific Railroad Company.

In the following table we have stated the cost of the Central Pacific Railroad, as that corporation exists to-day, as determined by us from the evidence before us, and also the consideration paid therefor in bonds, stock, and cash.

Name of railroad.	From—	To—	Number of miles.	Cost of construction.	Bonds.	Stock.	Cash.
California and Oregon Railroad.....	Roseville.....		77.6		\$250,000	\$2,328,000.00	\$1,344,000.00
Do.....	77.6 mile.....	103.75 miles to a point opposite Tehama.	26.15	\$5,000,000.00		784,500.00	523,000.00
Do.....	Tehama.....	Red Bluff.....	12.51			375,300.00	250,200.00
Do.....	Red Bluff.....	Redding.....	34.9				1,570,500.00
Do.....	Redding.....	Delta (1).....	34.04	3,051,816.11			3,051,816.11
California and Oregon Railroad (C. P.).....	Delta.....	State line.....	104.00	\$3,505,609.32	4,500,000	8,000,000.00	
Central Pacific, main line (Crocker contract):							
Bonds at par value.....	1st mile.....	138th mile.....	138.00		100,000	57,980.22	
Stock at 50 per cent.....	Section 1.....	Section 92.....	138.00			2,690,200.00	8,853,117.93
Stock at 30 per cent.....	Section 92.....	Section 138.....	138.00			11,947,530.00	
Central Pacific, main line (extra work):							296,504.22
Central Pacific, main line (Contract and Finance Company).	138th mile.....	690th mile.....	552.00	\$36,000,000.00		23,736,000.00	\$23,736,000.00
Central Pacific, main line	Promontory Point.....	5 miles west of Ogden.....	47.50		\$2,900,000		100,000.00
Central Pacific main line, snow-sheds and other extra work during 1870.							1,072,874.79
Central Pacific, main line, rebuilding American River bridge.				52,011.48			52,011.48
Central Pacific, main line, extending Oakland and Alameda wharves and fencing in track.				692,394.94			692,394.94
San Joaquin Valley Branch of Central Pacific Railroad. ⁵	Lathrop.....	Goshen.....	146.00	4,500,000.00	6,080,000	2,000,000.00	30,500.00
Western Pacific Railroad and San Francisco, Oakland and Alameda. (Contract and Finance Company's contract.) ⁶	Sacramento.....	West Oakland and San José.....	149.66	5,000,000.00	4,874,000	7,900,000.00	
Oakland and Alameda local lines.....			17.00	500,000.00		760,300.00	
			1,339.56	58,301,831.85	18,713,000	60,585,810.22	41,573,719.47

Total of bonds, stock, and cash, \$120,730,729.69; cost of construction, \$58,301,831.85; grand total, \$62,428,897.84.

¹ From Redding to Delta the line was built by the Central Pacific Railroad Company. The distance, 34.04 miles, according to the books, cost \$3,051,816.11, or \$79,000 per mile. It is clearly evident that large sums of money were expended in this amount upon other portions of the road in rounding up the work.

² Central Pacific Railroad, Delta to State line, construction not completed. The cost of construction to June 30, 1887, was \$3,188,609.32. Amount of bonds issued, \$4,183,000. The additional amount of bonds to be issued, \$317,000, to make up the \$4,500,000, it is estimated would take to complete the road; if it does not, the cost will be increased and the profit and loss decreased.

³ This payment was in gold.

⁴ This payment of bonds consisted of \$1,338,000 United States 6 per cent. bonds, and \$1,562,000 first-mortgage bonds of the Central Pacific Railroad Company.

⁵ The San Joaquin Valley Branch of the Central Pacific Railroad was constructed under contract with the Contract and Finance Company for \$2,000,000 stock, \$6,080,000 bonds, and \$30,500 cash. The actual cost of construction can only be ascertained from the books of the Contract and Finance Company, which are missing.

⁶ In addition to the stocks and bonds paid to the contractors for building the Western Pacific Railroad, they received the total amount of the land grants. The total amount of securities issued at the time of canceling the second McLaughlin contract was \$1,611,000. The balance of securities that would have been due him on completion of his contract was turned over to the Contract and Finance Company, together with all the unsold lands.

⁷ Cost of construction as determined by Commission.

The result is that the Central Pacific Railroad Company paid for this construction—

In cash.....	\$41,573,719.47
In bonds.....	18,713,000.00
In stocks.....	60,585,810.22

Total.....	120,872,529.69
Total cost of construction.....	58,301,831.85

Leaving surplus profits of..... 62,570,697.84

Of which there were:

Stocks.....	\$60,585,810.22
Bonds.....	1,984,887.62

All of this consideration was paid to Stanford, Huntington, Hopkins, and Crocker, and was voted to themselves by their own votes.

In the following table we have suggested the railroads mentioned therein which were leased to the Central Pacific Railroad Company:

Name of railroad.	From—	To—	Number of miles.	Cost of construction.
Northern Railway.....			120.7533	\$3,039,818.88
Amador Branch.....	Galt.....	Ione.....	27	380,649.64
San Pablo and Tulare Railroad.....	Martinez.....	Tracy.....	46.5180	1,157,140.74
Southern Pacific.....	Sumner.....	San Francisco.....	404.91	11,890,726.61
	Spadra.....	Colorado River.....		
	Huron.....	Goshen.....		
Anaheim Branch.....	Florence.....	Santa Ana.....	20.82	95,162.85
Southern Pacific of Arizona.....	Colorado River Bridge.....	New Mexico Line.....	384.17	7,003,860.09
Southern Pacific of New Mexico.....	Boundary of New Mexico and Arizona.....	West end of Rio Grande Bridge.....	167.22	3,649,572.20
Total.....			1,171.39	27,216,931.01

Name of railroad.	Bonds.	Stock.	Cash.	Profit and loss.
Northern Railway.....	\$3,248,000	\$4,210,500		\$5,018,681.12
Amador Branch.....	675,000	648,000	\$27,000.00	999,350.36
San Pablo and Tulare Railroad.....	1,023,000	1,881,000	116.00	1,726,975.26
Southern Pacific.....	14,576,000	14,576,700	820.00	17,262,793.39
Anaheim Branch.....	416,000	425,800	250.00	746,637.15
Southern Pacific of Arizona.....	9,604,000	19,995,000		22,595,389.91
Southern Pacific of New Mexico.....	4,180,000	6,688,800	500.00	7,219,727.80
Total.....	33,722,000	49,005,800	28,686.00	55,539,554.99

The result therefrom is that the respective companies named in the table paid therefor—

In cash.....	\$28,686.00
In bonds.....	33,722,000.00
In stock.....	49,005,800.00

Total.....	82,756,486.00
Total cost of construction.....	27,216,931.01

Leaving surplus profits of..... 55,539,554.99

Of which there were:

Stocks.....	\$49,005,800.00
Bonds.....	6,533,754.99

In addition to the profits derived by these persons in the construction of the road, there are many instances of the exercise of the power of their votes as directors in determining other contracts be

themselves. The Contract and Finance Company, the Western Development Company, and the Pacific Improvement Company made repeated contracts with the Central Pacific Railroad Company for repairs, extensions, and additions. The payments on some of these contracts were made on estimates of work done, and on others on agreed prices. It is unnecessary to trace them in detail. It is sufficient to say that in all cases the terms were determined by the votes of those interested in the contracts.

There were also large contracts for repairs, the terms of which were, in general, the cost, with 10 per cent. added. While condemning in all cases the practice of awarding contracts to companies in which the directors have a personal interest, it is the judgment of the Commission that the addition of 10 per cent. was a fair and reasonable charge for the superintendence of the work and the ordinary profit which the contractors had a right to expect.

The same system of determining their benefits by their own votes obtained in matters other than construction. In October, 1869, Stanford, Huntington, Hopkins, and Crocker organized a company known as the Pacific Express Company, with the avowed object of doing the express business of the railroad. Before that date, this business had been done by Wells, Fargo & Co. The Pacific Express Company did no business, and made no further progress in the accomplishment of its avowed objects than to organize. (See evidence of Tevis, volume 6, page 3117.) Immediately thereafter an agreement was made between the Pacific Express Company and Wells, Fargo & Co. This agreement will be found in volume 6, page 3120.

By its terms, Wells, Fargo & Co. were reorganized on the basis of a capital of \$15,000,000, which afterwards, in the actual accomplishment of the transaction, was reduced to \$5,000,000. (See page 3125.) One-third of the entire stock of Wells, Fargo & Co. was issued equally to D. O. Mills, Leland Stanford, Mark Hopkins, Charles Crocker, C. P. Huntington, and Lloyd Tevis. (See page 3127.) The essential consideration for the issue of this stock, and for the agreement between the Pacific Express Company and Wells, Fargo & Co., was a provision contained in the contract by which it was agreed that the Central Pacific Railroad Company should not engage, during the ten years during which the contract was to run, in the express business, and not to employ any other express company in the carriage of letters, parcels, messages, or goods belonging to itself, and not to permit any of its employés to receive, carry, or deliver express matter. (See page 3125.)

The persons to whom this stock was issued paid no consideration therefor except the consideration arising out of the advantages of the provision above quoted, and except the sum of \$166,666.66, for which amount they were assessed. (See page 3128.)

The stock of Wells, Fargo & Co. has paid dividends at the rate of 8 per cent. per annum ever since the date of the contract of October, 1869. (See page 3118.)

The provision above quoted in regard to the exclusive right to do the express business of the railroad was covered by an agreement dated the 9th of December, 1869, made between the Central Pacific Railroad Company and Wells, Fargo & Company. (See pages 3122, 3123.) The restrictive provision which formed the essential consideration to Wells, Fargo & Company is the ninth section of this contract. It follows, therefore, that in this, as in the many other instances cited, Stanford, Huntington, Hopkins, and Crocker used their own votes as directors of

the Central Pacific Railroad Company to cause the railroad company to enter into a contract under which they derived a large and important personal advantage. The same practice was pursued in regard to the sale of coal to the company, through the Rocky Mountain Coal Company, in which these same directors, together with Mr. David M. Colton, had a large and controlling interest.

In general, it may be said to be established by the evidence that all the construction contracts, and all the important contracts for materials and supplies, were made between the Central Pacific Railroad Company and companies controlled by Stanford, Huntington, Hopkins, and Crocker. These four persons determined the terms of all these contracts, and the result has been that through the payments made by the Central Pacific Railroad Company they have received, as profits, a vast amount of stocks and bonds. Those resulting from the construction contracts above stated represent over \$100,000,000 in stocks, and over \$5,000,000 in bonds.

It appears from the books of the company that from the very inception of the enterprise down to the present time it has been the constant practice of the directors of this company to permit the expenditures of very large sums of money without requiring any sufficient vouchers disclosing the purposes to which they were applied. A detailed list of these insufficient vouchers will be found in Exhibit W, attached to Stevens's report, volume 8. These insufficient vouchers aggregate \$4,818,355.67.

The only attempt at justification offered by the officers of the company for the insufficiency of these vouchers was the declaration that they did not propose to charge them against the United States in adjusting the percentages of net earnings which the United States was entitled to receive. But this explanation is utterly insufficient. The money so alleged to have been expended represents a large amount of the assets of the Central Pacific, the withdrawal of which seriously affects its power to pay its obligations. The solvent power of the corporation is perhaps the most important factor of the United States security. Any transactions, therefore, which diminish the power to pay, are material to the interests of the United States as the chief creditor of the road. On the face of the books the barren fact appears that Leland Stanford and C. P. Huntington have taken from the assets of this company, over which they had absolute control, the sum aforesaid of \$4,818,355.67.

There is no room for doubt that a large portion of this money was used for the purpose of influencing legislation and of preventing the passage of measures deemed to be hostile to the interests of the company, and for the purpose of influencing elections. Mr. Huntington's evidence relating to these expenditures will be found in volume 1 (pages 23-40), and volume 7 (pages 3696 to 3767). It is impossible to read this evidence, and especially the extracts from the Colton letters, written by Mr. Huntington himself, without reaching the conclusion that large sums of money were expended by Mr. Huntington in his efforts to defeat the passage of various bills pending in Congress.

If this vast amount of money had been applied to a legitimate purpose, no motive for concealment would exist. It must, therefore, be assumed that the object was an illegitimate one. And as Mr. Huntington's own statement and his letters establish conclusively that the moneys were used with reference to the company's business in the Departments at Washington and in Congress, the conclusion is inevitable that it was used for improper purposes.

The evidence of Mr. Stanford on this subject will be found in volume 5 (pages 2945 to 2958, and 3161 to 3195). Mr. Stanford followed for a while the line of indefinite explanation used by Mr. Huntington; but when asked the direct question whether he had ever used any of the moneys covered by the insufficient vouchers, and bearing his signature, for the purpose of influencing legislation, he declined to answer.

After Mr. Stanford had declined answering the questions put to him, and it became evident that it would be necessary to test the right of the Commission to compel the answer by an application to the court, it was deemed proper, in order to avoid the objection that the questions had not been sufficiently direct and explicit to raise the precise point which it was desired to submit to the court, to question Mr. Stanford as to a number of specific vouchers which were found to bear his name and the names of persons to whom payments had been made but without any explanation of the purposes to which the moneys had been applied.

In the course of this examination, the Commission, at pages 3187, 3188, asked the direct question whether Mr. Stanford had ever paid any money, for the purpose of influencing legislation, to a number of persons whose names are used.

The vouchers bearing the names of these persons were found among the ordinary files of the Central Pacific Railroad Company and appertain to the period covered by the extraordinary disbursements in question.

In naming these persons in the questions addressed to Governor Stanford, the Commission had no intention whatever of even suggesting that there appeared on the face of the vouchers, or of the transactions referred to therein, any just ground for implicating the persons whose names were used. The vouchers formed part of the legal or general expenses belonging to the period as to which the inquiry was made, and it was thought necessary to put the questions in the form adopted in order to present the matter in proper form for the decision of the court.

The Commission thereupon, in pursuance of the powers given to it under section 2 of the act, presented its petition to the Circuit Court of the United States for the District of California, setting forth the facts and alleging that Leland Stanford had refused to answer the questions specified in the petition, and prayed the court to compel the witness to answer, and to enforce obedience to its mandate by its process. The proceedings will be found in volume 7, page 4164.

The argument was heard by Justices Field, Lorenzo Sawyer, George M. Sabin, and Ogden Hoffman. The court denied the application and dismissed the petition. The opinions of Justices Fields and Sawyer will be found in volume 7. Judge Ogden Hoffman dissented, and his opinion will be found in the same volume.

The principle involved in this decision is of extreme importance to Congress and to the whole country. Its effect is to absolutely deny to Congress the right to use the compulsory process of the courts for the purpose of obtaining information which may be indispensable in order to legislate intelligently. Under the decision Congress is absolutely restricted to such information as can be derived from voluntary witnesses.

Neither the Tariff Commission nor the Committee on Interstate Commerce of the United States Senate, nor any of the committees so frequently required by Congress to collect information to be reported at the ensuing sessions, could be vested with the power of compelling the attendance and evidence of witnesses or the production of books and

papers through the process of the courts. The decision would also paralyze a vast variety of commissions, examining boards, and other bodies which, under the laws of Congress and of the respective States, are charged with duties of great importance to the welfare of the community, and which never, from the very nature of these duties, proceed formally by action or case. Bank examiners, railroad commissioners, inspectors of insurance companies, grand juries, are all empowered by law to examine witnesses and to require the production of books and papers. Their proceedings are not actions, nor are they cases, except in the same sense that the proceedings of the Pacific Railway Commissioners against Leland Stanford was a "case."

The conclusion reached by the court is directly at variance with the decision of the New York Court of Appeals in the People against Keeler (99 N. Y., page 463). In this case the power of the legislature to order investigations, to compel the attendance of witnesses, and the production of books and papers in all matters relating to the information required for the purpose of intended legislation, was sustained; and the distinction between the objects sought to be attained by Congress in the case of *Kilbourn v. Thompson* (103 U. S., page 168) and the exercise of the power to call for persons and papers in furtherance of intended legislation, was clearly pointed out.

The decision of the circuit court is not based on the ground that the question addressed to Leland Stanford was an improper one, or that it did not relate to the subject matter of the investigation, but it is distinctly placed on the ground that Congress has no power whatever to require the courts to issue their process and to compel the attendance and obedience of witnesses except in actions or cases, and on the further ground that the proceedings of the Commission to enforce the answer of the witness is not a "case."

The Commission regrets that under the existing provisions of law it is impossible to take an appeal from this decision, so as to procure a final determination from the Supreme Court of the United States; and they would respectfully recommend that the appellate jurisdiction conferred on the Supreme Court be enlarged so as to apply to all cases and proceedings in which the United States or any of its agencies are parties, and in which the decision is adverse to a right attempted to be exercised under an act of Congress.

ADMINISTRATION AND MANAGEMENT OF THE ROAD.

It is established by the evidence that the work of building and developing this railroad was conducted by Stanford, Huntington, Hopkins, and Crocker with great energy and intelligence. Some of their references to financial difficulties evidently apply to a period before the passage of the bill of July 2, 1864. For it appears from the official report of the company for 1865, signed by Mr. Stanford himself, that the company, through the Government and its own mortgage bonds, had abundant resources for the completion of the road. But it is doubtless true that after July 7, 1864, and during the entire period ensuing, to the completion of the road, these gentlemen 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 engineering feat of successfully attacking and scaling the Sierra Nevada Mountains is scarcely surpassed by any railroad construction in the world. The difficulties encountered—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 the witnesses.

The Commission, while gladly bearing testimony to this fact, are unable to see its application to the subject-matter of the investigation. A very large proportion of the difficulties, labors, and dangers referred to were borne by the engineers, surveyors, subcontractors, and the laborers who actually did the work. The principal directors of the company all received large salaries as compensation for their various services as president, treasurer, secretary, or manager of the company. It is therefore impossible to find, in the circumstances alluded to, any justification for the transfer to themselves of the entire franchise of this company, represented in its stock, and of a considerable portion of its assets, obtained through the contracts made by their own votes.

The operation of the company appears to have been successful from its very inception. During the earlier years the company was entirely free from competition and charged very high rates both for freight and passengers. The result of this is shown in the percentage of operating expenses as compared with gross earnings, which, during the early period of the company, were as low as $23\frac{1}{2}$ per centum per annum, and at no time prior to 1875 exceeded 40 per centum per annum.

From 1863 to the 31st of December, 1869—

The gross earnings were.....	\$10,807,508.76
Operating expenses.....	4,700,624.56
Leaving net earnings.....	6,106,884.20
Other credits	374,045.63
	6,480,929.83
Interest and taxes paid, and Government requirements	4,053,396.03
Leaving absolute net.....	2,427,533.80

From the 1st of January, 1870, to the 31st of December, 1873, in which latter year the first dividend was paid—

The gross earnings were.....	41,123,618.21
Operating expenses.....	17,485,371.69
Leaving net earnings	23,643,246.52
Other credits	2,167,318.29
	25,810,564.81
Interest and taxes paid, and Government requirements.....	19,235,045.49
Leaving absolute net.....	6,575,519.32

From the 1st of January, 1874, until the 1st of January, 1884, which was the end of the dividend-paying period of the company—

The gross earnings were	194,126,239.24
Operating expenses.....	108,431,267.78
Leaving net earnings.....	85,694,971.46
Other credits	8,191,532.17
	93,886,503.63
Interest and taxes paid, and Government requirements.....	41,349,586.64
Leaving absolute net.....	52,536,916.99

During the period last mentioned the Central Pacific Railroad Company distributed to its stockholders in dividends the sum of \$34,303,055. (See volume 5, page 2547.) But little stock was sold by Stanford, Huntington, Hopkins, and Crocker until 1880. Between 1873 and 1877 they were substantially the only stockholders of the Central Pacific Railroad. Nearly the entire amount of dividends declared during these years was therefore received by those four persons.

Tested by the simple question of earnings, it is true that all of the above-mentioned dividends appear by the income account of the company to have been earned. But the distribution of this vast sum of money to these four persons, whose stock represented substantially no contribution whatever to the actual value of the railroad, was most improvident, and was in plain disregard of the obligations incurred by the company to the United States. The company had agreed to repay the debt and interest at the expiration of thirty years. How could it be possible, if the stock represented no actual contribution to the earning power of the company, and the earnings themselves were divided up among the stockholders, that adequate security could be found for the debt due to the United States, increased by the vast amount of its deferred interest, at the maturity of the debt?

The actual amounts put into the enterprise were the proceeds of the first-mortgage bonds and of the United States loan; in all, about forty millions of dollars. By what magic was it expected that this property, after the wear and tear of thirty years' use, could afford any sufficient security for the repayment of its extravagant cost, increased by the interest accruing on a large portion of its debt, if all its current earnings were distributed to its stockholders, without making provision for the constantly increasing obligations? The ordinary dictates of prudent and honest management should have impelled the directors of this company to make suitable provision out of the large earnings, during the profitable years of its operation, to cover this impending debt.

The fact that Congress had taken steps in this direction, through the provisions of the Thurman act, did not discharge this obligation. The insufficiency of the Thurman act was almost immediately perceived and recognized. The fact that the assets were insufficient to discharge the obligation has always been well known to its managers. While, therefore, the distribution of the earnings, may not, under the circumstances, have been a technical violation of law, it was clearly a violation of the rules of good and prudent management.

From the 1st of January, 1884, to the 31st of December, 1886, the result of the operation of the company was as follows:

1884.	
Gross earnings.....	\$22, 180, 830.96
Operating expenses.....	15, 695, 396.99
	<hr/>
Other credits	6, 485, 433.97
	1, 080, 411.83
	<hr/>
	7, 565, 845.80
Interest, taxes, general expenses, rentals, and Government require- ments	6, 081, 620.56
	<hr/>
Net income	1, 484, 225.24
	<hr/>
1885.	
Gross earnings (as per report of company)	\$15, 447, 123.07
Operating expenses	7, 489, 993.52
	<hr/>
Other credits	7, 957, 129.55
	897, 562.00
	<hr/>
	8, 854, 691.55
Interest, taxes, general expenses, rentals, and Government require- ments	6, 993, 060.48
	<hr/>
Net income	1, 861, 631.07
	<hr/>

1886.

Gross earnings (as per report of company)	\$15,206,136.55
Operating expenses	7,242,666.93
	7,963,469.62
Interest, taxes, rentals, general expenses, and Government requirements	6,638,471.31
	1,324,998.31
Other credits	1,727,418.22
	3,052,416.53
General and land expenses charged direct to profit and loss	353,206.15
Net income 1886	2,699,210.38
Net income 1885	1,861,631.07
Net income 1884	1,484,225.24
Total net income, January 1, 1884, to December 31, 1886	6,045,066.69

In addition to the amounts paid by this company for operating expenses, interest, and Government requirements, it has, under the laws of California, kept up a sinking fund for each of the mortgages affecting its property or the various branches. These various mortgages are as follows:

California State aid, due 1884	\$284,000
Central Pacific first mortgage, due 1895 to 1898	25,883,000
Western Pacific, old issue, due 1895	111,000
Western Pacific first mortgage, due 1899	2,624,000
California and Oregon first mortgage, due 1888	6,000,000
Central Pacific, California and Oregon Division, due 1892	5,800,000
San Francisco, Oakland and Alameda, due 1890	687,000
San Joaquin Valley, due 1900	6,080,000
Land-grant first mortgage, due 1890	4,570,000
Land-grant second mortgage, due 1915	5,000,000
Fifty-year bonds of 1886, due 1936	1,373,000
Income bonds, due 1888	3,285,000

The amounts held in the sinking fund, applicable to the respective mortgages, are as follows:

Sinking fund No. 2, for redemption of California State aid bonds	\$276,969.68
Sinking fund No. 3, for redemption of first-mortgage bonds of the company, series A, B, C, and D	1,558,512.15
Sinking fund No. 4, for redemption of first-mortgage bonds of the company, series E, F, G, H, and I	1,239,269.94
Sinking fund No. 5, for redemption of first-mortgage bonds, Western Pacific Railroad, series A and B	379,160.58
Sinking fund No. 6, for redemption of first-mortgage bonds of California and Oregon Division, series A and B	1,565,353.34
Sinking fund No. 7, for redemption of income bonds	3,266,245.76
Sinking fund No. 8, for redemption of first-mortgage bonds, San Francisco, Oakland and Alameda Railroad	836,474.30
Sinking fund No. 9, for redemption of first-mortgage bonds, San Joaquin Valley Railroad	421,037.08
Total	9,543,022.83

Of the above amounts \$3,176,942.67 are applicable to the payment of the principal of the mortgages which have priority over the lien of the United States.

Mr. Stevens has verified the sinking-fund balances and also the securities belonging to their respective funds. (See Stevens's report, volume 8.)

The income account of the Central Pacific Railroad Company, after the deduction of all payments above referred to, indicates an appar-

ent surplus of \$27,220,802.50. This balance does not represent any actual cash or cash item. It merely means that that amount of money received from the earnings has been expended for general railroad purposes other than operating expenses, interest, Government requirements, dividends, or other purposes properly chargeable to income or sinking-fund payments. It is, of course, impossible to trace the actual purposes for which this income balance was expended. In general terms, it is represented in the increase of the construction and equipment account, in the purchase of terminal facilities, and other expenditures of a similar character. But little of this money, if any, was expended in the betterment or improvement of the property affected by the Government lien.

The increase in the construction and equipment account must necessarily proceed substantially from the increase of the stock, bond, and profit and loss accounts. The construction and equipment account on the 31st of December, 1870, after the consolidation of the Central Pacific with the Western Pacific, California and Oregon, and San Joaquin Valley had been completed, aggregates \$120,745,101.91. The construction and equipment account on the 31st of December, 1886, aggregates \$165,095,373.71. (See Stevens's report, consolidated balance sheet, volume 8.) This increase of \$45,000,000 represents a variety of expenditures for construction and equipment account, effected through the Contract and Finance Company, and through the Pacific Improvement Company, and by the Central Pacific Railroad Company itself, embracing the completion of the San Joaquin Valley road, the extension of the railroad property and wharves at Oakland, expenditures on the Mission Bay property in San Francisco, construction and equipment of the California and Oregon from Roseville to the State line, and also, but to a limited extent, any betterments and improvements on the aided line between Ogden and San José. The estimate of Colonel Morgan is that the aided line proper from Ogden to San José could be reproduced to-day at an expense of \$31,297,920, which is a little more than the face of the mortgage, whose lien is prior to that of the United States.

It is true that the United States holds the corporate obligation of the Central Pacific Railroad Company itself for the payment of its debt, and that the expenditures on the California and Oregon Railroad, the San Joaquin Valley Railroad, and the expenditures at Oakland and in San Francisco, in so far as they have increased the property and assets of the corporation, also increased the value of its promise to pay. But the policy of the Central Pacific Railroad Company has been to mortgage these branches, terminal facilities, and other property, which are not subject to the lien of the United States, for substantially their full value. The mortgage on the California and Oregon Railroad is \$11,800,000; on the San Joaquin Valley Railroad, \$6,080,000. The mortgage of October 1, 1886, covers substantially all the property of this corporation which is not subject to the lien of the Government, including its public lands. The foreclosure of these mortgages would evidently leave the Government with no other security than the main line from Ogden to San José, without communication with San Francisco, and without interest either in the San Joaquin Valley or the California and Oregon roads. (See evidence of Stanford, volume 5, page 2666.)

The earning power of the aided portion of the road has very much decreased since 1883. This circumstance is largely due, as has been claimed by the officers of the railroad company, to the competition of rival transcontinental lines. This competition has resulted in a *division of the through traffic*, but the more material decrease in earnings

has resulted from the decrease in the rates of freight and passenger fares, largely due to the same cause. Mr. Stanford's estimate of the actual net earning power of the aided road is that it will not exceed \$730,000 to \$740,000 per annum. (See evidence of Stanford, volume 5, page 2475.) The actual amount of the net earnings of the aided line proper for 1886 was \$1,324,998.31.

These estimates are, to some extent, a matter of conjecture; but it may be safely assumed, as a guide for Congressional action, in so far as this circumstance should influence such action, that the United States holds but very slender security for its debt, either in the actual value of the aided road itself or in the prospective amount of the net earnings which can be made applicable to the liquidation either of the principal or interest.

It is proper in this connection to advert to certain proofs which have been laid before the Commission by the officers of this corporation, which, in their judgment, should receive the attention of Congress, and which they allege constitute important equities which ought to reduce largely, if not to entirely obliterate, the claim of the United States. These items will be found stated in the evidence of Stanford (volume 5, pages 2467 and 2468), and they will be considered in the order they are stated.

(1) The loss and interest thereon which the company sustained by being forced to sell the bonds received by it from the Government at a discount:

Loss.....	\$7, 120, 073. 55
Interest to maturity	12, 816, 132. 39
	<hr/> 19, 936, 205. 94

The statement that the Central Pacific Railroad Company was forced to sell the bonds at a discount, and thereby lost the sum mentioned, is hardly accurate. The bonds were exchanged for their equivalent value in gold, but they were not sold at any such discount as stated, measured in legal tender. But viewed in the most liberal light, for the purpose of ascertaining any possible equity or compensation to which this corporation could be entitled by reason of the alleged discount on these bonds, the fact that they are to-day outstanding and that the United States will be called upon to pay the face value thereof at maturity, on behalf of the Central Pacific Railroad corporation, is a complete answer to any such suggestion.

The claim for interest on the amount of the alleged discount is covered by the same consideration. As matter of fact the United States has paid and will be compelled to pay interest on the whole amount of these outstanding bonds until the maturity thereof, and there can therefore be no possible claim for an exemption in favor of the Central Pacific Railroad Company in respect to any portion of these bonds.

The second item mentioned by Mr. Stanford is as follows:

(2) The amount which the Government saved in its transportation on the Central and Union Pacific line between the completion of the road in May, 1869, and time when it might have been completed under the contract, *i. e.*, July 1, 1876, \$47,763,178. This company's proportion, say 46 per cent., \$21,971,062.

It is somewhat difficult to treat the claim here made with becoming patience. It is apparent, from all the evidence, that the Central Pacific Railroad Company consulted its own interest in expediting the work. It was a race between that company and the Union Pacific for the control of the Utah business and to obtain the Government subsidy. Moreover, the income account shows that the corporation made large earnings immediately after 1870, and declared and paid regular divi-

dends, commencing the 13th of September, 1873. (See E. H. Miller, jr.'s, statement, volume 5, page 2547.) It would seem that the Government has quite as much right to claim from this corporation the benefits which it has derived from early construction as the corporation has to ask from the Government an allowance by reason of supposed saving in transportation. But this claim does not deserve the name of an equity. The Central Pacific Railroad Company conducted its own affairs, and caused its road to be constructed in the manner which seemed most appropriate for its interests, and, it may be added, for the personal interests of its principal directors. Expedition, thus resorted to of their own motion and for their own purposes, can not possibly form the basis of a claim against the United States.

The third item is as follows:

(3) The amount which the Government now owes the company upon transportation, the legality of which claim has been sustained by the Court of Claims and also the Supreme Court of the United States. This amount is \$1,853,323.15.

Whatever amount there may be due to the Central Pacific Railroad Company arising out of transportation, or services rendered by branch lines, or by the unaided portion of the road, ought to be promptly paid to that company. It appears from the evidence and from the reports of the Commissioner of Railroads that the Central Pacific Railroad Company 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 the requirement calling for additional payments to the sinking fund until the amount of such payments should equal 25 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 Railroad Company, and the amount so due ought to be paid and discharged without delay.

The fourth item is as follows:

(4) The amount of loss which the company has directly sustained by reason of the refusal of the Government to grant the company patents for its lands as rapidly as called for, say \$500,000.

In the judgment of the Commission there is not sufficient proof to support this allegation, and they refer to the letter of S. M. Stockslager, Acting Commissioner of the General Land Office, dated November 28, 1887, for the answer to the specifications of the Central Pacific Railroad Company's officers.

The fifth item is:

The loss by the sinking-fund investments in United States Treasury, \$1,612,966.72.

The Thurman act was the outcome of a just indignation at the neglect of these Pacific railways to make any provision whatever for the impending debt. The determination of the Supreme Court of the United States in the sinking-fund case (99 U. S., page 700) is to the effect that the Government, as creditor, had no power to demand payment of its debt before the time limited by the contract, but that the Government, as sovereign, was bound to see to it that the current stockholders of the company did not, in the administration of the affairs of the corporation, appropriate to their own use assets which ought to be reserved for the liquidation of the debt. (See pages 724 and 725.)

The court also held that the fact that the Secretary of the Treasury was made the sinking-fund agent, and the Treasury of the United States the depository, and the fact that the investment was to be made

in the public funds of the United States, did not make the payments made into this sinking fund a payment of any part of the debt due from the company to the United States. The court says:

The duty of the manager of every sinking fund is to seek some safe investment for the moneys as they accumulate in his hand, so that, when required, they may be promptly available. Certainly, no objection can be made to the security of this investment. In fact, we do not understand that complaint is made in this particular. The objection is to the creation of the fund, and not to the investment, if that investment is not, in law, a payment.

It was the belief of Senator Thurman, as appears from the debates in Congress (see volume 2, page 828), that the sinking fund created under this act would accumulate at the rate of 5 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, from the citation above quoted, 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 5 per cent. per annum, or at 3 per cent. per annum. In fact it has lost money, and is worth to-day less than the principal originally invested. The officers of the Government have naturally been unwilling to assume any responsibility in regard to these investments, and have pursued the strict letter of the law. The consequence has been that, taking into consideration the large premium paid on bonds of the United States purchased for this fund, and the reduction of this premium by reason of the approach of the maturity of such bonds and other causes, there has been a positive loss instead of a gain when we compare the present value of the sinking fund with its value, assuming the moneys to have remained idle in the Treasury without any investment whatever. This, in the opinion of the Commission, ought to be fully remedied.

Section 5 of the act of March 3, 1887, is not sufficiently explicit, and has merely led to another of the numerous differences of opinion between the officers of the railroad and the officers of the Government. It certainly was intended by that section to enable the Secretary of the Treasury to so manage the sinking fund as to make it earn a larger rate per annum than could be derived from the United States bonds. The interpretation put on that section by the Secretary of the Treasury is that it does not apply to existing investments, or permit them to be changed, but only applies to uninvested moneys and future payments. Whether this be so or not, it ought not to be so. If the money in the hands of the Secretary of the Treasury is the money of the railroad company, and its possession by the Secretary of the Treasury is not a payment to the United States (and so the Supreme Court has declared), then it follows that, within reasonable limits as to security, the owner of the fund, the railroad company, should have the right to declare in what form the investment should be made.

The sixth enumerated equity is as follows:

(6) Loss by diversion of business from Central and Union Pacific to other subsidized roads, \$37,000,000; Central Pacific's proportion of which, 46 per cent., is, say, \$17,000,000.

The proposition that the Government, by extending its aid to other companies, has caused a great diversion of business from the Central Pacific Railroad Company to such other companies, and thereby decreased its earnings, and especially decreased its traffic rates, has been urged by the officers of this corporation with great persistence. Their general traffic manager has prepared a careful statement of tables,

showing the percentage of this business originally done by the Central Pacific and Union Pacific Railroad Companies, and the percentages of decrease from 1874 to date. (See Exhibit No. 12, attached to evidence of Stanford, volume 5, pages 2598 to 2611.)

The basis of this elaborate computation is, substantially, that if the competing roads had not been constructed, the Central Pacific and Union Pacific Railroad Companies would have done the entire business. By taking, therefore, the complete statement for all the transcontinental business, and deducting the percentage actually done by the Central Pacific and Union Pacific Railroad Companies, the computer arrives at the result that the sum of \$37,000,000 has been diverted from the Union and Central Pacific roads since 1874; that 46 per cent. of this diversion was the properly determined proportion of the loss of the Central Pacific Railroad, and that the amount of such 46 per cent. is \$17,000,000. This claim seems to be based on the extraordinary assumption that the Government had no right to aid any transcontinental line other than the Central Pacific and Union Pacific; or that, if it thought proper to develop other portions of our vast territory, by extending such aid and stimulating the business of other railroads, it ought, in equity, to make good the difference to the Central Pacific Railroad, so as to assure to it the same return which it would have received had such competing railroads never been constructed.

This claim is simply monstrous. The extent of our territory, the fact of its rapid growth, the fact of its enormous resources, the fact of the rapid increase of our population, were all perfectly familiar to the original promoters of the Central Pacific Railroad Company. They knew and understood that the territory of the United States, both north and south of them, was to be pushed and developed as rapidly as the energies of our people, assisted by such Government aid as they could obtain, could bring about such development. The Northern Pacific Railway, which is one of the companies specially objected to by Mr. Stanford (see evidence of Stanford, volume 5, page 2466), had actually received the promise of its land grant before any serious construction of the Central Pacific Railroad had been commenced. The act incorporating the Northern Pacific Railway Company was passed on the 2d of July, 1864, the same day on which the act amending the act of July 1, 1862, was passed.

Not only did the promoters of the Central Pacific Railroad understand and appreciate that other railroads were to be built in the adjoining territory, but they themselves have been the pioneers of such enterprise in California. Construction on the Southern Pacific was commenced as early as 1871, and resolutely pushed to a completion in 1882, so as to afford a continuous connection between the two oceans through the southern part of California, Arizona, New Mexico, and Texas to New Orleans.

When corporations or individuals embark in enterprises for purposes of their own, and with the avowed object of making money therefrom, it is mere idle complaint for them to find fault with the development of other kindred enterprises demanded by the advancing needs of an ever-increasing population. There is, in the judgment of the Commission, no merit whatever in this claim for diverted traffic.

Mr. Stanford also, in the course of his evidence, assigned as a ground of complaint that his company had always expected to receive from the United States rates for transportation equal to those which prevailed before the construction of the road. (See evidence of Stanford, volume 5, page 3609.) He also urged that if such rates had been maintained, his

company would have earned enough to pay its entire indebtedness. The evident object and purpose of the construction of this transcontinental route was to reduce the expense and cost of transportation. This object was avowed and declared and urged as a reason for the granting of the United States aid, and it is certainly a somewhat remarkable proposition that those who have received such aid should claim that the United States is not fairly entitled to the reduction in the cost of transportation, which was intended as the natural result of the enterprise.

The claim is in direct contradiction of the terms of the act itself. The act provides that the rates shall be reasonable, and no higher than the rates charged to other persons for similar services. The proper interpretation of these words contained in the act, if there should be any difference of opinion between the company and the Government, is with the courts. They furnish a clear and well-defined rule applicable to all transportation and mail service between the company and the Government; and any suggestion, therefore, as to what would have happened if the Government had paid the rates prevailing during the days of the Indian wars, instead of reasonable railroad rates, is absolutely irrelevant and conjectural.

Up to the 1st of April, 1885, all the lines belonging to the Southern Pacific system and the leased lines affording communication between the Western Pacific and San Francisco, and the other lines through which the business of the adjoining country was done, were leased to the Central Pacific Railroad Company. On the 1st of April this system was changed. A railroad known as the Southern Pacific Company of Kentucky, organized under a Kentucky charter, was selected as the common lessee of all these companies. The Southern Pacific Company is in a great degree controlled by Stanford, Huntington, and Crocker. The large amount of stock of the Southern Pacific Railroad Company, issued to them for construction, has been converted by them into stock of the Southern Pacific Company of Kentucky. The Southern Pacific Railroad Company and the Central Pacific Railroad Company are leased to this common corporation. The lease of the Central Pacific Railroad to the Southern Pacific Company of Kentucky will be found in volume 6, pages 3446 to 3449. The leases of all the roads operated by the Central Pacific Railroad Company prior to the date of this lease, and being south of Goshen, were canceled. By the terms of the lease, the Central Pacific Railroad Company leased to the said Southern Pacific Company, for the term of ninety-nine years from the 1st day of April, 1885, the whole of the Central Pacific Railroad situated in the Territory of Utah and States of Nevada and California, together with all its branches, steam-boats, and other property, and also assigned to the said Southern Pacific Company of Kentucky all the leases which it held of railroads and other property situated in the State of California, lying and being north of Goshen.

All the roads south of Goshen were leased to and controlled by the Southern Pacific Railroad Company, and that company was, in like manner, leased to the Southern Pacific Company of Kentucky. The amount agreed to be paid by the Southern Pacific Company of Kentucky to the Central Pacific Railroad Company is a minimum rent of \$1,200,000, with a provision that if the actual earnings of the Central Pacific Railroad, properties, branches, and the leased lines north of Goshen shall exceed \$1,200,000, then the rental is to be made equal to such excess up to the sum of \$3,600,000.

The Southern Pacific Company of Kentucky also assumes the payment of all the obligations of the Central Pacific Railroad Company,

except the obligation to pay the principal either of its floating debt, bonded indebtedness, or the principal of the indebtedness guaranteed by the Central Pacific Railroad Company, or the principal of the indebtedness to the Government of the United States. The Southern Pacific of Kentucky agrees to meet and discharge all the annual requirements of the Government against the Central Pacific Railroad Company.

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. The lease, however, is under substantially the same control as to the lessee and lessor roads, and there is nothing to prevent its being abrogated or modified at any moment when the interests of the parties may require it.

The question, therefore, of the effect on the Government earnings of the lease of the Central Pacific Railroad to the Southern Pacific Company of Kentucky is merely a question whether the parties interested, having control of all the business operated on behalf of the Central Pacific Railroad and the Southern Pacific Railroad, would divert business, naturally belonging to the Central Pacific Railroad, to the Southern Pacific Railroad, so as to affect the amount of earnings subject to the 25 per cent. computation, or so as to advance their personal interests. It is doubtless true that a large portion of the through traffic from ocean to ocean since 1882 has been done via the Southern Pacific Railroad Company. In the judgment of the Commission, this was not done for the purpose of decreasing the payments to the United States. But the diversion occurred, in part, because of the decreased cost of transportation by the Southern Pacific route, by reason of the transportation being partly by water, and the other reason was the natural desire of the promoters of this enterprise to stimulate and develop its business. As, however, the Commission is of the opinion that any system of a percentage payment based on net earnings is undesirable, and that this system should be superseded by a payment of annual fixed amounts, there would seem to be no object in pursuing the investigation on this point any further.

The Commission closes this review of the Central Pacific Railroad Company by again calling attention to the fact that the policy of the original promoters of the Central Pacific Railroad Company, now the managers of the Southern Pacific Company of Kentucky, has evidently been to construct and develop a great system of railroads, starting from Portland, in the State of Oregon, following the line of the coast to Los Angeles, with communications and branches and connections suitable for the requirements of the entire country through which this line passes, including the business of San Francisco and the business of southern California. Their enterprise then turns to the east, and, passing through Arizona, New Mexico, Texas, and part of Louisiana, reaches the Gulf of Mexico at New Orleans. From this point communication with New York is had by water. No portion of this network of railroad is subject to the lien of the United States; and a glance at the map will show the result of a dismemberment or separation, leaving the aided line of the Central Pacific Railroad Company to itself, and organizing the railroad just described into a complete system of communication of its own.

STATEMENT OF THE FINANCIAL OPERATIONS OF THE CENTRAL BRANCH UNION PACIFIC RAILROAD.

The thirteenth section of the act of July 1, 1862, provided that the Hannibal and St. Joseph Railroad Company of Missouri could extend

its road from Saint Joseph, via Atchison, to connect and unite with the road through Kansas (meaning thereby the Kansas Pacific, as originally located), upon the same terms and conditions in all respects as related to the other corporations authorized to be constructed under the said act, for 100 miles in length next to the Missouri River; and also provided that said corporation might, for that purpose, use any railroad charter which had been or thereafter might be granted by the legislature of Kansas.

The Atchison and Pike's Peak Railroad was organized by the legislature of the Territory of Kansas, by an act approved February 11, 1859. This corporation obtained in January, 1864, from the Hannibal and St. Joseph Railroad Company an assignment of all the rights granted to the latter corporation by the act of July 1, 1862. But little actual construction was completed until 1866. The subsidy bonds which were issued for every 20 miles of completed road were actually issued as follows:

August 20, 1866, 320 bonds	\$320,000
December 10, 1866, 320 bonds	320,000
May 4, 1867, 320 bonds	320,000
December 5, 1867, 320 bonds	320,000
January 4, 1868, 320 bonds	320,000
Total	1,600,000

In 1865 a contract had been made for the construction of the 100 miles of railroad with one William Osborn. The interests in this contract were divided into sixty-four parts, and they were subscribed for by various parties and for various amounts. The subscribers were in reality the contracting parties. The agreement appears to have been that they should advance the money required for the actual cost of construction, and receive in payment therefor the first-mortgage bonds of the company, the subsidy bonds, and the stock. (See evidence of Henry Day, volume 7, page 4012.)

Subsequently (see evidence of Nichols, volume 7, page 4091), a readjustment of the interest of the parties under the Osborn contract appears to have been effected. A portion of the stock of the company and its first-mortgage bonds had been issued, or was then used, for the purpose of adjusting outstanding claims. Stock options were received for the unissued portions of the stock, by the terms of which the subscribers were to receive, in consideration of their subscriptions, \$400,000 of the first-mortgage bonds of the company in addition to the stock. The result was that a large portion of the first-mortgage bonds of the company were distributed as bonuses or inducements for stock subscriptions, without the payment of any consideration therefor to the company itself. Mr. G. F. Perrenoud, the accountant to whom the duty of examining the books of this company was referred, states in his report that the bonded and stock obligations of the company are as follows:

First-mortgage bonds	\$1,600,000.00
United States bonds	1,600,000.00
Capital stock	1,000,000.00

Total 4,200,000.00

It appears from the books that there were realized:

From the sale of United States bonds	\$1,577,651.55
From stock subscriptions	392,225.53
From the sale of first-mortgage bonds	567,612.14

Amount of stock and bonds issued without consideration 2,537,489.22

Amount realized 1,662,510.78

(See Perrenoud's account, vol. 8.)

The details of the bond issues and stock subscriptions will be found annexed to Perrenoud's report (vol. 8).

The methods employed in the history of the construction of this road differ from those applicable to the Central Pacific Railroad Company, in this respect: In the case of the Central Pacific Railroad Company the security of the United States was impaired by the distribution of its stock without consideration, the exhaustive payment of dividends, and the diversion of its assets through construction contracts. In the case of the Central Branch Union Pacific Railroad Company, the result was attained by issuing a large majority of the first-mortgage bonds without the payment of any consideration to the company. The inevitable result was that the payment of the accruing interest on these bonds impoverished the company. In volume 8 will be found a statement of the net earnings and net income of the Central Branch Union Pacific Railroad Company from 1868 to 1886. The column of "net income" down to and including the year 1878, is made up without any deduction for payments of coupons accruing on the first-mortgage bonds. The column of "net income" only differs from the column of "net earnings" in that the taxes are deducted from the net earnings in order to ascertain the net income.

Some further facts in the history of the company must be explained before the table of earnings can be understood. The promoters of the enterprise claimed that under the thirteenth section of the act of 1862, it had been the intention of Congress to give to this company the right to connect with the corporation described in the ninth section of the act as the Leavenworth, Pawnee and Western Railroad Company of Kansas, which subsequently became known as the Kansas Pacific Railway Company. This railroad, as has been heretofore explained, was expected to diverge from Fort Riley in a northwesterly direction, and to connect with the Union Pacific at a point on the one hundredth meridian. This location would have enabled the Central Branch Union Pacific to effect a connection with the Kansas Pacific Railroad at a point not far distant from the termination of the 100 miles adjoining the Missouri River and referred to in the thirteenth section of the act.

In 1866 the location of the Kansas Pacific Railroad was changed so as to permit its construction in a direct westerly line to Denver. This left the Central Branch Union Pacific without connection, and the promoters of the Central Branch Union Pacific claimed that under the provisions of the sixteenth section of the act of 1864 it was entitled to take up the originally contemplated location of the Kansas Pacific Railroad Company from the point at which it would have connected therewith had such original location been retained, and to continue the construction of a railroad to an intersection with the Union Pacific Railroad at a point on the one hundredth meridian; and also that it was entitled to receive all the benefits and advantages which the Kansas Pacific Railroad Company would have received had it been constructed according to such original location. This contention was vigorously pressed in Washington before the Departments. An effort was made to secure a withdrawal of the public lands applicable to such intended construction, and to obtain legislation declaring the company's rights to be as claimed. But these efforts failed to produce any result. (See evidence, E. H. Nicols, volume 7, pages 4092 to 4096.)

The details of the operation of the road from the period of its completion to 1877 are stated in Perrenoud's report (volume 8). At this period of its history, about 1876, and for the purpose of increasing the earning

capacity of the road, a system of branches extending beyond the westerly termination of 100 miles of original construction was planned and carried out. The branches were as follows: Waterville and Washington Railway; Atchison, Solomon Valley and Denver Railroad; Republican Valley Railroad; Atchison, Republican Valley and Pacific Railway; Atchison and Denver Railway; having a total mileage of 254.03 miles.

These branches were consolidated under the name of the Atchison, Colorado and Pacific Railroad, and this consolidated road was leased to the Central Branch Union Pacific Company on December 27, 1879, for a term of twenty-five years, the Central Branch Union Pacific Company agreeing to pay a rental of \$1,000 per year per mile and to keep the consolidated road in good repair. On the same day another branch road, not included in the consolidation, known as the Atchison, Jewell County and Western Railroad, being 34 miles in length, was also leased to the Central Branch Union Pacific Company for the same period of time and upon the same terms. The mileage of these roads is varied slightly by reason of additional construction, so that the annual rental has varied from \$238,000 in 1880 to \$287,000 in 1886.

During the years 1877, 1878, and 1879 the earnings of these branch roads are included in and form part of the statement of earnings of the Central Branch Union Pacific Railroad Company proper. After the lease above referred to, the accounts were kept separately. The total of the bonded debts of the branch roads amounts to about \$4,000,000, and the interest thereon is payable from the rental as above provided; but in the event of any deficiency the payment of this interest is guaranteed by the Central Branch Union Pacific Railroad Company.

The table of net earnings above referred to (volume 8) contains the net earnings and net income of the Central Branch Union Pacific proper from 1868 to 1876, the net earnings and net income of the Central Branch Union Pacific and the partially constructed branches for 1877, 1878, and 1879; and the net earnings and net income of the Central Branch Union Pacific and of the leased lines, stated separately, from 1880 to 1886. The detail of these earnings can be found in the same report (volume 8). No deductions for any payments for interest were made until after 1879.

Early in 1879 an arrangement was made with the holders of the coupons for the years 1873 to 1879, amounting in all to \$630,000, by which they agreed to receive for these coupons income bonds secured by a funding mortgage, the main feature of which provides for a deposit of the defaulted coupons themselves with trustees who were to hold the coupons, uncanceled, for the protection of the income bonds issued thereunder. The effect of this arrangement was to leave the entire amount of these coupons outstanding as defaulted coupons. They represented interest which had accrued on the bonds issued under the first mortgage; and their lien is therefore superior to that of the United States.

So that in estimating the value of the security held by the United States for the obligation due to it, it must be remembered that in addition to the original mortgage of \$1,600,000, which is prior to its lien, the entire amount of the defaulted coupons deposited with the before-mentioned trustees as security for this income mortgage, and amounting to \$630,000, are also outstanding and entitled to priority.

The construction and operation of the Atchison, Colorado and Pacific Railroad increased very largely the aggregate business done by the Central Branch Union Pacific, and, in time, proved of value to it.

But the actual operation of these branch roads for 1880, 1881, 1882, and 1883 resulted in an annual deficit, as follows:

1880	\$117, 682. 97
1881	161, 875. 80
1882	142, 554. 35
1883	54, 475. 60

(See Perrenoud's report, volume 8.)

The result, however, of the business derived through these branches was to largely increase both the gross and net earnings of the Central Branch Union Pacific proper. This, then, was the condition of the Central Branch Union Pacific at the period when the extraordinary negotiations occurred between Jay Gould and Oliver Ames, which have been noticed in the review of the consolidation of the Kansas Pacific with the Union Pacific. The coupons for six years were in default, and were retained uncanceled as security for the income mortgage. The company had never earned sufficient to pay its own coupons without taking into account the accruing interest to the United States in any form. The lease of the Atchison, Colorado and Pacific Railway, while doubtless well conceived and likely to produce beneficial results in the course of time if prudently administered, had not at this period produced any change of importance in the financial condition of the company. The operation of the leased lines themselves for several years after this period did not produce enough to pay operating expenses or the interest accruing on their own bonds. It is, in short, impossible to find from any examination of the affairs of this company any conceivable justification for the price paid by Mr. Gould to Oliver Ames for the stock purchased by him and the subsequent charge of this stock to the Union Pacific Railway Company at the price so paid.

In September, 1880, the Central Branch Union Pacific Railroad Company was leased to the Missouri Pacific for a term of years, the terms of the lease being that the Missouri Pacific should pay, as rental to the Central Branch Union Pacific, the amount of the net earnings received from the road. The motives which led to this lease are not easy to understand. After Mr. Gould abandoned his plan of extending the Missouri Pacific in connection with the Kansas Pacific to Denver, and thence to Salt Lake, and to the Pacific Ocean, the natural operation of the Central Branch Union Pacific would seem to have been through the Union Pacific. The extension of the Central Branch eastwardly from Atchison, and the possible connection with other railroads in the State of Missouri, would have resulted in the creation of a troublesome competitor against the Missouri Pacific. The latter company, by controlling and operating the Central Branch Union Pacific, through this lease, prevented the development of this competitive scheme. This was doubtless the object of the lease.

Mr. Perrenoud has made an elaborate report as to the operations of this railroad under the management of the Missouri Pacific; and it appears therefrom that the principle on which the earnings have been distributed, as between the Missouri Pacific and the Central Branch Union Pacific, are just and fair, and that the road has been prudently and economically managed by the lessee company. It also appears by the report of Colonel Morgan (vol. 8), that it has been kept up in a fair degree of efficiency. As will be seen by the table in Perrenoud's report (vol. 8), the net income of the Central Branch Union Pacific and of the leased lines was largely increased after 1880.

The net income for 1885 is:

Main line.....	\$83,047.38
Leased lines.....	56,721.53
Total	139,768.91

This result is reached after deducting the payment of \$50,000 for a dividend of 5 per cent. on the stock of the Central Branch Union Pacific.

For 1886 the net income of the main line is	\$160,756.49
Leased lines	54,456.29
Total	215,212.78

This result is reached after deducting \$100,000 for a dividend of 10 per cent. on the stock of the Central Branch Union Pacific.

The payment of the above dividends appears to be entirely unjustifiable in view of the fact that \$630,000 of the coupons belonging to the first mortgage are to-day outstanding and in default. It is true that the Central Branch Union Pacific is not named in the Thurman act, and therefore not in its prohibitions, but the declaration of a dividend payable to stockholders, while there are outstanding coupons unpaid appertaining to the bonded indebtedness of the railroad, is forbidden by every rule of prudent and fair dealing.

It is no answer to this criticism to say that the holders of these defaulted coupons have accepted income bonds. In the very instrument creating these bonds it is provided that these coupons shall remain alive and shall be in force for the protection of the bonds. The United States, as the holder of the junior lien, has the right to demand that the income of the company shall be applied to the discharge of the interest maturing on the obligation which is paramount to its security. The distribution, therefore, of these apparent surplus earnings among the stockholders, instead of applying them, as should have been done, to the liquidation of these coupons or to the formation of a sinking fund for a redemption of the income bonds, is clearly a violation of the duty which the Central Branch Union Pacific Railroad Company owed to the United States.

A curious feature of the funding mortgage is, that by its terms the income bonds are made to mature before the maturity of the obligation to the United States under the acts of 1862 and 1864. The earning power of the Central Branch Union Pacific, without any deduction for dividends, appears to be about \$200,000 for the Central Branch proper, and from \$50,000 to \$60,000 as the net income derived from the operation of the leased lines. The relations existing between the Central Branch Union Pacific and its leased branches are somewhat peculiar, inasmuch as the branches constitute substantially an extension of the main road, and largely exceed it in length. In the accounts, as kept, for the purpose of ascertaining the earnings of the branches, constructive mileage is allowed at the rate of $1\frac{1}{2}$ miles for each actual mile of operation.

As the rental agreed to be paid by the Central Branch Union Pacific to the Atchison, Colorado, and Pacific Railroad Company is fixed at \$1,000 per annum per mile, without reference to the earnings of that company, the increase in the statement of these earnings resulting from the application of the constructive mileage factor can have no effect upon the actual financial condition of the Central Branch Union Pacific during the life of the lease. As regards the interest of the United States, this circumstance does, however, affect the result. The interest of the

United States under present laws is, however, limited to 5 per cent. of the net earnings, and the whole amount involved would not be worth the expense of restating the accounts in detail in order to ascertain the difference.

It does not follow, however, that the application of the principle of constructive mileage, even in this case, can be fairly called a diversion of earnings. The propriety of the constructive mileage factor depends upon the peculiar circumstances pertaining to each instance of its exercise—upon the number of miles of operation, the cost of terminal facilities, and the extent of business interchanged between the branch line and main line. (See Perrenoud's report, volume 8.) The financial return of the business of these branches, with those of the Central Branch Union Pacific from 1879 to 1886, affords an excellent example in which to study the result derived from a system in which a parent line is assisted by the business derived from auxiliary branches, and shows conclusively that the circumstance that the branches may not in themselves be self-supporting does not disprove the fact that the result of their operation is a benefit to the parent road, and that the combined operation of the parent road and branches can not fail, in time, to develop a favorable result for both.

STATEMENT OF THE FINANCIAL MANAGEMENT OF THE SIOUX CITY AND PACIFIC RAILROAD COMPANY.

There are no construction books and no vouchers in existence from which any information can be gathered relating to the construction of this road. In September, 1867, a contract to build the road at the rate of \$50,000 a mile was concluded with De Witt C. Blair and Oakes A. Ames. The periods of its construction, as indicated by the issues of United States bonds, are as follows:

Section.	No. of miles.	Date of issue of bonds.	Amount of principal.
1.....	20.00	March 30, 1868	\$320,000
2.....	49.50	March 10, 1868	792,000
3.....	32.27	March 3, 1869	516,320
Total.....	101.77	.....	1,628,320

The active managers of the enterprise at the time the contract above mentioned was made were John I. Blair, the father of De Witt C. Blair, and Oakes Ames, the father of Oakes A. Ames. An assignment of all the advantages to be derived from the contract was made shortly after its date to John I. Blair for the benefit of the stockholders of the company. John I. Blair appears to have conducted all of the affairs of the company during the period of construction. He was examined at length, but could give the Commission no information whatever as to any books or memoranda that would shed light on the real cost of the road. (See volume 7, pages 4039 to 4088.)

The ultimate result of the construction left the company in the following situation: Their first mortgage bonds amounted to \$1,628,000; the Government bonds, \$1,628,320; capital stock, \$1,791,400; total, \$5,047,720.

The principal evidence presented to the Commission to show the *actual* proceeds received by the company for these securities is that *contained in the record* of a suit brought in 1868 by Charles A. Lam-

bard, one of the directors of the company, against the company, John I. Blair, Oakes Ames, and others. The amount so realized, as far as the Commission has been able to approximate it, is about \$2,500,000.

It appears that the stock was paid for at its face value. The disposition of the Government bonds cannot be accurately traced, nor can it be accurately determined what moneys the company received therefor. These bonds, however, whether sold or in the treasury of the company, represented their face value.

In Mr. Anderson's report the stock is stated to have produced 40 per cent. of its face, but the total original stock subscription was \$4,260,000, of which 40 per cent. is \$1,704,000. The parties in interest appear to have issued the latter amount only as full-paid stock. The actual proceeds of the stock and Government bonds available to the company were \$3,332,320.

The Commission is unable to trace or explain in any reliable way the application of these funds, except by estimating the cost of construction of the railroad. The first-mortgage bonds of the company, and whatever may have been left over from the amount before stated after paying for the actual construction, appears to have been allotted or divided up under the resolutions of the company hereinafter referred to.

The actual cost of construction and equipment was between \$2,500,000 and \$3,000,000. We base this conclusion on the character of the country it traverses, the absence of any cuts or fills, or of work of any character requiring unusual expenditures, and on the conceded fact that the first-mortgage bonds were divided up among the stockholders as a dividend. The allotment of these bonds appears on the minutes of the company. On the 15th of May, 1869, the president of the company was authorized to have the first-mortgage bonds executed and the mortgage securing the same recorded. The following is an extract from the minutes of the same date:

It appearing that the stockholders had not received any stock or other securities for their subscriptions paid in for the construction of the road, or for the earnings of the road, which have gone into the construction of the road:

Resolved, That the president be authorized to issue capital stock equal to the amount of the calls heretofore made or secured to be paid in cash; also to distribute to said stockholders an amount equal to 50 per cent. of such calls, of the first-mortgage bonds heretofore issued to said company and paid to the contractors on account of the construction of said road, and which, by an arrangement with them, have been received from said contractors.

The amount of stock issued in pursuance of this resolution, and which therefore indicated the amount which had been actually paid in by the stockholders, was \$1,791,400. Fifty per cent. of this amount, under this resolution, was distributed to the stockholders in first-mortgage bonds.

The following action appears by the minutes to have been taken on November 18, 1870. The president was requested to make distribution, on or before January 1, 1871, to the stockholders of this company of all bonds, stocks, and cash assets which had accrued to said stockholders in construction of the Sioux City and Pacific Railroad, and to close any and all outstanding contracts for construction, and to make final settlement with the contractors, and a committee was appointed to take action. Under this resolution all of the remaining first-mortgage bonds, except \$44,000, were divided among the stockholders, the company receiving no consideration therefor other than the subscriptions which had been made on the stock.

By resolution of January 21, 1871, the balance of \$44,000, first-mortgage bonds, was allotted to the stockholders, and thus the entire issue was completed.

The Commission are unable to ascertain whether, under the resolution of November 18, 1870, any other property was paid over to the stockholders under the designation of "cash assets" contained in that resolution.

The character of the financial management pursued in relation to this company is clearly indicated by the resolutions above quoted. The stockholders undoubtedly paid an amount equal to the amount of stock issued to them for the construction of the road. They also applied all or a large part of the proceeds of the Government bonds to the same purpose. They then divided among themselves, as a dividend, the first mortgage bonds which Congress had permitted, by the act of July 2, 1864, to have priority over the Government lien.

This device was ingenious, but it certainly was a wanton violation of the intention of the act of July 2, 1864. Congress never imagined that any company to which it accorded the privilege of creating a lien prior to its own lien would distribute the bonds issued under this sanction, and intended to be devoted to the construction and betterment of the railroad itself, to its own stockholders as a dividend.

In 1872 the Cedar Rapids and Missouri River Railroad Company controlled, as part of its railroad, the line between California Junction, on the Sioux City and Pacific, and Missouri Valley Junction, on the present line of the Chicago and Northwestern Railway Company. The distance between these points was 5.84 miles, and there appertained to the franchise a land grant of some value. The railroad was constructed by the Iowa Contracting Company, and the cost thereof, as stated, was \$169,000. Both the railroad companies and the construction company were substantially controlled by the same persons. The Sioux City and Pacific Railroad Company desired to obtain control of this extension for the purpose of making a junction with the Cedar Rapids and Missouri River Railroad Company and its eastern connections, at Missouri Valley Junction. An arrangement was entered into between the Cedar Rapids and Missouri River Railroad Company, the Sioux City and Pacific Railroad Company, and the Iowa Contracting Company, by which the Sioux City and Pacific Railroad Company issued to the Iowa Contracting Company its preferred stock to the amount of \$169,000, and common stock to the amount of \$108,000, in payment of the cost of construction of the 5.84 miles above described. The payment of the dividends on the preferred stock, at the rate of 7 per cent. per annum, was guaranteed by an instrument equivalent to a mortgage, executed and delivered by the Sioux City and Pacific Railroad Company. This dividend, amounting to \$11,830 annually, has been regularly paid, and as the connection appears to be essential to the successful operation of the main line, it may be assumed that its payment will have to be continued.

In 1872 the Sioux City and Pacific Railroad Company became the lessee of the Fremont, Elkhorn and Missouri Valley Railroad. This railroad connected with the Sioux City and Pacific Railroad at Fremont, and was, in effect, an extension of that road westerly. By the terms of the lease the Sioux City and Pacific Railroad Company agreed to pay to the Fremont, Elkhorn and Missouri Valley Railway Company 33½ per cent. of the gross earnings of the road.

The total amount of rental paid under this lease from 1872 to 1882 was..	\$607, 418. 94
The net earnings of the Fremont, Elkhorn, and Missouri Valley Railroad, received by the Sioux City and Pacific Railroad Company for the same period, was.....	343, 606. 86

<i>Leaving a deficit for that period of.....</i>	263, 812. 08
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The net earnings of the company from 1870 to the present time are stated in Exhibit F, annexed to Mr. Anderson's report.

The interest charge on the first mortgage bonds was \$97,680
The dividend on the preferred stock was 11,830

Total 109,510

The proceeds of operation until the close of 1883 barely sufficed to pay these fixed charges and other items of miscellaneous expense.

In 1884 the Cedar Rapids and Missouri River Railroad Company was absorbed by or consolidated with the Chicago and Northwestern Railway Company. Just prior to this merger all of the common stock of the Sioux City and Pacific Railroad Company was held by Oliver Ames, Horace Williams, and John I. Blair, in trust for the Cedar Rapids and Missouri River Company and the Chicago, Iowa and Nebraska Company. (See evidence of Marvin Hughitt, volume 4, page 2281.) As part of the terms of the merger of these companies in the Chicago and Northwestern Railway Company, this stock, amounting to 18,838 shares, was transferred to M. L. Sykes, as trustee for the Chicago and Northwestern Railway Company, so that the last-mentioned company has since that time owned and controlled the Sioux City and Pacific Railroad Company.

The Fremont, Elkhorn and Missouri Valley Railroad Company belongs to the Chicago and Northwestern Railway Company; and at about the time it acquired the control of the stock of the Sioux City and Pacific Railroad Company the lease of the Elkhorn Company to the Sioux City Company was terminated. The Fremont, Elkhorn and Missouri Valley Railroad Company has been extended, in a westerly direction, by the Chicago and Northwestern Railway Company, until it has reached the vicinity of Fort Fetterman, Wyoming Territory.

The operations of this company have grown in magnitude, and its net earnings in amount. The effect of the increase of these earnings is reflected in the figures for the year 1884. These earnings in 1883 were \$83,275.48, and in 1884 were \$275,469.40. The lease was then terminated by the Chicago and Northwestern Railway Company, which controlled both corporations, and an arrangement was made by which the Fremont, Elkhorn and Missouri Valley Railroad Company pays 3 per cent. on an appraised value of the Sioux City and Pacific Railroad for the use of that portion of the Sioux City and Pacific Railroad over which its trains pass. The value has been appraised at \$11,000 per mile.

The net earnings of the Sioux City and Pacific for 1885 and 1886 are as follows:

1885 \$216,043.97
1886 335,521.59

Total 551,565.56

Average for the two years 275,782.78

Fixed charges for interest and preferred stock dividend are \$109,510.

The earnings for 1887, in Mr. Anderson's Exhibit F, are stated to the 1st of November, 1887.

The principal of the debt due the Government is \$1,628,320.00
The accrued interest to November 1, 1887, is 1,887,660.69

Total 3,515,980.69

repaid to the United States, and which appears to the company in the bond and interest account, is 131,923.62

Balance of obligation of 3,384,057.07

The average date of maturity of the United States bonds issued for this company is September 5, 1898.

The present worth of the present and future obligations of the Sioux City and Pacific Railroad Company to the United States, ascertained in accordance with the rules suggested in the bill proposed for that company, will be found to be about \$3,300,000. The annual requirement for interest and the sinking fund would be, under the proposed act, \$115,500 for the first ten years, and \$132,000 annually thereafter.

The reported earnings of the Sioux City and Pacific Railroad Company for the past three years would appear to be sufficient to make provision for a payment of the requirement above named. The income account for 1884 shows income profit, \$27,727.89, after payment of interest, miscellaneous charges, and charging to that account interest on the United States Government bonds, \$97,699.20. The income account for 1885, after making the same charges, shows an income profit of \$3,130.76. The income account for 1886, in like manner, shows an income profit of \$90,956.85.

The Sioux City and Pacific Railroad Company is substantially under the control of the Chicago and Northwestern Railroad Company. That company controls all of the valuable connections upon which the Sioux City and Pacific Railroad Company depends for the larger portion of its profitable business. A severance of the relations now existing between these companies would be very prejudicial to the Sioux City and Pacific Railroad Company, and its earnings could be reduced by the Chicago and Northwestern Company to a very great extent. It is for this reason that the Commission has suggested that power ought to be lodged somewhere by Congress to make such adjustment as will best secure the interests of the United States, if the Sioux City and Pacific Railroad Company should decline to accept the terms of the proposed bill.

PART THIRD.

SPECIFIC ANSWERS TO THE REQUIREMENTS OF THE ACT OF MARCH 3, 1887.

The Commission, shortly after its organization, appointed Mr. John Norris, of Philadelphia, to prepare statistics, tables, and other detail evidence bearing on the various subjects under investigation. We desire to acknowledge the value of his services, and the energy he has at all times displayed in procuring, at the different places visited by the Commission, all available evidence.

At the inception of his work he prepared a circular letter containing, in convenient subdivisions, questions relating to all the subjects embraced in the act. These letters were sent to the respective railroads, to members of Congress, to boards of trade, and to persons from whom it was expected that useful information might be derived.

The Commission now reports the conclusions which it has reached, based on all the information which has been placed before it, and following the lines of inquiry contained in said circular letter, which are as follows:

(1) That the duty of said Commission shall be to examine into the working and financial management of all of the railroads that have received aid from the Government in bonds.

We refer to part second of this report for a history of the working and financial management of all the railroads that have received aid in

bonds from the Government. We also refer to the accountants' reports for the details of their financial transactions.

(2) To ascertain whether they have observed all the obligations imposed upon them by the laws of the United States under which they received such aid, or which have been since passed in reference thereto, and complied with all other obligations to the United States.

The obligations referred to in this inquiry are those contained in the acts of July 1, 1862, July 2, 1864, March 3, 1873, and May 7, 1878. The act of March 3, 1873, applies only to the Union Pacific Railroad Company, and the act of May 7, 1878, to the Union Pacific and Central Pacific Railroad Companies.

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 \$5 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 reports that this obligation has not been kept by any of the bond-aided railroad companies. The capital stock of the Union Pacific Railway Company now outstanding is \$60,868,500. On this amount not more than 16 per cent. has been received in cash.

The stock of the Kansas Pacific Railroad Company before consolidation was \$9,687,900. Of this amount no part was issued for cash.

The capital stock of the Western Pacific Railroad Company before consolidation was \$7,900,000. Not more than \$200,000 was received by the said company for this stock.

The capital stock of the Central Pacific Railroad Company now outstanding is \$68,000,000. Of this amount not more than \$7,000,000 was issued for cash.

The capital stock of the Central Branch Union Pacific Railroad Company was \$1,000,000, on which \$392,225.53 was received in cash.

The capital stock of the Sioux City and Pacific Railway Company, as originally intended to be issued, was \$4,260,000, on which an assessment of \$40 per share was called and paid. The stock was subsequently increased to \$1,899,400, which is the amount now outstanding.

With reference to the obligation to construct a first-class railroad, the Commission is of opinion that it has been complied with. This requirement must be construed with reference to the circumstances existing in the States and Territories traversed by the railroads in question. Comparison with railroads subjected to the enormous traffic and wear and tear occasioned by the immense amounts of freight and passengers in the populous Eastern States appear to have no application. We do not deem it material to ascertain what its precise condition was in 1869, when connection was effected between the Central Pacific and Union Pacific roads; but we understand the question referred to us by Congress to call for an answer as to whether the ultimate construction of that road, and the condition in which it has been kept, are such as to enable it to transact the business required of it efficiently, promptly, and securely.

In our opinion all of the bond-aided railroads have substantially complied with this obligation. We refer, for the details of their condition, to the report of Colonel Morgan (see vol. 8).

By the sixth section of the act, the bond-aided railroads are required to keep a telegraph line in repair and use, and to give the Government a preference in the use of the same, at fair and reasonable rates of com-

pensation, not to exceed the amounts paid by private parties for the same kind of service. All of the bond-aided roads have transferred the right to construct and maintain a telegraph line to the Western Union Telegraph Company. This was clearly not authorized by the acts above cited, and, in the absence of any other provisions of law, would be a violation of the requirements of Congress.

On the 2d day of July, 1864, an act was passed by Congress, entitled—

An act for increasing facilities for telegraphic communication between the Atlantic and Pacific States and the Territory of Idaho.

The fourth section of this act is as follows :

That the several railroad companies authorized by the act of Congress of July 2, 1862, are authorized to enter into an arrangement with the United States Telegraph Company, so that the line of telegraph between the Missouri River and San Francisco may be made upon and along the line of said road and branches as fast as said road and branches are built; and if said arrangement be entered into, and the transfer of said telegraph line be made in accordance therewith to the line of said railroad and branches, such transfer shall, for all purposes of the act referred to, be held and considered a fulfillment on the part of said railroad companies of the provision in the act in regard to the construction of telegraph lines.

The Western Union Telegraph Company claims to have succeeded to the rights of the United States Telegraph Company, and the bond-aided railroads assert that the contracts made by them, transferring their telegraph privileges to the Western Union Telegraph Company, are, under the section above quoted, a fulfillment of the requirements of the act of 1862. The question was passed upon in a suit brought by the Western Union Telegraph Company against the Union Pacific Railway Company, the Kansas Pacific Railway Company, and the American Union Telegraph Company in the United States Circuit Court for the District of Kansas. The opinion was rendered on a motion to dissolve an injunction, and, after stating the facts, the court said :

It does not admit, in my opinion, of any reasonable doubt, if the United States Telegraph Company, mentioned in that statute, or any company which had the same rights and authorities on that subject that that company had, entered into an agreement with the Pacific Railroad Company or any of its branches, built under the authority of the original act of 1862, which secures the proper construction and operation of a line of telegraph along the road for the benefit of the public, that it is absolved from the obligation imposed upon it by the act of 1862 to construct and operate such a telegraph line. It was manifestly the design of this act of 1864 to enable the United States Telegraph Company to become substituted, by a proper arrangement with the Pacific Railroad Company and its branches, to the right to build a telegraph line along the track and right of way of those railroad companies, and thereby to relieve those companies from the obligation to build and operate such a line.

The actual line of telegraph involved in the case cited was the line constructed on the Kansas Pacific Railroad, and the rights of the parties were determined with reference to the contracts alleged to have been entered into with the United States Telegraph Company and to have been secured by the consolidation of that company with the Western Union Telegraph Company. The question whether the conclusion reached by the court would also apply to all other contracts which have been entered into by all of the Pacific railroads with the Western Union Telegraph Company, under which contracts all the commercial business has been transferred to that company (the railroads only retaining sufficient telegraphic facilities to do their own business), is not covered by the language of Judge Miller's decision, cited above, unless it be made to appear that the Western Union Telegraph Company itself had, or *that it had acquired*, the right to enter into such contracts in conformity

with the provisions of the act of July 2, 1864. This whole matter has been very fully discussed before the Committee on the Post-Office and Post-Roads during the second session of the Forty-ninth Congress. All the evidence applicable to the case was laid before that committee, and protracted arguments, both by the telegraph company and the railroad companies, were heard. These appear in Report No. 3501, Forty-ninth Congress, second session, House of Representatives.

As far as the right of the Government to a preference and to reasonable rates for transmitting dispatches is concerned, the Commission reports that such a preference has been extended to the Government, and that the rates which have been paid are those which have been fixed by its Departments.

The act also requires that the rates to be paid for transportation of troops and supplies, and for the mails, shall be reasonable, and shall not exceed the amounts paid for similar service rendered to other parties. We find that the companies in question have always transported the troops and supplies, and carried the mails, as required by the Government. The rates charged for troops and supplies have exceeded the general rates of the company based on a computation of all the different classes of service and the average rate derived therefrom. The rates charged have always been submitted to the respective Departments of the Government under the regulations of such Departments, and have been stated at the open tariff rates published or announced by the respective companies. (See communications from the Departments, vol. 8.)

It was the common practice of all these companies to allow rebates on a large portion of the freight shipped over these railroads. No such rebates were allowed to the United States. In the opinion of the Commission this circumstance can not justly be called a refusal to render service to the United States at rates not to exceed those charged for the same kind of service rendered to other persons. A rebate is a concession to a shipper, given either in consideration of a special promise of business, or conceded by reason of the competition of other railroads. It seems to the Commission that if the rates charged to the United States were the usual and open rates charged where no unusual circumstances existed, the requirements of the law have been fulfilled.

By the act of 1864 all of the bond-aided companies were required to apply 5 per cent. of their net earnings and half of their transportation earnings to the payment of the interest accruing on their debts to the United States. By the act of May 7, 1878, this requirement was increased, as to the Union Pacific and Central Pacific Companies, to 25 per cent. of the net earnings. In the opinion of the Commission these requirements have been fully satisfied. (See Reports of the Railroad Commissioner; also reports of Messrs. Calhoun and Stevens, vol. 8.)

The act of 1864 required the Union Pacific Railroad Company not to discriminate against any other of the roads authorized by the act, and provided that all of these railroads should be operated as one continuous line. The Union Pacific Railroad Company, from 1873 to 1877, refused to pro-rate through business, east or west, with the Kansas Pacific Railway Company, and refused in like manner to pro-rate with the Sioux City and Pacific Railway Company. These refusals were, in the judgment of the Commission, in violation of the duty imposed by the act of 1864.

By the sixteenth section of the act of July 2, 1864, it is provided that two or more of the companies authorized to participate in the benefits of the act may unite and consolidate their organizations upon such terms as

they may agree upon and as shall not be incompatible with this act, the capital stock not to exceed the actual cost of the roads so to be consolidated. The facts of the consolidation between the Union Pacific, Kansas Pacific, and Denver Pacific have been elsewhere reported. The facts abundantly show that there was just cause for indignant complaint against the action of the individual directors in the means adopted for bringing about the result. But the question of the legality of the consolidation itself is an entirely different one. This question involves the vested rights of third parties of vast importance, and it would ill become a Commission, sitting without powers to pronounce judgment, to cast the slightest doubt upon the legality of an act consummated many years ago and involving the tenure of many millions of property, especially in view of the fact that no proper issue has been framed under which the parties in interest can have an opportunity to maintain their side of the case. It may be remarked, however, that the improper motives which actuate individual directors in the votes cast by them while sitting in a corporate board are never permitted to invalidate a corporate act as against third parties who have acquired rights thereunder. The consolidation itself was expressly provided for by the section above quoted. It can only be successfully assailed by showing that it was *ultra vires* of the corporation.

The gravamen of the complaint on this point has been that the stock of the new corporation, issued against the stock of the Kansas Pacific Company and the Denver Pacific Company, did not represent any actual cash subscription. As matter of fact this proposition is believed to be true. But the only limitation contained in the section in question as to the capital stock of the consolidated company was that it should not exceed the actual cost of the roads so to be consolidated. It may be urged that these words did not properly express the intention of Congress, and that it was intended by the act to provide that the capital stock should not exceed the aggregate amount of cash subscriptions which had been actually paid in on the stock of the respective consolidated roads. But the legality of the consolidation must be tested by the words found in the act, and not by any conjectures as to the meaning of Congress. The evidence abundantly shows that the actual cost of the Union Pacific, Kansas Pacific, and Denver Pacific Railroads, at the time of the consolidation, did, in fact, exceed \$61,000,000, and, therefore, there would seem to be no good ground for assailing the legality of this consolidation, either on the basis of the stock exchanged for the Kansas Pacific and Denver Pacific stock, or on the basis of the subsequent issue of \$10,106,200 of stock in 1881. The consolidation itself was ratified by a vast majority of the stockholders, without a dissenting vote. It was voted for by all of the Government directors at the meeting of January 24, 1880, except one. Its existence was immediately reported to the Secretary of the Interior, and with the exception of certain *quo warranto* proceedings in the State of Kansas, which came before the Supreme Court of the United States for review (111 U. S., p. 449) and which were adjusted and settled, it has remained unchallenged and unquestioned to the present date, though constantly referred to in many of the decisions of the court, in the reports of the Government Departments and of the United States Commissioner of Railroads, and in the proceedings before many of the committees of Congress.

While advocating the jealous retention of the fullest measure of power to prosecute and punish all directors guilty of malfeasance in effecting this consolidation for personal motives, it would, in the judg-

ment of the Commission, be both ill-advised and unjust to question in any manner the legality of the consolidation as consummated.

The only provision of the act of 1862 which in any way restricted the right of the Union Pacific Railroad Company to dispose of its actual earnings, was the provision contained in the sixth section, that—

After said road is completed and until said bonds and interest are paid, at least five per centum of the net earnings of said road shall be annually applied to the payment thereof.

And also the provision contained in the same section, that—

All compensation for services rendered for the Government shall be applied to the payment of said bonds and interest until the whole amount is fully paid.

By the act of 1864 this requirement was reduced so as to apply only to one-half of the transportation service.

By the act of March 3, 1878, it was provided that "no dividend shall hereafter be paid by said company but from the actual net earnings thereof."

The last quoted provision applies only to the Union Pacific Railway Company. It is the judgment of the Commission that no dividends of any of the bond-aided companies have ever been paid in violation of these provisions. The first dividend paid by the Union Pacific Railway Company was paid on the first day of July, 1875. The last dividend was paid on the first day of April, 1884. It appears from the income account of this company that its actual surplus earnings, properly applicable to dividends, were at all times largely in excess of the amount paid. In the report of Mr. Calhoun the dividend paid during a number of years appeared to overdraw the income account and to leave a debit balance. But this result is occasioned by the fact that he charges in the company's income account, as stated by him, the full amount of interest due to the United States on the debt of the company. In the case of the *United States v. The Union Pacific Railroad Company* (91 U. S., p. 72), the Supreme Court held that it was not the intention of Congress, by the provisions contained in the acts of 1862 and 1864, to require the company to pay the interest before the maturity of the principal of the bonds. This interest therefore is no more a proper charge to income for the years in question than the principal of the debt itself would be. Under the decision cited, it is not due until 1897 and was therefore not a proper charge against income for the years in which dividends were paid.

The Central Pacific Railroad Company paid dividends from 1873 to 1884, but the income account of that company, as stated by Mr. Stevens (see his report, volume 8), and as stated by Mr. E. H. Miller, jr., shows that at all times during those years a surplus of income derived from net earnings remained after payment of dividends.

The Central Branch Union Pacific Railroad Company paid dividends in 1885 and 1886, but the provisions of the act of 1873 do not apply to this company, and the requirements of the acts of 1862 and 1864, as to the payment of 5 per cent. of the earnings and of the half transportation, have been complied with.

The Sioux City and Pacific Railroad Company has never paid any dividends, except the dividends on the preferred stock. This stock was issued to pay for the extension to Missouri Valley Junction. The instrument securing the payment of these dividends is in the nature of a mortgage, and their payment is essential to the retention of the connection with the Chicago & North Western Railway Company.

While finding that none of the dividends have been paid in violation of any statutory provision, we do not wish to be understood as approving of the policy of distributing the assets of these respective companies in this manner. Though the obligations to the Government were not due, they were existing and rapidly increasing liabilities. The day of reckoning was sure to come. The lavish division of these net earnings, without making any provision whatever for the impending debt, was unwise, improvident, and unjust to the future stockholders of the company, and unjust to the Government as a creditor. The dividends declared by the Central Branch Union Pacific Railroad Company are especially open to criticism, for the reason that, at the time of their declaration and payment, as has been explained in the financial review of that corporation, \$630,000 coupons belonging to the first mortgage, the lien of which is superior to that of the Government, were in default and unpaid, and so remain until this day.

It is provided by the act of March 3, 1873, as to the Union Pacific Railroad Company, that—

No new stock shall be issued or mortgages or pledges made on property or future earnings of the company without leave of Congress, except for the purpose of funding and securing debts now existing, or the renewal thereof.

Since this act was passed the Union Pacific Railroad and Railway Company has executed the collateral trust mortgage of 1879, also that of 1883; and, as security for these collateral trusts, has pledged certain bonds and stocks of branch lines which were the property of the company. The question of the legality of these transactions has already been argued before the Judiciary Committee of the House, on a hearing referring to a resolution introduced by the Hon. Barclay Henley on the 21st of June, 1886. The Union Pacific Railway Company asserts that the bonds and stocks in question did not form part of the property subject to the lien of the United States, but had been acquired by that company by the application of its earnings to the construction of branch lines after the passage of the act of 1873.

In 1882 one Arnold Leo brought suit against the Union Pacific Railway Company for the purpose of enjoining the execution and delivery of the collateral trust mortgage which was subsequently made in 1883. In his bill of complaint he bases his demand for an injunction on the proposition that the issue of these bonds was in violation of the act of 1873 and of the Thurman act. The court denied his motion (see *Leo vs. Union Pacific Railway Company*, 17 Fed. Rep., p. 273), and subsequently sustained a demurrer to his bill (see same case, 19 Fed. Rep., p. 283). In the face of an express decision by a court of competent jurisdiction, on the question of the right of the company to dispose of its bonds and stocks as security for the loans effected by means of these collateral mortgages, and in the absence of any modification or reversal of the decisions cited, the question of their legality, in the opinion of the Commission, is no longer an open one.

The Union Pacific Railway Company has also guaranteed the payment of the interest on \$13,000,000 of the bonds of the Oregon Short Line Railway Company, and on \$7,000,000 of the bonds of the Saint Joseph and Grand Island Railroad Company. These guaranties do not involve any mortgage or pledge of the property or earnings of the company. They are simply agreements to pay, binding the corporation, but are clearly not within the letter or the spirit of the act of 1873. The consideration for the guaranty of the bonds of the Oregon Short Line was a traffic agreement or arrangement, by means of which what is believed to be an exceedingly valuable auxiliary to the business of

the Union Pacific Railway was secured. It has been elsewhere shown that the business derived from that road, if both direct and indirect earnings are included, has brought much more to the Union Pacific Railway Company than the amount of the deficits which it has been compelled to pay by reason of the failure of the Oregon Short Line itself to earn enough to pay the interest on the bonds.

No evidence has been produced before the Commission tending in any manner to show that any officer or director of the Union Pacific Railway Company was interested in the contracts for the construction of the Oregon Short Line, or made any unlawful or improper profit, or any profit whatever, through such contract. It was proved that these bonds were issued to the subscribers therefor at their face value, and that for every \$1,000 in cash \$500 of the stock of the corporation was issued in addition to the bonds. It is not proved that this stock was voted by the directors to themselves, or that the subscription to the bonds was other than an open, public one. The existence of this stock can, in no manner, affect the obligations of the Union Pacific Railway Company. Its guaranty extends solely to the interest on the bonds.

The suggestion made by the minority Commissioner in his report, that it would have been more generous if the board of directors of the Union Pacific Railway Company had offered to subscribe for this stock at par, in cash, and had built the Oregon Short Line with the proceeds of such subscription, is simply impracticable. Capital can not be persuaded to flow into an enterprise of this nature without security; and the capital which builds a railroad is certainly entitled to the first return from its earnings. The suggestion that the use of Mr. Eddy's name, in making the original construction contract between the Oregon Short Line and the contractor, and the subsequent assignment of that contract to Mr. Charles Francis Adams, in trust, was devised as a cloak to conceal some intended fraud, is absolutely unsupported by the evidence. The construction of the Oregon Short Line was conducted by the construction department of the Union Pacific Railway Company. The accounts of the construction, the vouchers for the payments, and all matters relating thereto have been laid open before the Commission, and have been examined by Mr. McDowell, one of its accountants at Omaha, and no fact whatever has been disclosed which justifies any criticism.

The guaranty of the \$7,000,000 bonds of the St. Joseph and Grand Island Railroad Company was for the purpose of effecting the sale of \$3,985,000 of those bonds, which were owned by the Union Pacific Railway Company. This guaranty does not effect any mortgage or pledge of the property or earnings of the Union Pacific Railway Company. It is, as in the case of the Oregon Short Line guaranty, merely a contract obligation. In regard to the advisability or policy of making the same, it has been shown to the Commission that the full face value of these bonds in money was received by the Union Pacific Railway Company, and was applied by it in liquidation of an existing floating debt. (See Report of the Union Pacific Railway Company for 1886, p. 19.)

(3) And whether their books and accounts are or have been so kept as to show the net earnings of the aided roads, and what said books and accounts actually show in regard thereto, and what have been in fact said net earnings.

The Commission refers to the reports of the respective accountants for an answer to the question: What have been the net earnings of the bond-aided road? In their judgment, the books of the company

are so kept as to show the net earnings of the aided portion. As 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.

(4) Or whether there has been a diversion of earnings of aided roads to less productive branches, through constructive mileage allowances, or average mileage allowances, between aided and non-aided roads or parts of roads, or otherwise.

The Commission has already expressed its opinion on the subject of constructive mileage, and does not deem it necessary to say anything further with reference thereto. In its judgment, there has never been "a diversion of earnings of aided roads to less productive branches, through constructive mileage allowances, or average mileage allowances, between aided and non-aided roads, or parts of roads."

(5) And also whether such system of constructive mileage allowances is fair and usual, and, in practical operation, has resulted adversely or otherwise to the aided roads and the interest of the United States.

All of the witnesses who were practical railroad men and had any knowledge on the subject, who were examined by the Commission, have united in declaring that the system of constructive mileage is fair and usual, and is a just and reasonable method of determining, as between a parent road and its branches, the proper distribution of earnings, part of which pertain to the main line and part to the branch. In some way or other, if branch roads are to be operated in connection with the main line, they must be reimbursed for the increased cost produced by the terminal expenses, the shortness of the haul, and the fact that the business they do is less than that done by the main line. The universal application of this principle has, in the judgment of the Commission, placed it beyond the domain of discussion.

(6) Or whether there has been a diversion of earnings of aided roads to wrongful or improper purposes, and, if so, to what extent.

In so far as this inquiry relates to the subject of constructive mileage the Commission refers to the answers to numbers 4 and 5.

If the question is intended to relate to a misapplication of earnings by unlawful contracts for construction, or to the payment of dividends on stock for which no consideration had been received by the companies, or to the application of the earnings of the companies to purchases of stocks and bonds at prices fixed by the votes of the sellers themselves, and to other similar practices, these matters have been fully covered in a former part of this report.

(7) Whether there is a discrimination of rates in favor of unaided against aided roads.

No evidence has been presented to the Commission of any discrimination of rates in favor of unaided as against aided roads, except that which applies to the refusal of the Union Pacific Railroad Company to prorate with the Kansas Pacific Railroad Company or with the Sioux City and Pacific Railroad Company. The evidence on this subject refers to the years 1873 to 1878.

(8) Whether any, and if so, how much, money is due and owing to the United States on account of mistaken or erroneous accounts, reports, or settlements made by said roads.

There are no amounts due to the United States because of mistaken or erroneous accounts. A controversy exists between the United States and the Union Pacific Railway Company in regard to the Omaha Bridge

and the Pullman Palace Car Companies. The amount involved is inconsiderable and is now before the Court of Claims. There are also a number of unadjusted accounts between the United States, the Union Pacific Railway Company, the Central Pacific Railroad Company, and the Central Branch Union Pacific Railroad Company, relating to claims for transportation and mail service, which have not been adjusted or which have not been paid over.

(9) Whether any traffic or business which could or should be done on the aided lines of said companies, has been diverted to the lines of any other company or to non-aided lines.

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 illustrations of such diversions the Commission refer to the following: The Southern Pacific, the California Pacific, and the Oregon Short Line. It would have been possible 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 convenience and public advantage. It has not arisen from an 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 the quickest routes because he thereby promotes public convenience.

The Commission has substantially made the same answer to the claim of the Central Pacific Railroad Company, that the United States had diverted a vast amount of traffic from its railroad by extending its bounty to other and competing lines. The necessities and advantages to the communities served by such competing lines entirely justified the granting of the bounties, and, as we have said elsewhere, the claim that the United States ought to make good any loss in traffic to the Central Pacific Railroad Company is without foundation. 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.

The lease of the Central Pacific Railroad to the Southern Pacific Company of Kentucky in connection with the Southern Pacific Railroad to the boundary of Oregon, and thence to Portland, Oregon, has placed it in the power of the directors of the Central Pacific Railroad Company to effect a diversion of business which would have a very disastrous result upon the traffic of the subsidized portion of the Central Pacific Railroad.

The fact that both the Southern Pacific and the Central Pacific Railroads are under one control jeopardizes the business of the bond-aided road, and places it in the power of the Southern Pacific Company, if at any time it should cease to have an important interest in the Central Pacific Railroad, to divert a very large portion of its traffic. A considerable portion of the through transcontinental traffic has, in fact, passed over the southern route during the past three years. This diversion is the natural consequence of the establishment of this route, and of its superior advantages and more rapid and regular carriage and delivery of freight. The interest of the promoters and directors of this enterprise has led them to compete for this business, and they have succeeded in securing the greater part of the through transcontinental business. No evidence has been presented to the Commission which establishes

that the object of such diversion was to decrease the percentage of net earnings due to the United States.

(10) And what amounts have been deducted from the gross earnings of said aided railroad companies, by their general freight and passenger agents or auditors, by way of rebate, percentage of business done, constructive mileage, monthly or other payments on any pooling or rate arrangement, contract, or agreement.

Very large sums have been deducted by means of pools, rebates, and percentages of business. Under all pooling arrangements the constituent companies are entitled to receive an agreed percentage of the entire business. The moneys received in payment for freight or for passengers may be paid to either of the constituent companies. It frequently happens that the money, in the first instance, is paid almost entirely to one of the companies. An account is kept of the amounts thus received, and a distribution is made, by the company holding the funds, of the percentages due to the respective parties to the pool. An adjustment of these balances can not possibly be criticised as a diversion or improper application of funds in which the United States has any possible interest.

The evidence shows that very large amounts of money were paid under these adjustments by the Union Pacific Railway Company to other companies, but the amounts so paid do not enter into or form any part of the earnings of the company. They are held in trust for the parties to whom they belong. There is no secrecy, no concealment about these transactions differing in any way from the privacy which every business man exercises over his own affairs. The amounts can always be readily ascertained by an inspection of the books in which the pool accounts are kept. The propriety of the payments made can be tested by a reference to the pooling agreements. The balances retained by the bond-aided roads were the only portions of these pool earnings that could ever enter into or form part of the gross earnings of the company, and they have been regularly returned and entered.

The same explanations apply to the subject of rebates and overcharges. An overcharge occurs when a freight bill is erroneously stated at a larger amount than proper by reason of overweight, over-measurement, 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 or open rate. It is adjusted in the same way. All the 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 this matter.

As far, therefore, as the system of book-keeping 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. If ore or grain or cattle is to be transported from the point of production to the point of delivery, and the selling price at the point of delivery happens to be so low that, at the tariff rates, the commodity can not find a profitable market, it has been a common practice for the bond-aided roads, in common with all railroads in the country, to offer a concession on its rates. But it is utterly unreasonable, when such concession has been agreed upon, and the rebates paid, to claim that the actual earnings of the road have been made at the tariff rate, and that the refund or re-

bate represents a payment by reason of which the earnings in which the United States has an interest can be said to have been reduced.

In the judgment of the Commission these considerations apply to all the bond-aided roads. The amount reported as having been paid for these purposes are merely the footings of the books in which these accounts are contained. In order to report accurately how much has been repaid for rebates, how much for overcharges, and how much for actual balances, it would be necessary to prepare an account based upon an examination in detail of all the way-bills of the respective companies, and such a task is impracticable. The Commission does not intend, in dismissing the subject of inquiry as to the amounts paid out for those purposes, to pass judgment on the policy of allowing rebates, discriminations, or pools. The subject is a vast one. The innumerable complaints of unjust treatment, of personal preferences, and of all manner of devices by which railroad corporations extend their favors to those whom they desire to benefit and oppress those whose business they wish to destroy, led to the creation of the Inter-state Commerce Commission. We do not understand that it was referred to us to try and determine the question whether the bond-aided roads had been guilty of these practices. The magnitude of the duties assigned to this Commission absolutely disqualified it from performing such a task. We have examined witnesses in New York, Boston, Omaha, Kansas City, Denver, Fort Collins, Cheyenne, Salt Lake City, and at a number of minor points in Kansas, Nebraska, and Wyoming. We were engaged a month in the city of San Francisco with the business of the Central Pacific Railroad Company. When taking this evidence, the Commission was obliged, in many instances, to disregard the rules of evidence. This could not be avoided in view of the requirements of the act creating the Commission. As, for instance, when investigating the relations of the bond-aided railroads to the local communities, the expression or declaration or complaint of any resident on the line of the road was heard by the Commission, even when based on nothing but information or hearsay. Such a declaration or complaint was, of course, evidence on the subject of the relation of the railroads to the local communities, because it testified to the feeling or sentiment or judgment which existed among the people with reference to those roads. But such declarations or complaints, except when made on personal knowledge, were utterly inadmissible as evidence against the railroads on an issue framed concerning an alleged violation of its duties as a common carrier.

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 this practice prevails, it has been found impossible for any railroad company in the country to maintain itself except by participating in the practice. Rebates are bids for business. The fact that they are resorted to or used for other purposes does not alter the truth of the statement. The rebates to the Omaha and Grant Smelting and Refining Works is one of the most important in amount appearing on the books of the Union Pacific Railway Company. It was made clear to the Commission that if these rebates had been refused to that company the business which they secured to the Union Pacific Railroad would have been diverted to other channels.

The same explanation applies to the Pacific Mail subsidy and to the whole system of refunding a portion of the ordinary charges. When rebates are resorted to for the purpose of destroying the business of small traders, and of building up the power of corporations or business trusts, they become the source of incalculable evil. But the subject seems to have no relation to the matter of the investigation conducted by this Commission. No extension of the debt, no refusal to extend the debt, no forfeiture of the charter of the Union Pacific Railway Company, no repeal of the acts granting public bounties to any of the bond-aided roads, can have the slightest or remotest bearing on the subject of rebates, discriminations, or pools.

Our answer to this question is, then, that the amounts deducted from the gross earnings of the bond-aided roads, by way of rebate or percentage of business done, will appear in the reports of the accountants; that large deductions of this character were made; that they do not affect the earnings of the United States, because the amount in question was actually paid out by the railroad companies, and in no just sense formed a part of their net earnings. We also answer that the practice of paying rebates and of entering into pool agreements has been followed in a great variety of instances by all of the bond-aided railroad companies, and that in such practice they have adopted the same methods and practice which have characterized the administration of the whole railroad business of the country.

(11) And also to inquire into, ascertain, and report as to the kind, character, and amount of the assets of said companies.

For an answer to the eleventh inquiry the Commission refers to the report of Col. Richard F. Morgan, jr., the engineer of the Commission, and to Part I of this report.

(12) And what assets of each company are now subject to the lien of the Government, and the value thereof.

It is the opinion of the Commission that the lien of the Government is limited to the property in consideration of which bonds were issued by the United States under the acts of 1862 and 1864, and that, while under the decision in the Sinking-Fund cases (99 U. S., 700), Congress has a right to require the bond-aided companies to make reasonable provision out of the earnings of the property affected by the statute mortgage for the purpose of meeting the debt when due, it has no power to extend the lien to any portion of the road which was not originally affected thereby, or to declare that it shall apply to other assets or property of the company.

(13) And also whether any dividends have been unlawfully declared by the directors or paid to the stockholders of said company; and, if so, to what extent?

■ This question has already been answered by the Commission under No. 2 of this part.

(14) And whether the amount thereof may not be recovered from the directors unlawfully declaring the same or persons who have unlawfully received the same.

We have already stated our conclusion that no dividends have been unlawfully declared; and, if this conclusion be correct, there can be no recovery therefor. We have also stated that very large sums of money have been misappropriated or wrongfully obtained by persons who were or are officers and directors of the bond-aided roads.

The question whether the amounts so misappropriated, or any portion thereof, can be recovered is a difficult one to answer. That these amounts can not now be recovered by any proceeding instituted

directly by the United States was held in United States against the Union Pacific Railroad Company (98 U. S., 569). If suit should be instituted by the corporations themselves many difficult questions would arise. Questions of fact are involved as to whether the wrongs alleged were in reality committed. Questions of law are involved as to whether the acts were such as would render the parties complained of liable. These proceedings would be defended under releases executed by the corporations themselves, and by plea of statutes of limitation. The Commission has endeavored to dispose of this subject by inserting, in the bills herewith submitted, a section requiring the companies accepting the same to bring all such suits whenever so requested by the Department of Justice of the United States, and to permit them to be prosecuted to final determination by the Attorney-General.

(15) Whether the proceeds of any trust funds or lands loaned, advanced or granted, have been diverted from their lawful use.

For an answer to this question the Commission refers to part second of this report. It contains a full reference to all matters relating to misappropriation of assets. No lands granted to the companies have been diverted from their lawful use. The facts as to the disposition of bonds issued under the respective land-grant mortgages are shown in the evidence and accountant's reports.

For a statement of the disposition made of the land-grant bonds of the Union Pacific Railway, we refer to the evidence of Frederick L. Ames, (volume 2, p. 936).

For a statement referring to the disposition of the bonds issued under the Kansas Pacific consolidated mortgage, we refer to the analytical statement of Mr. Stevens, (volume 8), and also to the evidence of A. H. Calef (volume 1).

For a statement of the disposition made of the land-grant bonds of the Central Pacific Railroad, we refer to the evidence of R. F. Stevens (vol. 6, p. 3532).

For statements relating to the lands granted to the Central Branch Union Pacific Railroad Company, and the Sioux City and Pacific Railroad Company, we refer to the reports of G. F. Perrenoud and H. J. Anderson (vol. 8).

(16) Whether any new stock or bonds have been issued, or any guaranties or pledges made contrary to or without authority of law.

All the issues of stock or bonds appear in the reports of the accountants. The judgment of the Commission as to the validity of the guaranties or pledges made by the Union Pacific Railway Company has already been stated in No. 2 of this part. The provisions of the act of March 3, 1873, were only applicable to the Union Pacific Railway Company, and did not affect the other bond-aided roads.

(17) Whether any of the directors, officers, or employes of said companies, respectively, have been or are now directly or indirectly interested, and to what amount or extent, in any other railroad, steamship, telegraph, express, mining, construction, or other business company or corporation, and with which any agreement, undertakings, or leases have been made or entered into.

Many of the directors, officers, and employes of the bond-aided companies have been and are directly and indirectly interested in railroad, steamship, telegraph, express, mining, and construction, and other business companies with which the bond-aided roads have had agreements and undertakings. If the intention of Congress was to limit the inquiry to the cases in which there was proof that directors or officers were interested in companies which had business relations with the

company in which such officer or director was concerned, and by means of which agreements the officers or directors obtained an improper advantage for themselves, then the answer to the question will be found in Part 2 of this report.

(18) What amounts of money or credit have been or are now loaned by any of said companies to any person or corporation.

The reports of the accountants will show the amounts of money or credit which have been or are now loaned by the respective companies to any persons or corporations.

(19) What amounts of money or credit have been or are now borrowed by any of said companies, giving names of lenders and the purposes for which said sums have been or are now required.

The reports of the accountants will also show the amounts of money or credit which have been or are now borrowed by any of the said companies, and will give, as far as practicable, the names of the lenders and the purposes for which the said sums have been required.

(20) What amounts of money or other valuable consideration, such as stocks, bonds, passes, etc., have been expended or paid out by said companies, whether for lawful or unlawful purposes, but for which sufficient and detailed vouchers have not been given or filed with the records of said companies.

It appears from Mr. Calhoun's report that a very large amount of money expended by the Union Pacific Railroad Company and the Kansas Pacific Railroad Company is not covered by any vouchers whatever, but that he has found it impracticable to state these matters in detail without transcribing or restating the accounts of the respective companies. These criticisms apply to the early construction of the roads, and also, though in a lesser degree, to the transactions down to and including the year 1879.

He reports that from 1880 to 1886 he has personally examined the vouchers of the Union Pacific Railway Company, and that he has found no insufficient voucher for any of the transactions belonging to that period.

Mr. Richard F. Stevens has reported that the sum of \$4,818,355.67 has been disbursed by officers of the Central Pacific Railroad Company, and that no sufficient vouchers exist for the same.

The evidence relating to the use made of these moneys will be found in the testimony of C. P. Huntington (vol. 1, pp. 23, 34; vol. 7, p. 3696), Leland Stanford (vol. 5, pp. 2942 to 2951; vol. 6, pp. 3160 to 3200), Stephen T. Gage (vol. 6, p. 3261), W. W. Stow (vol. 6, p. 3410), Charles F. Crocker (vol. 5, p. 2989; vol. 6 p. 3111), and D. Z. Yost (vol. 5, pp. 2711, 2892; vol. 6, p. 3412), and I. E. Gates (vol. 7, p. 3860). We refer also to Stevens, Exhibit W. (vol. 8), and particularly call attention to the vouchers for the years 1884 and 1885, which amount to \$845,125.74.

The vouchers for these sums are mere memoranda bearing the signatures of Leland Stanford, C. P. Huntington, Charles F. Crocker, or Stephen T. Gage, and do not in any way indicate the purpose or use to which the moneys covered by the vouchers were applied.

Mr. Perrenoud reports that all the vouchers relating to the transactions of the Central Branch Union Pacific Railroad Company from 1866 to 1880 are missing.

Mr. Henry J. Anderson reports that all the vouchers of the Sioux City and Pacific Railroad Company from 1864 to 1880 are missing, with the exception of a few cash vouchers.

(21) And further, to inquire and report whether said companies, or either of them, or their officers or agents, have paid any money or other valuable consideration, or *done any other act or thing*, for the purpose of influencing legislation.

It is the judgment of the Commission that moneys of all the bond-aided roads have been used for the purpose of influencing legislation. There is no direct proof, with specifications of time, place, and persons, on which to base the assertion that actual bribery was resorted to. But it is impossible to read the evidence of C. P. Huntington and Leland Stanford, and the Colton letters, without reaching the conclusion that very large sums of money have been improperly used in connection with legislation. The facts relating to the refusal of Governor Stanford to answer the questions put to him in reference to this subject have been stated in detail in the second part of this report. The decision of the Circuit Court of the United States in California made it impossible for this Commission to obtain answers to the questions which Congress had directed to be put.

The evidence established the frequent use by the officials of the Union Pacific Railway Company of money and passes for the purpose of influencing legislation. The vouchers relating to these expenses are, in many cases, insufficient. In all cases examined by the Commission the evidence, while not disproving the purpose to which the moneys had been applied, has been sufficient to supply the defects of the vouchers. The witnesses called with reference to these transactions have established the fact that the general practice of the company in Kansas, Nebraska, and Colorado was to secure a full representation at the capitals of those States respectively during the sessions of the legislature. There is no evidence whatever of actual bribery. The moneys in question were expended in paying lawyers and lobbyists for appearing before committees, and using the various weapons of the lobby in the form of argument, persuasion, and entertainment, for the purpose of preventing the passage of measures which were hostile to the interests of the railroad.

It has also proved that it was the common practice of the company to issue passes to members of the legislature and judges of the courts. This practice, before the passage of the interstate commerce law, was so universal that it would be impossible to predicate any guilty motive thereon.

The Commission deems it proper to say in this connection that the great variety of bills introduced for the purpose of controlling the business of the railroads, imposing arbitrary rates of freight, limiting their powers, enacting stringent liabilities for accidents, forbidding the exercise of the right of eminent domain, and imposing unequal taxes made it almost impossible for the railroad companies to avoid expending considerable sums of money in causing their interests to be properly represented. Many of these bills doubtless had their origin in the perfectly just belief that the business of the railroads ought to be subjected to supervision and control. Other bills were totally impracticable, and would have inflicted immense loss on the companies affected thereby. While condemning most emphatically the practice of attempting, in any improper manner, to influence legislation, it would be unreasonable to deny to corporations having large interests at stake the right to be represented before committees of the legislatures, and the right to pay proper compensation of money to those who so represent them.

(22) And to investigate and report all the facts relating to an alleged consolidation of the Union Pacific Railroad Company, the Kansas Pacific Railway Company, and the Denver Pacific Railway and Telegraph Company, into an alleged corporation known as the Union Pacific Railway Company. Said investigation shall include the alleged sale of the stock of the Kansas Pacific Railroad Company to the Union Pacific Railroad Company and all the circumstances and particulars pertaining to said alleged sale.

The Commission refers to Part 2 of this report.

(23) And whether any of the Pacific Railroad corporations which obtained bonds from the United States to aid in the construction of their railroads have expended any of their moneys or other assets in the construction, or to aid in the construction, of other railroads, or invested any of their moneys or other assets in the stocks or bonds of any manufacturing, mining, and commercial companies or corporations, or of other railroad corporations.

The Union Pacific Railway Company has expended a large amount of its money and of its assets in the construction of branch railroads. They have also invested portions of their earnings in the stocks and bonds of manufacturing, mining, and commercial companies. A detailed statement of the amounts so invested, with the names and characters of the corporations in which such investments have been made, will be found in the report of Mr. Calhoun, and also in the reports of the company itself for the years of 1884, 1885, and 1886.

The Central Pacific Railroad Company has expended money in acquiring an interest in Wells, Fargo & Company, and in the Oriental and Occidental Steamship Company. It has not, since the consolidation in 1870, expended any money in the construction of other railroads. It has, however, expended large sums of money in the extension of parts of its railroad which are not subject to the lien of the United States. A statement of the amounts so expended will be found in Mr. Stevens's report (vol. 8).

The Central Branch Union Pacific Railroad Company has expended money in the construction of the branches subsequently consolidated into the Atchison, Colorado and Pacific Railway, and the Atchison, Jewell County and Western Railroad Company. The details of the amounts expended will be found in Mr. Perrenoud's report (vol. 8).

The Sioux City and Pacific Railroad Company has expended a portion of its assets in the payment for the construction of the extension between California Junction and Missouri Valley Junction. The amount so expended was \$169,000 of the preferred stock of the company.

(24) And if any such expenditure or investments have been made, the extent and character thereof made by each of said corporations shall be inquired into.

The Commission refers to the answer to No. 23.

(25) And also the present interest of any of said corporations in the railroads auxiliary to their respective railroads.

The Commission refers to the answer to No. 23.

(26) And said Commission shall also ascertain and report the names of all the stockholders in each of said companies, from its organization to the date of the investigation herein provided for, as they appear on the books of said companies at the date of its annual meeting in each year; the amount of stock held by each.

The names of all the stockholders of the respective companies are contained in exhibits attached to the reports of the respective accountants.

(27) What consideration, if any, was paid by each stockholder to said company for his stock, and when and in what property such payment was made.

The consideration paid for the stock issued by each of the bond-aided companies is stated in the reports and exhibits of the accountants (vol. 8). We also refer to the statement of E. H. Miller, jr. (vol. 5, pp. 2550 to 2558), and the statement of O. W. Mink (vol. 2, pp. 875 to 885).

(28) The date when each stockholder so appearing on the books became such.

The date of the transfer to each stockholder is stated in the same reports and statements.

(29) And whether stock is now held or has heretofore been held in the name of any person in trust or for the benefit of any other, and the names of all such persons.

The names of all persons holding stock in the name of any person in trust for the benefit of another appear in the same reports and statements.

(30) The total amount of the stock in each company.

The total amount of stock in each company appears in the same reports and statements.

(31) And the dates and amount of any increase of such stock, and the reason for such increase.

The dates and amounts of the respective increases of stock appear in the same reports and statements. The original amount of the stock of the Union Pacific Railroad Company was \$36,762,300. This amount was increased in January, 1880, to \$50,762,300, and in 1881, to \$60,868,500. The reasons for this increase appear in the report on the consolidation of the Union Pacific, Kansas Pacific, and Denver Pacific Railroad Companies, elsewhere contained. The further increase of \$10,106,600 occurred early in 1881. The object of the last increase was to obtain money to pay for the construction and extension of the branch lines.

The stock of the Central Pacific Railroad Company was originally \$8,500,000. It was increased in 1867 to \$20,000,000, and in August, 1870, to \$100,000,000. The reason assigned for both of these increases is that by the laws of the State of California the company was required to have outstanding an amount of stock which equaled the amount of its funded debt.

In the case of the Sioux City and Pacific Railroad Company the whole amount of stock subscribed for was originally \$4,260,000. This stock was afterwards reduced to \$1,704,000. In 1872 the stock was increased \$108,000, and at the same time \$169,000 of preferred stock was issued. The object of the increases was to pay for the extension of the branch road between California Junction and Missouri Valley Junction.

(32) And the amount of the annual salaries or compensation that are now or at any prior time have been paid to any officer or employé of said company, when such salary or compensation amounts to \$5,000 or more per annum.

Exhibits containing the annual salaries or compensations that are now or at any prior time have been paid to any officer or employé of the respective bond-aided companies, exceeding \$5,000 per annum, are attached to the reports of the accountants. For the Central Pacific, see Stevens's report, Exhibit Z (vol. 8); for the Union Pacific and Kansas Pacific, see Calhoun's report (vol. 8).

(33) And the names of the persons now receiving or who have heretofore received such salaries or compensation.

The names of the persons now receiving or who have heretofore received such salaries are also attached to the same reports.

(34) And all bonuses or donations which may have been given or paid to any such person.

A statement of all bonuses or donations which have been given or paid to any such persons is also attached to the same reports. This explanation does not, however, apply to the issue of passes, as, by rea-

son of their great number and extent, it would be impossible to specify them.

(35) And all payments made under the head of legal expenses, to whom made, and the amount paid to each, and for what specific services such payments were made.

Statements of all payments made under the head of "legal expenses," to whom paid, and the amount paid to each, are contained in the same reports. The specific services for which such payments were made do not, in many cases, appear on the face of the vouchers. We also refer to our discussion of this subject relating to the Central Pacific Railroad Company in Part 2 of this report.

(36) Said Commission shall also inquire into and report upon the relations of said railroads to the interests of the communities through which they pass.

The Commission has taken a vast amount of evidence for the purpose of ascertaining the sentiment of the communities which are served by the bond-aided roads. In the judgment of the Commission all of these companies have fairly kept their obligations to these communities in the discharge of the duty of maintaining their railroads and of carrying their freight with regularity and their passengers with safety. The only instance of complaints of train service and insufficient equipment was made to the Commission at Leavenworth, in regard to the use of mixed freight and passenger trains, and to the detention of freight by reason of imperfect connections. The general character of the terminal and station accommodations is reasonably good. At many points it is first-class. The engine houses and machine shops at Omaha were found to be insufficient and in poor condition. Complaint was also made at Ogden that the depot buildings and accommodations were utterly inadequate to accommodate the large traffic, and that a promise to erect a new depot had been made and disregarded.

In the judgment of the Commission the operation of the bond-aided roads, as far as train service, accommodations, and facilities are concerned, has been such as to give satisfaction to the communities, with the exceptions enumerated. Many complaints were made to the Commission in different towns in Kansas and Nebraska, at Denver, Fort Collins, Cheyenne, Laramie, Leadville, Ogden, and Salt Lake City, of partiality and preferences extended by the Union Pacific Railway Company to those whom it desired to favor, and that the companies so adjusted their freight rates as to drive out of business those who had not their favor. Complaint was also made that the Union Pacific Railway Company had monopolized the stone business at the Stout quarries, and the coal business at the Marshall mines.

The Commission has already expressed its views in regard to this subject in answer to No. 10. They repeat their condemnation of the abuse of the practice of granting rebates or of permitting discriminations. Mr. Adams, the president of the Union Pacific Railway Company, admitted the existence of the evil, and deplored his inability to remove it. Full jurisdiction over this subject is vested in the Interstate Commerce Commission, and its further discussion appears to have no bearing on the subject-matter of this investigation.

(37) To all questions concerning the payment of taxes, especially upon lands granted by Congress.

Statements of all lands granted to the bond aided roads, and of the disposition of the same, will appear in the reports of the accountants. The explanations of the delays which have occurred in obtaining patents *are set forth* in the letter of A. M. Stockslager, Acting Commissioner

of the General Land Office, dated November 28, 1887. It appears from the evidence that frequently the bond-aided 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.

(38) And the delay of said companies in taking out patents for such lands.

The Commission refers to the answer to No. 37.

(39) The rates of fare and freight charged, discriminations, differentials, pools, and other devices.

A number of freight and passenger tariffs are filed with the papers submitted with this report. In relation to discriminations and differentials the Commission refers to its answer to No. 10. The evidence establishes that all of the bond-aided roads have been members of a great variety of pools. A very large amount of the Union Pacific Railway Company's business was done in connection with other railroads, and as to which there was an agreement to divide on the basis of percentages. Substantially the same result, since the passage of the interstate commerce bill, has been attained by agreements to maintain rates. The Commission is unable to see any possible relevancy which this subject may have to the matter of the investigation. 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 reasonable 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 this Commission.

(40) And the facilities and accommodations furnished to the patrons of such roads; and their report shall embrace a consideration of the interests and rights of said communities as affected by whatever plan of settlement or payment of the existing debt may be proposed.

The Commission has already answered the inquiry as to facilities and accommodations, in the answer to No. 36. The communities served by these railroads are deeply interested in their efficient operation. Anything that would tend to diminish their efficiency, or to impair their train service, or the safety of transportation afforded by them, would be disastrous to those communities. In the judgment of the Commission a bill which, while securing the debt to the Government, would graduate the annual payments required to be made by these companies to an amount fairly within the limits of their net earnings not necessary for the purpose of keeping their road in a full state of efficiency, would promote the interests and be of advantage to the local communities. It is also the opinion of the Commission that a forfeiture of the charter of the Union Pacific Railway Company, if enforced by Congress, would lead to maladministration, imperfect service, and insuffi-

cient connections with other railroads, and would be an injury to the communities.

(41) Said Commissioners shall also consider and report whether the interests of the United States require any extension of the time for performance of the obligations to the United States of said companies, or any of them, and the facts and circumstances upon which said opinion is based.

The Commission refers to the four bills submitted by them on this report for an answer to this question, and to the reasons stated in the first part of this report.

(42) Including the security held by the United States for the performance of such obligations, and the value thereof.

The Commission refers to the first part of this report for a statement of the security now held by the United States, and the value thereof.

(43) And the value of the property of such companies, and either of them, not included in such security.

The Commission refers to the first part of this report.

(44) And what further security it is expedient that said companies shall be required to give.

The Commission refers to the first part of this report, and to the bills herewith submitted.

(45) And if, in their opinion, such extension shall be required by the interests of the United States, they shall submit a scheme for such extension, which shall secure to the United States full payment of all debts due them from said companies, with a reasonable rate of interest in such time as the Commissioners shall propose, having due regard to the financial ability of said companies and the proper conduct of their business in such manner as shall afford efficient service to the public.

The Commission refers to the bills herewith reported.

(46) And the said Commission shall report in full in regard to all such matters aforesaid and in regard to any other matters which may be ascertained or come to their knowledge in regard to said companies respectively, on or before December 1, 1887, to the President of the United States, who shall forward said report to Congress, with such recommendations or comments as he may see fit to make in the premises.

The Commission refers to the first and second parts of this report, and to the answers already made, and to the reports of the accountants and the inspecting engineer.

(47) The Commissioners shall also ascertain the average cost per annum of Government transportation in the region now traversed by the Pacific railroads between the year 1850 and the completion of said roads.

The evidence, as far as the Commission was able to obtain the same, establishes the fact that before the completion of the Pacific railways 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.

(48) And also the average cost per annum since such completion.

A statement of the rates charged for transportation of troops, materials, and mail will be found in the reports of the War, Navy, and Post-Office Departments, herewith submitted.

(49) And what additional facilities have been furnished to the Government and the people by said roads.

The completion of these railroads has been a great benefit to the Government and to all the people of the United States. The increased wealth, the increased comfort, both to the rich and the poor, by the construction of this and other transcontinental roads cannot be over-

estimated. The Commission has elsewhere declared that in its judgment this circumstance has no bearing whatever on the obligation of the bond-aided roads to repay their debts to the Government, and it sees no occasion for a further discussion of a matter conceded by every one.

(50) Also to inquire what discount the Pacific Railroad and its several branches were forced to make, in disposing of the bonds guaranteed by the Government, to obtain the gold coin which was the currency of the country through which the greater part of said roads pass.

The amount of the discounts paid by the bond-aided roads on the sale of their Government bonds will appear in the reports of the respective accountants. (See vol. 8.)

(51) Also to ascertain the comparative cost of construction of said roads as compared with what they would have cost with the prices of labor and commodities prevailing five years preceding, or five years subsequent, to the completion of said roads.

An estimate of the present cost of reconstructing the bond-aided roads is contained in the report of Colonel Morgan (vol. 8).

It was impossible to obtain any reliable estimate of what it would have cost to construct these roads, either five years before or five years after the period of actual construction. It may be stated generally that the cost at the time of actual construction exceeded the amount which it would have cost to build these railroads at either of the periods named. This is especially true in regard to the Central Pacific Railroad.

(52) Also to inquire whether or not the Pacific Railroad was completed in less time than was allowed by law, and, if so, how much less time, and if the United States was benefited thereby.

The Central Pacific Railroad was substantially completed at the close of 1869. Its completion was not required, by the acts of 1862 and 1864, until 1876.

The Union Pacific Railroad was also completed before the time designated. This early completion of the roads 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 years sooner than would have been the case if the bond-aided companies had taken the full measure of time permitted by law.

(53) Also to inquire if either of the Pacific Railroad Companies has been embarrassed, and its earning capacity impaired, by antagonistic local or State legislation.

In the judgment of the Commission the earning capacity of the bond-aided railroads has not been impaired by hostile legislation. The Commission is also of 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 railroads. 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.

(54) Also to inquire if the United States, since the Union and Central Pacific Railroad Companies accepted the terms proposed by Congress for the construction of the Pacific railroads, has granted aid in lands for building competing parallel railroads to said Pacific railroads, and, if so, how many such roads, and to what extent such competing lines have impaired the earning capacity of the Pacific railroads.

The United States has granted very large amounts of aid in lands to other roads which have become serious competitors of the Union Pacific Railroad Company and the Central Pacific Railroad Company. Reference is made to the map, herewith submitted, showing the transcontinental lines, for a description of these roads, their relations to each other, and their locations.

(55) Also to inquire if the United States have contracts with branch roads controlled by either of said Pacific roads for carrying United States mails, and if so, what service has been performed by them, and what money, if any, has been paid for such service, and what remains due and unpaid.

The United States has contracts with branch or auxiliary roads belonging to the bond-aided roads for carrying its mails. There are large amounts remaining due from the United States for services so rendered. We refer to the communication from the office of the Auditor of the Treasury for the Post-Office Department, dated November 19, 1887, accompanying the communication received from the Post-Office Department in answer to the letter of inquiry of the Commission.

(56) And if the United States, by failing to pay for such services, has embarrassed said railroad companies, or either of them, in paying their indebtedness to the United States.

In the judgment of the Commission, after the determination by the Court of Claims and the Supreme Court of the United States, in the case of the Denver Pacific Railroad Company 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.

(57) Also to inquire if the several Pacific railroad companies have complied with the provisions of "An act to alter and amend the act entitled 'An act to aid in the construction of a railroad and telegraph line from the Missouri River to the Pacific Ocean, and to secure to the Government the use of the same for postal, military, and other purposes,' approved July first, eighteen hundred and sixty-two, and also to alter and amend the act of Congress, approved July second, eighteen hundred and sixty-four, in amendment of said first-named act," commonly known as the Thurman act, and, if not, in what particulars they have failed to comply.

The Commission refers to the answer to No. 2.

(58) Also to inquire what sums the Pacific railroads and their branches can severally pay annually on account of their indebtedness to the United States without imposing such burdens upon the people, and particularly upon the localities through which the roads pass, as to retard the development of the country.

The Commission refers to the bills herewith submitted.

As we have already stated, the net income of the Central Pacific Railroad Company is not at present sufficient to meet the requirements of the bill proposed by us, which involve an annual payment of \$1,750,000 for the ensuing ten years, and of \$2,000,000 annually after that date.

We have also stated that by reason of the peculiar relations existing between the Sioux City and Pacific Railroad Company and the Chicago and Northwestern Railway Company, it is very doubtful whether the first-named company could meet the requirements of the proposed bill.

As the Commission was instructed by the act of March 3, 1887, to report a bill which would secure the payment of the whole debt of these companies to the United States at a reasonable rate of interest, we have not thought it within the scope of our jurisdiction to report any measure which fell short of this requirement. We may, however, suggest that the bills herewith submitted can be brought within the limits of the earning capacity of both companies in question by reducing still further the

rate of interest which the bonds shall bear. We do not recommend such reduction as one to which these companies are meritoriously entitled, but suggest it merely as a business method of effecting the best adjustment possible with these insolvent debtors.

In closing this report the Commission desires to express its acknowledgment for the efficient and valuable services rendered by Mr. Charles P. Young, its secretary, during the entire course of the work of the Commission. He has performed the laborious duties of stenographer and secretary to the entire satisfaction of the Commission, and the printed record of the evidence taken attests his capacity as a reporter.

Dated Washington, D. C., December 1, 1887.

E. ELLERY ANDERSON,
DAVID T. LITTLE,
Commissioners.

151A—9

REPORT
OF
A COMMISSIONER

APPOINTED

UNDER AUTHORITY OF AN ACT OF CONGRESS APPROVED MARCH 3, 1887,
ENTITLED "AN ACT AUTHORIZING AN INVESTIGATION OF THE
BOOKS, ACCOUNTS, AND METHODS OF RAILROADS WHICH
HAVE RECEIVED AID FROM THE UNITED STATES,
AND FOR OTHER PURPOSES."

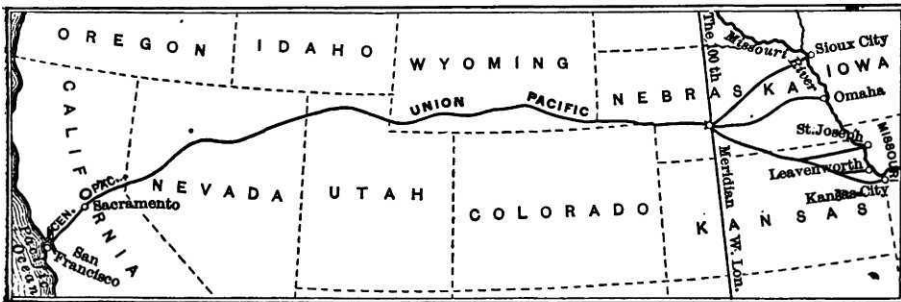
REPORT.

To the PRESIDENT:

In compliance with the direction of an act of Congress entitled "An act authorizing an investigation of the books, accounts, and methods of railroads which have received aid from the United States, and for other purposes," I herewith submit the following report:

Between the years 1865 and 1869 the Government loaned its credit to six railroad companies, forming parts of a great scheme of transcontinental communication. From the act of July 1, 1862, it appears that Congress contemplated that five lines would start from points on the Missouri River, viz, Sioux City, Omaha, Saint Joseph, Leavenworth, and Kansas City; and that they would converge on the one hundredth meridian, forming a trunk line which would be built westwardly. It was also contemplated that the Central Pacific line would start from the Pacific Slope and would meet the Missouri River road near the California State line. Subsequently, Ogden was made the point of junction.

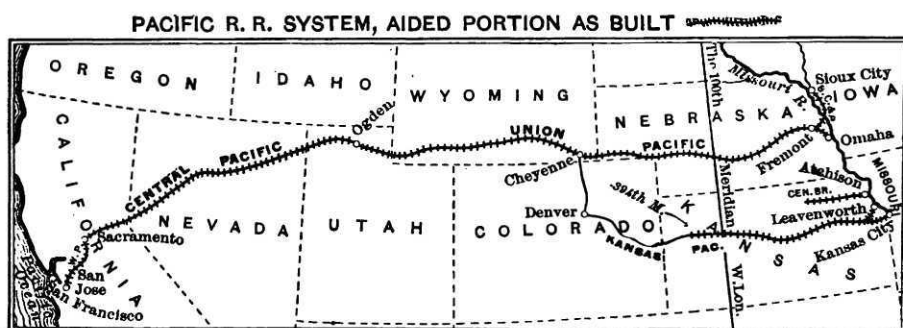
PACIFIC R. R. SYSTEM AS CONTEMPLATED BY THE ACT OF JULY 1ST, 1862.



By an act of Congress passed in 1866, the Kansas Pacific Company was permitted to pursue a generally western course, from Kansas City up the Smoky Hill branch of the Republican River to Denver, and to connect with the Union Pacific main line on a meridian not more than 50 miles west of Denver, instead of taking a northwesterly course and striking the main line at the one hundredth meridian. Because of this change of route the Central Branch of the Union Pacific (which started from Atchison, Kan., instead of Saint Joseph, Mo., as originally contemplated, and which had been designed to meet the Kansas City line in the Republican Valley, as it proceeded in a northwesterly direction

from Kansas City to North Platte) was left without connection, its subsidy in Government bonds having been limited to 100 miles. By designation of the President of the United States, the Sioux City line was also changed in its course so as to meet the Union Pacific line at Fremont, Neb., about 42 miles west of Omaha, instead of at the one hundredth meridian. In 1870 the Western Pacific Company, which built a line from Sacramento to San José, Cal., was consolidated with the Central Pacific; and in 1880 the Kansas Pacific, which operated the line from Kansas City to Denver, from Denver to Cheyenne, and from Leavenworth to Lawrence (the latter intersecting the main line of the Kansas Pacific a short distance west of Kansas City) were consolidated with the Union Pacific Railroad Company into a new corporation called the Union Pacific Railway Company.

The bond-aided Pacific system as built was as follows:



It was originally provided that the Government lien should be a first mortgage on the several lines, but the law was subsequently amended so as to allow the companies to issue their own bonds to an equal amount as a first mortgage on their roads, the Government advance being secured by a second mortgage.

\$447,729,470.54 IN AID.

The Government loaned bonds bearing 6 per cent. interest, payable in thirty years, to the amount of \$64,623,512, and stipulated to pay the interest on these loans upon condition that, at the maturity of the bonds, the aided companies would pay both principal and interest, and that, upon the completion of the roads, the companies would pay annually a percentage of their net earnings and a portion of their compensation for Government transportation on account of these annual advances made by the Government. Congress also gave them over 26,000,000 acres of public lands, upon which they have realized \$39,479,213.71, with 12,615,087 acres of land, valued at \$16,054,270, yet unsold, making the total land grant worth \$65,533,483.71.

As the Government annually pays \$3,877,410.72 in interest to the holders of subsidy bonds and does not require repayment by the companies until the maturity of the principal, the bond-aided companies gained a further advantage in the use of such interest money. This advantage itself was worth \$199,790,250.19 at the time of the grant. The Government gave them a right of way 400 feet wide along the length of their lines, the right of eminent domain, and space for depots and turn-

outs. In addition to these liberal gifts by Congress, some of the States and many counties and public bodies also made large donations in lands and bonds to some of the companies.

Aid from all sources.

	Principal and interest advances paid and to be paid by United States.	Value of land-grant—sold and unsold.	Aid from other sources.
Union Pacific.....	\$92,814,290.94	\$44,911,637.77	\$250,000.00
Kansas Pacific.....	4,426,608.26	*1,000,000.00	—
Central Branch.....	4,509,255.89	239,364.60	265,686.00
Sioux City and Pacific.....	77,104,604.41	19,832,581.24	2,555,191.24
Central Pacific.....			
Western Pacific.....			
Total.....	178,884,759.50	65,983,583.61	3,070,877.24

	Aid exclusive of use by companies until maturity of annual interest payment by Government.	Use until maturity in 1895-'99 of annual interest payments on basis of 6 per cent.	Total aid.
Union Pacific.....	\$138,005,928.71	\$103,690,859.36	\$241,696,788.07
Kansas Pacific.....	5,426,608.26	4,946,564.96	10,373,173.22
Central Branch.....	5,014,306.49	5,034,119.16	10,048,425.65
Sioux City and Pacific.....	99,492,376.89	86,118,706.71	185,611,083.60
Central Pacific.....			
Western Pacific.....			
Total.....	247,939,220.35	199,790,250.19	447,729,470.54

* Estimated.

Bonds.

Company.	Mileage.	Principal of subsidy bonds.	Interest accrued and to accrue to date of maturity.	Principal and interest paid and to be paid by United States.
Union Pacific.....	1,038.68	\$27,236,512 }	\$59,304,778.94	\$92,844,290.94
Kansas Pacific.....	393.94	6,303,000 }	2,826,608.26	4,426,608.26
Central Branch.....	100.00	1,600,006 }	2,880,955.89	4,509,255.89
Sioux City and Pacific.....	101.77	1,628,320 }	49,248,924.41	77,104,604.41
Central Pacific.....	737.50	25,845,120 }		
Western Pacific.....	123.16	1,970,560 }		
Total.....	2,495.05	64,623,512	114,261,247.50	178,884,759.50

Company.	Payments by companies on interest account to November 1, 1887.	United States sinking fund, November 1, 1887.	Value of debt on July 1, 1888, computed by Government actuary.
Union Pacific.....	\$15,444,891.94	\$6,152,683.82	\$60,643,967.10
Kansas Pacific.....	316,124.12	—	3,285,495.65
Central Branch.....	131,923.02	—	3,404,226.85
Sioux City and Pacific.....	6,203,379.35	2,710,036.76	55,148,416.72
Central Pacific.....			
Western Pacific.....			
Total.....	22,092,319.03	8,862,720.58	122,482,106.32

The land grants.

	Union Pacific.	Kansas Pacific.	Central Branch.	Sioux City and Pacific.
Acres granted	11,309,844.00	6,000,000.00	222,560.00	43,336.00
Amount realized on land sales to December 31, 18-6	\$19,090,672.42	\$11,816,695.35	* \$1,000,000.00	\$239,264.60
Value of lands unsold	\$2,395,507.00	\$11,608,703.00		
Acres patented	2,616,178.00	963,714.00	218,250.00	41,398.00
Selections pending	531,504.00	824,538.00	4,310.00	1,938.00
Acres sold	7,986,346.41	3,055,465.00	222,560.00	43,336.00
Acres unsold	3,175,507.00	3,883,700.00		
Acres sold and unpatented	5,370,168.00	2,091,751.00	4,310.00	1,938.00
Average price per acre	\$2.39	\$3.86	\$2 to \$6	\$5.52

	Central Pacific.	Western Pacific.	Total.
Acres granted	8,000,000.00	453,704.00	26,029,534.00
Amount realized on land sales to December 31, 1886	\$7,332,581.34		\$39,479,213.71
Value of lands unsold	\$12,500,000.00		\$26,504,270.00
Acres patented	1,040,210.00	447,768.00	5,327,538.00
Selections pending	546,076.00	6,026.00	1,914,392.00
Acres sold	2,444,120.00		13,751,827.41
Acres unsold	5,555,880.00		12,615,087.00
Acres sold and unpatented	1,403,910.00		8,872,077.41
Average price per acre	\$3.00		

* Estimated.

Aid from other sources.

	Bonds.	Lands.	Estimated value.
		<i>Acres.</i>	
Kansas Pacific	\$250,000.00		\$250,000.00
Sioux City and Pacific	120,000.00	58,533	265,686.00
Central Pacific	2,555,191.24		
Western Pacific			2,555,191.24

By the foregoing tables it will be seen that the aid given to these companies amounted to \$447,729,470.54.

By the bond table it will be seen that the total loan by the Government in principal and interest payments will be \$178,884,759.50, toward the repayment of which the companies, in eighteen years, have accumulated only \$30,955,039.61.

By investing these corporations with the control of a public highway across the continent the Government reposed in them, as a reimbursement for their contemplated outlay in construction, the power to establish rates of transportation; that is, the power to levy toll upon all traffic which might pass over these avenues of trade. At the time when the grants were made grave apprehensions were entertained by Congress and the people respecting the dangers which might follow the creation of corporations of such magnitude, because, in addition to the power to tax traffic and the advantage of limited responsibility which was conferred upon these aggregations of capital, they were endowed practically with perpetual succession and capacity for the accumulation and concentration of wealth and power—privileges which are denied to natural beings whose plans are spanned by the grave.

To guard against possible abuses of these great powers, and to insure good management and personal responsibility, Congress enacted that, in return for the nation's liberality, the companies should bind themselves to have their stock fully paid in cash, and that they should bind themselves also to build first-class roads; to carry for the Government at fair and reasonable rates (not exceeding the amounts paid by private parties for the same kind of service), and to operate all the lines in the Pacific system as one connected, continuous line, affording to each of the other roads equal facilities as to rates, time, and transportation, and to convey telegraphic messages upon equal terms for all persons. They were also bound to make annual reports, giving the names of their directors and officers and stockholders and information bearing upon the amount of stock actually paid in and upon expenditures, receipts, and indebtedness.

CONSTRUCTION AND CAPITALIZATION.

With these legal obligations and covenants resting upon them, what did these companies do? The Union Pacific Railroad Company actually received, in cash, on account of stock payments, the sum of only \$400,650, while it issued stock to the amount of \$36,762,300.

The Union Pacific (1,038.68 miles) was built for \$38,824,000, and the company issued bonds and stocks as follows:

First-mortgage bonds.....	\$27,237,000
United States bonds.....	27,236,512
Land-grant bonds.....	9,224,000
Income bonds.....	9,355,000
Stock.....	36,762,300
	<hr/>
Cost of construction.....	109,814,812
	<hr/>
Fictitious capital.....	70,990,812

One thing is evident. After allowing for discount, the road was built for less than the proceeds of the first mortgage and Government bonds, which had a face value of \$54,465,512, the builders taking as profit part of the proceeds of the sale of those bonds, as well as the income bonds, the land-grant bonds, and the stock, and charging up on the books of the company as cost of construction \$109,814,812.

The Congressional committee of investigation, generally known as "The Wilson committee," which investigated the construction of the Union Pacific, in commenting upon the evidence which it took in 1873, said that every precaution that Congress had taken for the proper management of these great properties had failed of its purpose. Congress had demanded that money be paid in and that this money should be subordinated to the Government lien. It had provided for the presence of five directors representing the Government in the meetings of the directors of the company; for the appointment of commissioners to pass upon the work of road construction as it progressed; and it had held the reserved power to alter, amend, or repeal; and yet the road was subjected to the most scandalous mismanagement.

The Wilson committee reported that large sums of money were borrowed by the corporation apparently to provide for the necessities of construction, but which were distributed in dividends among the corporators; that stock was not paid for in money; that some of the Government directors neglected their duties and others were interested in the fraudulent transactions of the company. One of the commissioners

appointed to pass upon the condition of the road was paid \$25,000 in consideration of his signing officially a report accepting as first class a section of 120 miles of the road. The chief engineer, Peter A. Dey, resigned because the Hoxie contract was fixed at \$50,000, though his estimates were for \$30,000 per mile. His successor, General G. M. Dodge, was interested in contracts for the construction of the road as a stockholder of the Credit Mobilier. Oakes Ames, who was largely interested in the construction of the road, sold stock to members of Congress for prices much below the real value of the shares, his philosophy being that, although these particular Congressmen had favored the Union Pacific road, they would take a livelier interest in its affairs if they were protecting their own property.

The testimony taken by the Wilson committee showed that G. M. Dodge had been given, for services in procuring the passage of the act of March 3, 1871, \$24,500; that C. S. Bushnell had paid to T. A. Scott, on private account, \$19,000; that C. S. Bushnell had retained \$82,500; that there was paid Governor John A. Dix, as a purchase by the railroad company of his stock, \$50,000; that there was paid to C. Windell, for signing the report accepting a section of the road, \$25,000; and that an allowance was made to T. C. Durant of \$435,750.21 for expenses in passing through Congress the amendatory act of July 2, 1864.

The Kansas Pacific Company received \$250,000 in bonds from Leavenworth County, Kan., on account of stock subscription, issued shares for that amount to that county, and then issued additional shares to the amount of \$4,822,500, for which no cash whatever was paid on account of the construction of the aided portion of the road.

The Kansas Pacific aided portion (393.94 miles) was built for about \$11,800,000, under what was called "an exhaustive contract," which took all the bonds and stocks of the company, amounting to \$25,028,250, as follows:

First-mortgage bonds	\$6,303,000
United States bonds	6,303,000
Land grant	1,574,750
Second land grant	1,500,000
Income	4,275,000
Stock	5,072,500
	<hr/>
	25,028,250
Cost of construction	11,800,000
	<hr/>
Fictitious capital	13,228,250

The Central Pacific actually received less than \$760,000 in cash and bonds on account of stock subscription, while it issued stock to the amount of \$54,000,000.

The Central Pacific and Western Pacific aided portions (860.66 miles) were built for \$40,000,000; for which bonds and stocks were issued by Messrs. Leland Stanford, Collis P. Huntington, Mark Hopkins, and Charles Crocker, or under their direction, as follows:

Bonds	\$70,211,680
Stock	54,000,000
	<hr/>
Total issue of bonds and stocks	124,211,680
Cost of construction	40,000,000
	<hr/>
Fictitious capital	84,211,680

The bonds, reduced to a gold basis, yielded \$52,708,742.55. So that the four men who managed that company profited to the extent of over

\$12,000,000 in gold, in addition to \$52,000,000 of the stock which they divided among themselves and subsequently sold at high figures after declaring dividends to the amount of \$18,453,670.

The Sioux City and Pacific capitalized its road (101.77 miles) in bonds and stocks, to the amount of \$5,047,720, as follows:

First-mortgage bonds	\$1,628,000
United States bonds	1,628,320
Common stock	1,791,400
	<hr/>
	5,047,720
Cost of construction	2,600,000
	<hr/>
Profit in bonds	2,447,720

It built its line for about \$2,600,000, of which \$1,791,400 came from stock subscriptions and about \$800,000 from the proceeds of the sale of half of its Government bonds. It distributed among its stockholders, without consideration, over \$2,400,000; of which \$1,628,000 was in first-mortgage bonds, and the remainder in Government bonds. Every stockholder who paid in \$40 received in return about \$120 in securities and property.

The Central Branch received \$386,700 on account of a stock issue of \$1,000,000.

This road (100 miles) was built for \$2,731,347.23; for which bonds and stocks were issued as follows:

First-mortgage bonds	\$1,600,000.00
United States bonds	1,600,000.00
Stock	1,000,000.00
	<hr/>
	4,200,000.00
Cost of construction	2,731,347.23
	<hr/>
Fictitious capital	1,468,652.77

The sale of its securities resulted as follows:

United States bonds	\$1,577,651.55
First-mortgage bonds	567,612.14
Stock options	392,225.53
	<hr/>
	2,537,489.22

Of the first-mortgage bonds \$400,000 were used for purposes that no one has been able to explain. Four hundred thousand dollars more in those bonds was given away as bonus to stockholders for stock subscriptions.

It will be apparent from these figures that the roads were bonded and stocked on an excessive basis, the profits, amounting to \$172,347,115.00, going to construction companies or inside combinations, as follows:

Cost and capitalization.

Company.	Mileage.	Cost.	Capitalization in bonds and stocks.	Amount of fictitious capital in securities upon comple- tion of road.
Union Pacific	1,038.68	\$38,824,000	\$109,814,812	\$70,990,812
Kansas Pacific	393.94	11,800,000	25,028,250	13,228,250
Central Branch	100.00	2,731,347	4,200,000	1,468,653
Sioux City and Pacific	101.77	2,600,000	5,047,720	2,447,720
Central Pacific	737.50	36,000,000	124,211,680	84,211,680
Western Pacific	123.16	4,000,000		
Total	2,495.05	95,955,347	288,302,462	172,347,115

The construction companies or inside combinations that built five of the six roads have destroyed or concealed their books; the exception being the Central Branch; and the Commission has been embarrassed in its work by the refusal or failure of the companies to produce the accounts relating to the actual cost of construction, or to exhibit any paper or documents that would enable the Commission to ascertain the truth as to this most important factor in the investigation. The books of the Credit Mobilier, which built the Union Pacific from Omaha to Ogden; the books of the Contract and Finance Company, which built the Western Pacific from San José to Sacramento, and the Central Pacific from Sacramento to Ogden; the books of Shoemaker & Co., who built the Kansas Pacific; and the accounts of John I. Blair, who built the Sioux City and Pacific Railroad—all these are missing. From the minutes and accounts of the railroad companies, and from fragmentary information gathered from various sources, it is disclosed that the officers of at least three of these companies made false statements under oath, in affidavits now on file in the Interior Department. From these affidavits the following has been compiled:

Stock table.

Company.	Stock actually paid in.	Stock paid in as sworn to.	Names of deponents.	Date of affidavit.
Union Pacific.....	\$400, 650	\$38, 762, 300	Oliver Ames	Sept. 27, 1870.
Kansas Pacific.....	250, 000	5, 072, 500	R. E. Carr.....	Sept. 28, 1872.
Central Pacific.....	760, 000	54, 283, 190	Leland Stanford ..	Sept. 18, 1871.
Central Branch.....	386, 700	980, 600	R. M. Pomeroy....	Sept. 21, 1869.
Total	1, 797, 350	97, 098, 590		

It is no answer to the Government that the managers of these companies did only that which the managers of railroads in other sections did. These lines were built upon public credit. They were public highways in the broadest sense of that term. The managers were acting as trustees of a national highway, and they can not plead any lawful justification for making false affidavits, which state that \$97,098,590 of stock was actually paid for, when in fact less than two millions had been so paid for.

THEIR RELATIONS TO THE PUBLIC.

The original purpose of Congress, as set forth in the act of July 1, 1862, in granting subsidies for the construction of the Pacific roads, was to promote the public interest, and the companies were made trustees for that purpose; but the public interest has been subordinated by these companies to the stockholding interest, upon the claim that the stockholders owned the railroads and could manage their own business in their own way. Nearly every obligation which these corporations assumed under the laws of the United States, or as common carriers, has been violated. Their management has been a national disgrace. Since the date of their inception they have been conducted upon a purely speculative basis. Their permanent prosperity has been lost sight of, while their managers greedily strove for temporary advantage. For fourteen years the Union Pacific and the Central Pacific were practically free from competition for a stretch of 1,800 miles across the continent. They were independent of many of those disturbing elements which have been pleaded

in extenuation of the vicious practices of railroads in other parts of the country, and yet they injected secrecy into their affairs, inaugurated favoritism and corruption in their management, and attempted to destroy competition. They organized pools for the professed purpose of securing certainty, uniformity, and permanency in freight rates, but they did not respect the pools which they entered into when immediate advantages could be obtained by a breach of good faith.

Mr. Huntington testified before the Commission that "competition is killing," and that there ought to be only one railroad for the whole country. The aided companies combined with others to tax the communities which they served, and they forced the consuming classes in all sections of the country to contribute to the payment of interest and dividend upon the fictitious capital which they had created. They increased the cost of living. They laid proprietary claim to the traffic of large sections of the country. They squandered millions of their money to "protect" their territorial claims, while expending other millions in encroachments upon the territory claimed by other companies. They constituted themselves the arbiters of trade. They attempted to dictate the channels that trade should follow and fixed rates of transportation that were extortionate. They charged all that the traffic would bear, and appropriated a share of the profits of every industry by charging the greater part of the difference between the actual cost of production and the price of the article in the market. They discriminated between individuals, between localities, and between articles. They favored particular individuals and companies. They destroyed possible competitors, and they built up particular localities to the injury of other localities, until matters had reached such a pass, that no man dared engage in any business in which transportation largely entered without first soliciting and obtaining the permission of a railroad manager. They departed from their legitimate sphere as common carriers and engaged in mining articles for transportation over their own lines. They exerted a terrorism over merchants and over communities, thus interfering with the lawful pursuits of the people. They participated in election contests. By secret cuts and violent and rapid fluctuations in rates they menaced business, paralyzed capital, and retarded investment and development.

THEIR RELATIONS TO THE GOVERNMENT.

During the five years from 1854 to 1869, upon the claim that their roads were fully completed, these companies obtained bonds from the Government; but when the Government called upon them to pay a percentage of their net earnings into the Treasury, as was stipulated in the original contract, they contended that their roads were not fully completed until 1874, and refused to make any payments to the Government, though one of them, the Central Pacific, had been declaring dividends in the mean time. They resisted the claims and demands of the Government at every point, and resorted to every device their ingenuity could invent in their efforts to evade the plain requirements of the law. In transporting troops and supplies for the Government, they violated the contract obligation to charge reasonable rates by charging more than they charged to private shippers for the same kind of service. The reports of the Union Pacific show that the average rates paid by the Government to that corporation were higher than those received by that company from other sources. The same is more or less true of the other bond-aided companies. The overcharges upon the Govern-

142 REPORT OF THE U. S. PACIFIC RAILWAY COMMISSION.

ment by the Central and Union Pacific Companies since 1880 are estimated to have been as follows:

Union Pacific	\$802, 407. 33
Central Pacific	167, 558. 63

PROFITS OF \$278,023,357.63 IN OPERATING THE ROADS.

The reports of these companies show the following figures relating to operation, disclosing a profit or net earnings of \$278,023,357.63, equaling fifteen million dollars a year.

Earnings table.

Road.	Gross earnings.	Operating expenses.	Net earnings.
Union and Kansas Pacific	\$315, 303, 504. 66	\$169, 916, 078. 90	\$145, 387, 425. 76
Central Pacific Railroad, from 1863 to December 31, 1880	274, 139, 116. 27	149, 199, 102. 40	124, 940, 013. 87
Sioux City and Pacific Railroad, from July 30, 1869, to June 30, 1887	9, 187, 359. 50	6, 423, 596. 82	2, 763, 762. 68
Central Branch Union Pacific	12, 849, 463. 47	7, 917, 308. 15	4, 932, 155. 32
Total	611, 479, 443. 90	333, 456, 086. 27	278, 023, 357. 63

OVER \$25,000,000 FOR POOLS, REBATES, AND OVERCHARGES.

In addition to the gross earnings given as above, the bond-aided companies received the following sums, which they subsequently paid out on account of pools, subsidies, rebates, overcharges, etc. :

Pools, rebates, and overcharges.

Road.	Pools.	Rebates and overcharges.	Total.
Union Pacific	\$4, 004, 512. 48	\$11, 577, 091. 62	\$15, 581, 604. 10
Kansas Pacific			
Sioux City and Pacific			
Central Pacific			
Total			25, 866, 235. 72

LOSSES SUSTAINED BY THE GOVERNMENT.

The Central Pacific and Union Pacific, between them, have paid over \$4,000,000 to the Pacific Mail Steamship Company to maintain high rates. To branch lines the Union Pacific, since 1881, has also given various amounts estimated at \$2,400,000, and the Central Pacific \$520,762.97, on account of constructive mileage. All of the sums paid out for pools, rebates, overcharges, etc., amounting to \$25,866,235.72, were deducted by the companies from the gross earnings actually received by them before stating the amount which was reported to the Government as their gross earnings. In other words, they refused to consider and designate this sum of \$25,866,235.72 as part of their gross earnings because they subsequently paid it out for pools and rebates. In this respect, as well as in respect to charges for general expenses that should have been charged against auxiliary companies, the reports, as made by the Union

Pacific Company to the Government, were erroneous. For the same reasons and also because the Central Pacific Company was charged for and paid expenses incurred by and for the Southern Pacific Company (the case of Senator Norwood being a conspicuous illustration), the reports made by the Central Pacific Company to the Government were erroneous. The losses sustained by the United States on account of erroneous reports and overcharges amounts to over \$8,000,000.

PAYMENTS FOR IMPROPER PURPOSES.

Large sums were also applied to improper purposes. In the accounts of the Sioux City and Pacific Railroad Company this item amounted to \$263,812.08 for losses incurred in operating the Fremont, Elkhorn and Missouri Valley Railroad, in which the directors of the Sioux City and Pacific Railroad were interested.

In the accounts of the Central Pacific Railroad Company this diversion of earnings amounted to many millions through contracts made by Messrs. Stanford, Huntington, Hopkins, and Crocker, with themselves, for construction, leases, repairs, etc. They constructed 1,171 miles of adjunct lines, at a cost of \$27,216,931.01. On account of that construction in addition to a small cash payment they issued bonds to themselves to the amount of \$33,722,000, and stock to the amount of \$49,005,800, making a total issue of \$82,727,800, of which \$55,539,554 represented inflation.

Then, as directors of the Central Pacific, they took leases of their own lines for the Central Pacific for \$3,490,828.81 per annum; which was at the rate of nearly 13 per cent.

Fifteen months ago three of these directors contracted with themselves to build an extension of the California and Oregon division of the Central Pacific from Delta to the boundary line of Oregon, a distance of 103 miles. In payment they issued stock to the amount of \$8,000,000 and bonds to the amount of \$4,500,000, the market value of the stocks and bonds at that time being \$8,340,000. The actual cost of construction was \$3,505,609, so that they personally profited by their own votes by that single transaction to the extent of \$4,834,391. Mark Hopkins is dead, but his interest is still maintained for his estate and heirs.

In following up the dealings of these directors with the Central Pacific Railroad Company and its adjunct companies, it is found that Messrs. Stanford, Huntington, Hopkins, and Crocker received over \$142,000,000 in cash and securities through the Contract and Finance Company, the Western Development Company, the Pacific Improvement Company, and dividends of the Central Pacific Railroad Company. In addition to this sum of \$142,000,000, they also made large profits in the operations of fifteen or more other companies, which were directly or remotely sapping the revenues of the Central Pacific Company.

The total payments by the Central Pacific on account of rentals amounted to \$29,912,373.49.

ACCOUNTS AND VOUCHERS OF THE AIDED COMPANIES.

The same company also expended \$4,818,355.67, of which the managers decline to give any explanation or to permit others to explain. As the resources of the company have been diminished to the extent of these expenditures, and as the road itself will not yield sufficient to satisfy the Government claim, it is apparent that the United States are

eventually the losers by those disbursements, most of which, as shown by the Huntington letters, were applied to corrupt public men and influence legislation.

In the accounts of the Union Pacific, it was found that \$38,000,000 of the funds of that company had been expended for the construction of branch lines, that many millions additional were squandered in purchases of bankrupt branch lines at excessive prices, and that the earnings of the express and telegraph service of that company, as well as of the other bond-aided companies, were, in violation of law, placed under the control of express and telegraph companies in which some of the managers of the Union and Central Pacific Companies were largely interested and of which they were the main beneficiaries.

The balance sheet of the Central Pacific for 1886 should have shown a deficit of over \$14,000,000 in the profit and loss account, but by omitting from the debit side the accumulated interest which the Government had advanced, amounting to \$31,869,475.20, and by marking up its lands in its asset column to \$23,500,000, when the actual value was \$12,500,000, as appears from the testimony of the company's land agent, the company made a showing of an apparent surplus of over \$28,000,000.

The early accounts of the Union Pacific disclose, among other interesting items, the following:

September 12, 1871.

First-mortgage bonds for \$247,000, which should be on hand, but which are not	\$247,000
United States bonds, 110 6 per cent. currency bonds, which should be on hand, but are not	110,000
	<hr/> 347,000

The book accounts of the Union Pacific, prior to 1880, are frequently unsupported by vouchers, and for some years there are practically no vouchers to establish the correctness of the books. Since 1880 there were expenditures, in connection with legislation in Western States, which were not properly vouched for.

The Central Pacific Company also loaned its funds to its officers to enable them to construct the Southern Pacific, a competing line, across the continent.

The accountants of the Commission report that no vouchers exist to show disbursements by the Central Branch of the Union Pacific, and that all the vouchers of the Sioux City and Pacific, from 1864 to 1880, are missing, with the exception of a few cash vouchers.

LEGAL EXPENSES.

Large sums were also squandered by some of the bond-aided companies to pay for the services of lawyers to influence legislation, the total legal expenses of the companies being as follows:

Union Pacific and Kansas Pacific	\$2,349,554.80
Central Branch	333,661.65
Sioux City and Pacific	37,287.75
Central Pacific	2,361,154.88
Total	<hr/> 5,081,659.08

A large sum which had been expended by the Central Pacific for legislation was posted under the head of "general expenses." The addition of

that sum would materially increase the total payments on account of legal expenses.

LAND PATENTS AND TAX PAYMENTS.

Three of the bond-aided companies, the Central Pacific, Union Pacific, and Kansas Pacific, have persistently evaded local taxation, and have thrust undue burdens on other tax-payers by refusing to patent the lands granted to them by Congress. So long as their land was unpatented it was exempt from taxation, and the extent of the exemption may be gathered from the fact that they have failed to patent 8,872,077 acres which they have sold, and they have failed to even apply for patents on 7,500,000 acres of land which they have sold.

The refusals of the Central Pacific to pay its taxes to the State of California have been so persistent and so flagrant, and extended over so long a period of years, that the governor of California, on March 24, 1884, issued a proclamation setting forth the fact that for four years the railroads of the State (the Central Pacific) had refused to obey the laws imposing taxes upon their property, and calling a special session of the legislature to devise methods for enforcing a compliance with the laws of the State. The Central Pacific had resisted State taxation on the ground (see p. 102, Report of Railroad Commissioners of California for 1883) that it had been constructed under act of Congress of July 1, 1862. When the Commission examined Mr. Leland Stanford, in San Francisco, he insisted that the Central Pacific Company was a State, and not a Federal corporation.

The Union Pacific has also used the names of its employés to procure title to large tracts of coal lands adjoining its mines, thereby evading an act of Congress that restricts entries to individuals or to associations of not more than three persons.

The Union Pacific has allowed eleven years to elapse without selecting 1,829,400 acres of its land grant in Nebraska, that had been surveyed in 1876. It has selected only 640 acres out of 150,000 acres in Colorado, that were surveyed eighteen years ago. It has selected only 80,317 acres out of 3,300,000 acres of lands in Wyoming, surveyed eleven years ago. It has selected only 42,360 acres out of 400,000 acres of land in Utah, surveyed prior to 1876.

Of 4,000,000 acres in Kansas, surveyed prior to 1874, and granted to the Kansas Pacific Company, 2,283,329 acres have not been selected in the thirteen years that have elapsed.

Of 1,200,000 acres in Colorado, surveyed prior to 1870, and granted to the Kansas Pacific Company, it has selected, in seventeen years, less than one-twentieth of the grant therein.

The Central Pacific has selected only one-half of its land grant in California that has been surveyed, and it has failed to select 180,000 acres in that State that have been surveyed since the completion of the road.

Of the grant to the Central Pacific in Nevada, 700,000 acres were surveyed at the date of the completion of the road and about 2,000,000 acres are now surveyed. The company has selected about one-fourth of its land grant in that State.

Of the grant to the Central Pacific in Utah, of which 250,000 acres were surveyed at the date of the completion of the road in 1869, no lands were selected until February, 1884, nearly fifteen years after the completion of the road.

THE MANAGEMENT CONTEMPLATED BY CONGRESS AND THE METHOD ACTUALLY PURSUED.

Had the Pacific railroads been built and managed upon honest methods, had the Government loan been properly applied, these companies, regarded as a whole, could have declared dividends at the rate of 6 per cent. per annum for eighteen years, from the date of actual completion to the present time, upon all the moneys that they would have been required to pay in to complete and equip the roads; they would have owned 2,495 miles of roads free from all debt, and worth \$124,600,000, upon an original outlay of less than \$35,490,381.44, three of them, the Union Pacific, Central Pacific, and Central Branch, could have repaid every cent of the principal and interest advanced by the Government to date, and could have reduced their charges to shippers to the extent of over \$140,000,000, or nearly \$8,000,000 per year.

For \$1 the stockholders would have realized \$1.07 in dividends in eighteen years and \$1.11 in land sales. The property would have been free from debt, and for every dollar that they had invested the stockholders would have had in property over \$4; so that in eighteen years each dollar would have yielded \$6.18.

But they chose dishonest methods. At the outset they divided \$172,347,115 of fictitious capital; they dissipated over \$107,000,000 which should have been applied to the payment of the principal and interest of the Government debt, and they taxed shippers to the extent of over \$140,000,000, or nearly \$8,000,000 a year, to pay for the inflation of the capital of these companies and for the vicious practices that crept into their management.

The Union Pacific and Kansas Pacific (aided portion) roads could have been built for an original outlay by stockholders of \$17,021,488, in addition to the Government loan, all debts could have been paid, including the Government debt, principal and interest, to December 31, 1886, and from the profits of operating the roads and from land sales aggregating \$176,294,793.53 the stock could have paid regular dividends at the rate of 6 per cent. per annum; and by an original outlay of \$17,021,488, which the law required but which was not made, the company would to-day own a railroad worth at least \$79,000,000 and unsold lands worth \$14,004,240, equaling an appreciation of 44 per cent. in eighteen years, while shippers would have been benefited and the developments of tributary territory encouraged by a reduction of \$85,130,845.49 in charges for transportation.

In the Central Pacific, for \$16,609,203.76 of stock subscription which should have been paid in conformity with the act of Congress, all debts could have been wiped out, including the Government debt, principal and interest; the stock would have paid regular dividends at the rate of 6 per cent. per annum; and for the outlay of \$16,609,203.76 the company would to-day own a railroad worth at least \$40,000,000 and unsold lands worth \$12,500,000, equaling an appreciation of over 200 per cent. in eighteen years, while shippers would have been benefited by a reduction of over \$54,000,000 in the cost of transportation.

REPORT OF THE U. S. PACIFIC RAILWAY COMMISSION. 147

Method contemplated by Congress.

	Union and Kansas Pacific.	Central Branch.	Sioux City and Pacific.	Central Pacific.	Total.
Cost of construction	\$50,624,000.00	\$2,731,347.23	\$2,600,000.00	\$40,000,000.00	\$95,955,347.23
Advances by Government	33,539,512.00	1,600,000.00	1,628,320.00	27,855,680.00	64,623,512.00
Aid from other sources	250,000.00	.....	265,686.00	2,555,191.24	3,070,877.24
Discount on Government bonds	187,000.00	22,348.45	.....	7,120,075.00	7,329,423.45
Amount required of stock- holders	17,021,488.00	1,153,695.68	705,994.00	16,609,203.76	35,490,381.44
Actual net earnings	145,387,425.76	4,932,155.32	2,763,762.68	124,940,013.87	278,023,357.63
Land sales	30,907,367.77	*1,000,000.00	239,364.60	7,332,581.34	39,479,313.71
Dividend of 6 per cent. per annum for eighteen years on outlay to have been made by stock- holders	18,383,207.04	1,245,991.33	762,473.52	17,937,940.06	38,329,611.95
Amount of principal and interest to December 31, 1886, which could have been paid to Govern- ment	72,780,741.00	3,544,000.00	2,240,633.76	59,825,155.00	138,390,549.76
Extent of reduction of charges which could have been made to ship- pers	85,130,845.49	1,142,163.99	.....	54,509,500.15	140,782,509.00
Present value of aided por- tion	79,000,000.00	3,000,000.00	2,600,000.00	40,000,000.00	124,600,000.00
Value of unsold land	14,004,270.00	.....	.....	12,500,000.00	26,504,270.00

* Estimated.

Method actually pursued.

	Union and Kansas Pa- cific.	Central Branch.	Sioux City and Pacific.	Central Pa- cific.	Total.
Cost of construction	\$50,624,000.00	\$2,731,347.23	\$2,600,000.00	\$40,000,000.00	\$95,955,347.23
Capitalization	134,843,062.00	4,200,000.00	5,047,720.00	124,211,680.00	268,302,462.00
Fictitious capital put on the market	84,219,062.00	1,468,653.00	2,447,720.00	84,211,680.00	172,347,115.00
Actual net earnings	145,387,425.76	4,932,155.00	2,763,762.68	124,940,013.87	278,023,357.63
Land sales	30,907,367.77	1,000,000.00	239,364.60	7,332,581.34	39,479,313.71
Amount credited by Govern- ment to November 1, 1887	21,597,575.76	316,124.12	131,923.62	8,913,416.11	30,959,039.61
Net earnings and land sales in excess of the amounts credited by Government	154,697,217.77	5,616,030.88	2,871,203.66	123,359,179.10	286,543,631.41
Dividend of 6 per cent per annum for 18 years on outlay to have been re- quired of stockholders	18,383,207.04	1,245,991.33	762,473.52	17,937,940.06	38,329,611.95
Amounts dissipated	136,314,010.73	4,370,039.55	2,108,730.14	105,421,239.04	248,214,019.46

Because of the vicious methods actually pursued by the bond-aided companies the Government has been defrauded of the bulk of its advances, shippers have been taxed to the extent of over \$248,000,000, and liabilities to the amount of \$389,517,265 have been heaped upon the properties; the total liabilities of these companies to the public and Government on December 31, 1886, being as follows:

Union Pacific, including St. Joseph and Grand Island guarantee	\$203,379,555.00
Central Pacific	171,908,784.00
Sioux City and Pacific	7,392,447.17
Central Branch	6,836,479.16

389,517,265.33

These companies have paid out the following sums in interest and dividend:

Interest and dividends.

Company.	Interest.	Dividend.
Union Pacific } Kansas Pacific } Central Branch Sioux City and Pacific..... Central Pacific.....	\$82,742,856.28 1,882,826.10 1,709,618.67 53,877,031.15	\$23,650,770 150,000 189,280 34,308,055
	140,212,332.20	63,298,105

It is not, therefore, a matter of surprise that they are unable to pay the Government debt and that their resources have been diminished to such an extent as to give the Government very little return for its loans.

THE DEBT TO THE GOVERNMENT.

The obligations of these companies to the Government are as follows:

Company.	Principal of debt.	Interest accumulation to Dec. 31, 1886.	Total.
Union Pacific } Kansas Pacific } Central Branch Sioux City and Pacific Central Pacific.....	\$33,539,512 1,600,000 1,628,320 27,855,680	\$39,241,229.04 1,944,000.00 1,758,585.00 31,869,475.20	\$72,780,741 3,544,000 3,386,905 59,825,155
	64,623,512	74,813,289.24	139,536,801

The Government is also liable for ten years' additional interest on its bonds or a total of \$39,447,958.26.

The present value of the debts of the companies to the Government, as computed by the Actuary of the Treasury Department, upon his own methods of computation and without reference to instructions received from any source, are as follows:

Union Pacific } Kansas Pacific } Central Branch Sioux City and Pacific Central Pacific.....	\$60,643,967.10 3,285,495.65 3,404,226.85 55,148,416.72
	122,482,106.32

In considering a method for the adjustment of these debts, the Commission was told that the Union Pacific Company would pay \$35,000,000 for the extinguishment of the whole amount of its indebtedness.

The officials of the Central Pacific said that the aided portion of that line was not worth more than the first mortgage of \$27,855,680, which is prior to the Government lien, thus leaving the Government without any return for its advances.

John I. Blair, who built the Sioux City and Pacific road, offered \$1,000,000 for that line.

The Central Branch was probably included in the offer of \$35,000,000 made by the president of the Union Pacific.

So that it will be seen that the Commission was offered only \$36,000,000 in settlement of a claim the present worth of which is \$122,482,106.32.

WHAT POLICY SHOULD THE GOVERNMENT PURSUE?

What should the Government do? A mere money recovery is the least of benefits it should consider in deciding upon its course of action. To redeem these roads from the perverted uses to which they have been applied in order that the beneficent public purpose Congress had in view in their creation may be realized, is a consideration of infinitely greater importance to the people than a repayment of a given number of dollars and cents into the Treasury. The Government can well afford to lose a portion of this indebtedness if this object can be accomplished. Every consideration of public policy, the enforcement of law, the supremacy and dignity of the Government, demand a treatment of this subject far above and beyond any mere attempt to collect a public debt.

The Government occupies a dual relation to the bond-aided railroads—as sovereign and as creditor. In this aspect the question of settlement unfolds complications that would not present themselves in the ordinary relation of creditor and debtor. A mere creditor might assent to compromise which, in a sovereign, dealing with a dishonest creditor who had violated all laws and covenants, would be repugnant to public policy. It cannot afford to condone fraud, to validate the iniquitous work of the Credit Mobilier, the Contract and Finance Company, and similar organizations, or to ignore the unlawful and outrageous discriminations and extortionate charges and the criminal conspiracies for controlling trade which have characterized the administration of these railroads since the date of their completion.

When the Credit Mobilier scandal was exposed by the investigations of the Wilson committee, in 1873, the Government was offered the alternative of attempting by a suit in equity to recover from the Union Pacific Company the money that had been improperly appropriated, or of proceeding to forfeit the charter of that corporation. A suit in equity was begun in the circuit court of Connecticut, but the Supreme Court, upon the demurrer of the defendants, held that the Government, as a creditor, could not sue until the debt had matured in 1895, and so dismissed the case. Since that time, the Government has been barred from all efforts at recovery, and is to-day experiencing the embarrassments of that decision.

The question recurs, What shall the Government do? Shall it allow matters to drift along, without action, and continue the unseemly and interminable contests that are as belittling to the sovereign as they are vexatious to the companies, or shall a remedy be applied immediately? Undoubtedly it would be preferable to settle the matter at once. If this much be conceded, what course shall be adopted? Shall the time for the payment of the debts be extended, or shall the Government insist upon an immediate adjustment and settlement with the companies? So far as its action would affect the Union Pacific and Central Pacific Congress has the power to pursue either policy, without encountering legal obstacles. Which course shall it follow?

The assets of the companies to-day are insufficient to pay the present worth of the debt, and they will not be able to pay it in 1895 except by assessing stockholders, or by the recovery of large sums of which the companies were defrauded. The officers of the Union Pacific ask for an extension, though the stockholders of that corporation at the last annual meeting directed the managers to make a direct proposition to the representatives of the Government for an immediate settlement and to meet the issue at once. Mr. Sidney Dillon, a former president, and

one of the present board of directors, wanted the debt extended one hundred and twenty-five years. Mr. Jay Gould, who closed out his holdings four years ago with an enormous aggregate profit of probably \$40,000,000, thinks the Government ought to be satisfied with the principal of the debt, that is, \$35,539,512, and to throw in back interest. One of the directors (see page 772 of testimony) said that the Government does not want the money, and should throw off the back interest and take bonds, "which would be just as well" as the dead capital which is now in the Treasury. Another director (page 820 of testimony) said: "The Government ought to put this company in a position so that its stockholders can receive something. I do not think it is the interest of the Government to get all, even if it can, because it would discourage the management, if it has an honest one. A non-dividend paying stock is the stock that wreckers and speculators are looking for."

The argument for the payment of dividends by the Union Pacific Company to its stockholders was presented to the Commission in various forms; but, stripped of its sophistries, it simply amounts to the assertion that the resources of the company would be improved by taking \$3,000,000 or \$4,000,000 a year out of the company's treasury, and by distributing it amongst the stockholders. The directors presented to the Government the alternative of permitting the company to pay dividends to its stockholders or seeing the property wrecked by speculators.

The directors (see page 987 of testimony) said that the Government had never expected to get back a dollar of this money, and had, in fact (see page 981), received a return of \$5, \$10, or \$20 for every dollar it advanced; that it had saved money in the reduction of the cost of transporting mails and military supplies, in the termination of Indian wars, and in the enhanced value of Government lands. Another director went a little further than his colleagues, and intimated that if the Government forgave the company the entire debt the stockholders would be very much obliged.

The majority of the Commission recommend an extension of the time for payment of the debts of all the companies for fifty years on certain terms. The testimony shows that, except the Union Pacific, none of these companies have agreed to or will or can accept the terms recommended by the majority. The traffic manager of the Central Pacific testified that his company could not pay the debt and that an extension for an indefinite time would not be sufficient to enable it to do so. The fact is that as to all the companies except the Union Pacific their bankruptcy is so complete and irretrievable that no part of their indebtedness can ever be recovered by the Government except by immediate compulsory legal process. Extension of time for payment therefore means in reality but an increase of the amount of the debt and the making of its recovery the more hopeless. The bonds of the Union Pacific provided for in the majority report would sell for about 50 cents on the dollar and the bonds of the other companies would not be negotiable. The actual effect, therefore, of the report of the majority of the Commission is that its recommendation of extension of the time for payment is impractical and impotent as to all these companies except the Union Pacific, and, if adopted, could only result in the failure of the Government to realize any portion of the indebtedness and would be substantially a gift of that sum to those companies. For this reason, therefore, the recommendation of the majority will be considered only so far as it applies to the Union Pacific Railway Company.

OBJECTIONS TO EXTENSION OF THE TIME FOR PAYMENT.

The objections to an extension of the time of payment of the debt of the Union Pacific are many and insuperable, and were strongly urged upon the Commissioners when testimony was taken in Kansas, Nebraska, and Colorado. The Union Pacific Company has received \$176,294,793.53 in surplus earnings and land sales during eighteen years; and if its stock had been fully paid, as Congress required that it should be, and as its officers certified under oath that it was, nearly all of that money would be applicable to-day to the payment of the Government debt. The company has paid out over \$28,650,770 in dividends, and \$82,742,856.28 in interest on bonds, nearly all of which were distributed to shareholders without consideration; it has sunk over \$10,000,000 in the Denver, South Park and Pacific; it paid out \$10,000,000 to Jay Gould and his associates for branch lines and other investments, which were worthless, and which were unloaded upon the Union Pacific because of the faithlessness of the management of the company. What assurance, then, can there be that the company in the future will pay any greater heed to the obligations imposed upon it by Congress than it has in the past?

To fund the indebtedness of the company to the Government is to give it an additional subsidy. An extension would recognize as valid the Credit Mobilier wrongs and the extravagant mismanagement of various boards of directors. It would validate the results of fraud and be a condonation of monstrous iniquities which the Government cannot afford. The gross mismanagement of the Union Pacific and the other Pacific railroads has not only injured the credit of American railroads among investors in this country, but it has shaken the faith of foreign investors to such an extent that hundreds of millions of dollars, which otherwise would have been sent here for investment and aided in the development of the country, have been locked up abroad. The foreign investor looked upon these Pacific railroads as being under Government auspices. They received a Government loan; they made annual reports to the Government, and, in addition to these requirements, the Government had a representation of five directors in the Union Pacific management. The good faith of the country was, therefore, presumed to be back of these Pacific Railroad securities.

The present capitalization and indebtedness of the Union Pacific Railway represents triple the cost of its reproduction. To extend the debt is to place a mortgage upon the earnings and upon the products of the people of Kansas, Nebraska and Colorado, not only of this but of succeeding generations. Why should the iniquitous results of the Credit Mobilier be made a burdensome exaction upon the generations that come after it? To extend the debt is to perpetuate the extortionate rates of transportation which are now charged by the Union Pacific for the maintenance of its present inflated capitalization. Why should the communities of the great West be forced to pay rates that will perpetuate this enormous burden of fictitious and fraudulent indebtedness?

To continue the Union Pacific in its present condition is to force the territory which is tributary to that line to pay fixed charges of \$8,000,000 per annum, exclusive of dividends to stockholders. If that line were capitalized on a proper basis, the sum of \$4,000,000 would pay interest. To extend the debt, therefore, is to tax the Western people, through high rates, not only to pay interest for fifty years on the Government debt at the rate of at least \$2,000,000 a year, but to pay interest also on the other fictitious capital that is represented in the stocks and bonds

of the Union Pacific, at the rate of \$2,000,000 a year additional, or a total of \$4,000,000 a year for fifty years. Would it not be an abuse of its power for Congress to give more consideration to stockholders who are legatees of a gigantic fraud rather than to the people who are forced to ship over the road, and who have been taxed for eighteen years to sustain that corporation? The whole question resolves itself into a choice of protecting the so-called innocent stockholders, as against the consumers who pay \$26,000,000 a year to the Union Pacific for transportation service.

The people of the West should be freed from the incubus of this enormous load. Eventually the consuming classes and not the stockholders must pay this bill if extension of time be granted, and it will be ruinous to the communities which are dependent on the Union Pacific if they are forced to bear their share of this great burden, while communities on other roads bear only the burdens of moderate capitalization. So long as the Union Pacific Railway Company is forced to carry this debt, enterprise and development along its line will be measurably repressed.

The extension being unwise and impractical, there is only one course open to Congress, and that is an immediate winding up of the affairs of all the companies, enabling the Government to withdraw at once from all connection with the running of railroads, or sharing in the profits of their management. There ought to be an end to the partnership between the Government and the Pacific railroads; a speedy and absolute divorce.

The only method by which this result can be reached is that which was suggested by Justice Hunt in the Credit Mobilier cases. It is the alternative pointed out by the Wilson committee of Congress in the event of the failure of the equity proceedings in the United States courts. It is the course that Congress directed the Attorney-General, by resolution of April 10, 1869 (section 4), to take against the Union Pacific, that is, the forfeiture of the charter.

The beginning of proceedings at this time to cause the forfeiture of the charters of these companies because of their violations of law and failure to keep their contract with the Government is only to anticipate by a few years the result which will be inevitable when the bonds mature in 1895 and 1897. To wait until then before instituting legal proceedings would not avert the result but would further jeopard the interests of the Government and increase the amount of the indebtedness. It should be borne in mind that it is a fact admitted by every officer of these roads who testified before the Commission, and overwhelmingly proved by the evidence submitted, that the payment of the debts at maturity in 1895 and 1897, can under no circumstances be expected. The railroad officials, the Commissioners, and every intelligent citizen concur in the correctness of this statement.

Upon forfeiture the appointment of a receiver should be applied for to provide for the immediate settlement of the Government's debt. This course involves no actuarial computations or involved legal problems. It is the direct path to the complete solution of a tangle into which the Government should never have been drawn. This course is not recommended for the purpose of punishing this company, or its stockholders, for the willful and continuous violation of obligations imposed by law, but to withdraw the Government from further connection with private enterprises. The stockholders would have the same right to buy that others would have.

In this way the Government would cut loose from all participation in *railroad management*. It would recover its debt and put its seal of con-

demnation upon the multiplied wrongs that have marked the administration of that trust.

The capital and indebtedness of the purchasing companies should be limited to the estimates of the cost of reproduction as made by the inspecting engineer of the Commission—66½ per cent. in bonds and 33½ per cent. in stocks. The purchasing company should be confined solely to the business of a common carrier, operating railroad and telegraph lines, and should be forbidden, directly or indirectly, to invest in the bonds or securities of companies other than railroads, or in railroads that are parallel or competing, or to acquire by purchase, or otherwise, any interest or control in any competing or parallel line. The officers of the company should be prohibited from being interested in any competing or parallel lines, and such company should not be permitted to hold any real estate, except such as may be necessary for its legitimate business, and it should be allowed to issue stocks or bonds only for money, labor done, or money or property actually received. The sale should also be made upon the condition that the franchises should be exercised thereafter, subject to the regulation and control of the Government, in the public interest.

Such a course would force other transcontinental lines to a similar basis, and would benefit consumers in all parts of the country. Transportation would be cheapened; the companies would be liberated from the crushing weight of their debts and made useful arteries of commerce, and a reasonable profit would be yielded to honest investments. In addition to the recommendation of the forfeiture of the charters, I would suggest that, through the receiver to be appointed for the Union Pacific, a suit be instituted with like purpose to that begun in 1873 against the Credit Mobilier, and that the Attorney-General be instructed to institute proceedings, either civil or criminal, against all persons who have rendered themselves liable for their participation in the issue of stock or the making of mortgages or pledges upon the property or future earnings of the Union Pacific Company without leave of Congress; against those who violated their trusts in connection with the consolidation of the Kansas Pacific, Denver Pacific, and Union Pacific in January, 1880; against all persons who have rendered themselves liable through the maladministration of the Central Pacific, Sioux City and Pacific, and Central Branch Union Pacific; against telegraph and express companies, to secure an accounting to the Government for earnings on business done on bond-aided lines, and to require an accounting for lands improperly acquired from the Government, and to force the patenting of lands already granted to the companies.

In applying the remedies necessary for securing the Government indebtedness, the Attorney-General should proceed against all persons and corporations who in any way were parties to or participants in the results of any of the illegal and fraudulent acts which have characterized the management of these corporations and resulted in the waste and misappropriation of the funds of the companies and consequent depreciation of the Government security.

If this recommendation should be adopted, the population of the great West through which the lines of road extend would have these public highways existing and managed as it was intended by law they should be, in the interest and for the benefit of the people, and not as subjects for stock gambling and speculative practices through which enormous fortunes are amassed by railroad officials and favorites, while communities are burdened and private industry repressed. In other words, these roads, as a result of legal purgation, would be free, clear, and clean public highways, honestly and lawfully managed.

SPECIFICATIONS IN SUPPORT OF GENERAL STATEMENTS CONTAINED IN THE FOREGOING.

In support of the general statements contained in the foregoing, I submit the annexed specifications concerning the obligations imposed upon the bond-aided companies; their relations to shippers, to communities, to other railroads, and to the Government.

Each of the companies, in accepting the subsidy provided by the acts of 1862 and 1864, bound itself by the terms and conditions imposed upon the Union Pacific by those acts. The act of 1873 applied only to the Union Pacific, and the act of 1878 to the Union Pacific and Central Pacific.

Attention is directed to the following:

By section 4 of the act of July 1, 1862, the Union Pacific was required to build a first-class road.

By section 6 of the same act, the Union Pacific was required to pay the principal and interest of the bonds at maturity; to keep said railroad and telegraph line in repair and use; and at all times to transmit dispatches over said telegraph line and transport mails, troops and munitions of war, supplies and public stores, upon said railroad, for the Government, whenever required to do so by any Department thereof; and to give the Government at all times the preference in the use of the same for all the purposes aforesaid, at fair and reasonable rates of compensation, not to exceed the amounts paid by private parties for the same kind of service.

By the same section it was required, after said road was completed, and until said bonds and interest were paid, to set aside a percentage of its net earnings, annually, to the payment thereof.

By section 12 of the same act the company was required to operate and use the whole line of said railroad and branches and telegraph for all purposes of communication, travel, and transportation, so far as the public and the Government are concerned, as one, connected, continuous line.

This proviso was amended in section 15 of the act of 1864, so that it was required to operate and use said roads and telegraph as one continuous line, and, in such operation and use, to afford and secure to each equal advantages and facilities as to rates, time, and transportation, without any discrimination of any kind in favor of the road or business of any or either of said companies, or adverse to the road or business of any or either of the others; "and it shall not be lawful for the proprietors of any line of telegraph authorized by this act or the act amended by this act to refuse or fail to convey for all persons requiring the transmission of news and messages of like character."

By section 20 of the act of 1862 it was required to make annual report to the Secretary of the Treasury, giving, among other data, a statement of the amount of stock subscribed and the amount actually paid in.

By section 2 of the act of 1864 the Union Pacific Company was required to cause books to be kept open to receive subscriptions to the

capital stock of said company until the entire capital of \$100,000,000 should be subscribed.

By the same section the Union Pacific was required to make assessments of not less than \$5 per share, at intervals not exceeding six months, until the par value of all shares subscribed should be fully paid. Money only should be receivable for any such assessments, or as equivalent for any portion of the capital stock thereby authorized. In the same section it was also required not to increase the capital stock of said company beyond the actual cost of said road.

By section 13 of the act of July 2, 1864, the company was required to place at least one of the Government directors on each of the standing committees of said company, and at least one on every special committee that might be appointed.

By section 16 of the same act the company was authorized to unite and consolidate with other Pacific roads upon such terms and conditions and in such manner as they might agree upon and as should not be incompatible with this act or the laws of the State or States in which the road of such companies might be.

By section 4 of the act of March 3, 1873, the Union Pacific Company was prohibited from making any dividends except from the actual net earnings thereof; to issue no new stock or make mortgages or pledges on the property or future earnings of the company without leave of Congress, except for the purpose of funding and securing the debt then existing, or the renewals thereof; nor to permit any director or officer of said road to be interested, directly or indirectly, in any contract therewith, except for his lawful compensation as such officer.

By section 1 of the act of May 7, 1878, commonly known as "the Thurman act," the Union Pacific and Central Pacific companies were required each to compute its net earnings by deducting, from the gross amount of its earnings, the necessary expenses actually paid within the year in operating the same and keeping the same in a state of repair, and also the sum paid by it within the year in discharge of interest on its first mortgage bonds, whose lien has priority over the lien of the United States, and excluding from consideration all sums owing or paid for interest upon any other portion of its indebtedness.

By section 6 of the same act it was provided that no dividends should be voted, made, or paid, at any time, by the Union Pacific or Central Pacific Company when the said company shall be in default in respect to the payment either of the sums required as aforesaid to be paid into said sinking fund, or in respect to the payment of the said 5 per cent. of the net earnings, or in respect of interest upon any debt, the lien of which or of the debt on which it may accrue is paramount to that of the United States.

By section 9 of the same act the Government debt, whether payable presently or not, was made a lien, so far as the Union Pacific and Central Pacific Companies were concerned, upon all the property, estate, rights and franchises of every description granted or conveyed by the United States, and also upon the estate and property, real, personal, and mixed, assets and income from whatever source derived, subject to any lawful prior and paramount mortgage, lien, or claim thereon.

By section 11 of the same act, the Union and Central Pacific Companies were each obligated to perform the requirements of that act, and in the event of failure to do so within six months next after such performance might be due, such failure to operate as a forfeiture of all the rights, privileges, grants, and franchises derived or obtained by it from the United States.

By section 1 of the act to regulate commerce, approved February 4, 1887, every company engaging in interstate traffic was prohibited from making unjust and unreasonable charges.

By section 3 of the same act, discrimination between connecting lines was prohibited.

By section 4 of the same act, a less charge for a long haul than for an included short haul was prohibited, except when authorized by the Interstate Commerce Commission.

By section 5 of the same act freight pools were prohibited.

In addition to these specific obligations, the companies assumed all the functions and responsibilities of common carriers. They were also empowered to do certain things covered by their charters, and they had no right to exercise any power that was not expressly granted. They were likewise the depositories of a solemn trust, and in this relation owed to the United States the duty to preserve from waste and mismanagement the property and franchises of the roads which alone were the security for the Government debt.

1. The Union Pacific Railroad Company failed to put its lines into the condition of a first-class road, as required by the act of July 1, 1862. The report of Government Director Snow, in 1869, showed that 10 miles of road, "not even graded, and without rail on it, and a tunnel not yet completed," had been accepted as a first-class road. Mr. Snow explained that the commissioners appointed to inspect the road had been taken around that part of it, over a temporary track, by night. Subsequently, through the investigations of the Wilson committee of Congress, in 1873, it was discovered that one of the commissioners, C. Windell, appointed to examine the road from the 800th to the 920th mile-post, had received \$25,000 from the company for signing the official acceptance.

In 1878, Mr. Charles Francis Adams, while a Government director, reported that the condition of the road at that time was not satisfactory, declaring that it was far short of what, with its original endowments and large earnings, it ought to be, and very far short in almost every respect of that high standard of excellence, both in scope and in detail, to which those familiar with the great trunk lines of the country were accustomed. Passing from 1869 and 1878 to 1887, it is found that the condition of the property at the present time is not that of a first-class road. The running time across the continent averages about 20 miles an hour, or one half the average for through trains on first-class roads. The facilities are defective and the equipment insufficient. No disinterested person who goes over the Union Pacific road from Omaha to Ogden as an ordinary traveler, or over the other aided roads, can fairly say that the lines are maintained or operated as first-class railroads.

2. All the companies were bound to pay the principal and interest of the Government bonds at maturity; but up to 1878, though two of them, the Union Pacific and Central Pacific, were distributing between \$3,000,000 and \$4,000,000 a year each in dividends, they had made no provision for the payment of the Government debt, and Congress in that year was forced to take upon itself the work of creating a sinking fund for two of them.

3. Each company was required to keep its railroad and telegraph in repair and use, but each of them entered into a contract with the Western Union Telegraph Company by which that corporation obtained a monopoly of their telegraph business and blocked all rivals, as appears by the testimony taken by the Congressional Committee on the Post-Office and Post-Roads. (See House of Representatives Report No. 3501, Forty-ninth Congress, second session.) They did not keep the

telegraph in repair and use, and did not convey messages alike or on equal terms for all persons, as required by section 6, of the act of July 1, 1862. They also handed over their express business to other corporations in violation of law.

The Central Pacific Railroad Company leased its railroad to the Southern Pacific Company of Kentucky, thereby transferring its franchise in violation of law to another corporation.

4. The companies were required at all times to transmit dispatches over their telegraph lines, and transport mails, troops, and munitions of war, supplies, and public stores upon said railroads for the Government, whenever required to do so by any Department thereof, and to give the Government preference at rates not to exceed the amounts paid by private parties for the same kind of service.

The report and testimony of the Land Grant Telegraph Lines (submitted by Mr. A. J. Warner, from the Committee on the Post-Office and Post-Roads, Forty-ninth Congress, second session, House of Representatives, Report No. 3501), discloses the fact that the Union Pacific and Central Pacific Railroad Companies, by contracts with the Western Union Telegraph Company, placed the entire control of the business between the Atlantic and Pacific States in the hands of that telegraph company, agreeing to account to the Western Union Company exclusively for all telegraph business and the receipts thereof, and giving to the Western Union the exclusive right to the occupancy of and connection with their depots or station houses for commercial or public telegraph purposes as against any other telegraph company. The Union Pacific even stipulated that, in case any other telegraph company should apply for a connection, or attempt to do business over the Union Pacific lines, then the Western Union Telegraph Company could proceed in the courts against such other company in the name of the Union Pacific Railroad Company. Justice Miller, in confirming the opinion of Judge McCrary, in the case of the Western Union Telegraph Company *v.* The Union Pacific Railway Company *et al.*, said:

In the face of the acts of Congress of 1862 and 1864, the obligation of building a telegraph line along its right of way, and of operating that line or having it operated under the control of the railroad company, was an obligation which the railroad company could not abandon.

When the Union Pacific was under the control of Mr. Jay Gould and was being used by him as a factor in his contest against the Western Union and in favor of his American Union Telegraph Company, an opinion was given by the counsel of the Union Pacific Company, Sidney Bartlett and John F. Dillon, in these words:

The foregoing and numerous other provisions (referring to the statutes) show that Congress placed the telegraph line in respect to its construction, maintenance, and use by the Pacific companies upon precisely the same footing as the line of railroads. Both were integral parts of the great end in view. In respect of both, the duties of the companies are, so to phrase it, personal; and no authority is given to devolve them on others.

On well-known principles of law, such franchises are inalienable without express legislative authority. Not only is there an absence of such authority, but its existence is plainly negatived by the nature of the rights reserved to the Government, and the special duties toward the Government and the public enjoined on the companies, which they alone can perform. Thus the companies are required to transmit messages for the Government, and the earnings of the telegraph lines from this source are to be applied in payment of the Government bonds.

So the several Pacific companies are required to operate and use their respective roads and telegraph as one continuous line, without discrimination in favor of or against any of the companies, and it is made unlawful for them, if they are the proprietors of a telegraph line, to refuse or fail to transmit news or messages for all persons.

It results, therefore, that no valid lease or other contract can be made by the companies to surrender or to devolve on others their duty to maintain, control, and manage their respective lines of telegraph. They can no more do this in respect of their lines of telegraph than they can in respect of their lines of railway. Any lease or contract to that effect is, in the language of the law, *ultra vires*.

Nevertheless, the Union Pacific Railroad Company and the Central Pacific Railroad Company have abandoned the performance of their obligation to operate the telegraph lines. The Union Pacific has discriminated in favor of the business of one telegraph company, the Western Union, and against the business of another telegraph company, the Baltimore and Ohio, so that (p. 6 of Rep. No. 3501, 49th Cong., 2d sess, House of Representatives)—

Those living or doing business within the reach of the Western Union Telegraph lines can have given rates extended to them to points on the Pacific roads or on the Pacific Coast, while those in reach only of another line of telegraph must pay the same rate from Omaha, or any other terminus of a land-grant telegraph line, that another pays from New York, and must pay for the message from Omaha in addition. So that he does not enjoy the same rates and privileges that are extended to those using the Western Union Telegraph lines to reach the lines to the Pacific Coast.

The Congressional committee found that the telegraph lines of the aided roads are not maintained and operated as the railroads are, nor as was contemplated in the acts making the grants, but, on the other hand, that some or all of said companies or their successors have, in violation of the true intent and meaning of said act, transferred to the Western Union Telegraph Company the use and operation in whole or in part of the telegraph lines particularly belonging to them and the exercise of their telegraph franchise, thereby impairing the lien of the United States on the properties of the said companies, as well as preventing the public use of said telegraph lines.

For a number of years the Baltimore and Ohio Telegraph Company sought to reach the Pacific coast over the telegraph lines of the Union Pacific Railroad Company, and thereby increase its usefulness and earning capacity and its ability to compete with the Western Union.

By declining to permit the use of its lines by other companies the Union Pacific placed the telegraph business of the section extending from the Missouri River to the Pacific Ocean under the exclusive control of the Western Union Telegraph Company.

Hon. John A. Anderson, member of Congress from Kansas, in addressing the Congressional committee, said:

In other words, the Western Union Telegraph Company, so far as that whole area is concerned, now having a population of 8,000,000 of people, has practically a monopoly; and to such an extent is that monopoly carried that, in addition to claiming the recognized rights of a common carrier, dealing with the transmission of whatever business is offered to it, it is showing a tendency to monopolize the news itself, to engage in the business of the collection and sale of news; and if the committee see fit to inquire into the matter, it will find that election news, such important matters as the transmission of the President's message, and other equally important items of news are sought to be taken exclusive possession of by the Western Union Telegraph Company, and that in some instances papers are coerced, under threat, to use its wires exclusively.

When the Baltimore and Ohio Telegraph Company applied to Mr. Charles Francis Adams, as president of the Union Pacific Railway Company, to enter into an arrangement in August, 1884, it was practically referred to the Western Union Telegraph Company. The correspondence which occurred between Mr. Adams and Mr. D. H. Bates, president and general manager of the Baltimore and Ohio Telegraph Company, covering a period from August, 1884, to February 10, 1885 (see pages 251 to 257 of Report No. 3501, House of Representatives, Forty-

ninth Congress, second session), clearly shows the tactics that were resorted to in evading the plain requirements of the law.

5. The companies also failed to transport for the Government, at fair and reasonable rates, not to exceed the amounts paid by private parties for like service. On page 109 of the Annual Report of the Union Pacific Railway Company for the year 1886, there appears a statement entitled, "Average rates per passenger per mile, by sources, for the years 1886, 1885, 1884, 1883, 1882, and 1881." The rates there charged to the Government show a great excess over the charges either for way or through traffic, either taken on the average of the whole system or divided according to conductors, local, home coupons, foreign roads, and Government.

Union Pacific—Average rates per passenger per mile for six years.

	1881.	1882.	1883.	1884.	1885.	1887.
Conductors.....	5.2500	4.7000	4.7200	4.3400	3.2343	3.6422
Local.....	3.4600	3.5000	3.600	3.400	3.213	2.818
Home coupons.....	3.2000	3.2000	2.5400	2.2000	2.5200	1.6575
Foreign roads.....	3.2000	3.0700	3.000	2.600	2.457	1.615
Government.....	6.5000	5.0000	4.9400	5.0000	4.7323	3.6487
Total through.....	3.0100	2.8900	2.8900	2.5576	2.5029	1.4445
Total way.....	3.6400	3.4200	3.1310	2.8593	2.5261	2.5261
Total average.....	3.8400	3.2900	3.1210	2.9034	2.7485	2.1351

In the investigations made by the Commission of the rates and rebates of the bond-aided companies, it was disclosed that the charges to the Government for transportation were uniformly based on the full, open tariff rate, while rebates, in large numbers and for large amounts, were made to private shippers.

6. The companies were obligated to apply annually a percentage of their net earnings toward the reimbursement of the Government for bond and interest account; but their payments were not made annually and did not reach the Treasury until many years after they were due, because of questions which the companies raised in court.

7. They were required to afford and secure to each of the other aided lines in the Pacific system equal advantages and facilities as to rates, time, and transportation, without any discrimination of any kind, so that they might be operated as one connected continuous line; but the Union Pacific bankrupted the Kansas Pacific road by refusing to obey this direction of Congress. (Vol. 1, p. 433.) The conduct of that company in this respect became so offensive, that in 1874 Congress passed an act imposing criminal penalties for violation of that obligation.

The Union Pacific also refused to interchange traffic with another connecting line, the Sioux City and Pacific, and it built the Oregon Short Line from its main line at Granger to its connection with the Pacific coast, the effect of which was to divert traffic from the Central Pacific line. It also discriminated among the four lines that connected with it at Omaha, and by executing the tripartite agreement, it drove the Chicago, Burlington and Quincy and the Chicago and Northwestern companies into positions of aggressive antagonism and of fierce competition. The Sioux City leased and operated a line in competition with the Union Pacific.

The Central Pacific is managed by three men who have greater interests in the Southern Pacific, and who divert traffic or permit and assent to its diversion from the Central Pacific.

8. The Union Pacific was required to cause books to be kept open to receive subscriptions until the entire capital stock should be subscribed. On September 21, 1867, James Fisk, jr., partner of Jay Gould, tendered a subscription for 20,000 shares of stock, and money to the amount of \$55 per share, which he alleged was the amount that other shareholders had paid. He asked that the Credit Mobilier be made to account for the profits of constructing the Union Pacific. The company refused to receive the money. Fisk then applied to Judge Barnard for an order to compel the company to produce its books, but the company immediately transferred the books to Boston.

9. The Union Pacific and the other companies were required to make assessments of not less than \$5 per share at intervals of not exceeding six months, until the par value of all shares subscribed was fully paid, and they were allowed to receive money only for assessments, or as equivalent for any portion of the capital stock. As a further precaution to insure the payments of money for stock, Congress required sworn annual reports of the stock subscribed and stock actually paid in. The sworn reports were made as required by law, but the reports of Oliver Ames, dated June 28, 1867, October 26, 1868, and September 30, 1869, as well as the report of T. C. Durant, dated June 27, 1868, were misstatements under oath of the facts. Equally false were the affidavits furnished by the Central Pacific and Kansas Pacific.

To evade the requirements of the act, the Union Pacific Company would draw a check in favor of the Credit Mobilier or of the seven trustees of the Ames & Davis contracts, and these persons would deposit the same check on the same day as their cash payment on the stock, though the Union Pacific did not have the funds in bank to draw against. The assessments were not made and the par value of the stock was not fully paid, and money was not received for the shares. These findings were made by the Wilson committee and have been accepted by the Commission.

10. By section 13 of the act of July 2, 1864, the Union Pacific was required to place a Government director on each standing and special committee that might be appointed. But, in 1880, it admitted the Government directors, under protest, and neglected to send notice to them of the meeting held on March 9, 1880. When transportation was asked for the Government directors, in the latter part of August, 1880, the jurisdiction of the Government directors was denied, and official transportation was refused over any part of the consolidated road, excepting the line from Omaha to Ogden.

In 1882, after waiting three months for some notice of directors' meetings, I. H. Bromley, then a Government director (now assistant to President Adams), called on Sidney Dillon to ascertain what functions attached to the office of Government director, and, if any, what was their nature. The report of the Government directors for that year, in narrating the facts relative to this call (see Ex. Doc. No. 69, Forty-ninth Congress, first session, Senate, p. 183), says:

He was treated with great courtesy by the chief executive officer of the company who, however, informed him, somewhat to his surprise, that practically there were no functions; that the office was a "myth"; that the road and equipment belonged to the stockholders; that provisions for the payment of the company's debt to the Government had been made by the "Thurman bill," and that, as a matter of fact, the Government had no further concern with the direction of the road or its management. It had been the practice in former years, he said, for the Government directors to make a trip over the road and to make a report of its condition; but all the facts and figures contained in the report were obtained from the reports of the company's own officers and the company's books. Moreover, there was now less necessity than ever for such a report, since the ground it would occupy was already covered by the

report of the Commissioner of Railroads, an office created by recent legislation. It was evidently his opinion that the Government directors had neither duties, responsibility, nor power, and that aside from making a pleasure trip over the road, nominally for the purpose of inspection, there was nothing for them to do. Facilities for making such a trip, he said, would be afforded at any time the directors might desire them. As to the directors' meetings, he did not know when the next one would be held, but presumed that the Government directors would receive notice from the secretary whenever one should be called.

This succinct definition of the functions of the office from the point of view of the company's chief executive officer did not hold out large promise of usefulness in our official position to either the Government or the company. While there was no lack of courtesy or even cordiality towards the representative of the Government during the interview, it was quite manifest that the company's officers had no disposition to magnify the office of Government director, nor any intention of imparting to us any more information concerning the condition of the road and the conduct of its affairs than was already accessible through other sources to the Government and the public.

A request forwarded to the secretary of the company, at Boston, for copies of all laws relating to the company, and particularly for the legislation by which the office of Government director had been relegated to the domain of mythology, received prompt and courteous response, but nothing was found in any of the laws upon the subject or in the law creating the office of commissioner of railroads that seemed to warrant the assumption that the duties and responsibilities of the Government directors had been in any way curtailed or modified. It became a question, then, with the two Government directors, who were in communication with each other, Messrs. Haven and Bromley, whether they would press for recognition or resign a position involving duties and responsibilities which they were not permitted to discharge. Upon the assurance of President Dillon that a directors' meeting would be called at an early day, they decided to take no immediate action.

It was not until the 3d of November, 1882, nearly six months from the date of our appointment, that a call was issued for a directors' meeting, to be held at New York on November 15.

Prior to this meeting public announcement had been made of a forthcoming collateral trust loan, to be issued by the company, to be secured by deposit of bonds of some of the branch roads already built and under the management of the company. The report of the previous meeting, as read, contained no reference to this loan, nor was it made the subject of discussion. It was learned that the executive committee, which had managed the transaction so far as it had proceeded, had been, by previous action of the board, endowed with such absolute authority that no ratification or approval of their acts by the board was deemed necessary.

While we acquit the stockholders' board and the officers of the road of any design of concealing or withholding anything from us for their own purposes concerning the management or condition of the road, we feel constrained to say that, in our opinion, the limitations which they undertook to put upon us in the exercise of our official duties were not only unwarranted by law, but calculated to impair public confidence in the administration of the company's affairs.

The obvious purpose of the law creating the office of Government director was to secure in the actual and active direction of the company representatives of the large interest held by the Government in the road. It was intended that the Government's representatives should not merely be a medium of communication through whom what had been done might be learned, but that they should have a voice in the direction, having intimate knowledge of its affairs, and keeping themselves thoroughly informed concerning all its transactions and the policy of its administration. The appointment of the Commissioner of Railroads obviates the necessity for much of the detail concerning the condition of the road and equipment, and for the extended statistics formerly contained in the Government director's report, but in no other respect that we can see does it limit their functions or relieve the company's officers of the duty of consulting them upon all matters concerning the management.

We feel it our duty, therefore, to direct the attention of the Department to the following facts:

(1) That although some of us received our appointments in June, 1882, and although the by-laws provide that stated meetings of the board shall be held quarterly, we received no notice of any meeting until November, and then of a special meeting, and that no quarterly meetings have been held, to our knowledge, since our appointment.

(2) That all the proceedings relating to the important transaction of issuing a collateral trust loan were had without our knowledge, or any notification to us.

(3) That the equally important transaction of withdrawing the loan was decided upon without our knowledge or any notice to us.

(4) That a dividend was declared in December, and notice of the same published without the knowledge of or any notification to the Government director, who is a member of the executive committee, or any other one of our number.

(5) That we have not been consulted concerning the inception or progress of any matter falling within the province of the directors, and have only learned after the event, from current rumor, or by persistent inquiry, of any action of the directors or their executive committee.

And we submit that herein are specific instances of neglect, if not violation of law, which deserve notice, as liable, if persisted in, to work mischief to the interests of both the company and the Government. We repeat that there is, in our judgment, no evidence of willful violation, but only of neglect to comply with the requirements of law under a possible misapprehension of the official functions of the Government directors.

The Union Pacific Railway Company omitted to inform the Government directors, in 1883, relative to the tripartite agreement; and, at a meeting of the Government directors of the Union Pacific Railway Company, held at the company's office in New York, December 12 (see Senate Ex. Doc. No. 69, Forty-ninth Congress, first session, p. 201), it was—

Voted, That we protest against the ratification of the proposed contract with the Rock Island and Saint Paul roads until it has been submitted to, and approved by, the board of directors of the Union Pacific Railway Company.

11. The Union Pacific Railroad Company was authorized to unite and consolidate with certain other companies, in such manner and on such terms as might not be incompatible with the acts of Congress.

On June 24, 1880, the Union Pacific Railroad Company consolidated with the Kansas Pacific and Denver Pacific Companies on terms which were not compatible with the act of 1864, requiring that capital stock be issued to an amount not exceeding the actual cost of the road. In the Kansas Pacific there was no money actually paid in for the stock, though there were sworn reports to the Interior Department, made by John D. Perry, Adolph Meier, and Robert E. Carr, that stock was actually paid for. The entire cost of construction of the Denver Pacific Railway and Telegraph Company was \$2,500,000, the amount of the bonds issued. Yet stock to the amount of \$4,000,000 of the Denver Pacific was turned into the consolidated company. The consolidation which did occur was a transaction by which Jay Gould, Russell Sage, Sidney Dillou, Frederick L. Ames, and other directors voted on both sides of the question, practically loading upon the Union Pacific over \$20,000,000 of worthless securities for their own advantage and profit. It was a fraud upon the Government as a creditor of the Union Pacific. The aim of that consolidation was to stop competition and to increase the charges to the public for transportation. In that respect the consolidation brought a temporary gain to the companies and a loss to the public, as the average rates on the Union division were increased from 1.70 in 1879 to 1.89 in 1880, and on the Kansas division from 2.09 in 1879 to 2.39 in 1880.

12. By the act of March 3, 1873, the Union Pacific was prohibited from the payment of dividends except from the actual net earnings thereof. According to a letter of Mr. Adams (see page 240 of Ex. Doc. No. 69, Senate, Forty-ninth Congress, first session) there were years in which the dividends were not earned during the year for which they were paid; the dividend declared April 1, 1884, exceeding the surplus earnings for the period for which it was issued by over \$700,000.

13. By the same act the Union Pacific Company was prohibited from issuing stock or mortgages or pledges made on the property or future

earnings of the company without leave of Congress except for renewing or securing existing debts or renewals thereof. But in 1880 the company increased its stock from \$36,762,000 to \$50,762,000 by the consolidation of the Union Pacific, Kansas Pacific, and Denver Pacific Companies into the Union Pacific Railway Company, in a manner and on terms that were incompatible with the act of 1864. In the latter part of the same year the stock of the consolidated company was increased from \$50,762,000 to \$60,868,500 without leave of Congress, and in violation of law.

In 1879, without the leave of Congress, the collateral trust bonds were issued for \$4,852,000, certain securities being pledged as collateral for the payment of the debt.

In 1883 the trust 5 per cent. bonds, for over \$4,500,000, were issued without leave of Congress.

In 1882 and 1884, without leave of Congress, the Union Pacific guaranteed the faithful performance by the Oregon Short Line of its contract and lease of the Oregon Railway and Navigation Company, and guaranteed the payment of interest on the bonds of the Oregon Short Line to the amount of over \$14,000,000, at a large annual loss, which was borne by the Union Pacific.

The Union Pacific guaranteed, without leave of Congress, the interest on the bonds of the St. Joseph and Grand Island Railroad, amounting to \$6,961,912.22.

At various times since the passage of the act of 1873 the Union Pacific has obligated itself to advance moneys toward the building of other railroads and has expended over \$38,000,000 in such construction. It has lent its credit to various corporations for the purpose of evading the requirements of the act of 1873, which prohibited any pledge of its property or future earnings. It has created new corporations, in which it was the only stockholder, and through these new corporations it has done, by indirection, what it was prohibited by act of Congress from doing—paying out about \$1,500,000 a year to make up deficiencies in the fixed charges of some of these auxiliary corporations.

14. By the same act the directors or officers of the company were prohibited from being interested in any contract therewith.

The Union Pacific, for itself and with the Kansas Pacific, made a contract with the Denver, South Park and Pacific by which Jay Gould, as an individual, became interested in the construction contract of that line. Subsequently he, while a director, unloaded the whole property on the Union Pacific, profiting largely, and at the expense of the Union Pacific, through his interest in that construction contract.

Frederick L. Ames and Sidney Dillon, directors, were interested as stockholders in the Omaha and Grant Smelting and Refining Works of Omaha to the extent of \$88,000 each of capital stock paid in, and they benefited largely through excessive rebates and discriminating practices in favor of that corporation, by which, from 1883 to 1887, it obtained from the Union Pacific rebates amounting to \$570,000.

Jay Gould, Frederick L. Ames, Sidney Dillon, Russell Sage, Elisha Atkins, F. Gordon Dexter, and E. H. Baker, directors, through their participation in the consolidation of the Union Pacific, Kansas Pacific, and Denver Pacific Companies into the Union Pacific Railway Company, were interested in a contract with the Union Pacific.

Messrs. Jay Gould, Sidney Dillon, Russell Sage, and Fred. L. Ames, while directors, were also interested in a telegraph company which contracted with the Union Pacific.

Jay Gould, who was the controlling spirit of the American Union Telegraph Company, used the Union Pacific while he was a director to force the Western Union Telegraph Company off the lines of the Union Pacific, and subsequently effected a consolidation of the two telegraph companies; and while he was still interested in the Western Union, a contract between that company and the Union Pacific was effected by which the Western Union was given exclusive rights to the telegraph line of the Union Pacific.

Jay Gould and Russell Sage were also interested in the Missouri Pacific Railroad Company and in the Texas Pacific line, which formed links in a competing transcontinental line. So also was G. M. Dodge.

Jay Gould was also interested in the Pacific Mail Steamship Company, which by its peculiar method of management extorted \$4,000,000 from the aided lines in a period of eleven years.

On January 24, 1880, Mr. Jay Gould's resignation as director of the Union Pacific was presented, bearing date January 10, 1880, and on the 24th the company ratified various contracts made with Mr. Gould on January 14, by which Mr. Gould sold to the Union Pacific Company or to the Kansas Pacific Company shares of the Central Branch Union Pacific, St. Joseph and Pacific bonds, Kansas and Nebraska bonds, Kansas Central bonds, St. Joseph and Pacific stock, and St. Joseph Bridge Building Company bonds.

Mr. Jay Gould, as a contractor, also built the Hastings and Grand Island road, and turned it over to the Union Pacific Company, while he was a director in that company.

Mr. Gould while a director was also interested in one-half of the profits on the construction of the branch lines of the Central Branch Union Pacific, the stock of which was owned by the Union Pacific Company.

Mr. S. H. H. Clark, while general manager of the Union Pacific Company, built the Belt Line around Omaha, and afterwards transferred it to the Missouri Pacific upon the allegation that it did not belong to the Union Pacific, but to him, although he had used the funds of the Union Pacific in its construction.

In the construction of a branch of the Oregon Short Line to Ketchikan a contract was made with Mr. J. M. Eddy by which, for \$1,500, he became the nominal contractor for that work, but on the same day that that contract was executed, whereby he was to receive \$40,000 per mile in bonds and stocks, he executed to Mr. Charles Francis Adams, as trustee, his interest in the contract upon the stipulation that the Union Pacific Railway Company would pay the actual cost of construction. The effect of this action was to inflate the capitalization of the line to an amount exceeding the actual cost of construction. The cost of the branch, according to the figures of the Union Pacific Railway Company Construction Department, was \$15,991 per mile. It was bonded at the rate of \$20,000 per mile and stocked on the same basis, and the Union Pacific Railway Company guaranteed the payment of interest, which practically amounted to nearly $7\frac{1}{2}$ per cent. on the actual cost of construction.

Messrs. Sidney Dillon, F. Gordon Dexter, and Elisha Atkins participated in meetings of directors when releases of themselves as beneficiaries of the construction contracts of the Union Pacific Railroad Company were passed upon by the board of directors of that company.

Mr. John Sharp, of Salt Lake City, a director, is interested in a salt company that supplies salt, under contract, to the Union Pacific Railway Company, and in the Tintic iron deposits which are shipped largely over the Utah Southern Railroad.

In addition to these instances, a reference need only be made to the Wyoming Coal Company, the Pullman Palace Car Company, and the Credit Mobilier contracts, which are covered by the testimony taken by the Wilson committee in 1873.

15. By section 1 of the Thurman act, the Union Pacific and Central Pacific Companies were required each to ascertain its net earnings by deducting from the gross amount of its earnings the necessary expenses actually paid within the year, in operating and keeping the road in a state of repair and also by deducting interest on the first-mortgage bonds. Instead of complying with this obligation, the Union Pacific Company has deducted over \$10,000,000 and the Central Pacific over \$5,000,000 since 1878 on account of pools, subsidies, rebates, and refunds, and both companies have wrongfully misstated their gross earnings in their reports to the Government.

It was claimed by the companies that these payments were made to maintain rates and to buy trade. But their concealment and the omission of these large sums from the gross earnings of the companies as reported put the burden of proof upon them in each and every case. Included in these secret and improper deductions were payments of over \$4,000,000 to the Pacific Mail Steamship Company by the two companies; \$200,000 to northern lines for keeping out of certain territory; \$570,000 to the Omaha and Grant Smelting and Refining Company since 1883; \$227,000 charged by Mr. Charles Frances Adams, in 1884, "for estimated loss on Salt Lake City and Colorado coal sales"; rebates to the Utah Forwarding Company and to the Northwestern Forwarding Company, at the rate of \$3 per ton, for salt that could be bought for \$1.75 per ton; rebates of \$22,000 to the Marshall Consolidated Coal Mining Company for coal that could only be carried over the Union Pacific line; commissions to Lyman & Wallace, of Salt Lake City, for handling coal and salt; rebates to Adams & Keisel, because they had promised to expend \$100,000 for the building of a bathing resort at Syracuse, on Salt Lake; \$25,000 a year to the Union Elevator Company at Council Bluffs as a terminal allowance; and large sums to the firm of Himebaugh & Merriam at Omaha, for the same purpose.

Under the name of rebates large sums were paid annually to Mr. Loveland for services to the road in 1879. Payments under the guise of rebates were made to A. W. Bristoll for the purpose, as explained by Mr. Kimball, of encouraging the mining interest at Butte. And the Union Pacific Company, in its generosity, called on the Government to pay one-fourth of these rebates by the deduction of that amount from the sum which the Government would otherwise have received.

The rebate book was used as the hiding place for the iniquities in the system. Payments that were not made to buy trade or to buy peace were put in there. It was one of the "india-rubber" accounts of the company. Opportunities for the rankest favoritism and corruption were invitingly spread before the officers of the operating department; and, by the secrecy of these accounts, the company gave to favored shippers great advantages which it refused to give to others. Ex-Senator Hill, of Denver, said that his smelting works would have gone into the same business as the Omaha and Grant Smelting and Refining Company, if he could have had any assurance that he could get the same rates.

The officers of the Union Pacific Railway Company went further, even, than to refuse equal rates; they boldly denied that rebates were being granted to favored shippers; and when appeals were made to President Adams, he declined to interfere and turned the complainants over to Mr. Kimball, the general traffic manager.

In addition to the deductions made on account of pools, subsidies, and rebates, the Union Pacific and Central Pacific Companies also resorted to a scheme of constructive mileage. Under the system adopted, the companies did not distribute their earnings on a shipment on the pro rata or straight mileage basis, but each allowed its unaided or branch lines an additional or assumed mileage; so that on a shipment from Omaha to Lincoln, Neb., for instance, in which, on a straight mileage, the Union Pacific should get a mileage allowance for 34 miles out of 116 miles, and the Omaha and Republican Valley should receive its proper share for 82 miles out of a total mileage of 116 miles, the Omaha and Republican Valley Railroad would, under the constructive mileage system, be allowed $1\frac{1}{2}$ miles for every actual mile. The Union Pacific would then get an allowance of 34 miles out of a total of 158 miles, instead of out of 116 miles; so that if \$20 were paid for transporting a car from Omaha to Lincoln the Union Pacific's share would, under the constructive mileage system, be diminished from \$5.86 on the straight mileage basis to \$4.33 on the constructive mileage basis for transportation of the car for 34 miles, and the share of the Omaha and Republican Valley line would be increased correspondingly.

The estimates for one year placed the total transfer from the Union Pacific to its auxiliary companies at \$442,000, and for six years it is estimated at \$2,240,000; but as the Union Pacific owned the stock of the branch lines, it did not lose 1 cent by adding the sum of \$442,000 to the earnings of the branch lines and deducting that sum from the earnings of the main line.

There were practical gains, however, in two respects. This inflation of the earnings of the branch lines gave an appearance of prosperity to them and enabled the Union Pacific Company to float the bonds of the branch lines at higher figures than would have been otherwise obtainable. It is resorted to by other railroad companies throughout the country, and for the same purpose; and it is usual among other railroad companies. But on no other railroads are the relations of branch lines to the main line so peculiar as are those that prevail between the companies under investigation and the Government. The scheme was a trick of the financier. When the Union Pacific Company adopted the system of constructive mileage its credit was good, and by making these allowances to the branch lines their apparent earnings would be increased and their credit would be raised, so that the bonds that were expended in their construction could be floated upon the public and the Union Pacific Company could obtain more ready money for its schemes of extension.

The two companies gained in another respect by adopting constructive mileage. They were required to pay 25 per cent. of their net earnings to the Government. If either company diminished the apparent gross earnings of the main line to the extent of \$442,000 per annum by transferring that sum to the gross earnings of the branch lines, it saved over \$110,000 in its immediate payments to the Government. It is probable that the payments by the Union Pacific Company to the Government since 1881 have been diminished through the constructive mileage device to the extent of \$500,000. This figure is an estimate, as the accounting involved in an accurate determination of the amount of constructive mileage allowances granted by the Union Pacific Company to its branch lines could be prepared only by the examination of each way-bill issued during six years, and this work would consume years in time and a vast sum of money.

The gross earnings, as reported, also failed to show the earnings of the Omaha Bridge and of the Pullman Palace Car Company. The earnings from the telegraph and express business were also diverted by the Western Union Telegraph Company, by the Pacific Express Company, and Wells, Fargo & Co., which should be made to account to the Government for all earnings in excess of "the necessary expenses of operating and keeping the roads in a state of repair."

It is, therefore, found that the gross earnings of the two companies, as reported and settled for with the Government, were wrong in so far as they overcharged the Government for Government service, so far as the earnings were reduced by the omission of the actual earnings of any parts of the railroad, and by the omission of the earnings for telegraph and express service; by the allowance \$442,000 a year in constructive mileage to branch lines, and by the deductions for rebates, pool balances, and subsidies, amounting to about \$4,000,000 a year—or at least for so much thereof as was paid out for favoritism to particular firms or companies and for other purposes which were entirely foreign to rebates and pools and which did not partake of a trust relation.

The Thurman act, section 1, provided that from the gross amount of the earnings there should be deducted the necessary expenses actually paid within the year in operating the road and keeping the same in a state of repair; also interest on the first-mortgage bonds. The pool expenses, rebate allowances, and other items that the companies deducted were not included in the legal enumeration and should not have been covertly subtracted from the amount of gross earnings. It never was the contemplation of Congress to deduct those sums.

In the necessary expenses actually paid within the year "in operating the road and keeping it in a state of repair" each of the companies has included large sums which were expended for improper purposes, for influencing legislation, for carrying elections, or for purposes for which insufficient vouchers have been rendered.

Inquiry develops the fact that the Commissioner of Railroads has not examined the vouchers comprised within these necessary expenses, because of insufficient force; and the companies have therefore improperly obtained large credits in their accounts with the Government.

16. By section 6 of the Thurman act, no dividend can lawfully be made, voted, or paid by the Union Pacific or Central Pacific Company "when the said company shall be in default in respect to payment either of the sums required as aforesaid to be paid in the said sinking fund, or in respect of the payment of the said 5 per cent. of the net earnings, or in respect of interest on any debt the lien of which, or of the debt on which it may accrue, is paramount to that of the United States." These companies did declare dividends while in such default.

17. Section 11 of the Thurman act requires the two companies to perform all the requirements of that act within six months after such performance may be due. They did not pay the amounts due by them within six months after such payment was due.

18. The Union Pacific Railway Company has failed to fulfill the obligations imposed upon it by the interstate commerce law, approved February 5, 1887. It has discriminated between connecting lines; it has executed a traffic arrangement with the Chicago, Milwaukee and St. Paul Railroad Company as against its other eastern connections; it charges more for the short haul than for the longer haul; it participates in agreements to maintain rates which are unreasonable, and also violates that part of section 1 of the act referred to which requires that all charges for transportation and service shall be reasonable and just.

The testimony taken by the Commission in Kansas, Nebraska, and Colorado, when representatives of the company were in attendance, abounded in instances of such violations, concerning which no explanation of any kind has been made.

19. In addition to the specific obligations heretofore enumerated, the Union Pacific Railway Company has transgressed in another respect. It had no right to do anything except what was expressly allowed by the act of July 1, 1862, and the acts supplementary thereto. In building branch roads it has exceeded the limits of power expressly granted to it by the act of incorporation. In mining coal for sale to the public; in quarrying stone for the same purpose; in running eighteen hotels; in establishing soda works; in building elevators for lease to private individuals; in acquiring control of water-power at the Blue Springs, Neb.; in purchasing interests in newspapers; in buying and selling salt; in engaging in the sale of town lots; and investing in the Pacific Express Company, the Occidental and Oriental Steamship Company, coal companies' stocks, and street-railway stocks, it has exceeded the limitations upon its powers as prescribed by Congress.

The Union Pacific Railway Company has a proprietary interest at the present time in forty-one corporations, of which Mr. Charles Francis Adams says he is, or "ought to be," president. The company owns stocks and bonds in thirty-six railroad companies, none of which are essential to the operation of a railroad from the Missouri River to a connection with the Central Pacific near Ogden, which was its original purpose.

It owns bonds of the Council Bluffs Street Railway Company and the National Mining Industrial Association of Colorado.

It also owns stocks in the following corporations:

The Bakerville and Leadville Toll Road Company.

The Bozeman Coal Company.

The Kansas and Eastern Railroad Construction Company.

The Kansas Carbon Company.

The National Land Company.

The Nevada Improvement Company.

The Occidental and Oriental Steamship Company.

The Pacific Express Company.

The Saint Louis and Mississippi Valley Transportation Company.

The Union Coal Company.

The Union Elevator Company at Council Bluffs; and

The Union Elevator Company at Omaha.

In addition to the above stocks and bonds, the Union Pacific Company owns coal and other lands valued at \$198,686.98; the Laramie Soda Works and soda deposits, \$64,062.95.

Through its control of these adjunct corporations, it also controls other railroads and other corporations which are engaged in other business than that of transportation.

BRANCH LINES.

Considerable attention has been devoted by the Commission to the policy which was adopted and the methods pursued by the company in building branch lines. At the close of the year 1886 it appears that these branch lines, measuring 2,762 miles, had funded and unfunded debts amounting to \$48,837,254.50, on which the interest charge would be \$3,086,888.68 per annum.

The company complained that the original charter of the Union Pacific was remarkably narrow and that the corporation was embarrassed by its inability to build these lines; but, by investing in the securities of other corporations it did, indirectly, what it did not have the power to do directly. Mr. Adams says he planned to occupy the whole country west of the Missouri River, constructing his lines as fast as, or a little faster than, the population grew to sustain them. His idea was to guard against competition and to retain for the Union Pacific the territory which he regarded as naturally tributary to it. Had the company not built these lines, he claimed that it would be almost bankrupt to-day, and that if the Union Pacific had no branch lines the annual installment paid to the Government on account of the debt would not be half the present figure. The president and solicitor of the company claimed that the showing on the company's books of deficits of \$1,354,725 upon fifteen of the branch lines in the system was more apparent than real, as these deficits were mainly fixed charges upon bonds held by the parent company, and not by the public; that the net earnings of the branch-line system in 1886 were \$1,472,471.69, while the payments to the public on account of fixed charges were \$1,298,399.17, leaving \$174,086.52 as the amount of net earnings in excess of fixed charges to the public.

But the value of the branch lines, the managers contended, did not lie in the direct showing of their profits or losses which might appear on their books. They might show heavy losses in themselves, and yet, by supplying traffic to the main line which otherwise it would not obtain, they might yield a handsome return on the investment. The comptroller of the company also produced figures to show that the branch lines were worth nearly \$5,000,000 per annum to the parent company, and yielded it a return of nearly 11 per cent. on its investment. In support of that claim the following tabulation was presented by them:

MEMORANDUM IN RELATION TO THE UNION PACIFIC COMPANY'S INVESTMENTS.

Investments, stocks, bonds, etc., December 31, 1886, cost	\$45, 199, 858. 07
Income from investments, 1886, company	1, 593, 674. 65
Income from investments, 1886, trustees Kansas Pacific consolidated mortgage	72, 300. 00
Total, equal to 3.68 per cent. on the cost of our investments....	1, 665, 974. 65
To this should be added the net earnings derived by the Union Pacific Railway Company from traffic turned over to, or received from, its branch lines. The gross earnings on this traffic during the year 1886 amounted to \$5,478,454.91. It is estimated that the expense incident to this transportation is about 40 per cent., leaving 60 per cent. net, or, say	
	3, 287, 072. 95
This would make the total net income derived by the Union Pacific from its investments	4, 953, 047. 60
Or, on the amount of its investment, 10.95 per cent.	

From this compilation it appears to be Mr. Adams's view that the only way out for the company is to go ahead; so he asks authority to build more branch lines. He proposes to build 2,000 miles additional; he proposes to build from Fort Steele, south, to Aspen and to a connection with the Colorado division at Dillon, bringing the ores of Colorado and Wyoming Territory with the best coking coals of the West and the anthracite coal of Crested Butte. This extension of 400 miles would cost \$8,000,000.

He also proposes to build to Walla Walla, in Washington Territory; to San Francisco through the Beckwith Pass; and to Los Angeles, in Southern California, from the present terminus of the Utah Southern Railroad at Frisco. He proposes to occupy the vacant valleys in Kansas and Nebraska that are being "appropriated" by rival companies, and to develop west of Sherman, which is the summit of the Rocky Mountains. He desires to be allowed to take the \$7,000,000 of the company's money which is now in the sinking fund of the United States Treasury, under the operation of the Thurman act, accumulating at the rate of 2 per cent. per annum, and invest it in branch lines, claiming that it would be worth \$20,000,000 inside of ten years. This estimate does not quite accord with his promise made in 1884, that he would make the company's investments in branch lines earn 50 per cent. per annum.

As matter of fact, the branch lines are not bringing \$5,000,000 a year to the Union Pacific. They are not as a whole bringing any profit to it, but are drains on the parent company to the extent of over \$1,500,000 a year.

If the compilation submitted by the company be examined closely it will be found unreliable, even on the company's own showing. The item designated "income from investments," \$1,665,974.65, purporting to represent the income from branch lines, dwindled down, under scrutiny, to \$703,665, and then to a lower figure.

But, in presenting to the Commission representations so grossly inaccurate, the company laid itself open to question concerning other figures which it presented. To the Commission it represented that the branch lines had net earnings of \$1,472,471.69, while the payments to the public were \$1,298,399.17, leaving a profit on the branch lines of \$174,086.52.

But the company failed to assess any part of the general expense of the system to the adjunct companies, and imposed all of that sum on the parent company.

Had the proper distribution of general expenses been made, and had not the item of constructive mileage, amounting to \$442,000, and of subsidies paid to northern lines, been charged against the parent company, the deficits of the branch lines would have been \$2,206,416.99 in 1886, stated as follows:

Interest	\$3,086,888.68
General expenses not charged	100,000.00
Constructive mileage	442,000.00
Subsidy to northern lines by parent company	50,000.00
	<hr/>
	3,678,888.68
Net earnings	1,472,471.69
	<hr/>
Deficit	2,206,416.99

But, as an offset to this deficit of \$2,206,416.99, the company claims a gain of \$3,287,072.95 on the presumption that there is a profit of 60 per cent. in the transportation of interchanged traffic—40 per cent. representing cost of transportation.

The company omits to refer to the fact that the average cost of transportation on the Union Pacific Railroad is 57.75 per cent. In its computation to offset the deficit of the branch lines the company claims a profit of \$656,741.12 on the traffic interchanged with the Oregon Short Line. In Mr. Adams's testimony (see vol. 1, p. 29), he was asked:

Q. Are the rates which are paid for Oregon Short Line freight, as applied to the Union Pacific portion of the line, remunerative rates?—A. I can not tell you. Recently my attention was called to the fact that the business during one month was being done at a remarkably low rate. My attention had not been called to the fact previously, and I have sent out to inquire why it was.

In 1886 (vol. 1, p. 106) it appears that the Pacific coast business, including traffic over the Oregon Short Line passing west of Huntington, amounted to \$1,334,249.47, and that the number of tons of freight carried 1 mile (annual report for 1886, p. 107) was 228,661,421, making an average of $\frac{5.8}{10}$ of a cent per ton per mile. The total tons carried 1 mile of all classes of traffic was 966,233,577 (annual report for 1886, p. 107) and the average rate (annual report for 1886, p. 109) was 1.54 cents. So that the Pacific coast business was carried at a reduction of nearly 1 cent per ton per mile below the average rate for transportation. The freight receipts constitute 69 per cent. of the gross earnings of the company, and the application of this proportion to operating expenses would make the cost of transporting a ton of freight 1.05 cents per ton per mile.

It will thus be seen that the average rate for transporting Pacific coast business, $\frac{5.8}{10}$ of a cent per ton per mile, was nearly half a cent below the average cost of transporting a ton of freight on the railroad, and nearly 1 cent per ton per mile below the average charge for this service. To make a profit of 60 per cent., as the president of the company assumes, the Pacific coast business must have been carried at a cost of less than a quarter of a cent per ton per mile.

It would be fair to assume that the Oregon Short Line traffic, instead of bringing a profit to the main line of \$656,741.12, as is contended, really cost the Union Pacific over \$600,000. It should also be noted that the business over the Utah and Northern, in competition with the Northern Pacific, and the traffic over the Colorado Central, were largely competitive. These three lines—the Oregon Short Line, the Utah Northern, and the Colorado Central—furnish nearly 60 per cent. of the interchanged traffic.

In the face of these figures it is impossible to sustain the claim that the interchanged traffic yields a profit of 60 per cent. or 40 per cent., but even a profit by the main line of 40 per cent. on interchanged traffic would not overcome the deficiency.

Another important factor in this calculation is the item of fixed charges, of which the interchanged traffic should bear its just proportion. The interchanged traffic amounts to 29 per cent. of the total traffic, and this percentage applied to the total fixed charges of the company would yield the sum of \$1,903,000 as an additional charge against this interchanged traffic, which would increase the deficit to \$4,109,416.

The president of the company has issued a circular letter inviting the opinions of railroad experts upon the question of branch lines. In stating the case he said that five trains of 24 cars each passed daily from the main line at Granger to the Oregon Short Line. The annual report of the company shows that 57, and not 120, cars daily passed to the Oregon Short Line at that point. (See annual report, p. 140.) The number of cars passing from the Oregon Short Line to the Union Pacific was only 29. Of the 57 cars that passed to the Oregon Short Line, the greater number were coal cars from Rock Springs, which gave a haul of only 40 miles to the Union Pacific, as against 200 miles, or thereabouts, when that coal was sent by way of Ogden.

As will be seen by reference to the same page, three-fourths of that traffic leaves the Oregon Short Line at Pocatello and passes north over the tracks of the Utah and Northern, only 15 cars a day passing west from the western terminus of the Oregon Short Line at Huntington. The Utah and Northern connects with the main line at Ogden, and prior to the completion of the Oregon Short Line the traffic to the mining camps in the Northwest passed over the entire line of the Union

Pacific and was transferred to the Utah and Northern at Ogden. The traffic has been diverted, and the Utah and Northern and Union Pacific lose when an apparent gain is shown for the Oregon Short Line. The president of the company also claims that the interchanged traffic for the Oregon Short Line costs 55 cents per train mile. As there are 360 tons on the train referred to, the cost per mile would be about $1\frac{1}{2}$ mills, or one-seventh of a cent per ton per mile. But as the average cost of transportation on the Union Pacific road in 1886 was 1.05 cents per ton per mile, the inaccuracy of the statement that the Oregon Short Line traffic was hauled for one-seventh of that figure becomes manifest.

In New York, where the roads run through what may be called an almost continuous town, and in Pennsylvania, the cost of transportation has not been reduced below 4 mills per ton per mile. A computation of the earnings of two daily trains from Omaha to Granger on the basis of the president's claim, would yield a gross sum of \$1,718,712 per annum, yet the total gross receipts of the traffic referred to, as shown by the table submitted by the company for 1886, were only \$1,095,000.

The branch-line system, in its present shape, is an outgrowth of those speculative features that have marked the administration of the company since its inception. It may be but a coincidence, but it is, nevertheless, a fact that the company made more money before the creation of the branch-line system than it has since that time. Whatever explanation may be made by the officers the facts are as stated.

The president says the branch-line system was designed to guard the company against competition, yet the Omaha and Republican Valley road was the second line into Marysville, Kan., and the fourth line into Lincoln, Neb. The Union Pacific Company extension was the second into Portland, Oregon, and the second or third into Denver, Col. From this statement it will be apparent that the company, instead of guarding against competition, really inaugurated competition through its branch line extensions.

A study of the branch lines of the company reveals the following:

Six roads abandoned to creditors.

Names.	Mileage.
Nevada Central.....	93.50
Utah Eastern.....	20.00
Lawrence and Emporia (deficit in 1886 of \$44,284.21).....	31.00
St. Joseph and Grand Island (abandoned to bondholders).....	252.53
South Park and Leadville.....	7.50
Denver and Boulder Valley (deficit in 1886 \$22,985.39).....	27.00
Total.....	431.52
Net deficit.....	\$58,097.99

Eight roads that did not pay operating expenses in 1886.

Names.	Mileage.	Operating losses.	Total deficit of income.
Denver, South Park and Pacific.....	322.25	\$46,308.32	\$368,081.56
Kansas Central.....	166.14	76,046.66	159,403.62
Greeley, Salt Lake and Pacific.....	53.89	21,679.48	78,239.48
Leavenworth, Topeka and Southwestern.....	46.30	17,387.61	72,587.61
Manhattan, Alma and Burlingame.....	56.62	10,679.87	51,359.87
Denver and Middle Park.....	3.92	2,333.42	2,333.42
Georgetown, Breckenridge and Leadville.....	8.47	4,117.72	13,007.72
Laramie, North Park and Pacific.....	13.51	1,158.70	1,158.70
Total.....	671.10	179,706.78	\$746,171.98

REPORT OF THE U. S. PACIFIC RAILWAY COMMISSION. 173

Ten roads that failed to pay fixed charges.

Name.	Mileage.	Deficiency.
Oregon Short Line.....	610. 62	\$395, 103. 71
Omaha and Republican Valley.....	288. 86	153, 546. 25
Utah Central.....	280. 00	43, 031. 51
Salt Lake and Western.....	57. 60	35, 416. 75
Junction City and Fort Kearney.....	87. 60	35, 223. 22
Echo and Park City.....	31. 78	35, 139. 83
Omaha, Niobrara and Black Hills.....	114. 97	29, 382. 92
Salina and Southwestern.....	35. 43	7, 094. 62
Solomon Railroad.....	57. 04	6, 667. 08
Salina, Lincoln and Western.....	34. 60	
Total.....	1, 598. 50	753, 805. 89

Eight roads on which profit was made.

Name.	Mileage.	Profit.
Colorado Central.....	327. 17	\$78, 341. 82
Utah and Northern.....	466. 18	72, 959. 54
Utah and Nevada.....	37. 00	40, 749. 91
Montana Railway Company.....	9. 00	18, 304. 40
Manhattan and Blue Valley.....	54. 95	6, 406. 63
Denver, Marshall and Boulder.....	26. 70	6, 605. 16
Golden Boulder and Cariboo.....	5. 09	1, 664. 29
Central Branch Union Pacific.....	388. 03	277, 002. 39
Total.....	1, 314. 12	502, 034. 14

RECAPITULATION.

	Number.	Mileage.
Roads abandoned to creditors.....	6	431. 52
Roads that did not pay operating expenses.....	8	671. 10
Roads that failed to pay fixed charges.....	10	1, 598. 50
Roads that yielded a profit.....	8	1, 314. 12
Total.....	32	4, 015. 24

A scrutiny of the published reports of these auxiliary companies discloses a system of book-keeping inconsistent with accurate and honest accounting.

The Denver and Boulder Valley Company defaulted on its interest and is operated to-day for the Kansas Pacific consolidated mortgage trustees. The interest charge amounts annually to \$38,500. Instead of charging up this interest as against the line, the entry was omitted in the Union Pacific Company's report, thereby leading one to believe that the road gained \$15,639.75 during the year, whereas it lost \$22,860.25.

The taxes of the Denver and Middle Park Road were not charged up against it.

To inflate the capital of the Oregon Short Line, the president entered into a contract by which, in consideration of the payment of \$1,500 to Mr. J. M. Eddy, for the use of his name, the capitalization was increased to a large extent. In the report of the company the cost of the road was falsely stated to be \$29,000,000, while in fact, as appears from the evidence of the president, it was built for less than \$15,000,000.

The Manhattan and Blue Valley Company, according to the annual report of the Union Pacific, made a profit; but the bonds of the road had not been issued up to the close of 1886, and if the interest had been charged as it should have been a deficit would have been shown.

By the omission of the interest on its bonds for one month the Salina, Lincoln and Western Company was reported to have made a profit instead of a loss.

The Central Branch Union Pacific is leased to the Missouri Pacific, so that none of the benefits of the operation of that line in 1886, except a dividend of \$85,000, really went to the Union Pacific.

Three of the eight lines marked as profitable are not run by the Union Pacific Company. One, the Golden Boulder and Caribou, has been discontinued; so that only four of the twenty-two operated lines included in the Union Pacific system are directly profitable. Eighteen of the operated lines do not pay fixed charges, and six of the railroad companies in which the Union Pacific Company has a proprietary interest do not pay the cost of operating.

The lines tributary to the Union Pacific Railway Company may be divided into mining and agricultural roads, as follows:

	Number.	Mileage.
Mining and mineral.....	19	1,821.56
Agricultural.....	11	1,195.05
Transcontinental.....	1	610.62
Total (Central Branch excluded).....	31	3,627.23

It is interesting, in glancing over this table, to recall the fact, stated very forcibly by the president, that the building of mining and mineral roads is a species of "railroad gambling;" that the agricultural branches will grow as population increases, while mineral and mining roads will depend upon the mines to which they run. If it be established that population is too sparse to properly support the agricultural roads, that the mines and minerals along mining branch lines have given out and proved non-productive, and that the transcontinental traffic is done at a loss, then the estimate of the present value of the branch-line system should be very low.

THE MINERAL ROADS.

The Nevada Central (93½ miles) was bought with the idea of making it a link in the extension of the Union Pacific system toward the Nevada mining camps, and to compete with the Central Pacific. It is 400 miles away from the nearest point of the Union Pacific track. After sinking \$565,000 in it, the Union Pacific Railway Company abandoned the road to creditors. Sidney Dillon testified (see vol. 1, p. 217) that he bought the road for the Union Pacific to keep it out of the hands of the Denver and Rio Grande, "whether it was good for anything or not."

The Utah Eastern track, for 20 miles, has been taken up to get the old material.

The Lawrence and Emporia was built to a coal mine which gave out, and it has been abandoned for its entire length of 31 miles.

The South Park and Leadville (7½ miles) was built to Mr. George R. Blanchard's mines, which, in the language of Mr. Adams, "came to grief."

The Denver and Boulder Valley defaulted on its interest and is now run for the Kansas Pacific Consolidated mortgage trustees, who hold the bonds.

The Utah Central and one or two other lines gave to the Union Pacific most of its profits in its most prosperous days. The Utah Central was

extended 160 miles, under the name of the Utah Southern, to the Horn silver mines. For a while this property yielded \$1,000 a day in freight, and then gave out.

The Utah and Northern reaches Butte, the largest mining camp in the world. According to the president, the construction of the Northern Pacific to that camp cut the business of this line in two. The decline in the price of copper also impaired its earnings. To protect some part of the territory tributary to that line and to the Oregon Short Line, the Union Pacific pays a large subsidy to the Northern Pacific to keep it out of certain territory.

The Salt Lake and Western (57.60 miles), into which the Union Pacific has put nearly \$1,000,000, reaches the Tintic iron deposit in which Mr. John Sharp, one of the directors of the Union Pacific, is interested.

The Utah and Nevada (37 miles) is spoken of as an undeveloped enterprise. It was part of the scheme to connect the Union Pacific with the Nevada Central. It reaches mines at Stockton, but its profit comes from carrying excursionists from Salt Lake City to a bathing resort called Garfield Beach, on Salt Lake.

The Denver, South Park and Pacific has entailed a direct loss of over \$10,000,000 on the Union Pacific. Between Denver and Gunnison City many towns, mines, and smelting works have been abandoned.

The Georgetown, Breckenridge and Leadville (8½ miles) is an engineering curiosity. It is the famous loop line. Its gross earnings in 1885 were less than 40 per cent. of the operating expenses.

The Golden, Boulder and Caribou (5 miles) has been discontinued, and the traffic diverted to the Denver, Marshall and Boulder.

The Denver, Marshall and Boulder is a reorganization of the Denver and Western, the bonds of which were bought by Mr. Adams at 35 cents.

Part of the Colorado Central, from Fort Collins to Cheyenne, a distance of about 30 miles, has been abandoned, and the traffic is sent over the Denver Pacific. This abandoned road is a part of a line that was built by Mr. Gould to force a consolidation of the Kansas Pacific with the Union Pacific.

The Laramie, North Park and Pacific (13½ miles) was built to connect a soda lake and soda works with the Union Pacific. The enterprise has never paid, and "is an unfortunate one."

The Greeley, Salt Lake and Pacific (53.89 miles) is a road that brings stone from quarries at Stout, Colo.

THE AGRICULTURAL ROADS.

The value of the 11 agricultural roads depends upon the anticipated increase of population. A section that is forced to sustain a railroad with an excess of over \$100,000,000 in watered capital can not compete against other territory which does not pay an excessive contribution toward the railroad that is tributary to it. Four of the agricultural roads of the Union Pacific system appear to be a burden to the parent company.

The Kansas Central (166 miles) was transferred by Mr. Gould, at the consolidation of the Union Pacific, in 1880, for \$479,000. It fails to pay operating expenses; but the Union Pacific Company, while holding a large proportion of the bonds, has been paying, unnecessarily, \$10,000 a year in interest to bondholders. A foreclosure is now contemplated. The Leavenworth, Topeka and Southwestern (46.30 miles), in the hands of Mr. Adams, was "a bankrupt and irresponsible road that was hanging around loose." So he arranged with the Atchison, Topeka and

Santa Fé that the two should buy it jointly to keep any other railroad from getting hold of it. He says the road is of no importance to the Union Pacific, but the Union Pacific has nevertheless guaranteed \$690,000 of its bonds.

The Manhattan, Alma and Burlingame (56.62 miles), according to Mr. Adams, runs through a poor country, and is operated jointly by the Atchison, Topeka and Santa Fé and the Union Pacific.

The St. Joseph and Grand Island (252.52 miles) has gone through two foreclosures. Until recently it had never paid interest on its first and second mortgage bonds, and was operated by a receiver. It is now under the control of the bondholders. Bonds for part of the road have sold for as low as 10 per cent., and in the consolidation of January 24, 1880, Mr. Gould and his associates unloaded the bonds at par and the worthless stock of this company on the Union Pacific at \$20 per share. The Union Pacific has since guaranteed the payment of interest on the bonds of this road, amounting to nearly \$7,000,000, and their main value in the market lies in that guaranty.

The Omaha and Republican Valley line, which is the largest of the agricultural roads in the Union Pacific system, gives a very short haul to the main line, striking the Union Pacific at Valley, 34 miles west of Omaha. It therefore possesses little value as a feeder. It was the second line into Marysville, Kans., and the fourth line into Lincoln, and therefore was not built to guard against competition, but is forced to compete with a trunk line. Its deficit in 1886 was \$153,546.25, and in 1885, \$117,375.83.

The Omaha, Niobrara and Black Hills line (114.97 miles) has been consolidated with the Omaha and Republican Valley road. It passes through an agricultural country that is sparsely populated, a considerable part of the territory bordering the line being owned by speculators, who have held it to profit by the influx of settlers and by the consequent increase of land values. Notwithstanding this sparsity, three trunk lines are contesting for the occupation of the valleys of that locality. Its deficits were, in 1886, \$29,382.92; in 1885, \$50,504.34.

The Salina, Lincoln and Western (34.60 miles) was built, the president said, "because its construction was forced upon us." In other words, if the Union Pacific had not occupied that territory another trunk line would have been built there.

The Manhattan and Blue Valley (54.97 miles) was first built for a distance of 12 miles north of Manhattan, and then abandoned. Subsequently it was extended 28 miles and linked the Union and Kansas divisions together, thereby saving \$40,000 a year which the Union Pacific had previously paid to the Missouri Pacific for the transfer of freight between the Union and Kansas divisions.

The Junction City and Fort Kearney, the Solomon Railroad and the Salina and Southwestern are roads which do not pay directly, but they deliver traffic to the Kansas Pacific for a considerable haul over that line, and it is claimed by the Union Pacific managers that an indirect profit is made on those branches.

If the Union Pacific be seriously disturbed by the interference of other powerful corporations in the territory west of the Missouri River, it would seem to be a wise policy to allow its enemies to waste their energies and their money in building and in settling that region. But the Union Pacific, instead of taking that course, attempted to repress the unhealthy competition of its rivals by itself engaging in the work of extension. It made a bargain with Mr. Jay Gould by which it allowed him to operate the Central Branch Union Pacific, upon the pledge that he would not intrude upon the territory which the Union

Pacific claims as its own. Mr. Gould respected this agreement to the extent of keeping the Missouri Pacific out of the way, but not as to another corporation over which he exercised similar control.

Many of the branch lines, both mining and agricultural, are in poor condition. The Junction City and Fort Kearney line and the Solomon Railroad were built with old rails, old ties, and old material that had been taken off the main line of the Kansas Pacific. This practice is still pursued. The Salina, Lincoln and Western, which was bonded last year on a basis of \$15,000 per mile, could have been laid with steel rails at \$13,000, but the line, as laid with old rails from the main line, cost about \$11,000 per mile. In this way the line was bonded to nearly 40 per cent. in excess of its cost. This system of inflation has been generally resorted to by the Union Pacific in the management of its branches. The lines do not show good physical condition or good promise. The recent failure of the crops in the section west of the 100th meridian and the liability to further failures are elements which ought not to be ignored in passing judgment upon the value of this auxiliary system.

In referring to the territory a short distance west of these lines, the inspecting engineer of the Commission said he regarded the 100th meridian, passing through North Platte, Nebr., 247 miles west of Omaha, as the limit of agricultural development, and expressed the belief that the schemes of "prospecting" beyond that line were likely to come to a bitter end because of climatic conditions. The engineer disregards the rosy pictures drawn by interested persons and prefers to believe in the permanency of the Rocky and Sierra Nevada Mountains, and in their effects on the climatic conditions of the tract which extends across the continent for a distance of about 1,200 miles.

Having shown that the mining and mineral roads of the Union Pacific system, as a whole, are not of much value because of the giving out of the mines or the division of the business, and having shown that the agricultural roads are not, as a whole, in promising condition, it will be interesting to note how Kansas and Nebraska compare with other States in railroad mileage per square mile of area and in earnings and cost.

The tables prepared by Mr. Henry V. Poor, appended to this report and marked "Exhibit I, Poor," show that in 1886 Kansas led every State or Territory in the Union in the extent of new railroad construction. It more than doubled the next in rank, over \$41,000,000 having been expended there in railroad building, while the second in rank, Dakota Territory, made a showing of \$20,000,000. The miles of railroad built there last year were almost equal in number to the combined new mileage of ten of the most prosperous States of the Union, viz: New York, New Jersey, Pennsylvania, Delaware, Maryland, Ohio, Indiana, Illinois, Michigan, Wisconsin.

It will be seen from these figures that there was an excessive activity in the railroad development of Kansas in 1886.

Nebraska ranked third in railroad construction. A careful study of these tables and a comparison of the results of railroad construction and operation in the various States shows no substantial reason for this special activity in Kansas and Nebraska, and confirms the admitted fact that a number of powerful corporations are engaged in a scramble for new territory.

THE OREGON SHORT LINE.

In addition to the mining and agricultural roads, there is a transcontinental line (the Oregon Short Line), which was built by the Union Pa-

cific Company, to guard against the possibility of a diversion of the Pacific coast business from the Union Pacific and Central Pacific line in favor of the Southern Pacific, the managers of the Central Pacific having a greater interest in the Southern Pacific.

The transcontinental lines compete with the ocean routes, and during 1886 that business was carried at such low rates ($\frac{5.8}{100}$ of a cent per ton per mile) as to entail an actual loss of over \$900,000 upon the Union Pacific, calculating that traffic as bearing its share of the operating expenses of the road; and a loss of \$1,350,000, calculating it as bearing its proportion of the fixed charges of the line.

The building of the Oregon Short Line was attended with an enormous inflation of the capital and indebtedness of the company. The Union Pacific offered to guaranty the bonds of the line when issued, and to give with each bond of \$1,000 a bonus of \$500 in stock, the Union Pacific retaining the other \$500 to secure control. Contracts for construction were then made with third parties to conceal the watering of the capital and indebtedness, and the Union Pacific was made to bear the burden of the consequent annual losses, which were as follows:

Deficits of the Oregon Short Line:		
1883		\$106, 106. 44
1884		446, 600. 58
1885		336, 100. 16
1886		395, 103. 71
Total		1, 283, 910. 89

In attempting to guard against the possibility of diversion of the traffic from the Central Pacific and Union Pacific line, the Union Pacific Company has gone to the other extreme, and has diverted traffic from the Central Pacific. In both cases the Government, as a creditor, was, and is, and will continue to be the loser. Had the Union Pacific stockholders emphasized their faith in the value of a connection to the Pacific coast by subscribing to the stock instead of to the guarantied bonds, there would be some merit in their plea that their action was purely defensive; but when they subscribed to bonds that readily sold in the market at a premium, and allowed the burden of the losses of the line to fall on the Union Pacific, they resorted to jugglery, which becomes strikingly apparent when viewed in connection with the large debt of the company to the Government. Upon their investment in Oregon Short Line bonds they had a sure return through the guaranty of the parent company, while in the event of loss it would fall upon the Government.

The company has pursued the same course with all of its branch lines, so that on the additional mileage which the Union Pacific offers to give as additional security to the Government in case an extension should be allowed them, as recommended by the majority of the Commission, there are existing liabilities amounting to \$60,904,350, while the total cost was considerably less, and the actual value of the property, based on the earnings, is \$47,000,000.

These fictitious and unlawful capitalizations and watering of the securities have caused all the troubles of the Union Pacific Railway Company. If regard be had to the unmistakable tendency of railroad rates to decrease, and due weight be given to the gradual but sure reductions of charges on the Union Pacific road from $2\frac{1}{2}$ cents per ton per mile in 1872 to less than $1\frac{1}{2}$ cents per ton per mile in 1886 for freight, and from $3\frac{1}{2}$ cents per passenger per mile in 1881 to $2\frac{1}{2}$ cents per passenger per mile in 1886 (all of these declines occurring in spite of the extraordinary efforts of the railroad managers to resist them by pools, subsi-

dies, and other devices), there is a promise that by the operation of natural forces the water will ultimately be squeezed out of the property.

On some of the branch lines of the Union Pacific, noticeably in Nebraska on the Omaha, Niobrara and Black Hills, the territory tributary to the railroad is held, unimproved, for speculative purposes. The Union Pacific Railway Company encourages this speculative management of the land business by insisting that, in the location of town sites on its lines, it shall receive as bonus a certain proportion of the lots; and these lots it holds for an appreciation in values, instead of building up its line by encouraging settlement through cheap land values. The same improper interference in outside matters is seen on a much larger scale in the efforts of the Union Pacific Railway Company to "occupy" all the territory west of the Missouri River. This Mr. Adams publicly avowed to be his policy for the company. The proper management of a railroad over 1,000 miles in length, and the development of the territory adjoining such a line, especially when almost bare of population, would tax the attention and energy of the ablest railroad managers in the country; but the officers of the Union Pacific Company diverted their attention from the property which should have received their fostering care, in order to acquire additional territory for no other purpose than to prevent other companies from occupying it. They now operate 4,594 miles; yet even this length of line, traversing ten States and Territories, failed to satisfy the ambition of the managers. President Adams asked the Commission to recommend that the Union Pacific Company have authority to build 2,000 miles additional. He says that it is necessary to build new lines so as to occupy the territory that is naturally tributary to it. But what will be the limit to such theoretic demands? The president declared to the Commission that his company wanted to occupy all the territory west of the Missouri River; and the extent of these projects of the corporation can be realized when it is stated that the area referred to comprises more than one-half the continent.

The present management of the Union Pacific Company has not only supported the branch-line policy pursued by Mr. Sidney Dillon, and which almost brought it into a receiver's hands, but since 1883 it has added over 300 miles to its auxiliary system, and has confined itself within that limit only for the reason that the credit of the road had been exhausted by Mr. Dillon's administration, so that in June, 1884, a change, in the name of the nominal head at least, was necessary to save the company from bankruptcy. At that time the floating debt had risen to \$13,000,000, through the policy of extensions pursued, and this ought to have opened the eyes of the officers to the danger which impended. In a few months, however, the new president gave to the extension scheme fresh energy and methods, and as before all the burdens and possible losses were devolved on the Union Pacific.

Had an effort been made by the Union Pacific Company to serve the non-competitive traffic which clustered about its main line—had that traffic been fostered instead of the transcontinental competitive business, the company would to-day be on a sounder and more enduring basis. Under the present arrangement the non-competitive traffic along the main line is forced to bear the burdens not only of its own proportion of fixed charges in sustaining the inflated capitalization of the company, but also the share which justly belongs to competitive points. The natural result of such a policy is to concentrate wealth and population at the competitive points, where shippers have a choice of lines, and to drive industry from the places where trade is completely at the mercy of one line.

While the conception of the branch-line system in that particular section of the country showed an entire disregard of sound principles of trade, and while the present management of the company displayed at least the incapacity of its officers to deal with such great matters, it was difficult to realize the length and breadth of corporate possibilities until the directors came before the Commission with the suggestion that the Government forego its claim against the corporation and allow the stockholders to manage the property on sound business principles. One of the officers of the company has stated that he loved to picture the Government as the embodiment of justice; yet, in pleading for the innocent stockholder, he omitted to mention the fact that less than 2 per cent. of the original stock of \$36,762,300 had been paid for, and that the stock was issued without consideration in violation of the enactment of Congress requiring that its advance of credit to the company be secured by cash payments on stock.

Instead of inducing its stockholders to subscribe for stock issues for the building of a branch-line system, the Union Pacific Company took from its treasury the funds that should have been applicable to the Government debt and squandered them in a series of imprudent investments. As early as 1873 the Government directors suggested to the company that the branch-line extension policy should be so ordered as not to interfere with whatever present or future claim the Government might have for reimbursement. (See p. 80, Government Directors' Report.) Again, in 1877 the Government directors declared that the branch-line policy of the company should at all times be held subordinate to its obligations to the Government. (See p. 123, Government Directors' Report.) In the face of these reports and warnings, it can not be maintained by the company that it did not have sufficient notice of the determination of the Government to exact its just indebtedness.

The last and weakest plea presented by the company in behalf of the policy of extension, acquiesced in and recommended by the majority of the Commission, is the claim that the Government ought to contribute toward the development of the Western country and ought to encourage the building of branch lines. When the Government loaned its credit for the construction of the Union Pacific line it stipulated for the building of a single-track road across the continent, which would bring the Pacific States into closer connection with the rest of the Union. That motive was a political and military necessity. And to that extent the Government was justified in lending its aid, though the advisability of the method it pursued of participating as a partner in the enterprise might be seriously questioned.

When, however, the object of the Government was accomplished, it had no purpose to serve by building branch or feeding lines to the main line. That work was properly left to the judgment and risk of private capital. If settlers were to be attracted to that region, all of them, except a very small percentage, must come from other sections of the country; and such a movement ought to be kept free from Federal direction or preference.

I therefore report that the action of the Union Pacific Company, in expending its revenues and in pledging its credit to build branch lines, exceeded its corporate powers; that this policy was pursued after notice from Government directors that it must be adopted at the company's risk; that the theory of feeding lines was used as a cloak to hide schemes of corruption and maladministration by the officers and managers; that the branch line system of the Union Pacific, as a whole, is unprofitable; that the Union Pacific has wasted the revenues which

should have been applicable to the Government debt, and has removed them from the operation of the statutory lien on the aided road, in violation of section 9 of the Thurman act, which makes the Government debt a lien upon all the estate, rights, franchises, and income of the company.

OBLIGATIONS AS A COMMON CARRIER.

As a common carrier the Union Pacific was under obligation to carry for all persons on equal terms and rates without discrimination, and to charge reasonable and just rates for its service. But the inflation of its capital and indebtedness to the extent of \$70,000,000 at the inception of the enterprise precluded the possibility of fair rates except in rare cases of healthy competition. In fixing rates the Union Pacific Company started out upon the principle of charging all the traffic would bear.

PASSENGER RATES.

On some parts of the line as high as 10 cents per mile was charged for passengers, and in 1871 the average rate on the line was 7½ cents. Since 1880, because of competition, and notwithstanding the resistance of the company, the passenger rate (see p. 1058) has been reduced from 5 cents to 3 cents per mile on the eastern divisions, and from 9 cents to 5 cents on the western divisions. The rates on the Kansas division have been lower than on the Union division, and of the ten States and Territories served by the system Kansas has obtained the lowest rates. Recently, by legislative enactment, the rates in Nebraska have been fixed at 3 cents per mile, the rate which prevailed on the Union Pacific line in Kansas. The average rate on the entire system has been as follows:

Roads.	1881.	1882.	1883.	1884.	1885.*	1886.
	Cents.	Cents.	Cents.	Cents.	Cents.	Cents.
Union Division	03.331	03.310	03.2270	02.9710	02.837+	02.108—
Kansas Division	03.302	03.214	02.7776	02.6117	02.464+	02.112+
Leavenworth Branch	03.345	03.263	02.8000	02.8000	02.770—	02.690—
Cheyenne Division	04.345	03.999	03.7070	03.7447	03.639—	02.823+
Total, Union Pacific	03.340	03.290	03.1210	02.9034	02.749—	02.135+
Omaha and Republican Valley	03.100	03.180	03.2800	03.3004	02.955+	02.628—
Omaha, Niobrara and Black Hills	04.200	03.664	03.5000	03.5957	03.253+	02.801—
Marysville and Blue Valley	03.980	03.500				
Julesburg Branch	04.417	04.051	03.9420			
Echo and Park City	05.000	04.668	04.4600	04.4429	04.700+	03.872+
Colorado Central	04.719	04.444	04.3970	04.2500	03.942+	03.585+
Salt Lake and Western		05.820	05.8630	05.8813	05.735+	05.721—
Denver, South Park and Pacific	07.379	06.609	06.5490	06.2376	06.939—	05.833—
Utah and Northern	05.114	05.120	05.2750	04.5182	04.995—	04.375—
Oregon Short Line		05.545	05.6810	04.9329	04.123+	03.264+
Greeley, Salt Lake and Pacific		04.425	04.3030	04.4219	04.968+	04.169+
Lawrence and Emporia	03.244	03.589	03.1460	02.6904	02.872—	02.422—
Laramie, North Park and Pacific						07.143—
Junction City and Fort Kearney	03.754	03.290	03.1450	02.9142	02.672—	02.840—
Solomon	03.800	03.690	03.1300	02.9378	02.854+	02.931—
Salina and Southwestern	03.990	03.590	03.3000	02.3946	02.936—	02.968—
Denver and Boulder Valley	04.885	04.313	04.3440	04.3572	04.961+	03.684+
Golden, Boulder and Caribou	08.222	03.000	05.1800	04.1021	03.308—	04.497+
Georgetown, Breckenridge and Leadville				04.5837	03.968—	04.502—
Kansas Central		03.283	03.1700	02.9288	02.869+	02.873—
Montana				07.1780	07.007+	\$05.330—
Denver and Middle Park					01.098+	02.285+
Denver, Marshall and Boulder						04.093+
Manhattan and Blue Valley						02.596—
Salina, Lincoln and Western						02.820—
Consolidated branches	05.300	04.770	04.6800	04.3614	04.088—	03.608—
Entire system	03.600	03.561	03.4250	03.2690	03.058—	02.453—

FREIGHT RATES.

When the Commission visited the communities which were served by the Union Pacific Railway Company, there was a general complaint of high rates. But the greater complaint made by shippers was against discriminating rates. If rates were uniform, certain, and permanent, a shipper knew that skill, ability, and enterprise would help him on. But when the question became one of favor with the railroad manager, then capital was paralyzed.

Farmers complained (see p. 1527) that they could not get rates for shipment to Chicago within 5 or 8 cents of the figure which the elevator men obtained.

The firm of Himebaugh & Merriam, of Omaha, owns 32 elevators along the Union Pacific system; and when the farmers at Marysville, Kan., tried to ship directly to the market, they found they could not compete with that firm. Their complaint was that three-fifths of the product of their labor went to the railroad company, one-fifth to interest, and one-fifth was left for subsistence. At Marysville, Kan., it was testified (see p. 1540) that at one time the Union Pacific Company reduced its rates on corn from 32 cents to 27 cents per 100 lbs., to enable farmers to ship to market; but the rate went back again to 32 cents as soon as the market justified it. It, therefore, mattered little to the farmer whether his crop was large or small. If large, the company appropriated a considerable proportion of it in high rates; if small, it only allowed him enough to live on.

The complaints of localities and of various industries were of the same tenor. A few concerns monopolized the entire trade of the Territory tributary to the road and dictated terms to the company for their own advantage.

The following is a list of the favored shippers who had the greatest preferences:

Name.	Article.
Omaha and Grant Smelting and Refining Company	Ore and bullion.
Continental Oil Company (Standard)	Oil.
Consolidated Tank Line Company (Standard)	Oil.
Himebaugh & Merriam, Omaha	Grain.
Union Elevator Company, Council Bluffs	Cattle.
Union Stock Yards Company (W. A. Paxton)	Salt and coke.
Utah Forwarding Company (Lyman & Wallace)	Salt.
Adams & Keisel	Salt.
Marshall Consolidated Coal Mining Company	Coal.
Union Pacific Railroad Company, coal department	Coal.

The Omaha and Grant Smelting and Refining Company received rebates of \$570,000 in a period of three years, and, in addition, was allowed free switching at its yards, which was worth \$15,000 a year, while other smelting companies were forced to pay switching charges. Among the stockholders in this company were Mr. Sidney Dillon and Mr. Frederick L. Ames, directors of the Union Pacific Railroad Company.

The testimony taken at Omaha, at Denver, and at Salt Lake City showed that other smelters had been refused the rates that were given to the Omaha and Grant Company. Senator Hill, who represented the Boston and Colorado Smelting Company of Denver, declared that his company would have been in the same business as the Omaha and Grant Company if he could have obtained any assurance of getting the same rates as that corporation. He had repeatedly applied to the president

and officers of the company for rates, but had never been able to obtain them.

The miners of the Wood River country in Idaho were forced to sell their ores to the Omaha and Grant Works at Omaha, and to pay \$11 per ton for smelting, the total cost of transportation and smelting being \$34 per ton, while the miners at Butte and Helena were allowed to send their ores to Salt Lake City at a cost of \$8 for transportation and to pay only \$8 for smelting, making a difference between \$34 per ton for the transportation and smelting of the Wood River ores and \$16 for the Butte and Helena ores.

The transportation rates from the mines of Leadville to Denver were so adjusted that the smelting business was driven away from Leadville to Denver, so that of the twenty-three furnace stacks in Leadville less than one-half were running when the Commission visited that place. The method adopted by the Union Pacific Company was to charge only \$5 for transporting a ton of ore and \$12 for a ton of bullion, the effect being to force the smelting business into the Denver branch of the Omaha and Grant Smelting Works. The people of Leadville complained of these unbalanced rates, declaring that either the rate on ore was too low or the rate on bullion was too high, and they showed that by fixing the rate on bullion at \$12 per ton the smelters of Leadville were unable to remain in the business. To use their own words, "The Leadville smelting business had been crushed since the Omaha and Grant Works were established in Denver, four years ago." They also complained that the charge for transporting bullion between Leadville and Denver was higher than for any similar service in the country, being at the rate of 8 cents per ton per mile.

When the president of the Union Pacific Railway Company was asked to explain why it had discriminated in favor of the Omaha and Grant Works, he said that the other roads into Denver were backing other smelting establishments, and that the Union Pacific therefore backed the Omaha and Grant Works against all other smelters in that system. He admitted that it was a great evil (see p. 1997), and that it was a vicious way of conducting business, but confessed his utter inability to remedy the evil.

As a result of the discriminations which the Union Pacific made in favor of the Omaha and Grant Company its business has been built up to such proportions that it is now practically able to dictate its own terms to the railroad company.

The firm of Himebaugh & Merriam, at Omaha, which owns 32 elevators on the Union Pacific system, stated (see p. 1301) that it had no competitors on the line of the Union Pacific except the Union Elevator Company of Council Bluffs. The elevators at Omaha and Council Bluffs have been allowed 1 cent as a terminal charge for transfer through their elevators, and 2 cents additional, at times, to meet competition. The testimony developed the fact that farmers were forced to sell to Himebaugh & Merriam, or at least that they could not compete with that firm in shipments.

The firm of Lyman & Wallace, under the names of the Utah Forwarding Company and the Northwestern Forwarding Company has occupied a similar relation to the Union Pacific Railway Company in connection with its salt and coke business. The railway company, upon the pretext that it wanted to protect the smelters at Butte from corners in salt, determined to buy salt for delivery to it at Ogden, and fixed \$3 per ton as the price which it would pay. A firm in Ogden offered to furnish salt to the railroad company at \$1.75 per ton, but this proposal was refused,

and the railroad company paid Lyman & Wallace and the firm of Adams & Keisel \$3 per ton for salt delivered at Ogden.

The Northwestern Forwarding Company appears (see p. 2194) to have been the only concern that could sell salt to smelters in the northwestern section. Salt makers at Ogden (see p. 2213) sold salt at cost for one year in order to test the question whether they could live in that business, and they discovered that in some way (undoubtedly through rebates) the Utah Forwarding Company was able to undersell them. That company had an additional advantage in the fact that the Union Pacific Railway Company allowed it a commission of 25 cents a ton on all the salt that the Union Pacific Company bought as well as \$1 a ton on coal sold in Butte.

It also appeared that because a smelter on one of the branch lines of the Union Pacific system had refused to buy his fuel from the Utah Forwarding Company, \$5 a ton additional had been charged the smelter for the transportation of his products to Omaha.

A shipper named Ferguson (see p. 2008) was cut out of coke shipments by the Utah Forwarding Company, and it appears by his testimony that the Union Pacific Railway Company hauled coke from the Missouri River to Denver for \$1, and from Denver to Leadville for nothing.

The stock-yard business of the Union Pacific Company is so managed that the Union Stock Yards Company (of which W. A. Paxton, of Omaha, is the head) has exclusive control of the stock-yard business, owning yards at Council Bluffs and Omaha and enjoying an exclusive contract with the Union Pacific Company, by which no other stock yard is to be established at Omaha except by consent of the Union Stock Yards Company.

The Iowa State Railway Commission, upon investigating complaints relative to the management of the cattle business of the Union Pacific Railway Company, said that an effort had been made to force a shipper to unload his cattle at the Omaha yard.

A. P. Nicholas, of Omaha, who tried to establish a stock yard at that place, and who did conduct one for a period, found that, in some mysterious way, the business was being taken from him and diverted to another yard across the river.

The policy which concedes to Mr. Paxton the exclusive control of the stock-yard business of Omaha also enables him to establish packing houses at that place and to prevent the establishment of packing houses at other points along the line. Merchants of Columbus, Neb., complained of this favoritism.

The Union Pacific Company has granted to the Standard Oil Company, the Continental Oil Company, and the Consolidated Truck Line Company, since 1880, large sums in rebate, and it has made its entire territory inaccessible to other oil shippers.

The Union Pacific Railway Company also controls the retail price of coal along its entire system, and because of the fact that coal yards are established on its right of way, coal dealers before embarking in the business must obtain the consent of the company. In order that it might retain a complete monopoly of the coal traffic, it refused to lease any of its coal lands on royalty; and it acquired unlawfully, by private entry and by the use of the names of its employés, the ownership of the Government coal lands adjoining its own property, its total investment in that direction amounting to \$198,000. Until recently it owned a number of mines in northern Colorado, but a bargain was made between Mr. Charles Francis Adams and the Marshall Consolidated Coal Mining

Company by which the entire coal business of the Union Pacific Company in that State south of Greeley, Colo., was practically transferred to the Marshall Company, and an agreement was made to allow rebates on the principle that it would pay the carrying company better to carry 200,000 tons at 60 cents per ton than 100,000 tons at \$1 per ton. After this arrangement had been consummated, coal dealers and coal miners in that State became aware of the fact that some compact which was inimical to their interests had been made by the company, and complaint was made to its officers, but the complainants were met with pointed and positive denials of any rebate allowances.

The practical application of the scheme was to advance the freight rates of the company at the same time that the Marshall Company reduced the price of its product at the mouth of the mine; and as the Marshall Company was receiving a rebate of 40 cents per ton it could sell at the mine for 40 cents less than its competitors. The effect was to destroy the business of the other mines in Northern Colorado, and practically to place the entire coal business of the State under the control of that combination.

In addition to mining and selling coal from Wyoming Territory and giving a monopoly of the Colorado coal to the Marshall Coal Mining Company, the Union Pacific Railway Company quarries and sells all the stone used along the lines of its system, obtaining its supply from the quarries near Fort Collins. None of the stone traffic was done under a public rate.

Before the Union Pacific Company engaged in that business, there was a number of quarrymen at and near Fort Collins, Colo., who were conducting large operations and employing from 175 to 200 men each. Shortly after the Union Pacific Company began operations they found that they would be forced to go out of business or to sell their stone to the Union Pacific Company, as the railroad company (see p. 1831) would not carry for any of them at the same rates that it carried for itself. In the words of one of the quarrymen, "it wore them out." They found they could not ship stone either to Denver or Cheyenne because of excessive rates, and one of them hauled by team from Natural Forks to Cheyenne, a distance of 14 miles, because he could do so at a lower rate than the railroad company offered to him. Another of the quarrymen, when he asked for rates for stone to fill a contract which he had at Cheyenne, was told by the chief of the stone department of the Union Pacific Company to buy of the company's agent at Cheyenne. It appeared that the Fort Collins stone could have been shipped east as far as Chicago, and that a syndicate of Chicago capitalists was willing to invest in the quarries, but Manager Kimball (see p. 2042) refused to give rates for flagging stone.

At Denver it was stated in evidence (see p. 1755) that a few merchants got rates which the others could not obtain. One merchant, Mr. Martin (see p. 1916), was forced to ship his goods to customers in the surrounding country through two favored firms, Esterbrook & Co. and the Morey Mercantile Company.

A method also pursued by the company in its interference with trade was by favoritism in the distribution of cars.

This plan was resorted to in Colorado, in dealing with the miners. They had plenty of coal cars in the summer time, but were unable to get any in the winter time, though the side tracks of the Marshall Coal Company were always full.

The quarrymen at Fort Collins were treated similarly, one of them having waited thirty-two days for cars for stone, though the company's quarries were well supplied.

At Salt Lake City no one could ship lime in competition with the Utah Lime and Cement Company (see p. 2194).

At Denver it was testified that the Colorado Milling and Elevator Company was obtaining rates from the Railroad Company, so that mill owners were obliged to join that syndicate in order that they might continue in business. At the time the Commission made its examination the Colorado company had control of eight mills.

In the examination of the accounts of the Pacific Hotel Company, in which the Union Pacific Railway Company has a half interest, it was found that the freight supplies of that company were transported free of charge.

At Laramie City a letter was exhibited from Mr. Studebaker, a Chicago wagon maker (see p. 2114), with reference to rebates that had been granted to him, in which he said that the rebates referred to had been given to him by the Union Pacific Company on general principles, and had been distributed around to make them look well.

In granting rebates, the company followed no rule, and its published tariffs were worthless except for charges against the Government. All rebates were put on overcharge blanks, so that it was difficult, from the face of the voucher, to ascertain whether the rebate allowance was an allowance by agreement or an allowance for error. A thorough examination of the rebate system of the Union Pacific Railway Company leads to the conclusion that it was the policy of the company to concentrate business in a few hands, thereby building up a few men at the expense of others.

In defense of this course it is claimed (see Government Directors' Reports, p. 233) that self-preservation compelled the Union Pacific Railway Company to condone or to practice these discriminations. In other words, it deliberately, and with full knowledge of the force and effect of its action, violated its obligation as a common carrier. Its arbitrary dictation was carried to such an extent that shippers who refused to send their goods by that line were driven out of trade in competition with those merchants who were willing to ship solely over the Union Pacific.

Mr. Rosenbaum, of New York, a merchant who had been established in the California trade for thirty years, received a circular from the Union Pacific Railway Company, setting forth that if he shipped one pound to California from New York, otherwise than across the continent by rail, the charges on his freight would be 100 per cent. higher than on the freight of those dealers who bound themselves to ship only by rail.

In its relation with other railroad companies the Union Pacific encouraged unhealthy competition, and put a premium upon the building of competitive lines. Wherever it met other lines, its president testified (see volume 1, p. 139), its regular way of doing business was to pool the traffic. The pool, as arranged by them, was a matter of barter, or dicker, or trade, in which the public interests, or the obligation of the railroad as a common carrier, were subordinated to the stockholding interest, and the permanent prosperity of the territory served by it was ignored in the effort to secure temporary advantage. When these barter failed, or when the relations between the contracting parties in the pool became strained, a struggle would ensue and rates would be reduced to ruinously low figures, causing violent fluctuations in prices, and interfering with the natural currents and conditions of trade.

To the Pacific Mail Steamship Company the Union Pacific Railway Company paid \$2,000,000 as a subsidy to prevent the competition of

the ocean route. The Union Pacific Company also paid \$200,000 to northern lines on condition that they would allow it to retain a monopoly of certain territory. In connection with the other companies in the transcontinental pools, the Union Pacific Company paid 6 per cent. to the Northern Pacific and to the Oregon Railway and Navigation Company upon condition that they would keep out of San Francisco. In spite of all these large expenditures, the Union Pacific Railway Company was only able to obtain a rate of 1.05 cents per ton per mile on Pacific coast business. When the transcontinental pool broke, in February, 1886, the companies paid for the privilege of carrying goods; they struggled to do business for nothing; and the Union Pacific, in the year 1886, lost over \$900,000 on Pacific coast business, measured by the average cost of transporting freight upon that line. In 1886 it carried 60,000,000 more tons 1 mile of Pacific coast business than in 1885, and its earnings diminished \$463,000. Its tonnage increased 35 per cent., and its earnings, on Pacific coast business, decreased 26 per cent. From January, 1886, to April, 1886, a period of three months, the average rate declined from $1\frac{1}{4}$ cents per ton to $\frac{1}{10}$ of a cent per ton; that is, the April rate was less than one-third of the January rate. The company actually received more for the sleeping-car fare of its passengers than for their transportation.

One of two things is evident: Either the pool rates were outrageously high, and retarded trade, or the rate under the cut was ruinously low; and in either case the company which participated in that struggle was to blame.

Shortly after the Union Pacific Railway Company acquired control of the Denver and South Park line to Leadville, it became involved in a contest with the Denver and Rio Grande Company, and hauled coke from the Missouri River to Denver for \$1 a ton and from Denver to Leadville for nothing. After this struggle had been maintained for a long time, with loss to both companies, an adjustment was made by which the Denver and Rio Grande practically controlled the business out of Leadville, and an allowance of one-third of the traffic from Leadville was made to the Denver and South Park lines in consideration of other advantages which the Union Pacific obtained at other points in Colorado from the Denver and Rio Grande.

Under the percentages which prevailed in 1886 the Denver and Rio Grande was entitled to about \$1,700,000 of the gross earnings upon Leadville business, and the Denver, South Park and Pacific to about \$800,000. But as the Denver, South Park and Pacific Company had not carried its full allowance, the remainder was made up to it by the Denver and Rio Grande Company. Meanwhile it appears from the testimony that the Leadville industries were suffering. They not only got no advantage from the fact of having two roads to Denver, but as a result of the combination of these two lines they were seriously injured. The result of this policy of combination and oppression has developed itself within the last two months, when a third line to Leadville was opened.

The city of Denver also suffers from the operations of pools, and its rates to-day from the East are higher than when there were fewer lines, making it evident that the traffic of Denver has been forced by a combination of railroad companies to pay for their losses and for their unhealthy competition.

It has been claimed for these pools that they secured certainty, permanency, and uniformity in rates for the merchants, and that these elements were more important for trade than cheapness of rates. This

proposition utterly fails, upon practical application, for the reason that, though diligent inquiries were made by the Commissioners, none of the railroad men were able to point out a single pool which had been honestly maintained; that when the railroad men met together and fixed the rates there was no assurance that they would respect their own agreements for twelve hours. In the effort of the pool to fix rates the determination of a reasonable rate was not fixed upon a sound basis.

A company with \$100,000,000 of water in its capital will not take the same view of a reasonable rate that would be taken by a company conducted upon sound business principles. The pool puts the merchant at the mercy of an arbitrary rate, determined by a railroad manager who disregards cost of service in his adjustment and who fixes rates between localities, individuals, and industries under varying conditions. Such a system must produce glaring inequalities, gross favoritism, and opportunities for corruption.

The pools in which the Union Pacific Company participated were, the pool between Denver and Mississippi River points east of the western boundaries of Kansas, the Western Colorado Railway Association, the Utah Traffic Association, the Nebraska Traffic Agreement, the Montana Traffic Agreement, the Oregon Traffic Association, and the Transcontinental Pool.

Included in these agreements were the Norton County Pool, the Helena and Butte Pool, the Central Branch Missouri Pacific Pool, the Atchison, Topeka and Santa Fé Cattle Pool, the Topeka Pool, the Northern Lines Subsidy, the New Orleans Pacific Pool, the Kearney Pool, the McPherson Pool, the Carbondale Pool, the Virginia City Pool, the Fremont Pool, the Lawrence Pool.

From February 1, 1880, to December 31, 1886, the pool balances paid out by the Union Pacific Company amounted to—

Passengers.....	\$432, 591.21
Freight.....	172, 094.25
Total.....	604, 685.46

In addition to these payments of pool balances a net balance of \$500,335.67 in freight was diverted to the Union Pacific by other companies; the major portion of this amount being made up by a diversion of over \$400,000 in freight by the Denver and Rio Grande to the Denver and South Park line.

FACILITIES AND ACCOMMODATIONS.

The facilities and accommodations afforded by the company have not been first class. The transfer cars between Council Bluffs and Omaha have been complained of. The Ogden depot is utterly inadequate for its purposes. At Lincoln, Neb., there have been occasional complaints of want of depot and shipping facilities. The accommodations at Leavenworth have not been first class, and the running of "plug" or mixed trains between Leavenworth and Lawrence has driven passenger traffic to other lines. When the people of Leavenworth complained of the insufficient accommodation, the company said it was unable to stand the expense of removing the disadvantages of the Leavenworth branch; yet at that time it was declaring dividends of 7 per cent. It appears from the testimony that the same city suffers because the Union Pacific Company has retarded the development of the Kansas Central line and diverted its traffic to the Kansas Pacific line.

The merchants of Lincoln, Neb., felt that they were so badly treated by the railroads which served that city that they organized a bureau of transportation, drew up protests to the railroad company, and presented arguments to the Interstate Commerce Commission against the discriminations under which that city labored. They made the general charge that the Union Pacific Railway Company was destroying the wholesale business of Lincoln, and that the railroads which centered there had used the Interstate Commerce law as a lever to justify them in raising the rate on lumber from Missouri River points from 8 cents to 20 cents per 100 pounds. Mr. Raymond, a wholesale merchant of that city, charged that the Union Pacific Company was discriminating against Lincoln and in favor of Omaha, and explained how Mr. Spreckels, the California sugar refiner, had obtained a special rate of 50 cents per 100 pounds to Nebraska City, Kansas City, Omaha, Leavenworth, Atchison, and Lincoln. The Omaha merchants asked Mr. Spreckels to quote sugar one-eighth of a cent per pound higher to Lincoln than to Omaha. Mr. Spreckels refused, and then the Omaha merchants appealed to General Manager Kimball, who struck Lincoln from the list of cities which were favored with the special rates, and gave it a local rate. It was charged (see p. 1528) that the Union Pacific refused to take sugar to Lincoln unless it had been shipped through Omaha, and that this action of the railroad company had almost ruined the Lincoln business in sugar.

When freight was hauled by the Union Pacific from Saint Paul to Kansas City through Lincoln, at 10 cents per 100 pounds, the Union Pacific Railway Company refused to carry freight to Lincoln from either point for the same figure, or to switch off a car-load at that point.

Merchants in Columbus, Neb., complained that although they were 91 miles nearer San Francisco than Omaha, both being on the same line, they were forced to pay higher rates; that the rate from Omaha to San Francisco was \$1.40 per 100 pounds, while the rate from Columbus to San Francisco was \$3, and the only way they could ship to San Francisco was by way of Omaha. The charges in connection with the cattle business were so high that the Columbus dealers were forced to quit. (See p. 1477.)

In shipping to Memphis from Columbus, the rate to Papillion, for a distance of 75 miles on the Union Pacific, was 5 cents greater than from Papillion to Memphis, Tenn., a distance of 500 miles, on the Missouri Pacific. In other words, the rate from Columbus to Papillion was 30 cents, and from Papillion to Memphis 25 cents.

Similar complaints were made by the people of Grand Island. Mr. Hedde, of that place, declared that a car-load of nails from Pittsburgh via Saint Louis to Council Bluffs, a distance of more than 1,000 miles, cost less than from Council Bluffs to Grand Island, a distance of 150 miles.

Judge Humphrey, of the Kansas railway commission, said the average railroad rate in Kansas had been reduced 30 per cent. in four years by order of that body.

The commissioner of Colorado (see p. 1952), declared that railroad rates were considerably higher in Colorado than in any other State in the Union; that he had recommended to the Union Pacific Company a reduction of the rates on the Colorado Central, but that his recommendation had not been adopted. While the railroad company carried paper from Chicago to San Francisco for \$20 per ton, it charged \$30 per ton for transporting the same article from Chicago to Denver.

Complaint has also been made of the unbalanced rates from Leadville to Denver on ore and bullion, and on the bullion rate from Leadville to the Missouri River, on which \$22 had been charged for years, though the rate from Salt Lake City to the Missouri River, on the same article, had been only \$17.

The merchants of Denver (see p. 1920) complained that they were paying higher rates than any other city in the Union, and reference was made to an appeal which the Chamber of Commerce of that city had presented to the pool commissioner of Colorado.

The Leadville people declared (see p. 2032) that in the transportation of some articles it was cheaper to team than to send by rail.

At Salt Lake City there was complaint that the charges of the Union Pacific Railway Company for ore to that place from points in Idaho and Montana were nearly the same as to points 1,000 miles east, and that the effect was to divert the smelting business to the eastern points.

An instance was related of a shipment of wool to Boston from Salt Lake City by way of San Francisco, because it was cheaper to ship westward a distance of 860 miles, and then to return it eastward to Boston than to ship direct from Salt Lake City to Boston.

The Union Pacific Railway Company has taken advantage of the interstate commerce law to oppress trade, having used the application of that law as a pretext for a general increase of rates varying from 20 to 33 per cent. The decision of the Interstate Commerce Commission relative to the suspension of the 4th section has been availed of by the companies as a justification for outrageous discriminations. In place of pools, which were prohibited by that act, the companies have substituted "agreed rates." The prohibition of pools contained in that act has simply forced a change in the nature of the combinations from agreements for division of earnings or territory or traffic to agreements for the maintenance of rates which are unreasonable. It is not strange that the company, when mining and selling coal, and quarrying and selling stone, with the power to drive all competitors out of the market, should exercise that power for its own temporary advantage and to the injury of those whom the Government is bound to protect. As was stated on page 233 of the Government Directors' reports, the company claims that self-preservation forces it to condone or to practice these discriminations.

Mr. Charles Francis Adams, when a Government director in 1878, said (see p. 145, Exec. Doc. 69, 49th Cong., 1st sess., Senate), in discussing the practices of the company:

To whatever extent such discriminations may have been justified, however, if at all, under the extreme results to which more eastern roads were driven by the pressure of an unbearable competition, there would certainly seem to be no excuse whatever for them in the case of a road circumstanced as the Union Pacific now is. Such a policy of petty discrimination can hardly be deemed otherwise than wholly inconsistent with any high sense of public responsibility.

But more offensive than the inequalities and favoritism in which the company participated, or the combinations into which it entered, was the terrorism which it maintained over merchants and over communities. As was stated by one witness (see p. 1346):

People would testify, but they were afraid to offend the railroad.

At Columbus, Neb., Mr. Leander Gerard (see p. 1481) testified:

Merchants understood that if they did not do as the railroad company wanted, it would discriminate against them. Men that were friendly to it would have privileges *extended* to them, and the politicians and fellows that were active had advantages.

At Lincoln, Neb. (see p. 1520), it was testified by one of the leading merchants of that city :

One of the complaints has been the favor shown by the company in the distribution of passes and favors. In the courts, both State and Federal, passes are given to jurors. Cases are carried to Federal courts, and where they are tried by a jury, the jury are favored by the company with passes. I do not regard this as promotive of the ends of justice.

Ex-United States Senator Hill, of Denver, testified that he had said, in answer to hundreds of inquiries which were made to him as to whether he would advise persons to go into business in that city :

Denver is a good place in which to establish business if you can get on the inside track with the railroads.

He also testified :

In business it has always been a question of favor with railroads rather than skill, ability, or enterprise.

The result of this autocratic policy, as appears by the Government Directors' Reports (see p. 224), was that the company was compelled to bear the burden of the ill-will of the people.

The Union Pacific Railway Company has interfered with the political affairs of Kansas, Nebraska, and Colorado; it has entered into election contests, and in Nebraska it became such a powerful force in politics that a combination of nearly all the other political elements in the State was required to combat it. Its interference was continuous, beginning in the year 1872, and involved a general contest in the State in the years 1875 and 1876. At that time the Union Pacific Company made a combination of railroad and federal officials for mutual advantage, and it enlisted the services of postmasters and revenue officers in carrying bond elections that were in its interest in various counties, and in defeating other companies who were to be benefited by such bond elections. In the year 1876 there was a pitched battle, lasting four days, in the Republican State convention. (See p. 1335.) The company has made it a rule (see p. 1049) to tender a pass to every member of the legislature to influence legislation in its interest. But it has not stopped at the distribution of its favors to legislators. It has gone so far as to influence the election or defeat of members of the legislature. By "expressing a wish" it has induced its employes to support or defeat candidates; and in some localities (see p. 1498) it was testified that a constable could not be elected without the permission of the Union Pacific officers.

The company has been impartial in its political affiliations and has used all parties alike for its purposes.

Hundreds of thousands of dollars have been disbursed at the State and national capitals for the purpose of influencing legislation, and as many as fifteen men were maintained on pay in attendance upon the legislature of Nebraska during its sessions at Lincoln.

In view of these facts, it is not surprising that the sentiment of the people of Kansas, Nebraska, and Colorado has been largely in favor of railroad regulation by the States.

Another source of irritation presented itself in the land policy of the company. By the grant of Congress it was given alternate sections of land for a distance of 10 miles on each side of the road. Being a large land owner, the company should have borne its proportion of public taxation, but it acted on the theory (see p. 1021)—

That as men on Government land were not paying taxes, the man buying railroad land was only getting a fair show if he did not pay taxes for two or three years after he bought his land.

The State of Nebraska attempted to compel the Union Pacific Railway Company to take out patents on its land grants, but the Union Pacific Company interfered in Congress to prevent it and succeeded in defeating such legislation, thereby putting all the burdens of local government upon other land and other property-owners. (See p. 1417.) In 1872 the lands of the company were assessed and placed on tax duplicates in Nebraska; but the company enjoined collection upon the ground that the land was not taxable until application had been made for patent. The company then engaged largely in the sale of uncertified lands (see Government directors' reports for 1873), and at the present time over 7,000,000 acres of land sold by that company are without patent from the Government. In certain localities the company did not select lands for patenting, because there was no demand for it, and it would only apply for patents (see p. 1020)—

When a fair proportion of the purchase money had been paid, may be two or three years after they are sold.

The company not only retained control of the lands granted to it by the Government, but by the use of the names of its employes (see page 1432) it acquired possession of coal lands that were open to private entry, though the act of Congress of March 3, 1873, permits only individuals or associations of three persons to acquire coal lands. (See page 1327.)

The people of Nebraska, in 1875, for the purpose of forcing the Union Pacific Railway Company to assent to local regulation, adopted a constitutional amendment restricting the right of eminent domain to corporations that assented to the power of the State; and of this the company complains as "hostile legislation."

It also complained that, under State legislation, its road-bed was taxed, and that school districts were arranged in such manner as to utilize the tax on the railroad so as to force it to pay for the school expenses of the district. The company further complained that Kansas and Nebraska passed laws which arbitrarily cut down rates, and that the legislatures of those States were always threatening injurious enactments; that as many as twenty bills affecting railroad companies would be introduced in the legislature in a single session, some of them creating commissions, some fixing rates, and some prohibiting discriminations. Against all of these measures the railroad company protested.

In discussing the relations of the company with the Government, Mr. Adams said (see p. 116) :

The Government has treated us in a harsh and arbitrary manner. They make out their own bill and we have to pay it.

The Thurman act was regarded by Mr. Gould as a case of oppression.

The time of the Commission was so limited that it had no opportunity to visit the various localities that are served by the Central Pacific Railroad Company but from the reports of the railroad commission of California it is apparent that the abuses of power which have characterized the management of the Union Pacific Company were also practiced by the Central Pacific Railroad Company in its relations with shippers and communities. Its conduct in this respect provoked serious political contests in California and impelled the people of that State to adopt amendments to the State constitution regulating railroads and creating a State commission to protect shippers against the discriminations of the Central Pacific Company. In that State, as in the territory tributary to the Union Pacific, there was interference with the lawful pursuits of the people; and as appears in page 128 of the State

railroad commission's report for 1883, there were fears entertained by merchants of retaliation by the railroad company if complaints should be made against it. With the Union Pacific Company, it devised the special-contract system and also attempted, by investing in other enterprises than those of transportation and by pools and combinations, to control trade.

The relations of the Sioux City and Pacific Railroad Company to the Government can best be summed up by calling attention to the fact that when negotiations were pending for the transfer of the stock of that company to the Chicago and Northwestern Railroad Company, Mr. John I. Blair offered a resolution, which appears at length on the minutes, setting forth that as a condition of the sale the Chicago and Northwestern Company must bind itself to protect every obligation of the company, excepting that to the United States Government.

The Central Branch Union Pacific, which funded its overdue coupons in 1879 to the amount of \$630,000, adroitly held the coupons in abeyance, and fixed the date of maturity prior to the maturity of the Government debt.

In their dealings with the Government the bond-aided companies have maintained a series of contests. Since the date of the actual completion of the roads there has been what Judge Dillon denominates "an indeterminate and interminable number of disputes." There have been three litigations in the Supreme Court between the Union Pacific Company and the Government in connection with the question of net earnings, two on the payment of 5 per cent. of net earnings, and one on the Thurman act, which fixed the annual payment at 25 per cent. of the net earnings. Prior to 1874 the companies resisted all demands for the payment annually of a percentage of net earnings, alleging that their roads were not finished until October 1, 1874, which was the date of their final acceptance by the President of the United States; though they had obtained all their bonds from the Government in 1869 because of their representations that the road had been actually completed that year, and had appropriated many millions of net earnings in the mean time. They also claimed that by implication in the act of July 2, 1864, the requirement in the act of July 1, 1862, that they should pay 5 per cent. of their annual net earnings was repealed, and therefore they were not obligated to pay anything.

They also resisted the demands of the Government on the ground that all their fixed charges as well as their operating expenses should be deducted from the gross earnings, in ascertaining what were net earnings. Litigations also ensued over the payments for mail transportation. The Union Pacific attempted to charge for mail matter at express rates, and to obtain full fare for the transportation of the mail agents. Suits were also brought against the Government to recover compensation for the mail service on the unsubsidized portions of the lines, and for service on branch lines. Contests over deductions for betterments also occurred, and there are differences now unadjusted respecting the earnings of the Omaha bridge, the Pullman palace cars, telegraph tolls, the subdivision of earnings on the Kansas Pacific, and respecting land grants. The Union Pacific also denied that it was required to build to Council Bluffs, which had been designated by the President of the United States as the eastern terminus of the line. It took the question into the courts and attempted to force the eastern connecting lines to build and operate the bridge across the Missouri River between Omaha and Council Bluffs.

An issue also arose upon the question whether the interest paid annually by the Government upon the bonds which it had advanced to the companies was due from the companies at the times of its payment by the Government, or upon the maturity of the principal of the bonds.

THE PRESENT STATUS OF THE GOVERNMENT DEBT.

Having reported upon the non-compliance of all the companies with their obligations to the Government and to shippers, as well as upon their relations to other railroads and to the people, an inquiry presents itself as to the present status of the Government debt against the Union Pacific, there being a substantial concurrence of opinion that none of the other lines can pay the Government debt.

The total liabilities of the Union Pacific Company to the public, on bonds, floating debt, and guarantees, exclusive of Government debt and stock, were over \$93,000,000 on January 1, 1887, or over \$50,000 per mile.

Outside of its railroad property the Union Pacific has assets worth \$23,486,676, so that its net debt to the public, exclusive of Government debt and stock, is stated at \$70,000,000.

The system, aggregating 4,594½ miles, has total liabilities to the public and Government, including stock, of \$225,633,964.96; and the liabilities of the entire Union Pacific family, including those companies in which it has a proprietary interest, but which it does not operate, are \$255,333,417.96.

On December 31, 1886, the debt to the Government stood as follows:

Subsidy to Union Pacific Railroad Company (1,032 miles)	\$27,236,512.00
Subsidy to Kansas Pacific Railroad Company (394 miles)	6,303,000.00
	<hr/>
	1,426
Interest advances paid by Government to December 31, 1886	33,539,512.00
Less amount paid by the company	\$38,130,481.02
	22,459,727.56
	<hr/>
	15,670,753.46
	<hr/>
Total amount to December 31, 1886	49,210,265.46
In addition to the above the Government will pay interest at the rate of 6 per cent. per annum for nearly eleven years, or \$2,102,370.72 per annum	22,240,640.58
	<hr/>
	71,450,906.04

The present worth of the debt, discounted at 3 per cent., is estimated by the Government actuary at \$60,643,967.10.

The act of 1862, granting the subsidy, limited the lien to the whole road and telegraph, together with the rolling stock, etc., "in consideration of which the bonds may be issued," and by the act of 1864 the Government lien was subordinated to a first mortgage of even tenor and date.

Subsequently the company was authorized to issue bonds for the construction of the bridge across the Missouri River between Council Bluffs and Omaha, and bonds were issued under that authority to the amount of \$1,519,000 that were outstanding at the close of 1886. As the Omaha bridge portion was not aided a question will be raised as to whether the lien covers that portion of the property. If the courts decide that the bridge is so included, then the point will be raised that as the Government authorized the issue of the bonds it could not fairly claim priority of lien over that of the bridge bonds. In this view of the case

it appears that on the bond-aided portion of the road and on the bridge there are prior liens, as follows:

	Miles.	Amount.
Union Pacific Railroad	1,032	\$27,236,512.00
Kansas Pacific Railroad	394	6,203,000.00
Omaha bridge	3.7	1,519,000.00
	1,426.7	35,058,512.00

An appraisement of this portion of the Union Pacific Railway system, based on the cost of reproducing the present property, as made by the inspecting engineer of the Commission on a most liberal basis, is as follows:

Cost of reproducing the main line Union Pacific.....	\$27,857,500.00
Cost of 394 miles of the Kansas Pacific Railroad.....	11,800,000.00
Omaha bridge	2,000,000.00
Total.....	41,657,500.00

The terminals at Omaha, Ogden, and Kansas City have been appraised as follows:

Omaha	\$10,000,000.00
Kansas City	5,000,000.00
Ogden	300,000.00
Total.....	15,300,000.00

But as these terminals were not property in consideration of which the bonds were issued, the lien of the Government will be disputed, and in all likelihood successfully resisted. It therefore appears that on this property, valued at \$41,657,500, there are prior liens of \$35,058,512, leaving only \$6,598,988 to satisfy the Government debt, the present worth of which is \$60,643,967.10.

Without wishing to detract from the credit which should be accorded to the inspecting engineer of the Commission for the patience and energy with which he applied himself to the work, it should be stated that his figures are exceedingly liberal. The whole line of the Kansas Pacific is appraised at \$23,315 per mile, yet the president of the company is authority for the statement that good roads can be laid in the State of Kansas for \$14,000 per mile.

The engineer estimates that the Sioux City and Pacific can be reproduced for about \$22,000 per mile. Yet Mr. Marvin Hughitt, of Chicago, the president of the Chicago and Northwestern Railroad Company and of the Sioux City and Pacific Railroad Company, told the Commission that he could duplicate the Sioux City and Pacific line for \$9,000 a mile. Recently the track of the Sioux City and Pacific was appraised by two eminent engineers for the purpose of fixing the rental which the Fremont, Elk Horn and Missouri Valley Railroad should pay for passing over 31 miles of the track of the Sioux City and Pacific, and that appraisement fixed the present value of that section at about \$11,000 per mile. It was the most expensive portion of the line of the Sioux City and Pacific.

Mr. Jay Gould told the Commission that he was building roads at a cost of \$9,000 per mile, and related how he had proposed to the directors of the Union Pacific, shortly after the passage of the Thurman bill, to duplicate or parallel the main line of the Union Pacific from Omaha to Ogden for \$15,000,000.

Mr. Peter A. Dey, one of the railroad commissioners of Iowa and the original engineer of the Union Pacific, who resigned rather than be a party to the Credit Mobilier frauds, told the Commission that the main line of the Union Pacific could be paralleled and equipped to-day for \$25,000 a mile.

In view of these facts, it is fair to assume that the first mortgages on the bond-aided portion of the Union Pacific Railroad will entirely cover that property, if the valuation be based on the cost of reproducing.

If the valuation be based on the net earnings of the aided portion, it will be found that the net earnings for 1886, as reported to the Commissioner of Railroads, by the Union Pacific Railroad Company, were \$6,167,801. On that basis, the valuation of the aided portion of the road would be \$102,385,496, assuming that the road yielded at the rate of 6 per cent. per annum.

Here, then, we find two valuations, viz:

On basis of net earnings.....	\$102,385,496
On basis of reproducing.....	41,657,500
Difference between the two estimates.....	60,727,996

It is evident from these figures that both methods can not be adopted.

Under normal conditions, and for property other than a railroad, it might be fair to appraise on the basis of net earnings; but as the rates prevailing in the West in 1886 were in an abnormal condition, the traffic to the Pacific coast entailing a loss of \$900,000 while the rates on local traffic were excessively high, a closer scrutiny ought to be made and another basis of valuation obtained. The Pacific coast business represented a trifle over 7 per cent. of the total traffic, and the local business comprised over 80 per cent. of the total traffic.

The testimony taken by the Commission shows that by subsidies, by pools, and by combinations of every description the Union Pacific had struggled to maintain rates. In some places it gave a bonus to a company to stay out of territory. In others the traffic was subordinated to the supervision of a pool commissioner; and in Kansas, where pools were prohibited, a system of "agreed rates," which answered the purpose of a pool, was adopted. As the president of the company testified, "there were pools everywhere. It was the regular way of doing business wherever the Union Pacific met other lines."

In 1880 the Union Pacific Railway as a whole, aided and unaided, was earning about 30 per cent. of its cost of reproduction, and in 1886 its net earnings were 19 per cent.

The fact is that the Union Pacific was making such large earnings in 1880 and prior to that year that a swarm of rivals was brought into the territory which it occupied to dispute the monopoly it was then enjoying of the traffic west of the Missouri River. Nine railroad companies have since entered into territory east of Ogden which the Union Pacific occupied alone prior to 1878, and four additional lines have been built across the continent since 1881. On every side its business is being encroached upon and a feverish speculation inaugurated that can not fail to impair the earning capacity of the company.

The gross earnings and the net earnings of the Union Pacific Railway Company have, under the pressure of these forces, declined rapidly, as will be seen by the following:

REPORT OF THE U. S. PACIFIC RAILWAY COMMISSION. 197

The Union Pacific Railway Company.—Earnings and expenses for seven years.

Year.	Average miles operated.	Gross earnings.	Expenses, including taxes.	Net earnings.	Expense ratio.
1880.....	1,820.9	\$22,275,655.40	\$10,545,119.52	\$11,730,535.88	47.34
1881.....	1,820.9	24,105,380.41	12,480,342.71	11,625,037.70	51.77
1882.....	1,820.9	22,710,327.75	10,727,049.28	11,983,278.47	47.23
1883.....	1,820.9	20,915,624.11	10,558,658.86	10,356,965.25	50.48
1884.....	1,831.9	17,837,060.88	8,895,151.47	8,941,909.41	49.87
1885.....	1,832.4	17,456,031.51	9,050,355.20	8,404,676.31	51.85
1886.....	1,832.4	17,806,132.59	10,283,425.57	7,522,707.02	57.75

The company attempted to offset this decline by extending its lines, but the figures still fell.

The gross earnings per mile on the system declined (see page 126 of Annual Report) from \$9,061 per mile in 1880 to \$5,849 in 1886, and its net earnings from \$4,679.52 in 1880 to \$1,977.77 in 1886.

The Union Pacific system.—Earnings and expenses for seven years.

Year.	Average miles operated.	Gross earnings.	Expenses including taxes.	Net earnings.	Expense ratio.
1880.....	2,766.30	\$25,066,893.77	\$12,121,939.66	\$12,944,954.11	48.36
1881.....	3,125.45	28,971,250.27	15,840,080.01	13,131,170.26	54.67
1882.....	3,632.69	29,430,318.70	15,241,961.38	14,188,357.32	51.79
1883.....	4,120.65	28,629,222.60	16,144,339.81	12,484,882.99	56.59
1884.....	4,420.30	25,657,290.41	14,868,115.20	10,789,175.21	57.95
1885.....	4,473.95	25,674,674.75	15,987,233.53	9,687,441.22	62.27
1886.....	4,548.13	26,603,797.48	17,608,618.77	8,995,178.71	66.19

Financial results of the operation of Union Pacific Railway and system, reduced to mileage basis.

Year.	Railway.				System.			
	Average miles operated.	Gross earnings per mile.	Operating expenses, including taxes, per mile.	Net earnings per mile.	Average miles operated.	Gross earnings per mile.	Operating expenses, including taxes, per mile.	Net earnings per mile.
1880.....	1,820.9	\$12,233.32	\$5,791.16	\$6,442.16	2,766.30	\$9,061.52	\$4,382.00	\$4,679.52
1881.....	1,820.9	13,238.17	6,853.94	6,384.23	3,125.45	9,269.47	5,008.10	4,261.37
1882.....	1,820.9	12,472.03	5,891.07	6,580.96	3,632.69	8,101.52	4,195.78	3,905.74
1883.....	1,820.9	11,486.42	5,798.59	5,687.83	4,120.65	6,947.74	3,917.91	3,029.83
1884.....	1,831.9	9,736.92	4,855.70	4,881.22	4,420.30	5,804.42	3,363.60	2,440.82
1885.....	1,832.4	9,525.77	4,939.07	4,586.70	4,473.95	5,738.70	3,573.40	2,165.30
1886.....	1,832.4	9,717.38	5,612.00	4,105.38	4,548.13	5,849.39	3,871.62	1,977.77

The rates on its main line and on its system declined in the same period as follows:

Average rates per ton per mile on freight (not including company freight or coal) for six years.

Year.	Railway.						System.					
	East bound.	West bound.	Local average.	Through average.	Coast average.	Total average.	East bound.	West bound.	Local average.	Through average.	Coast average.	Total average.
1881.....	1.73	2.31	2.76	2.53	1.26	2.09	1.98	2.58	3.11	2.85	1.29	2.35
1882.....	1.77	2.14	2.64	2.33	1.17	2.03	2.03	2.55	3.02	2.64	1.25	2.35
1883.....	1.76	2.07	2.40	1.60	1.33	1.93	2.02	2.46	2.68	2.06	1.43	2.25
1884.....	1.44	2.05	2.12	1.26	1.15	1.72	1.70	2.47	2.36	2.00	1.26	2.05
1885.....	1.32	2.13	1.89	2.15	1.06	1.68	1.58	2.42	2.22	1.81	1.22	1.94
1886.....	1.21	1.86	2.01	2.27	0.58	1.54	1.48	2.16	2.27	2.26	0.74	1.81

If the value of the railroad (the aided and unaided portions) in 1886 was \$124,000,000 because the net earnings of that year were \$7,522,707, then, on the same basis, as the net earnings in 1880 were \$11,730,535, the value of the railway in that year was \$194,000,000. These figures show that that property shrank \$70,000,000 in seven years.

At a rate of progression computed on the reduction of net earnings per mile and applied to the whole system, there will be no net earnings in 1892, and the property will then be worthless on the basis of valuation from net earnings, and there will be little more than old material for the first-mortgage bondholders.

These figures suggest the thought that while a valuation on the basis of net earnings might be a guide under normal conditions, such a basis utterly fails in the case of the Union Pacific.

Another factor should not be overlooked. In 1886 and prior thereto the decline in rates was forced by the pressure of competition and in spite of pools. Since April 5, 1887, the Federal Government has interposed its authority to prevent extortion by railroads, to prohibit pools, and to secure reasonable rates. Temporarily this interference has not made its impression upon railroad rates, but its inevitable result must be to allow a freer play to the natural forces of the competition of capital with capital and to accelerate the steady reduction in rates.

A third method of appraising the Government debt is upon the basis of what the road will sell for in the market. Though the Commission was not warranted in issuing a general invitation to capitalists to bid upon the Government's debt, it received several offers that ought not to be lost sight of.

Mr. Jay Gould offered \$27,000,000 in cash for the main line of the Union Pacific. Reduced to the same standard as the other valuations, that is, including the first mortgages, this bid would fix the present value of the main line (1,038 miles) at \$56,500,000; of the aided portion, 1,426 miles, \$68,600,000; and of the entire railroad at \$77,000,000.

Mr. Adams offered (page 991) \$35,000,000, but it is probable that he intended to include the Kansas Pacific in that offer; which would make the real difference about \$1,666,666.66 instead of the apparent difference of \$8,000,000. This offer would fix the value of the entire railway at about \$79,000,000.

Mr. Sidney Dillon (page 214) offered to take the branch lines and the Kansas Pacific off the hands of the Government at cost. This offer was very indefinite and left too much to be inferred.

In gauging the relative merits of these propositions it should be borne in mind that Mr. Jay Gould was talking as a speculator in railroads, and that his offer was based on present returns. It will be remembered that in 1879 he paid \$250 for the stock of the Central Branch Union Pacific, which then had no intrinsic value.

Mr. Adams was talking for \$60,707,500 of stock which was in a peculiar position; and it may be inferred that the stockholders would pay more than any others for the Government's debt. Mr. Dillon evidently intended that, in making his offer, the Union Pacific Railway Company should account to him for all the sales it had made of the Kansas Pacific and branch line securities.

Grouping the various estimates in round numbers, we have the following:

Prior liens.....	\$35,058,512
Present value Government debt.....	\$60,643,967
Less market value of sinking fund.....	7,732,050
	<hr/> 52,911,917
Total.....	<hr/> 87,970,429
<hr/>	
Aided portion Union Pacific and Kansas Pacific, 1,426 miles:	
Cost of reproducing (without terminals).....	39,600,000
Value, based on net earnings, 1886.....	102,000,000
Jay Gould's offer.....	68,600,000
Mr. Adams's offer.....	70,300,000
<hr/>	
Union Pacific Railway (aided and unaided), 1,832 miles:	
Cost of reproducing (with terminals).....	62,600,000
Value, based on net earnings, 1886.....	124,000,000
Value, based on net earnings, 1880.....	194,000,000
Jay Gould's offer (estimated).....	77,000,000
Mr. Adams's offer (estimated).....	79,000,000
<hr/>	
Union Pacific main line (1,032 miles):	
Cost of reproducing (without terminals).....	27,857,500
Value, based on net earnings in 1886.....	72,000,000
Jay Gould's offer in 1886.....	56,500,000
Jay Gould's offer to parallel in 1878.....	15,000,000
Mr. Adams's offer in 1886.....	57,500,000
Mr. Peter A. Dey's estimate (no terminals).....	27,000,000
Mr. Dey's estimate of original cost.....	32,000,000
Original cost.....	38,824,000
G. M. Dodge's estimate.....	50,000,000
Cost fixed by Court of Claims.....	63,000,000
Cost stated by Credit Mobilier accountants.....	73,000,000
Original cost charged on railroad books.....	109,000,000

I therefore assume that if the Government were to sell out immediately it could obtain \$35,000,000 from the Union Pacific for its debt, though the debt would hardly be worth that figure to another company. It is not within the power of human foresight to compute the worth of a railroad in the western country ten or fifty years hence, and every attempt in that direction must be the vaguest sort of a guess. The history of the past seven years would lead to the belief that notwithstanding the probable growth of population in that section, the earning power of the Union Pacific property will be diminished, and that in ten or fifty years the aided property will not be worth as much as it is to-day.

What additional security can the company give?

By section 9 of the Thurman act a lien is placed upon all the estate, rights, franchises, income, etc., of the company, subject, however, to a qualification.

Under a strict construction of this clause, the Government might assert a claim to priority of lien over the first mortgages of those branch lines which have been built out of the revenues of the parent company, but such a course on the part of the Government might be questioned; and, with a reservation of this point in favor of the Government, there is no additional security of any value to be obtained from the unaided portion of the line, as it is covered with liabilities that far exceed its real value.

The liabilities of the Union Pacific family to the public may be stated as follows:

Names.	Bonded.	Government.	Floating.	Stock.	Total.	Mileage.
Union Pacific Railway.	\$81,331,827	\$49,210,265.46		\$80,707,050	\$225,633,964.46	1,832
Operated lines	17,691,000		\$8,533,497	8,180,325		2,761
Central Branch system	6,842,000	3,190,000.00	120,670	841,200	10,993,870.00	388
Leavenworth, Topeka						
and Southwestern ..	690,000			168,200	858,200.00	46
St. Joseph and Grand						
Island	8,716,086		101,071	2,298,500	11,115,657.00	252
Utah Central	3,918,000		474,726	2,339,000	6,731,726.00	280
Total	119,188,913	52,400,265.46	9,229,964	74,514,275	255,333,417.96	5,561

The cost of reproducing the Union Pacific system is estimated by the inspecting engineer of the Commission at \$120,000,000. Its liabilities amount to \$225,633,964.96. Here, then, is an excessive capitalization of at least \$105,000,000.

The cost of reproducing the unaided portion would be \$78,342,500, while its net earnings, amounting to \$2,828,000 per annum, would give it a valuation of less than \$47,000,000.

Against the unaided portion and the branch lines there are the following incumbrances:

Omaha Bridge renewal bonds	\$291,000
Denver extension bonds	6,242,000
Leavenworth branch bonds	600,000
Cheyenne branch bonds	2,059,000
Income (subordinated) bonds	4,011,650
Income bonds	263,700
Consolidated mortgage bonds	14,855,000
Bonds in collateral trusts	11,731,000
Bonds of other railroads in Kansas Pacific consolidated mortgage trust.	3,160,000
Bonds of branch lines in hands of public	17,691,000
Total	60,904,350

The assets of the Union Pacific Railway Company, other than securities in branch lines, are as follows:

Cash	\$806,457.90
Miscellaneous bonds and stocks	2,617,411.75
Miscellaneous investments	755,749.93
Land contracts, cash, etc	18,599,518.67
	22,779,138.25

Of these assets, no part thereof is property "in consideration of which" bonds were issued by the Government; and a serious question will arise as to whether or not they are subject to Government lien. "Land contracts, cash, etc.," are, however, pledged to the payment of the land

grant and sinking fund bonds, amounting to \$16,404,000, which are being bought in by the company at high premiums. Though the Government lien ranks second in priority, the company has so secured the junior liens that the Government is in fact subsequent to all the other liens on the aided portion of the Union Pacific main line.

Reduced to tables we find:

	Cost of reproduction.	Valuation on basis of net earnings.	Lien prior to Government.	Margin for Government claim of \$32,911,917 on basis of reproducing.	Margin for Government claim on basis of net earnings value for 1886.
Aided portion of Union Pacific Railway	\$41,657,500	\$102,000,000	\$35,058,512	\$6,598,988	\$67,000,000
Unaided portion of Union Pacific Railway	78,342,500	47,000,000	60,904,350	17,438,150	—13,000,000
	120,000,000	149,000,000	95,962,862	24,037,138	53,100,000

It will be apparent, from a study of these figures, that the Government can gain very little by taking the unaided portion of the Union Pacific system as additional security.

On the basis of cost of reproducing the aided portion of all the lines, there is a margin of \$13,761,688 to meet a debt the present value of which is \$122,482,106.32.

Aided portion.	Cost of reproducing.	Encumbrances prior to Government lien.	Margin for Government.
Union Pacific	\$41,657,500	\$35,058,512	\$6,598,988
Kansas Pacific		2,230,000	—226,000
Central Branch		1,628,320	744,380
Sioux City and Pacific		27,855,680	6,644,320
Central Pacific	34,500,000		
Total	80,534,200	66,772,512	13,761,688

At present prices of railroad construction it is evident that from the properties themselves the Government can not recover within one hundred and eight millions of the present value of the indebtedness owing to it by the bond-aided companies, and any extension of the time for payment would be useless and would expose to further risk and depreciation the present inadequate security for the debt.

ROBERT E. PATTISON,
Commissioner.

WASHINGTON, December 1, 1887.

202 REPORT OF THE U. S. PACIFIC RAILWAY COMMISSION.

EXHIBIT No. 1.

[Compiled from Poor's Manual, by Henry V. Poor.]

STATEMENT 1.—Area of the United States, population in 1880, and mileage of railroads in 1880 and in 1886.

States and Territories.	Area. <i>Sq. miles.</i>	Rank in area.	1880.				1886.	
			Population.	Rank in population.	Railroad mileage.	Rank in railroad mileage.	Railroad mileage.	Rank in railroad mileage.
Maine	33,040	36	648,936	27	1,005	28	1,149.51	33
New Hampshire	9,305	41	346,991	31	1,015	27	1,050.17	37
Vermont	9,565	40	332,286	32	914	30	946.75	41
Massachusetts	8,315	42	1,783,085	7	1,915	16	2,018.46	25
Rhode Island	1,250	46	276,531	33	210	43	209.99	47
Connecticut	4,900	44	622,700	28	923	29	975.56	39
New England group	66,375	H	4,010,529	F	5,977	G	6,350.44	H
New York	49,170	27	5,082,871	1	5,991	3	7,481.40	4
New Jersey	7,815	43	1,131,116	19	1,684	19	1,957.41	26
Pennsylvania	45,215	30	4,282,891	2	6,191	2	7,871.56	3
Delaware	2,050	45	146,608	38	275	42	334.50	46
Maryland	12,210	39	934,943	23	1,040	26	1,225.09	31
District of Columbia	70	47	177,624	36	.....	.....	21.61	48
Middle group	116,530	G	11,756,053	A	15,181	B	18,891.57	D
Ohio	41,060	33	3,198,062	3	5,792	4	7,456.18	5
Michigan	58,915	20	1,636,937	9	3,938	8	5,635.82	9
Indiana	36,350	35	1,978,301	6	4,373	6	5,711.19	8
Illinois	56,650	22	3,077,871	4	7,851	1	9,275.69	1
Wisconsin	56,040	23	1,315,497	16	3,155	11	4,869.17	11
Central northern group	249,015	E	11,206,668	B	25,109	A	32,948.05	A
Virginia	42,450	31	1,512,565	14	1,893	17	2,729.83	18
West Virginia	24,780	38	618,457	29	604	35	1,146.82	34
North Carolina	52,250	a26	1,390,750	15	1,486	22	2,201.60	20
South Carolina	30,570	37	995,577	21	1,427	23	1,813.60	28
Georgia	59,475	19	1,542,180	13	2,459	13	3,390.50	15
Florida	58,680	21	269,493	34	518	37	1,918.18	27
South Atlantic group	268,205	D	6,338,022	D	8,474	E	13,206.53	E
Alabama	52,250	b26	1,262,505	16	1,843	a18	2,280.46	19
Mississippi	46,810	29	1,131,597	18	1,127	25	2,111.38	24
Tennessee	42,050	32	1,542,359	12	1,843	b18	2,199.10	21
Kentucky	40,400	34	1,648,690	8	1,530	21	2,116.78	23
Louisiana	48,720	28	939,946	22	652	36	1,381.16	29
Gulf and Mississippi Valley group	230,230	F	6,525,097	C	6,995	F	10,088.83	F
Missouri	69,415	16	2,168,380	5	3,965	7	5,068.32	10
Arkansas	53,850	25	802,525	25	859	31	2,195.68	22
Indian Territory	64,690	18	.....	.....	289	a41	431.87	45
Texas	265,780	1	1,591,749	11	3,244	10	7,295.27	6
Kansas	82,080	14	996,696	20	3,400	9	6,119.40	7
Colorado	103,925	8	194,327	35	1,570	20	2,943.56	17
New Mexico	122,580	5	119,565	41	758	33	1,252.96	30
Southwestern group	762,320	A	5,872,642	E	14,085	C	25,287.06	B
Iowa	56,025	24	1,624,615	10	5,400	5	7,934.80	2
Minnesota	83,365	13	780,773	26	3,151	12	4,823.11	12
Nebraska	76,855	15	452,402	30	1,953	15	3,615.89	14
Dakota	149,100	3	135,177	40	1,225	24	3,608.21	13
Wyoming	97,890	9	20,789	47	512	38	777.72	44
Montana	146,080	4	39,159	45	106	45	1,062.48	36
Northwestern group	609,315	C	3,052,915	G	12,347	D	21,912.21	C

REPORT OF THE U. S. PACIFIC RAILWAY COMMISSION. 203

STATEMENT 1.—Area of the United States, population in 1880, etc.—Continued.

States and Territories.	Area.	Rank in area.	1880.				1886.	
			Population.	Rank in population.	Railroad mileage.	Rank in railroad mileage.	Railroad mileage.	Rank in railroad mileage.
	<i>Sq. miles.</i>							
Washington Territory	69,180	17	75,116	42	289	641	897.90	42
Idaho	84,800	12	32,610	46	206	44	811.28	43
Oregon	96,030	10	174,768	37	508	39	1,219.41	32
California	158,360	2	864,694	24	2,195	14	3,296.76	16
Nevada	110,700	7	62,266	43	739	34	954.18	40
Arizona	113,020	6	40,440	44	349	40	988.95	38
Utah	84,970	11	143,963	39	842	32	1,138.97	35
Pacific group	717,060	B	1,393,857	H	5,128	H	9,307.45	G
United States	3,019,050	.....	50,155,783	.....	93,296	.....	137,986.19	.....

STATEMENT 11.—Railroad construction in the United States from January 1, 1880, to January 1, 1887.

States and Territories.	1880.		1881.		1882.		1883.		1884.		1885.		1886.	
	Miles.	Rank.	Miles.	Rank.	Miles.	Rank.	Miles.	Rank.	Miles.	Rank.	Miles.	Rank.	Miles.	Rank.
Maine	8.00	38	23.25	40	29.90	39	43.12	34	43.46	24	.....	.....	14.00	39
New Hampshire .....	.....	.....	6.18	43	17.50	41	3.00	41	.....	.....	.....	.....	6.00	42
Vermont	36.00	31	2.00	45	9.00	42	12.00	40	5.08	40	3.00	37	.....	.....
Massachusetts	41.66	28	42.69	36	8.30	43	15.44	38	13.84	35	12.54	30	20.66	36
Rhode Island .....	.....	.....	1.25	46	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Connecticut	33.70	32	36.85	37	2.70	45	.....	.....	11.34	37	.....	.....	.....	.....
New England group	114.86	H	112.22	H	67.40	H	73.56	H	73.72	H	15.54	H	40.66	H
New York	47.50	26	269.61	13	721.37	3	357.96	5	10.91	38	57.06	19	96.27	24
New Jersey	54.50	25	89.29	29	89.41	31	12.22	39	27.13	30	14.12	29	36.89	34
Pennsylvania	159.50	17	165.37	19	534.79	7	377.74	4	315.68	1	231.43	4	204.09	13
Delaware .....	.....	.....	.....	.....	6.78	44	2.96	42	20.98	34	3.19	35	18.45	37
Maryland	40.75	29	25.00	39	33.46	38	21.50	37	12.00	36	51.45	21	85.98	35
Middle group	302.25	F	549.27	F	1,385.81	D	772.28	E	386.70	F	357.25	D	391.68	F
Ohio	500.00	4	496.56	4	612.26	5	316.05	6	196.35	14	26.30	25	118.66	19
Michigan	254.50	11	345.48	8	330.72	15	457.88	1	130.29	11	98.56	14	367.17	9
Illinois	321.75	9	409.20	6	415.58	10	191.71	17	40.90	26	83.97	15	370.92	8
Indiana	185.50	15	386.05	7	612.65	4	171.06	20	23.29	33	65.40	17	111.37	20
Wisconsin	226.00	12	302.05	11	354.26	13	228.42	12	238.10	5	128.07	10	451.27	6
Central North- ern group	1,487.75	C	1,939.34	B	2,325.47	B	1,365.12	B	538.93	B	402.30	C	1,419.39	C
Virginia	207.00	13	327.19	9	220.35	20	102.82	27	118.09	12	18.51	28	37.00	33
West Virginia	10.00	37	12.50	42	109.39	28	133.80	23	81.75	21	20.00	27	108.00	22
North Carolina	30.50	35	158.75	20	136.50	27	30.75	36	174.12	9	57.50	18	173.90	15
South Carolina	31.00	34	52.00	35	29.25	40	40.75	35	25.75	31	100.00	13	126.50	18
Georgia	45.00	27	103.50	28	316.80	16	54.80	31	94.00	18	133.75	9	274.25	11
Florida	37.50	30	145.00	24	271.43	18	192.48	16	182.62	8	272.34	1	314.99	10
South Atlan- tic group	361.00	E	798.94	D	1,083.72	F	555.40	G	182.62	G	272.34	E	314.99	G
Alabama	22.00	36	18.00	41	70.00	33	177.10	18	96.26	17	20.40	26	54.50	28
Mississippi .....	.....	.....	76.50	30	100.50	29	313.35	7	82.49	16	82.49	16	191.09	14
Tennessee	32.00	33	56.33	34	165.44	26	47.40	33	55.99	22	7.00	32	41.56	30
Kentucky	47.50	26	142.30	26	72.70	32	106.73	26	24.33	32	37.35	24	106.84	21
Louisiana	124.00	19	229.00	15	95.81	30	193.78	15	112.00	13	55.00	20	10.70	41
Gulf and Missis- sippi Valley group	225.50	G	522.13	G	504.45	G	838.36	D	516.79	C	202.24	G	404.69	E

204 REPORT OF THE U. S. PACIFIC RAILWAY COMMISSION.

STATEMENT 11.—*Railroad construction in the United States, etc.*—Continued.

States and Territories.	1880.		1881.		1882.		1883.		1884.		1885.		1886.	
	Miles.	Rank.	Miles.	Rank.	Miles.	Rank.	Miles.	Rank.	Miles.	Rank.	Miles.	Rank.	Miles.	Rank.
Missouri.....	312.50	10	242.35	14	293.54	17	118.06	25	100.03	16	259.02	3	99.48	23
Arkansas.....	60.75	24	143.50	25	486.25	8	245.08	10	33.50	28	41.08	23	49.50	29
Indian Territory.....	.....	.....	6.00	44	65.00	34	3.00	41	.....	.....	.....	.....	79.17	26
Texas.....	653.00	2	1,669.40	1	1,091.54	1	98.60	28	90.00	19	190.50	6	607.90	4
Kansas.....	363.50	7	208.56	16	211.03	23	144.17	22	159.21	10	260.37	2	1,678.04	1
Colorado.....	348.25	8	616.98	3	579.41	6	66.01	29	28.30	29	12.00	31	59.20	27
New Mexico.....	540.50	3	289.37	12	41.68	37	50.90	32	43.89	23	3.30	36	38.00	32
Southwestern group.....	2,278.50	A	3,176.16	A	2,768.45	A	725.82	F	454.93	D	766.27	A	2,611.29	A
Iowa.....	456.75	5	764.10	2	802.62	2	243.521	1	273.66	3	48.36	22	431.13	7
Minnesota.....	133.50	18	186.76	17	396.74	11	171.08	19	286.03	2	140.88	8	492.09	5
Nebraska.....	377.10	6	323.73	10	221.06	19	198.25	13	101.57	15	218.95	5	628.08	3
Dakota.....	724.00	1	413.00	5	416.10	9	410.97	2	263.60	4	118.50	11	821.48	2
Wyoming.....	.....	.....	64.00	33	48.71	36	.....	.....	.....	.....	.....	.....	160.89	17
Montana.....	73.50	21	157.00	21	391.50	12	401.80	3	9.97	39	.....	.....	15.80	38
Northwestern group.....	1,764.85	B	1,908.59	C	2,276.73	C	1,425.62	A	934.83	A	526.69	B	2,549.47	B
Washington.....	62.00	23	183.50	18	.....	.....	125.50	24	89.20	20	.....	.....	161.50	16
Idaho.....	.....	.....	69.00	31	216.30	21	282.96	8	39.98	27	5.00	33	13.50	40
Oregon.....	165.50	16	66.00	32	182.50	25	184.30	14	211.60	7	100.20	12	38.20	31
California.....	2.00	39	114.40	27	333.19	14	245.40	9	41.70	25	149.55	7	252.46	12
Nevada.....	71.00	22	156.00	22	53.50	35	.....	.....	.....	.....	.....	.....	.....	.....
Arizona.....	198.00	14	148.30	23	216.18	22	152.60	21	5.00	41	.....	.....	83.00	25
Utah.....	118.25	20	35.00	38	185.32	24	61.80	30	4.00	42	4.00	34	.....	.....
Pacific group.....	614.75	D	772.20	E	1,186.99	E	1,062.56	C	391.48	E	258.75	F	548.66	D
United States.....	7,148.96	...	9,778.85	...	11,599.02	...	6,818.72	...	3,973.71	...	3,131.14	...	9,000.48	...

REPORT OF THE U. S. PACIFIC RAILWAY COMMISSION. 205

STATEMENT IV.—*Probable actual cost of new railroads in each calendar year from 1880. to 1886.*

[NOTE.—The cost here shown is calculated in each instance at the rate of \$25,000 per mile of road, which would show about the actual cash cost of each line built during the period covered by the statement. See Statement II.]

States and Territories.	Cost in 1880.	Cost in 1881.	Cost in 1882.	Cost in 1883.	Cost in 1884.	Cost in 1885.	Cost in 1886.
Maine.....	\$75,000	\$581,250	\$747,500	\$1,078,000	\$1,088,500	.....	\$350,000
New Hampshire.....	.....	154,500	437,500	75,000	.....	.....	150,000
Vermont.....	900,000	50,000	225,000	300,000	127,000	\$75,000	.....
Massachusetts.....	1,041,500	1,067,250	207,500	386,000	348,000	313,500	516,500
Rhode Island.....	.....	31,250	.....	.....	.....	.....	.....
Connecticut.....	842,500	921,250	67,500	.....	283,500	.....	.....
New England group.....	2,859,000	2,805,500	1,683,000	1,839,000	1,843,000	388,500	1,016,500
New York.....	1,187,500	6,740,250	18,034,250	8,946,500	272,750	1,426,500	2,408,750
New Jersey.....	1,362,500	2,232,250	2,235,250	305,500	678,250	353,000	922,250
Pennsylvania.....	3,987,500	4,134,250	13,368,750	9,443,500	7,892,000	5,785,750	5,102,250
Delaware.....	.....	.....	169,500	74,000	524,500	79,750	461,250
Maryland.....	1,018,750	625,000	836,500	537,500	300,000	1,286,250	899,500
Middle group.....	7,556,250	13,731,750	34,645,250	10,307,000	9,667,500	8,931,250	9,792,000
Ohio.....	12,500,000	12,414,000	15,308,500	7,901,250	2,658,750	657,500	2,966,500
Michigan.....	6,362,500	8,637,000	8,268,000	11,447,000	3,257,250	2,484,000	9,179,250
Illinois.....	4,637,500	9,651,250	15,316,250	4,276,500	582,250	1,635,000	2,784,250
Indiana.....	8,043,750	10,230,000	10,389,500	4,792,750	1,022,500	2,099,250	9,273,000
Wisconsin.....	5,650,000	7,551,250	8,856,500	5,710,500	5,952,500	3,201,750	11,281,750
Central northern group.....	37,193,750	48,483,500	58,136,750	34,128,000	13,473,250	10,057,500	35,484,750
Virginia.....	5,175,000	8,179,750	5,508,750	2,570,500	2,952,250	462,750	925,000
West Virginia.....	250,000	312,500	2,734,750	3,345,000	2,043,750	500,000	2,700,000
North Carolina.....	762,500	3,968,750	3,412,500	768,750	4,653,000	1,437,500	4,347,500
South Carolina.....	775,000	1,300,000	731,250	1,018,750	643,750	2,500,000	3,162,500
Georgia.....	1,125,000	2,587,500	7,920,000	1,370,000	2,350,000	3,343,750	6,856,250
Florida.....	937,500	3,625,000	6,785,750	4,812,000	4,565,500	6,808,500	7,874,750
South Atlantic group.....	9,025,000	19,973,500	27,093,000	13,885,000	16,908,250	15,052,500	25,866,000
Alabama.....	550,000	450,000	1,750,000	4,427,500	2,406,500	510,000	1,862,500
Mississippi.....	.....	1,912,500	2,512,500	7,833,750	5,705,250	2,062,250	4,777,250
Tennessee.....	800,000	1,408,250	4,136,000	1,185,000	1,399,750	175,000	1,039,000
Kentucky.....	1,187,500	3,557,500	1,817,500	2,668,250	608,250	933,750	2,671,000
Louisiana.....	3,100,000	5,725,000	2,395,250	4,844,500	2,800,000	1,375,000	267,500
Gulf & Mississippi Valley group.....	5,637,500	13,053,250	12,611,250	20,950,000	12,919,750	5,056,000	10,117,250
Missouri.....	7,812,500	6,058,750	7,338,500	2,951,500	2,500,750	6,475,500	2,487,000
Arkansas.....	1,518,750	3,567,500	12,156,250	6,127,000	837,500	1,027,000	1,237,500
Indian Territory.....	.....	150,000	1,625,000	75,000	.....	.....	1,979,250
Texas.....	16,325,000	41,735,000	27,288,500	2,465,000	2,250,000	4,762,500	15,199,500
Kansas.....	9,087,500	5,214,000	5,275,750	3,604,250	3,980,250	6,509,250	41,951,000
Colorado.....	8,706,250	15,424,500	14,485,250	1,650,250	707,500	300,000	1,480,000
New Mexico.....	13,512,500	7,234,250	1,042,000	1,272,500	1,097,250	82,500	950,000
South western group.....	56,962,500	79,404,000	69,211,250	18,145,500	11,373,250	19,156,750	65,282,250
Iowa.....	11,418,750	19,102,500	20,065,500	6,088,000	6,841,500	1,209,000	10,778,250
Minnesota.....	3,337,500	4,669,000	9,918,500	4,277,000	7,150,750	3,522,000	12,302,250
Nebraska.....	9,427,500	8,093,250	5,528,500	4,966,250	2,539,250	5,473,750	15,702,000
Dakota.....	18,100,000	10,335,000	10,402,500	10,274,250	6,590,000	2,962,500	20,637,000
Wyoming.....	.....	1,600,000	1,217,750	.....	.....	.....	4,022,250
Montana.....	1,837,500	3,925,000	9,787,500	10,045,000	249,250	.....	395,000
North western group.....	44,121,250	47,714,750	56,918,250	35,640,500	23,370,750	13,167,250	63,736,750
Washington Territory.....	1,550,000	4,587,500	.....	3,137,500	2,230,000	.....	4,037,500
Idaho.....	.....	1,725,000	5,407,500	7,074,000	999,500	125,000	337,500
Oregon.....	4,137,500	1,650,000	4,562,500	4,857,500	5,290,000	2,505,000	955,000
California.....	50,000	2,860,000	8,329,750	6,135,000	1,042,500	8,738,750	6,311,500
Nevada.....	1,775,000	3,900,000	1,337,500	.....	.....	.....	.....
Arizona.....	4,950,000	3,707,500	5,404,500	3,815,000	125,000	.....	2,075,000
Utah.....	2,906,250	875,000	4,633,000	1,545,000	100,000	100,000	.....
Pacific group.....	15,368,750	19,305,000	29,674,750	26,564,000	9,787,000	6,468,750	13,716,500
United States.....	178,724,000	244,471,250	289,975,500	170,468,000	99,842,750	78,278,500	225,012,000

206 REPORT OF THE U. S. PACIFIC RAILWAY COMMISSION.

STATEMENT V.—*Capitalization of railroads in each State in 1886.*

States and Territories.	Stocks.	Bonds.	Total.	Rank.
Maine	\$18,427,413	\$24,602,200	\$43,029,613	32
New Hampshire	16,768,400	5,643,100	22,409,500	17
Vermont	19,853,900	15,263,000	35,116,900	36
Massachusetts	106,309,589	88,599,575	189,909,164	16
Rhode Island	4,552,030	2,194,075	6,746,105	43
Connecticut	36,764,145	12,490,400	49,254,545	28
New England group	202,673,477	143,792,351	346,465,827	H
New York	444,732,161	390,536,378	835,268,539	2
New Jersey	120,663,270	135,608,210	256,271,480	9
Pennsylvania	416,750,879	437,540,699	854,291,578	1
Delaware	7,067,464	18,516,000	25,583,464	38
Maryland	46,313,224	44,019,200	90,332,424	23
Middle group	1,035,526,998	1,026,220,487	2,061,747,485	B
Ohio	386,440,877	338,010,910	724,451,787	3
Michigan	95,916,508	95,300,654	191,217,162	15
Indiana	147,652,418	167,045,609	314,698,027	7
Illinois	332,725,395	330,737,889	663,463,284	4
Wisconsin	92,162,661	147,560,000	239,722,661	11
Central northern group	1,054,897,889	1,078,655,062	2,133,552,951	A
Virginia	109,117,034	104,190,215	213,307,249	12
West Virginia	29,368,372	9,847,800	39,216,172	34
North Carolina	24,885,375	21,924,900	46,810,275	29
South Carolina	17,250,335	28,477,691	45,728,026	30
Georgia	44,331,319	46,342,824	90,674,143	22
Florida	25,028,900	20,666,400	45,695,300	31
South Atlantic group	249,981,335	231,449,830	481,431,165	G
Alabama	35,607,831	39,397,237	75,005,068	26
Mississippi	10,131,977	9,662,541	19,794,518	40
Tennessee	82,712,060	63,511,500	146,223,560	18
Kentucky	75,195,472	114,569,254	189,764,726	17
Louisiana	42,837,600	41,035,716	83,873,316	24
Georgia and Mississippi Valley group ..	246,484,940	268,176,248	514,661,188	E
Missouri	207,311,505	189,096,593	396,408,098	5
Arkansas	37,644,249	32,176,810	69,821,059	27
Texas	104,392,162	146,075,500	250,467,662	10
Kansas	113,309,823	97,232,406	210,542,229	13
Colorado	82,698,800	47,253,800	129,952,600	19
New Mexico	75,881,100	40,736,534	116,617,634	20
Southwestern group	621,137,639	552,571,643	1,173,709,273	C
Iowa	53,165,974	49,763,557	102,929,531	21
Minnesota	180,496,249	158,798,413	339,294,662	6
Nebraska	65,672,000	133,302,640	198,974,640	14
Dakota	5,559,000	5,259,000	10,818,000	42
Wyoming	17,268,000	14,931,000	32,199,000	37
Montana	500,000	400,000	900,000	45
Northwestern group	322,661,223	362,454,610	685,115,833	D
Washington Territory	1,076,000	1,189,000	2,265,000	44
Oregon	46,600,000	29,970,670	76,570,670	25
California	162,237,136	149,909,430	312,146,566	8
Nevada	12,052,284	5,355,000	17,407,284	41
Arizona	22,830,800	13,042,000	35,872,800	35
Utah	21,348,777	20,180,000	41,528,777	33
Pacific group	266,144,997	210,646,100	485,791,097	F
United States	3,909,508,508	3,882,966,330	7,882,474,838	.....

REPORT OF THE U. S. PACIFIC RAILWAY COMMISSION. 207

STATEMENT VI.—Gross and net earning of railroads in each State in 1886.

States and Territories.	Gross earnings.	Rank.	Net earnings.	Rank.	States and Territories.	Gross earnings.	Rank.	Net earnings.	Rank.
Maine.....	\$5,269,182	27	\$1,953,263	25	Tennessee.....	\$10,688,168	20	\$3,830,564	20
New Hampshire.....	2,192,922	34	869,840	33	Kentucky.....	11,899,225	19	4,653,894	17
Vermont.....	3,838,714	30	1,164,033	29	Louisiana.....	6,876,870	24	1,856,724	26
Massachusetts.....	37,480,493	5	11,186,185	9	Gulf and Mississippi Valley group.....	38,066,947	F	12,611,742	G
Rhode Island.....	1,602,591	37	499,202	36	Missouri.....	37,363,491	6	15,440,305	5
Connecticut.....	12,269,816	18	4,207,680	18	Arkansas.....	3,464,054	31	1,016,638	31
New England group.....	62,653,718	D	19,880,203	E	Texas.....	20,402,563	14	4,198,526	19
New York.....	78,360,906	3	24,725,979	3	Kansas.....	23,151,011	13	9,950,871	10
New Jersey.....	24,697,443	12	6,350,229	15	Colorado.....	9,712,286	21	3,055,334	21
Pennsylvania.....	122,543,244	1	51,027,440	1	New Mexico.....	1,778,710	36	32,746	45
Delaware.....	1,220,796	38	187,038	40	Southwestern group.....	95,872,115	C	33,628,928	C
Maryland.....	13,078,692	17	5,113,596	16	Iowa.....	6,702,565	25	1,627,923	27
Middle group.....	234,901,081	B	87,404,282	B	Minnesota.....	29,685,733	8	13,174,646	6
Ohio.....	71,196,610	4	23,143,967	4	Nebraska.....	19,618,473	15	7,928,795	12
Michigan.....	27,114,912	10	8,338,656	12	Dakota.....	70,436	45	11,250	44
Indiana.....	33,547,239	7	8,491,660	11	Wyoming.....	1,943,066	35	591,679	35
Illinois.....	97,685,882	2	40,572,211	2	Montana.....	122,212	44	13,015	43
Wisconsin.....	28,174,270	9	11,535,481	8	Northwestern group.....	58,142,485	E	23,324,808	D
Central northern group.....	257,718,913	A	92,081,975	A	Washington Territory.....	167,291	42	59,957	42
Virginia.....	17,123,190	16	6,536,144	14	Oregon.....	6,528,334	26	2,785,673	23
West Virginia.....	1,213,762	39	346,223	37	California.....	25,250,590	11	11,560,643	7
North Carolina.....	2,850,166	32	945,835	32	Nevada.....	656,908	41	280,044	38
South Carolina.....	4,946,989	28	1,137,474	30	Arizona.....	158,043	43	101,007	41
Georgia.....	9,353,371	22	2,729,952	23	Utah.....	4,094,750	29	1,237,512	28
Florida.....	2,393,296	33	659,213	34	Pacific group.....	36,855,916	H	16,024,836	F
South Atlantic group.....	37,980,774	G	12,354,841	H	United States.....	822,191,949	...	297,311,615	...
Alabama.....	7,460,869	23	2,063,167	24					
Mississippi.....	1,141,815	40	207,393	39					

208 REPORT OF THE U. S. PACIFIC RAILWAY COMMISSION.

STATEMENT VII.—Gross and net earnings—averages for seven years, 1880 to 1886; available revenue and interest payments for 1886.

States and Territories.	1880-'86.				1886.			
	Average gross earnings	Rank.	Average net earnings.	Rank.	Available revenue.	Rank.	Interest on bonds.	Other interest.
Maine.....	\$4,591,487	28	\$1,503,297	27	\$2,133,372	27	\$1,163,904	\$54,657
New Hampshire.....	2,400,318	30	1,108,334	30	1,742,197	28	314,286	13,826
Vermont.....	4,218,981	29	1,081,686	31	1,567,671	29	405,356	54,657
Massachusetts.....	31,909,985	7	9,290,607	10	13,481,621	9	4,167,528	255,006
Rhode Island.....	1,427,738	34	486,234	35	608,194	36	139,776	1,887
Connecticut.....	10,871,832	19	3,442,636	19	4,519,820	20	677,014	4,464
New England group....	56,420,341	D	16,912,894	E	24,052,875	E	6,877,864	384,497
New York.....	77,064,052	3	25,101,401	3	25,722,954	3	14,849,842	926,286
New Jersey.....	26,645,247	8	8,614,847	11	15,838,799	8	11,644,182	218,952
Pennsylvania.....	105,148,079	1	43,321,510	1	67,571,520	1	22,909,162	510,911
Delaware.....	811,195	41	196,936	40	253,904	42	169,000	41
Maryland.....	13,968,361	16	5,632,607	15	5,531,002	16	10,622,967	16,800
Middle group.....	223,636,934	B	82,867,301	B	114,918,179	A	60,195,203	1,672,949
Ohio.....	65,689,833	4	21,762,983	4	24,497,759	4	11,988,780	933,334
Michigan.....	24,274,819	11	7,048,182	14	9,886,170	13	4,993,536	240,427
Indiana.....	34,188,992	5	8,203,156	13	9,366,853	14	4,602,088	70,406
Illinois.....	90,881,030	2	39,709,133	2	45,918,282	2	18,562,751	178,450
Wisconsin.....	24,351,853	10	9,698,453	8	11,991,229	10	7,119,374	9
Central northern group.	239,386,527	A	86,486,907	A	101,660,293	B	47,266,529	1,422,617
Virginia.....	12,948,090	17	4,670,782	17	6,528,967	15	3,633,994	333,458
West Virginia.....	942,111	40	255,110	39	433,137	39	312,455	40
North Carolina.....	3,295,857	31	993,529	32	1,445,815	30	665,763	4,007
South Carolina.....	4,625,882	27	1,303,967	28	1,372,166	31	1,243,209	23,006
Georgia.....	9,169,859	20	2,956,839	21	4,956,427	18	2,410,362	23,430
Florida.....	1,339,528	36	400,042	36	741,398	34	642,952	39,937
South Atlantic group...	32,321,827	H	10,580,269	H	15,477,910	G	8,908,735	323,838
Alabama.....	7,143,905	24	2,069,086	25	2,146,248	26	1,726,865	10,403
Mississippi.....	1,154,959	38	343,323	38	207,393	43	1,357,678	40,395
Tennessee.....	8,859,991	21	3,147,742	20	4,066,444	21	1,794,036	212
Kentucky.....	11,475,275	18	4,619,285	18	5,514,387	17	3,666,416	113,003
Louisiana.....	7,561,464	23	2,548,659	23	3,372,018	22	2,637,361	201,219
Gulf and Mississippi Valley group.	36,195,594	F	12,728,095	G	15,306,490	H	10,102,356	365,232
Missouri.....	32,801,867	6	14,194,931	5	17,907,914	5	10,857,829	6,124
Arkansas.....	2,293,657	33	637,201	33	1,016,638	33	632,115	46,895
Texas.....	17,550,196	15	5,123,574	16	4,893,822	19	3,925,639	145,324
Kansas.....	19,805,801	14	8,440,124	12	11,118,035	12	5,385,432	10
Colorado.....	8,712,743	22	2,817,020	22	3,118,600	23	1,431,798	2,985
New Mexico.....	1,564,098	35	28,267	43	613,054	38	504,436	35
Southwestern group....	82,728,362	C	31,241,117	C	38,518,063	C	22,737,239	201,238
Iowa.....	6,261,126	25	1,982,900	26	3,092,665	24	2,357,462	76,936
Minnesota.....	22,227,124	12	9,292,349	9	10,222,449	7	9,141,855	3,211
Nebraska.....	21,717,448	13	10,515,212	7	11,449,377	11	5,066,139	11
Dakota.....	87,890	45	5,568	45	351,980	40	363,230	37
Wyoming.....	1,161,475	37	356,516	37	591,930	37	895,860	28
Montana.....	96,305	44	18,313	44	113,535	44	100,520	43
Northwestern group....	51,551,368	E	22,170,858	D	31,821,936	D	18,525,066	80,147
Washington.....	153,745	43	68,386	42	82,597	45	20,760	45
Oregon.....	5,264,719	26	2,259,484	24	2,837,073	25	740,290	14,079
California.....	26,004,344	9	10,582,176	6	16,575,872	6	5,891,300	6,953
Nevada.....	1,138,250	39	499,788	34	280,044	41	47,500	44
Arizona.....	168,709	42	95,498	41	715,854	35	667,920	30
Utah.....	3,069,580	32	1,260,075	29	1,264,518	32	904,228	27
Pacific group.....	35,799,347	G	14,765,407	F	21,755,958	F	8,271,998	21,032
United States.....	758,039,800	...	277,752,848	...	363,511,704	...	182,884,990	4,471,550

STATEMENT VIII.—Passengers carried one mile in 1886 and average for five years; tons of freight moved and tons moved one mile in 1886; average ton-miles for five years; average rate per passenger per mile, and per ton of freight per mile, in 1886.

States and Territories.	Passengers carried one mile.		Rank, in averages.	Tons of freight moved, 1886.	Rank.	Tons of freight moved one mile.		Rank, in averages.	Average rate per passenger per mile, 1886.	Rank.	Average rate per ton per mile, 1886.	Rank.
	In 1886.	Average for five years.				In 1886.	Average for five years.					
Maine	72, 223, 010	69, 243, 982	23	2, 318, 025	27	185, 313, 925	167, 497, 300	26	<i>Cents.</i> 2. 67	17	<i>Cents.</i> 1. 60	20
New Hampshire	27, 046, 084	42, 082, 198	29	2, 632, 076	26	89, 389, 886	115, 135, 290	29	2. 72	16	1. 45	24
Vermont	54, 009, 722	49, 924, 392	26	2, 833, 782	24	238, 132, 522	228, 398, 650	24	2. 31	26	. 99	36
Massachusetts	870, 442, 569	770, 490, 412	4	19, 851, 589	6	1, 203, 250, 566	1, 058, 626, 682	11	1. 67	37	1. 51	22
Rhode Island	39, 089, 405	33, 492, 977	32	706, 348	38	22, 474, 428	18, 451, 207	40	2. 23	29	2. 81	7
Connecticut	290, 033, 960	264, 716, 725	11	5, 333, 639	16	259, 166, 711	237, 940, 141	23	2. 00	35	2. 11	15
New England group	1, 352, 844, 750	1, 230, 050, 691	C	33, 725, 459	C	1, 997, 728, 038	1, 826, 148, 467	D	1. 99	F	1. 56	B2
New York	1, 048, 881, 974	1, 595, 340, 577	1	49, 307, 417	3	6, 086, 851, 513	5, 976, 574, 500	3	1. 96	36	. 85	39
New Jersey	406, 038, 811	448, 552, 192	6	17, 097, 354	7	971, 216, 746	1, 063, 998, 600	10	2. 05	33	1. 41	27
Pennsylvania	1, 087, 583, 627	897, 219, 619	3	135, 025, 528	1	9, 619, 081, 737	8, 275, 719, 046	1	2. 17	31	. 88	37
Delaware	12, 480, 063	9, 809, 779	40	762, 567	37	32, 063, 437	20, 633, 258	39	3. 00	12	2. 29	11
Maryland	205, 350, 697	153, 597, 678	16	11, 183, 441	10	1, 570, 230, 226	1, 014, 874, 761	12	1. 70	40	. 59	44
Middle group	2, 760, 335, 172	3, 104, 519, 845	A	213, 376, 307	A	18, 279, 443, 659	16, 551, 800, 165	B	2. 11	E	. 81	G
Ohio	742, 317, 107	757, 726, 532	5	57, 592, 145	2	7, 491, 903, 147	6, 462, 387, 079	2	2. 23	29	. 65	43
Michigan	357, 767, 423	349, 468, 396	8	15, 873, 498	8	2, 044, 672, 566	1, 898, 719, 933	6	2. 24	28	. 87	38
Indiana	369, 515, 917	379, 476, 494	7	20, 521, 625	5	2, 867, 188, 159	2, 673, 587, 181	5	2. 28	27	. 70	42
Illinois	1, 051, 169, 010	968, 885, 718	2	40, 939, 396	4	6, 182, 540, 474	5, 479, 736, 805	4	2. 16	32	1. 10	34
Wisconsin	258, 596, 243	252, 836, 071	12	9, 141, 461	11	1, 607, 250, 013	1, 357, 578, 142	8	2. 49	20	1. 23	32
Central northern group	2, 779, 365, 700	2, 102, 211, 985	B	144, 068, 125	B	20, 193, 554, 359	17, 872, 009, 142	A	2. 24	D	. 88	F
Virginia	216, 637, 015	138, 900, 190	17	8, 316, 961	13	1, 444, 043, 222	944, 490, 824	13	1. 80	38	. 80	41
West Virginia	21, 258, 545	13, 836, 166	38	1, 555, 748	30	56, 461, 532	40, 803, 500	35	1. 77	39	1. 38	28
North Carolina	28, 451, 498	33, 860, 103	31	1, 188, 085	34	79, 834, 563	85, 562, 404	31	2. 66	18	2. 39	10
South Carolina	51, 527, 307	49, 362, 902	27	2, 029, 404	29	116, 651, 813	110, 520, 785	30	2. 66	18	2. 69	8
Georgia	86, 006, 306	89, 238, 124	21	3, 821, 254	22	363, 069, 543	303, 332, 227	22	2. 78	15	1. 70	17
Florida	26, 333, 107	17, 325, 181	37	1, 383, 456	31	67, 076, 383	40, 530, 549	36	3. 51	7	1. 69	18
South Atlantic group	430, 813, 778	328, 171, 522	H	17, 894, 908	G	2, 127, 137, 056	1, 545, 240, 112	F	2. 26	C	1. 16	E

STATEMENT VIII.—Passengers carried one mile in 1886 and average for five years, etc.—Continued.

States and Territories.	Passengers carried one mile.		Rank, in av- erages.	Tons of freight moved, 1886.	Rank.	Tons of freight moved one mile.		Rank, in av- erages.	Average rate per passen- ger per mile, 1886.	Rank.	Average rate per ton per mile, 1886.	Rank.
	In 1886.	Average for five years.				In 1886.	Average for five years.					
Alabama	76,581,513	68,658,986	24	3,889,531	21	391,923,858	333,165,324	20	<i>Cents.</i> 2.43	23	<i>Cents.</i> 1.31	30
Mississippi	9,196,767	9,994,832	39	548,689	39	34,873,991	27,487,646	38	3.35	8	2.22	12
Tennessee	114,872,636	107,282,374	20	4,542,776	18	554,052,522	430,774,136	19	2.86	13	1.21	33
Kentucky	120,966,471	126,094,416	19	7,381,905	14	756,511,173	549,385,567	18	2.39	24	1.06	35
Louisiana	56,325,448	72,264,956	22	2,678,621	25	253,336,026	165,978,975	27	2.01	34	2.13	14
Gulf and Mississippi Valley group	377,942,835	384,295,565	G	19,041,522	E	1,990,697,600	1,506,791,645	G	2.51	B	1.31	D
Missouri	310,302,256	282,422,622	10	15,568,084	9	2,019,239,779	1,731,239,158	7	2.66	18	1.26	31
Arkansas	30,810,183	20,666,553	34	1,190,810	33	136,073,546	57,209,039	34	3.20	9	1.65	19
Texas	156,366,082	126,414,170	18	4,585,791	17	754,201,340	610,304,903	17	2.57	19	1.90	16
Kansas	232,264,374	188,207,512	14	6,126,191	15	1,042,176,178	865,954,697	14	2.38	25	1.56	21
Colorado	53,681,028	49,136,870	28	2,292,284	28	244,677,552	185,649,353	25	3.65	6	2.91	6
New Mexico	35,604,834	19,528,178	36	251,803	41	119,098,462	66,126,320	33	1.70	40	.84	40
Southwestern group	819,028,757	658,564,633	D	30,014,963	D	4,315,466,857	1,758,793,765	E	2.60	A2	1.56	B1
Iowa	64,112,149	49,961,218	25	4,403,651	19	333,774,225	307,018,037	21	2.49	20	1.42	25
Minnesota	238,754,646	214,896,729	13	8,578,122	12	1,487,778,834	1,194,806,457	9	2.81	14	1.45	24
Nebraska	209,470,072	164,892,885	15	4,079,572	20	992,183,597	827,261,742	15	2.20	30	1.36	29
Dakota	6,720	152,965	44	100,000	44	1,000,000	1,340,459	43	10.01	1	6.90	4
Wyoming	20,000,000	20,491,541	35	1,285,000	32	95,000,000	46,932,190	37	2.16	32	1.46	23
Montana	502,197	200,879	43	210,063	42	1,067,391	1,337,391	44	8.12	3	7.59	2
Northwestern group	532,845,784	450,596,217	E	18,656,408	F	2,910,804,027	2,377,100,477	C	2.49	H	1.42	C
Washington Territory	687,000	399,342	42	156,647	43	4,000,000	4,157,099	41	4.23	4	3.25	5
Oregon	29,383,417	36,442,752	30	803,306	36	149,816,673	144,792,623	28	3.04	11	2.39	10
California	344,951,101	327,476,731	9	3,108,067	23	706,515,160	762,019,581	16	2.48	21	2.16	13
Nevada	900,000	671,210	41	326,128	40	8,300,000	3,753,584	42	4.06	5	7.14	3
Arizona	100,000	127,652	45	18,414	45	1,307,000	1,187,375	45	9.77	2	10.81	1
Utah	30,500,000	21,817,643	33	1,055,000	35	117,300,000	82,507,812	32	3.14	10	2.47	9
Pacific group	406,521,518	386,935,329	F	5,447,562	H	987,288,833	997,111,206	H	2.60	A1	2.29	A
United States	9,659,698,294	8,645,345,787	.....	482,245,254	.....	52,802,070,529	13,434,994,979	.....	2.18	.....	1.04	.....

REPORT OF THE U. S. PACIFIC RAILWAY COMMISSION. 211

STATEMENT X.—Population per mile of railroad in each State for each year from 1880 to 1886, based on the population of the States in 1880.

States and Territories.	1880.		1881.		1882.		1883.		1884.		1885.		1886.	
	Rank.	Population per mile.	Rank.	Population per mile.	Rank.	Population per mile.	Rank.	Population per mile.	Rank.	Population per mile.	Rank.	Population per mile.	Rank.	Population per mile.
Maine.....	18	645.71	18	631.97	16	614.52	17	590.48	15	568.27	14	571.40	11	564.62
New Hampshire.....	33	341.86	30	339.85	28	334.29	26	333.00	26	332.01	26	332.31	26	330.41
Vermont.....	31	363.55	29	362.76	24	359.23	24	354.61	24	351.00	24	350.98	23	350.98
Massachusetts.....	8	931.11	6	910.20	4	906.50	2	901.00	2	886.21	2	891.71	2	883.39
Rhode Island.....	21	316.81	11	310.57	11	310.57	11	310.57	11	310.57	11	316.81	11	316.81
Connecticut.....	16	674.65	10	648.63	13	646.63	11	646.63	9	638.21	9	638.30	8	638.30
New England group.....	D	670.90	C	658.43	B	652.08	B	643.61	B	633.98	A	633.60	A	631.57
New York.....	10	848.42	9	811.96	10	727.06	9	691.64	8	692.98	7	688.18	7	679.40
New Jersey.....	17	671.69	17	637.97	17	607.47	14	603.59	13	598.77	13	588.96	10	577.86
Pennsylvania.....	14	691.79	14	673.85	14	622.15	16	591.89	16	567.58	17	558.57	15	544.09
Delaware.....	22	533.12	20	533.12	20	520.00	19	520.00	19	478.88	19	463.84	19	458.29
Maryland (and D. C.).....	41	1,069.78	21	1,044.60	8	866.49	4	850.72	3	863.80	4	786.25	4	755.00
						9,868.00		9,868.00		9,868.00		8,219.58		2,119.53
Middle group.....	B	774.39	F	747.84	C	686.81	C	602.31	C	646.78	C	635.46	C	622.30
Ohio.....	20	552.15	22	508.52	22	463.42	22	443.13	22	439.56	21	435.85	20	423.91
Michigan.....	27	415.68	25	382.19	25	354.78	28	322.74	27	312.80	27	310.69	27	290.45
Indiana.....	25	452.39	23	415.69	23	368.26	23	356.90	23	357.47	23	353.28	24	346.39
Illinois.....	29	392.01	28	372.62	26	354.76	25	346.85	25	345.48	25	345.61	25	331.82
Wisconsin.....	26	416.96	26	380.53	27	345.18	27	325.70	28	306.68	28	297.76	29	270.17
Central North- ern group.....	E	446.31	E	414.32	E	381.51	E	364.57	F	358.71	E	355.45	E	340.12
Virginia.....	12	799.03	12	681.34	15	617.37	15	592.46	17	562.73	16	561.70	12	554.09
West Virginia.....	9	890.43	7	876.00	8	780.71	10	650.27	12	602.50	10	595.62	16	539.28
North Carolina.....	6	941.96	8	850.91	7	785.90	6	772.49	5	722.18	6	690.16	9	635.79
South Carolina.....	13	697.67	15	673.14	12	660.20	12	642.72	10	638.74	11	580.11	14	548.95
Georgia.....	19	627.16	19	602.18	19	535.85	18	525.80	18	517.93	18	483.27	18	454.85
Florida.....	23	520.26	24	390.18	30	279.56	32	232.91	33	205.03	34	188.10	35	140.49
South Atlantic group.....	C	747.93	D	681.21	D	609.77	D	578.70	D	550.26	D	520.96	D	480.15
Alabama.....	15	685.01	13	679.13	11	664.13	13	613.16	14	576.23	15	567.18	13	553.62
Mississippi.....	51	1,004.08	5	957.36	5	868.45	8	700.24	11	613.68	12	589.23	17	535.95
Tennessee.....	11	836.87	10	811.77	9	746.91	7	730.28	7	712.08	5	714.87	5	701.38
Kentucky.....	31	1,077.57	4	960.07	2	944.81	3	890.22	4	852.72	3	820.27	3	778.91
Louisiana.....	11	441.63	31	1,023.39	3	930.64	5	780.69	6	714.32	8	685.86	6	660.55
Gulf and Mis- sissippi Val- ley group.....	A	932.82	A	866.88	A	813.19	A	737.84	A	693.93	B	673.80	B	616.80
Missouri.....	21	546.88	21	515.42	21	481.75	20	469.45	20	460.42	20	436.39	21	427.83
Arkansas.....	7	935.25	11	800.92	18	539.33	21	463.35	21	454.90	22	564.66	22	365.50
Texas.....	24	490.64	31	323.99	31	264.89	30	262.01	30	256.88	30	238.02	30	218.19
Kansas.....	35	292.97	33	276.00	32	260.76	31	251.28	31	236.99	31	226.53	32	162.77
Colorado.....	42	123.77	42	88.66	40	70.26	40	67.39	40	67.39	40	67.39	40	66.02
New Mexico.....	41	157.74	41	114.20	39	109.79	39	104.84	39	100.37	39	100.06	38	96.97
Southwestern group.....	F	416.94	F	340.24	F	293.29	F	283.59	F	276.20	F	258.99	F	232.23
Iowa.....	34	300.85	34	263.57	33	233.19	33	225.14	32	216.35	32	216.51	31	205.12
Minnesota.....	37	247.79	35	233.90	35	209.04	34	199.89	34	186.46	33	180.27	33	161.88
Nebraska.....	38	231.64	36	198.69	36	181.11	36	167.89	35	161.90	35	151.41	37	125.11
Dakota.....	44	110.35	43	81.04	43	64.86	42	54.18	42	49.00	42	46.99	43	36.55
Wyoming.....	46	40.60	45	36.09	46	33.26	46	33.26	41	33.72	46	33.70	46	26.73
Montana.....	30	369.42	39	144.49	44	61.86	45	37.83	45	37.39	45	37.41	44	36.86
Northwestern group.....	H	247.25	H	213.53	H	184.55	H	169.86	H	161.35	H	157.67	H	139.78

212 REPORT OF THE U. S. PACIFIC RAILWAY COMMISSION.

STATEMENT X.—Population per mile of railroad in each State, etc.—Continued.

States and Territories.	1880.		1881.		1882.		1883.		1884.		1885.		1886.	
	Rank.	Population per mile.	Rank.	Population per mile.	Rank.	Population per mile.	Rank.	Population per mile.	Rank.	Population per mile.	Rank.	Population per mile.	Rank.	Population per mile.
Washington	36	260.00	38	159.14	37	159.14	38	125.51	38	111.21	38	102.00	39	83.66
Idaho	40	158.30	40	118.13	41	66.01	44	41.97	44	40.20	44	40.87	43	40.19
Oregon	32	344.08	32	305.01	34	231.17	35	183.97	36	150.00	36	147.96	34	143.16
California	28	393.94	27	374.49	29	328.03	29	300.14	29	297.06	29	284.04	28	262.29
Nevada	45	84.26	44	69.53	42	65.68	41	65.68	41	65.68	41	65.26	41	65.26
Arizona	43	115.87	41	81.37	45	56.72	43	46.70	43	42.43	43	42.43	42	40.89
Utah	39	170.98	37	164.15	38	155.56	37	128.08	37	126.93	37	126.39	36	126.39
Pacific group.	G	271.81	G	236.28	G	196.84	G	171.15	G	163.02	G	159.15	G	149.76
United States .....	...	537.59	...	486.26	...	438.10	...	412.95	...	400.03	...	388.85	...	363.49

STATEMENT XI.—Square miles in each State per mile of railroad in 1886 and population per square mile for 1880.

States and Territories.	1886.		1880.		States and Territories.	1886.		1880.	
	Square miles per mile of railroad.	Rank.	Population per square mile.	Rank.		Square miles per mile of railroad.	Rank.	Population per square mile.	Rank.
Maine	28.73	17	19.64	24	Kentucky	19.08	25	40.81	1
New Hampshire	8.86	36	37.29	13	Louisiana	35.28	15	19.29	5
Vermont	10.10	34	34.74	15	Gulf & Mississippi Valley group	22.82	D	27.04	A
Massachusetts	4.12	46	146.03	3	Missouri	13.69	30	31.24	3
Rhode Island	5.95	42	221.22	2	Arkansas	24.52	18	14.90	6
Connecticut	5.02	45	127.08	5	Texas	36.43	13	5.99	9
New England group	10.45	F	60.42	B	Kansas	13.41	31	12.14	7
New York	6.57	35	103.37	6	Colorado	35.30	14	1.87	12
New Jersey	3.99	47	144.74	4	New Mexico	99.42	7	0.98	16
Pennsylvania	5.74	43	94.72	7	Indian Territory	149.75	1	.....	.....
Delaware	6.31	41	71.50	10	Southwestern group	30.15	B	8.42	B
District of Columbia	3.18	48	2,537.49	1	Iowa	7.06	37	29.00	4
Maryland	9.97	35	76.57	9	Minnesota	17.28	27	9.37	8
Middle group	6.17	H	100.88	A	Nebraska	21.25	23	5.88	10
Ohio	5.51	44	77.89	8	Dakota	40.32	12	0.97	17
Michigan	10.45	33	27.78	17	Wyoming	125.82	3	0.21	22
Indiana	6.37	39	54.42	11	Montana	137.55	2	0.27	21
Illinois	6.11	40	54.33	12	Northwestern group	27.81	C	5.01	C
Wisconsin	11.51	32	23.47	23	Washington Territory	77.04	9	1.09	15
Central northern group	7.56	G	45.01	C	Oregon	78.78	8	1.82	13
Virginia	15.55	29	35.63	13	California	48.03	11	5.46	11
West Virginia	21.60	22	24.96	20	Nevada	116.04	4	0.56	18
North Carolina	23.73	19	26.78	18	Arizona	114.28	5	0.36	20
South Carolina	16.85	28	32.57	16	Utah	74.60	10	1.69	14
Georgia	17.54	26	25.93	19	Idaho	104.56	6	0.38	19
Florida	30.59	16	4.59	25	Pacific group	77.05	A	1.94	D
South Atlantic group	20.31	E	23.63	D	United States	21.89	...	16.98	...
Alabama	22.91	20	24.16	22					
Mississippi	22.17	21	24.17	21					
Tennessee	19.12	24	36.68	2					

REPORT OF THE U. S. PACIFIC RAILWAY COMMISSION. 213

STATEMENT XII.—*Capital stock and bonded debt of railroads in each State per mile of road, for 1886, per square mile; and per capita.*

States and Territories.	Capital stock.						Bonded indebtedness.					
	Per mile of railroad 1886.	Rank.	Per square mile.	Rank.	Per capita.	Rank.	Per mile of railroad 1886.	Rank.	Per square mile.	Rank.	Per capita.	Rank.
Maine.....	\$15,006	39	\$557	33	\$28	33	\$20,034	27	\$744	28	\$37	30
New Hampshire.....	19,653	30	1,801	18	49	27	6,615	45	606	29	16	35
Vermont.....	23,059	27	2,075	15	59	24	17,727	32	1,595	19	45	26
Massachusetts.....	45,142	5	12,785	2	59	24	35,498	10	10,054	2	46	25
Rhode Island.....	31,611	16	3,641	10	16	37	15,027	36	1,755	16	8	36
Connecticut.....	37,098	11	7,502	6	59	24	12,603	41	2,548	13	20	34
New England group.....	31,485	C	3,053	C	50	F	22,338	G	2,166	C	35	H
New York.....	58,142	3	9,044	5	87	19	51,057	4	7,942	6	76	22
New Jersey.....	64,356	2	15,439	1	106	15	72,591	1	17,352	1	119	11
Pennsylvania.....	55,977	4	9,217	4	97	16	58,769	3	9,676	3	102	16
Delaware.....	23,248	26	3,447	11	48	28	60,907	2	9,032	4	124	10
Maryland.....	37,169	10	3,793	9	49	27	35,328	11	3,605	9	46	25
Middle group.....	55,913	A	8,892	A	89	E	55,411	A	8,811	A	88	E
Ohio.....	41,795	9	9,411	3	122	12	36,557	9	8,232	5	105	15
Michigan.....	18,406	32	1,629	20	58	25	18,288	30	1,617	18	58	24
Indiana.....	26,175	21	4,061	8	74	20	29,612	13	4,565	8	84	21
Illinois.....	10,038	43	5,873	7	108	14	22,484	20	5,838	7	107	14
Wisconsin.....	13,009	42	1,644	19	70	22	20,829	24	2,633	12	112	12
Central northern group.....	25,187	E	4,236	B	94	D	25,747	E	4,331	B	96	C
Virginia.....	36,311	12	2,574	13	72	21	34,672	12	2,454	14	68	23
West Virginia.....	43,125	7	1,185	22	47	29	14,460	38	397	34	15	36
North Carolina.....	13,567	40	476	35	17	36	11,954	42	419	33	15	36
South Carolina.....	10,011	44	564	32	18	35	16,537	33	931	22	28	33
Georgia.....	13,320	41	745	27	28	33	13,925	39	779	26	30	32
Florida.....	16,619	34	426	36	92	18	13,722	40	352	35	76	22
South Atlantic group.....	20,697	G	932	E	39	G	19,162	H	862	....	36	G
Alabama.....	16,923	33	681	30	20	34	18,724	29	754	27	31	31
Mississippi.....	15,708	38	216	39	8	40	14,980	37	206	39	7	39
Tennessee.....	29,487	18	1,966	16	52	26	22,642	19	1,510	20	41	28
Kentucky.....	27,215	19	1,861	17	45	31	41,465	7	2,835	10	68	23
Louisiana.....	25,805	23	879	25	45	31	24,426	16	842	25	43	27
Gulf and Mississippi Valley group.....	24,712	F	1,070	D	37	H	26,876	C	1,164	D	41	F
Missouri.....	30,464	17	2,987	12	95	17	27,787	14	2,724	11	87	19
Arkansas.....	23,735	24	699	29	46	30	29,288	25	597	30	40	29
Texas.....	16,052	37	392	37	65	23	22,461	21	549	31	91	18
Kansas.....	22,794	28	1,380	21	113	13	19,559	28	1,184	21	97	17
Colorado.....	35,193	13	794	27	425	4	20,133	26	454	32	238	5
New Mexico.....	78,227	1	619	31	634	2	41,996	6	332	36	340	2
South western group.....	26,794	D	814	F	157	B	23,833	F	423	F	94	D
Iowa.....	16,128	36	949	24	32	32	15,084	35	888	23	30	32
Minnesota.....	26,931	20	2,165	14	231	6	23,693	18	1,601	15	203	6
Nebraska.....	22,684	29	854	26	123	11	46,045	5	1,734	17	294	4
Dakota.....	19,168	31	37	43	127	10	18,134	31	35	43	110	13
Wyoming.....	25,966	22	176	41	830	1	22,452	22	152	40	718	1
Montana.....	33,333	14	3	45	12	39	26,666	15	2	45	10	37
North western group.....	22,285	H	529	G	105	C	26,134	D	594	E	118	B
Washington.....	9,042	45	15	44	14	38	9,991	44	17	44	15	36
Oregon.....	32,793	15	485	34	266	5	21,091	23	312	37	171	8
California.....	43,182	6	1,024	23	187	8	39,901	8	846	24	173	7
Nevada.....	23,725	25	108	42	193	7	10,533	43	48	42	86	20
Arizona.....	42,447	8	202	40	564	3	24,241	17	115	41	322	3
Utah.....	16,447	35	251	38	148	9	15,547	34	237	38	140	9
Pacific group.....	34,826	B	371	H	190	A	28,741	B	306	G	160	A
United States.....	22,454	....	1,324	....	79	....	29,062	....	1,286	....	77	....

214 REPORT OF THE U. S. PACIFIC RAILWAY COMMISSION.

STATEMENT XIII.—Gross and net earnings per mile of road for 1886; average gross and net earnings per mile of road from 1880 to 1886; interest payments for 1886; increase or decrease of gross and net earnings for 1886 as compared with those for 1880.

States and Territories.	Gross earnings per mile of railroad.					Net earnings per mile of railroad.					Interest payments per mile of railroad in 1886.	Rank.
	In 1886.	Rank.	Average 1880-86.	Rank.	Inc. or Dec. 1886 over 1880	In 1886.	Rank.	Average 1880-86.	Rank.	Inc. or Dec. 1886 over 1880		
Maine	\$4,713	23	\$4,348	29	I. \$863	\$1,746	22	\$1,402	28	I. \$344	\$1,089	22
New Hampshire	7,237	11	5,528	20	I. 2,379	2,868	10	1,802	20	I. 1,204	1,083	23
Vermont	4,901	20	4,940	21	I. 55	1,514	24	1,266	32	I. 304	598	38
Massachusetts	12,276	4	12,207	4	I. 753	3,664	5	3,554	5	D. 348	1,455	13
Rhode Island	11,446	6	10,346	8	I. 2,754	3,571	6	3,539	6	I. 486	1,012	25
Connecticut	11,719	5	10,828	7	I. 2,443	4,018	4	3,428	7	I. 369	641	36
New England group.....	9,744	B	8,957	B	I. 1,713	3,691	B	2,686	B	I. 259	1,129	G
New York	10,355	8	11,223	6	D. 1,734	3,490	7	3,656	4	D. 1,196	2,227	8
New Jersey	17,679	1	15,757	1	671	4,543	2	5,094	2	D. 1,662	8,486	5
Pennsylvania	15,320	2	15,481	2	I. 606	6,379	1	6,378	1	D. 545	2,928	6
Delaware	4,555	26	3,790	32	I. 722	699	38	1,727	21	D. 148	63	45
Maryland	10,881	7	11,679	5	D. 1,327	4,253	3	4,707	3	D. 1,125	8,852	4
Middle group.....	13,086	A	13,344	A	D. 515	4,869	A	4,945	A	D. 869	3,447	A
Ohio	7,788	9	8,030	11	D. 1,418	2,528	13	2,671	14	D. 1,110	1,412	15
Michigan	6,222	16	5,741	17	I. 385	1,913	18	1,667	25	D. 1,116	1,201	18
Indiana	4,603	25	5,315	22	D. 1,551	1,165	30	1,276	31	D. 713	641	37
Illinois	6,251	15	6,287	16	D. 978	2,532	12	3,014	9	D. 1,253	1,199	19
Wisconsin	4,243	29	4,252	30	I. 274	1,737	23	1,691	23	I. 161	1,072	24
Central Northern group.	5,984	C	6,337	C	D. 616	2,138	D	2,290	E	D. 775	1,130	F
Virginia	4,956	21	4,748	25	I. 336	1,892	20	1,713	22	I. 191	1,119	21
West Virginia	3,829	32	3,294	38	I. 854	1,092	31	892	39	D. 162	983	26
North Carolina	2,107	44	2,297	42	I. 68	676	30	692	41	I. 16	478	42
South Carolina	3,912	30	3,096	39	I. 1,064	669	40	873	40	D. 187	745	31
Georgia	3,574	35	3,482	35	I. 229	1,043	33	1,123	35	D. 320	930	28
Florida	2,254	42	1,731	45	I. 715	621	42	517	43	I. 366	643	35
South Atlantic group.....	3,599	H	3,457	H	I. 362	1,171	H	1,131	H	D. 7	875	H
Alabama	3,814	33	4,702	26	I. 620	1,055	32	1,194	34	D. 75	888	29
Mississippi	3,329	37	3,338	37	I. 1,243	805	43	1,000	36	D. 501	1,161	30
Tennessee	3,556	36	3,746	33	D. 580	1,274	29	1,326	30	D. 276	597	39
Kentucky	6,119	17	5,686	18	I. 1,732	2,405	15	2,289	16	I. 417	1,992	10
Louisiana	7,017	12	8,896	10	I. 2,395	1,895	21	2,998	10	I. 511	2,917	7
Gulf and Mississippi Valley group.....	4,633	G	4,947	G	I. 780	1,535	G	1,753	G	.....	1,274	D
Missouri	5,919	18	6,508	15	D. 958	2,446	14	2,816	13	D. 402	1,721	11
Arkansas	2,562	41	3,545	34	D. 934	752	37	984	37	D. 810	562	41
Texas	3,847	31	4,186	31	D. 486	791	36	1,222	33	D. 1,075	767	30
Kansas	5,329	19	5,631	19	D. 63	2,291	16	2,116	17	D. 233	1,240	17
Colorado	4,768	22	4,849	23	D. 2,569	1,500	25	1,580	27	D. 2,109	704	34
New Mexico	1,961	45	4,456	28	D. 2,495	def. 36	44	80	45	D. 116	556	40
Southwestern group.....	4,733	F	5,326	F	D. 1,107	1,659	F	2,011	F	D. 823	1,132	E
Iowa	2,617	40	2,985	40	D. 476	636	41	1,676	24	D. 677	951	27
Minnesota	4,516	27	4,822	24	I. 1,015	2,004	17	2,016	19	I. 454	1,391	16
Nebraska	7,703	10	8,957	9	I. 444	3,113	8	4,463	8	D. 475	2,225	9
Dakota	4,696	24	3,350	36	I. 3,648	def. 750	45	97	44	D. 847	24,215	1
Wyoming	3,114	39	2,020	44	I. 1,094	948	35	620	42	I. 328	1,436	14
Montana	13,579	3	13,320	3	I. 259	1,446	26	2,533	15	D. 1,087	11,158	2
Northwestern group.....	4,716	E	5,372	E	I. 1,015	1,892	E	2,310	D	D. 938	1,509	B
Washington	3,802	34	4,656	27	D. 854	1,359	28	2,076	18	D. 717	472	43
Oregon	6,357	14	6,689	13	D. 993	2,712	11	2,871	12	D. 276	734	32
California	6,633	13	7,522	12	D. 1,078	3,079	9	3,062	8	I. 213	1,549	12
Nevada	4,470	28	6,669	14	D. 4,100	1,902	19	2,925	11	D. 1,185	323	44
Arizona	2,226	43	2,376	41	D. 150	1,423	27	1,345	29	I. 78	9,407	3
Utah	3,292	38	2,283	43	D. 468	994	34	939	38	D. 694	727	33
Pacific group	5,813	D	6,108	D	D. 1,722	2,529	C	2,520	C	D. 299	1,308	C
United States	6,570	...	6,989	...	D. 737	2,376	...	2,560	...	D. 626	1,497	...

REPORT OF THE U. S. PACIFIC RAILWAY COMMISSION. 215

STATEMENT XVI—Gross and net earnings in each State, per square mile and per capita, for 1886.

States and Territories.	Per square mile.				Per capita.			
	Gross earnings.	Rank.	Net earnings.	Rank.	Gross earnings.	Rank.	Net earnings.	Rank.
Maine.....	\$152	27	\$59	25	\$8.12	28	\$3.01	23
New Hampshire.....	236	22	93	20	6.32	32	2.50	26
Vermont.....	401	16	122	16	11.55	23	3.50	21
Massachusetts.....	4,504	1	1,345	1	21.02	13	6.27	14
Rhode Island.....	1,282	8	399	9	5.80	35	1.80	31
Connecticut.....	2,405	4	859	3	19.70	14	6.76	13
New England group.....	1,514	A	480	B	12.09	F	3.97	F
New York.....	1,492	7	502	7	14.43	20	4.86	18
New Jersey.....	3,160	2	813	4	21.84	11	5.61	15
Pennsylvania.....	2,710	3	1,129	2	28.61	7	11.91	7
Delaware.....	596	11	91	21	8.32	27	1.28	34
Maryland.....	1,071	9	418	8	13.99	21	5.47	16
Middle group.....	1,505	B	492	A	14.53	E	4.86	E
Ohio.....	1,733	6	563	6	22.26	10	7.24	11
Michigan.....	480	14	147	15	16.57	18	5.09	17
Indiana.....	923	10	234	10	16.96	16	4.29	22
Illinois.....	1,724	5	716	5	31.73	5	13.18	6
Wisconsin.....	503	13	205	12	21.41	12	8.77	9
Central northern group.....	1,073	C	373	C	21.79	B	7.71	B
Virginia.....	447	15	171	13	11.32	24	4.32	20
West Virginia.....	49	35	14	34	1.96	43	.56	40
North Carolina.....	56	34	18	31	2.11	42	.68	39
South Carolina.....	161	24	37	29	4.97	36	1.14	36
Georgia.....	157	26	45	26	6.06	33	1.77	33
Florida.....	40	38	11	35	8.88	26	2.45	28
South Atlantic group.....	152	F	49	G	5.88	G	1.82	G
Alabama.....	231	23	64	24	5.91	34	1.63	32
Mississippi.....	24	39	4	37	1.01	44	.18	41
Tennessee.....	254	21	91	21	6.93	31	2.48	27
Kentucky.....	295	18	115	18	7.22	30	2.82	24
Louisiana.....	141	28	38	28	7.31	29	1.98	30
Gulf and Mississippi Valley group.....	189	D	62	E	5.67	H	1.82	G
Missouri.....	538	12	222	11	17.23	15	7.12	12
Arkansas.....	64	23	18	31	4.32	37	1.26	35
Texas.....	77	31	16	32	12.82	22	2.64	25
Kansas.....	282	19	121	17	23.24	9	9.99	8
Colorado.....	93	30	29	30	49.98	2	15.72	4
New Mexico.....	14	41	Def. .26	41	14.90	19	Def. .27	43
Southwestern group.....	178	E	67.62	D	20.42	C	6.08	D
Iowa.....	119	29	39	27	4.13	38	1.00	37
Minnesota.....	356	17	158	14	16.87	17	2.09	29
Nebraska.....	255	20	103	19	43.32	3	17.52	2
Dakota.....	47	37	Def. 7	42	.52	45	Def. .09	42
Wyoming.....	19	40	6	36	93.47	1	28.46	1
Montana.....	1	44	.09	40	3.12	40	.33	40
Northwestern group.....	123	G	49.85	F	26.90	A	8.22	A
Washington.....	2	43	87	22	2.23	41	.80	38
Oregon.....	63	32	29	30	37.85	4	15.94	3
California.....	159	25	73	23	29.20	6	13.37	5
Nevada.....	6	42	3	38	10.55	25	4.50	19
Arizona.....	1	44	1	39	3.91	39	2.50	26
Utah.....	48	36	15	33	28.44	8	8.60	10
Pacific group.....	47	H	35	H	18.61	D	7.62	C
United States.....	290	---	105	---	16.46	---	5.95	---

216 REPORT OF THE U. S. PACIFIC RAILWAY COMMISSION.

STATEMENT XVI.—Percentage of gross earnings, of net earnings, and of available revenue of railroads in each State to capital stock.

States and Territories.	Gross earnings.	Rank.	Net earnings.	Rank.	Available revenue.	Rank.
Maine	28.59	9	10.59	8	11.57	11
New Hampshire	13.08	31	5.18	27	10.39	13
Vermont	19.33	19	5.86	21	7.89	18
Massachusetts	35.25	1	10.52	9	12.68	8
Rhode Island	35.20	2	10.96	7	13.36	5
Connecticut	33.37	3	11.44	5	12.29	9
New England group	30.91	A	9.79	A	11.81	A
New York	16.40	23	5.55	25	5.78	32
New Jersey	20.46	16	5.26	26	13.12	6
Pennsylvania	29.40	6	12.24	2	16.21	3
Delaware	17.27	21	2.64	36	3.59	37
Maryland	28.30	10	11.01	6	11.94	10
Middle group	22.68	C	8.44	C	11.09	B
Ohio	18.42	20	5.98	19	6.33	25
Michigan	28.27	11	8.69	11	10.30	14
Indiana	22.72	13	15.75	23	6.34	24
Illinois	29.35	7	12.19	3	13.80	4
Wisconsin	30.57	4	12.51	1	13.01	7
Central northern group	24.43	B	8.73	B	9.63	D
Virginia	15.69	26	5.99	18	5.98	28
West Virginia	4.13	41	1.24	41	1.47	44
North Carolina	11.85	34	3.88	31	5.80	31
South Carolina	28.67	8	6.59	15	7.97	18
Georgia	21.90	14	6.15	17	11.18	12
Florida	9.56	38	2.63	37	2.96	40
South Atlantic group	11.19	H	4.78	H	6.18	H
Alabama	20.95	15	5.79	22	6.02	27
Mississippi	11.26	36	2.04	40	2.04	42
Tennessee	12.92	32	4.63	28	4.91	34
Kentucky	15.82	25	6.18	16	7.33	23
Louisiana	16.05	24	4.33	29	7.87	21
Gulf and Mississippi Valley group	15.44	E	5.11	G	6.20	G
Missouri	13.19	36	7.44	12	8.63	18
Arkansas	9.20	39	2.70	35	2.70	41
Texas	19.54	18	4.02	30	4.63	35
Kansas	20.43	17	8.78	10	9.82	16
Colorado	11.75	35	3.69	32	3.77	36
New Mexico	2.34	42	.....	.....	.67	45
Southwestern group	15.43	F	5.41	F	6.20	F
Iowa	12.60	33	3.06	34	5.81	30
Minnesota	16.44	22	7.29	13	8.98	17
Nebraska	29.87	5	12.07	4	17.41	2
Dakota	1.26	43	.....	.....	6.33	25
Wyoming	11.25	27	3.42	33	3.42	38
Montana	24.44	12	2.60	38	22.70	1
Northwestern group	18.01	D	7.22	D	9.86	C
Washington Territory	15.54	28	5.57	24	7.67	22
Oregon	14.00	29	5.97	20	6.08	26
California	15.56	27	7.12	14	10.21	15
Nevada	5.45	40	2.81	39	1.85	43
Arizona .....	.69	44	.44	42	3.13	38
Utah	19.18	20	5.79	22	5.92	29
Pacific group	13.84	G	6.02	E	8.17	E
United States	20.55	.....	7.43	.....	9.88	.....

REPORT OF THE U. S. PACIFIC RAILWAY COMMISSION. 217

STATEMENT XVII.—Tons of freight moved 1 mile per square mile, per mile of road, and per capita, in each State in 1886.

States and Territories.	Per square mile.	Rank.	Per mile of railroad.	Rank.	Per capita.	Rank.
	Tons.		Tons.		Tons.	
Maine.....	5,609	25	165,754	25	272	29
New Hampshire.....	9,607	21	295,016	15	235	30
Vermont.....	24,896	14	310,068	14	683	20
Massachusetts.....	144,709	3	394,249	9	604	21
Rhode Island.....	17,980	16	161,686	26	67	40
Connecticut.....	52,891	9	247,532	17	862	25
New England group.....	30,097	C	310,683	C	498	F
New York.....	123,792	6	859,239	3	1,283	8
New Jersey.....	124,276	5	695,215	5	831	16
Pennsylvania.....	212,741	1	1,205,398	2	2,007	3
Delaware.....	15,610	19	120,087	34	144	35
Maryland.....	128,707	4	1,306,347	1	1,409	7
Middle group.....	156,856	A	1,018,296	A	1,555	B
Ohio.....	182,462	2	818,518	4	2,084	2
Michigan.....	84,705	10	469,176	6	1,262	9
Indiana.....	73,877	8	393,412	10	1,442	6
Illinois.....	109,185	7	395,606	8	1,889	5
Wisconsin.....	28,680	12	242,019	18	1,129	11
Central northern group.....	81,093	B	468,965	B	1,802	A
Virginia.....	83,810	11	417,957	7	708	19
West Virginia.....	2,278	31	178,112	24	77	39
North Carolina.....	1,528	34	57,024	44	521	23
South Carolina.....	3,816	28	68,618	41	127	37
Georgia.....	6,104	23	138,740	30	224	31
Florida.....	1,143	36	63,160	41	185	34
South Atlantic group.....	7,935	E	201,624	G	335	G
Alabama.....	7,501	22	200,472	21	290	27
Mississippi.....	745	38	101,970	36	26	44
Tennessee.....	13,171	18	194,376	23	373	24
Kentucky.....	18,725	15	391,165	11	444	23
Louisiana.....	5,200	26	258,516	16	278	28
Gulf and Mississippi Valley group.....	8,647	D	242,236	D	305	H
Missouri.....	28,225	13	319,854	13	836	15
Arkansas.....	2,526	29	100,646	37	111	38
Texas.....	2,084	32	142,221	29	339	26
Kansas.....	12,697	20	239,966	19	1,046	12
Colorado.....	2,354	30	120,175	33	1,259	10
New Mexico.....	972	37	131,455	31	996	13
Southwestern group.....	5,661	G	213,046	F	735	D
Iowa.....	5,779	24	130,329	32	205	32
Minnesota.....	17,847	17	226,347	20	1,906	4
Nebraska.....	12,909	14	389,549	12	193	33
Dakota.....	7	b41	66,666	40	7	45
Wyoming.....	972	b37	152,243	27	4,568	1
Montana.....	7	a41	118,500	35	27	43
Northwestern group.....	7,082	F	236,047	E	953	C
Washington Territory.....	57	41	90,999	39	53	41
Oregon.....	1,560	33	145,877	28	857	14
California.....	4,467	27	185,681	22	817	17
Nevada.....	75	39	56,462	43	133	36
Arizona.....	12	40	18,408	44	32	42
Utah.....	1,882	35	94,282	38	815	18
Pacific group.....	1,375	H	155,740	H	704	E
United States.....	17,523	421,923	1,034

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