

# Senators Squarely on Record for Over-capitalization

The New York Press, a paper which at the top of its editorial column boasted that "it has the largest republican circulation by many thousands of copies a day," printed in its issue of July 22, an editorial which should be carefully read by every Commoner reader. This editorial was entitled "Senators Squarely on Record in Favor of Railroad Robbery Through Overcapitalization." In this editorial Senator LaFollette's amendment to the ship canal charters is so clearly explained, and it is upon such an important subject that the editorial is printed in full. It follows:

"No phase of the problem of suppressing private monopoly and regulating railroad rates is of more consequence than the matter of capitalization. The senate debate showed the Hepburn act would be of little value unless means were adopted to learn what is the reasonable rate for transportation. It was likewise made clear that congress as at present constituted is opposed to the principle of limiting the capitalization of railroads to the amount of money actually invested in the property. Congress refused to confer power on the interstate commerce commission to make a valuation of the railroads in order to determine what would be a fair return to the companies on the money actually invested.

"This principle that the people ought not to be taxed to pay dividends on watered stock congress not only refused to sanction in the rate legislation, but in another similar matter flatly took the position that a common carrier has the right to issue stocks and bonds to many times the amount of money invested, and then to tax the shippers enough to retire the stocks and bonds. The senate actually voted to do this in the bill to incorporate the Lake Erie and Ohio river ship canal, and the debate and roll call on that subject throws a flood of light on the attitude of United States senators toward the transportation problem.

"When this bill came up Mr. LaFollette made a fight, as he did in the rate legislation, for the principle that the state, as a necessary part of its right to enforce a just and reasonable rate for transportation, ought to supervise the issue of stocks and bonds by the corporations it creates. A reasonable rate is a fair return to the capital actually invested in the property. So the United States supreme court has held. To find the reasonable rate it is necessary to know what capital is actually invested in the road or waterway. Mr. LaFollette therefore offered an amendment to the ship canal charter, modeled on the laws of Massachusetts and Texas, under which it would be necessary for the canal corporation to submit satisfactory evidence to the interstate commerce commission that there is actual value back of the proposed issue of stocks and bonds.

"In advocating the passage of this amendment Senator LaFollette said: 'If objection be made to it at all it must be on principle, and I can conceive of no objection which can be made to the amendment upon any principle.'

"The incorporators who are asking for this charter by the terms of this bill propose to issue \$400,000 of stock and \$400,000 of bonds for every mile of the canal from Lake Erie to the Ohio river. Once issued, the coal and iron and grain shipped through the canal will be charged tolls to pay interest on all the bonds and dividends on all the stock, though it may not have cost half of \$800,000 per mile to build, maintain and operate the canal. This is the vice of allowing public service corporations to issue stocks and bonds without any government supervision requiring the corporation to make satisfactory proof that every dollar of stocks and bonds represents actual bona fide investment.

"If this canal will cost \$800,000 per mile to build it is an easy matter for those who are asking this charter at the hands of the federal government to make that plain to some authority of the federal government.

"The transportation of this country is on a false basis. The steam railroads, the street cars and interurban companies, the sleeping car companies, the express companies are, all of them, as is well known, overcapitalized and grossly inflated. The people are charged transportation rates high enough to pay dividends on all stock and interest on all bonds, notwithstanding the fact that more than 50 per cent of such stocks and bonds represent no investment whatever.

"The difficulty in squeezing the water out after the stocks and bonds have been issued is at once manifest. You are at once encountered with the plea—a false one, as I contend—that

the stocks and bonds have become the property of innocent purchasers.'

"The senator pleaded with the chamber to prevent the injustice at the outset. He called attention to the fact that the Lake Erie Ship Canal company could, under the terms of the proposed charter, issue \$180,000,000 of securities, no matter what the cost of the canal; while the estimate for the lock and dam type of the Panama canal was precisely that sum—\$180,000,000, although the isthmian waterway was to be more than thrice the depth of the one connecting the Ohio river and Lake Erie.

"A challenge to the railroad senators to defend the watering of transportation stock was not answered from the floor. The opposition to the LaFollette program confined its voice to a motion, through Senator Nelson of Minnesota, to lay the amendment on the table. Thirty-six senators are recorded as 'not voting,' including Platt and Depew of New York, most of them having dodged the vote because their help was not needed to defeat the attack on the trust and railroad extortioners. The senators who did vote to kill the LaFollette amendment were: Aldrich, Allee, Ankeny, Benson, Brandegee, Bulkeley, Burdett, Burnham, Burrows, Carter, Clapp, Clark (Mont.), Cullom, Dillingham, Eldens, Flint, Fulton, Gallinger, Hale, Hemenway, Kean, Kittredge, Knox, Long, McCumber, Millard, Nelson, Penrose, Perkins, Piles, Scott, Sutherland, Warner.

"The record was 33 ayes to 20 noes, but at least twenty more votes could have been commanded at any time by the railroad lobby, and probably not more than ten would have joined the advocates of reasonable rates if they had voted.

"Through the whole discussion of the bill only one objection was made to the LaFollette amendment—that it prevented even the organization of the company until authority could be obtained to issue stock on an estimate of the canal's value. Mr. LaFollette drafted an amendment meeting that objection, but it also was voted down.

"Then he moved to strike out the most vicious section of the bill—one allowing the canal company to charge tolls in order to lay by a surplus out of which it might pay the principal as well as the interest of its bonds. The government authorized this corporation to impose such transportation charges upon the commerce that will pass through the canal as can free its stockholders from furnishing at least one-half of the capitalized value of this canal.'

Mr. LaFollette summarized the wrongfulness of this policy in most effective fashion:

"Any charge made upon the commerce of this country which exceeds a fair interest rate upon the amount of money invested in the building of the railroad or the canal is an unjust tax upon the commerce of the country. When you empower by legislative implication a corporation to which you give a charter to charge rates high enough not only to pay interest upon bonds and dividends upon stocks but also to set aside a surplus that shall ultimately discharge the bonded obligation of the company, you are surely imposing upon the commerce carried by the company an unlawful and unjust burden.

"I am well aware, Mr. President, that under the present system of financing such enterprises the railroads of this country do exactly that thing. They charge on the commerce of the country rates high enough to pay a fair return upon a fair value of their property. They go beyond that. They make the transportation pay a fair return upon the watered and inflated capitalization of the railroads of the country. They go beyond that. They make the transportation of the country pay enough more to set aside a surplus out of which they may make their improvements. And then they make those improvements the basis of new capitalization and advance transportation charges upon the people.'

"In this connection the speaker put into the record some of the wrongs the largest companies have inflicted upon the commerce of the nation:

"From 1899 to 1905 the Baltimore and Ohio Railroad company made improvements or betterments out of its surplus exacted from the people in excess transportation charge to the amount of \$19,000,000.

"The Delaware, Lackawanna and Western, from 1901 to 1904, exacted \$13,347,100.

"The Pennsylvania Railroad company took by excessive transportation charges out of the people out of its lines and made improvements to the extent of \$50,000,000.

"The Chicago and Northwestern Railway

company took \$26,000,000; the Chicago, Milwaukee and St. Paul Railway company took \$9,000,000; the Chicago, St. Paul, Minneapolis and Omaha Railroad company, \$31,000,000 between 1899 and 1905; the Illinois Central Railway company, between 1900 and 1905, took \$16,630,000; the Norfolk and Western Railway company, between 1900 and 1905, took \$12,250,000; the Atchison, Topeka and Santa Fe Railway company, between 1896 and 1904, took \$30,000,000; the Great Northern Railway company, between 1898 and 1905, took \$15,850,000; the Northern Pacific Railway company, between 1898 and 1905, took \$19,999,603, and the Union Pacific Railroad company, between 1900 and 1905, took \$13,479,165.

"Every dollar of that amount of investment in the betterment of those railroad companies,' said the Wisconsin senator, 'was paid out of the surplus which was exacted from the transportation of this country and imposed upon the consumers of the country in direct violation of the rule laid down by the supreme court as to what is a legitimate transportation charge, and Section 5 of this bill, which I have proposed by amendment to wipe out, will warrant and authorize this canal company to make an excessive charge for the payment of its bonds.'

"Yet the old guard of railroad senators rallied to retain this outrageous section in the Lake Erie and Ohio river ship canal bill. Nobody dared take the floor to defend the rascally clause in the interest of high finance. Senator Nelson merely moved to lay the LaFollette amendment on the table, which was done by a vote of 32 to 14, forty-three senators dodging the roll call.

"Again the irrepressible and indomitable Wisconsin fighter made a last stand for the principle of the reasonable rate in the ship canal charter. He offered the mildest program: he could possibly base on that sound principle. It was in the form of an amendment authorizing the interstate commerce commission, without any expense whatever to the canal company, to obtain information from time to time on which it can determine just what is a reasonable toll for the vessels passing through the canal. 'If any objection can be offered to the proposed amendment,' said he, 'I hope some senator will rise and present it before the vote is taken.'

"Not one railroad lackey did rise. There was no argument against the LaFollette program, so none was made. But the syndicated railroads did not dare admit the justice of the principle that the real investment in a transportation line not the wind and water, is the basis of the reasonable rate, or at least they did not dare to let the senate make the confession on their behalf. They had the brute strength to kill the LaFollette amendment, however, and they contented themselves with doing that. Senator Nelson again moved to lay the amendment on the table, and his motion was carried by a vote of 30 to 20."

## THE PRIMARY PLEDGE

As this copy of The Commoner may be read by some one not familiar with the details of the primary pledge plan, it is necessary to say that according to the terms of this plan every democrat is asked to pledge himself to attend all of the primaries of his party to be held between now and the next democratic national convention, unless unavoidably prevented, and to secure a clear, honest and straight-forward declaration of the party's position on every question upon which the voters of the party desire to speak. Those desiring to be enrolled can either write to The Commoner approving the object of the organization and asking to have their names entered on the roll, or they can fill out and mail the blank pledge, which is printed on page 12.

Extracts from letters received at The Commoner office follow:

E. C. Wood, Hudson Mill, Va.—I send you 28 primary pledge signatures.

F. W. Schroeder, Lake Andes, S. D.—Please find inclosed primary pledge with 35 signatures. This makes 49 that I have sent in and 14 subscriptions to your paper this year.

J. N. Baxter, New Martinsville, W. Va.—I most heartily send you the names of 114 good democrats who have signed primary pledge. The most of them I have known for quite awhile—say forty-five years or more, down to the present time—and can vouch for their democracy. I will send in another list in the future. You will find "first voter" wrote in left hand margin to indicate who the person is and his address also. You will also find five persons' names and addresses on margin.