

from you upon any of the subjects that are embraced in resolution No. 60, Mr. Bryan.

Mr. Bryan. Would the question of what a railroad should be allowed to earn come under that?

The Chairman. Yes; any legislation relating to interstate commerce transportation.

Mr. Bryan. But you adjourn at 12, and I want to give you plenty of time to ask questions, because I think I will not be able to come back after 12.

The Chairman. Yes.

Mr. Adamson. Capitalization is a very important feature, is it not—financing?

Mr. Bryan. Yes.

The Chairman. The questions of government ownership, capitalization, control of stock and bond issues, national incorporation, and every subject that relates—

Mr. Cullop. Financing.

The Chairman. Yes.

Mr. Bryan. I think it will not take me long to express an opinion, but I recognize that the expression of an opinion is not of value to the committee, and I am sorry I can not fortify my opinion with something more substantial.

GOVERNMENT OWNERSHIP

As to government ownership, I have believed for a number of years that it was inevitable, and inevitable only because the railroads will not consent to effective regulation. I think it is now some 10 years since I had occasion to say that unless our experience with the railroads was different from our experience with municipal corporations, the people, for their own protection, would be compelled to take charge of the railroads. Our experience with municipal corporations has been this: that the men who own the franchise have so large a pecuniary interest that they are always alert and watching; while the individual citizen has so small an interest, relatively, that he is not so alert or so watchful, and the result has been that in cities of any size the people holding the franchise have felt that it was necessary for them to control the election of councilmen, or whoever have the authority, in order to protect their interest; and some of you may have heard the argument made that they do not want to enter politics, but they have to enter it in order to protect themselves from the demagogue; and I may add that the first time this was presented in an official way by any high authority—this matter of national incorporation—I remember that the president of a railroad, whose railroad had, only a short time before, been found by an investigating committee to have three times as much capitalization as it had property, gave out an interview indorsing national incorporation, and the reason he gave was that it was the only way the railroads could protect themselves from the demagogues in the legislature. That is the argument given in the cities—that they must protect themselves from sandbaggers and demagogues; but the result is corruption, and the cities have been forced to take over their franchises for the protection of their people, not only the economic protection but the political protection.

Now, I said that unless our experience with the railroads was different, we would have to do the same thing for the same reasons, and the effort that is now being made to secure a revolutionary change, an effort made not in the interest of better regulation, but to avoid the regulation of the states, is simply an illustration of what I meant when I said the people would, for their own protection, be compelled to take these railroads over, and my opinion is that nothing would hasten the government ownership of railroads more than the success of the plan which is under discussion. If you can never secure national incorporation—and that, of course, is of no value unless it is effective in transferring the control, for a national incorporation that does not effect any change is not worth having; it is only valuable in proportion as it does bring this change in the centering of authority. If this succeeds, I believe that the evils that will develop will become so intolerable that it will hasten the action; but my friends, I never believe it wise to advocate a bad thing in the hope that it will bring a better thing. In fact, I think it is a very unsound philosophy. If you oppose a thing, and it comes, you can then take advantage of it, and you may be able to use it to bring something that is better; but whenever I am tempted to advocate a bad thing, in the hope

it will bring a better thing, I am restrained by this process of reasoning—rather, this illustration.

I will put it this way: If I ever get it into my head that I can raise a man from the dead, I will try it on a dead man; I will not kill a man just to experiment with him; and I apply the reasoning to this case. While I believe that out of the abuses that this would lead to, government ownership would come, I would not be willing—no matter how much I favored government ownership—to favor the bad thing and take my chances on the good thing coming, because if I helped to get the bad thing, I would be responsible for it, and then, if I were not able to get the good thing, I would have no way of defending myself from a very serious responsibility. Now, personally I can not say that I desire government ownership, because I lean to the individual idea rather than to the collective idea; that is, I believe that government ownership is desirable only where competition is impossible. I am not able to tell you who first laid down the rule that I have adopted, but the first man whose name was attached to it was Professor Ely; I do not know whether it was original with him or whether he took some one else's statement, but my understanding of it was this—I think he put it this way: that natural monopolies must be owned by the people, on the theory that in the case of a natural monopoly competition is impossible, or, if not impossible, was so expensive as to amount to the same thing, and that there should in such cases be government ownership.

That proposition expresses my views better than any I have been able to myself frame; that where competition is impossible, government ownership is necessary; that a private monopoly is indefensible and intolerable, and I only favor government ownership on the condition that a proper regulation is impossible. I have been frank to express the belief that it will be found impossible, simply because of the natural tendency of the men in charge of the railroad to make all they can out of it, without regard to the equities or to the rights of the people. But I am perfectly willing to give to private ownership a fair and complete trial, and I am willing to have all proper restrictions tried, so that when the people turn to government ownership, they will turn with evidence either that it is impossible to devise restrictions, or because the railroads are able to prevent efficient restriction. I have gone so far in my willingness to try effective regulation as to suggest this: that the railroad capitalization be reduced to an honest basis, and that then the railroads be allowed to earn a sufficient income to keep their stock at par, and, in addition to that, a sum to be put into a surplus, as a bank creates a surplus, from which the railroad could draw in bad years, to keep its dividend at a just and reasonable point.

NO DESIRE TO DO INJUSTICE

Now, if I know the sentiment of the people, there is no desire among the masses to do injustice to the railroads, and I have no doubt that any fair proposition that is just to both sides would be indorsed by the public. I have such faith in the sense of justice and the fairness of the masses that I would not hesitate to indorse, and appeal to them to indorse, a proposition that would give absolute stability to railroad stock by permitting this accumulation of a reasonable surplus, out of which the dividends could be paid in any bad year, so that any man who bought a railroad stock could know that every year he would receive a return that paid a fair return on the money invested.

Now, just how this would be brought about is a matter of detail, and I would not be prepared to go into it, but that is the principle I would like to see—the stock of a railroad, as long as it is in private hands, made as substantial and as unvarying as the value of a government bond.

I remember that in 1907 the stock of some of these railroads went down more than one-half in a year's time. Now, if legislation had reduced the value of that stock one-fourth of the amount that it fell without legislation, there would have been a great cry about injustice, and yet the railroad managers are permitted to water stock, and sometimes to juggle the market, and thus do injustice to stockholders, without any seeming complaint, whereas if the government did it there would be a great outcry against the unfairness of the government.

So much in regard to the matter of rates; first, that the capitalization should be reduced to an honest basis, so that the railroads would represent the cost of reproducing, and I know of no other basis; everybody else is governed by that rule. A merchant's stock is only worth the cost of reproducing. The land that a farmer buys is not determined by the amount of the mortgage on it; it is determined by the value of the crop and the value of the land around it, and it is only where the owner of the property has some special means of protecting himself from general laws and general rules that he can expect to preserve a value that is in excess of the cost of reproduction, and the way that the railroads do it is to exercise the privilege—I say privilege rather than right—the privilege of collecting rates sufficient to pay interest and dividends on the capital that they have. I believe the only just basis would be the cost of reproduction, and how that is to be ascertained or how it is to be reached is a matter that would require a good deal of discussion and investigation.

That is all on that point.

The Chairman. Are you through, Mr. Bryan?

Mr. Bryan. Yes; unless there is something else suggested.

The Chairman. Mr. Bryan, you say that the capital stock of corporations should be reduced to a fair valuation of the properties?

Mr. Bryan. Reduced on the supposition that it is now above.

The Chairman. Yes. You are aware that under existing law the national government can not control stock issues, are you not?

Mr. Bryan. That we have no law for it?

The Chairman. Yes; that we have no law for it. Do you think the national government should pass a law controlling stock and bond issues?

Mr. Bryan. I do.

The Chairman. Do you think that control should be exercised contemporaneously with a similar control by the respective states?

Mr. Bryan. I see no conflict.

The Chairman. Suppose a state should come to one conclusion regarding the capitalization of a railroad incorporated in that state but operating in interstate commerce, and the national government should come to a different conclusion, which would control?

Mr. Bryan. I should say that each would control within its own borders.

The Chairman. You would say, then, that the state action would control as to purely state commerce?

Mr. Bryan. I would say this, that the state's action would control in the state which acted, but that would not prevent the federal government from controlling outside of that state in interstate commerce, or any other state controlling within its own borders.

The Chairman. Well, then, you understand that the issue of stock and bonds is a mathematical expression?

Mr. Bryan. Yes.

The Chairman. So much stock and so much bonds. Now, if the national government says that a stock and bond issue shall be a certain amount and the state says that that stock and bond issue shall be a different amount, which mandate shall the state corporation follow?

Mr. Bryan. Well, I should say this, that the federal government can take the matter up the moment the corporation attempts to do business outside of the state of its origin, and can fix the conditions upon which that state corporation will be permitted to do interstate commerce, just as we have in the child-labor law. You know that the trust remedy that I have advocated for many years is based upon that very power—that a state may create a corporation as it pleases, and be as lax as it will or as careful as it will, and as long as the corporation stays in the state the federal government has nothing to do with it, but the moment the corporation attempts to enter into interstate commerce, then the federal government is able to take charge and say on what terms it shall enter, and I not only believe in applying that doctrine to railroads, but I believe in applying it to our large industrial corporations.

The Chairman. You realize that all state corporations engaged in railroading are also engaged in interstate commerce, do you not?

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