

**MR. BRYAN OPPOSES EXCLUSIVE FEDERAL CONTROL OF RAILROADS**

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Mr. Bryan. Well, nearly all. The Chairman. Practically all? Mr. Bryan. Yes. The Chairman. Now, then, with reference to the stock and bond issue of the state corporation engaged both in state and interstate commerce, where the regulating power of the state says that the stock and bond issue shall be one amount, and the national government, acting for interstate commerce, says the stock and bond issue shall be another amount, how is that corporation to obey both mandates?

Mr. Bryan. Well, if you will pardon me, your statement is not quite accurate, senator. The state does not say it shall be a certain amount. It says it shall not be more. The state fixes the maximum and the federal government fixes the maximum, but if the federal government fixes a maximum lower than the state, it does not conflict with the state, because the state simply says that the higher maximum shall be possible, but not necessary.

The Chairman. Now, proceeding to the question of fair capitalization, you are aware that the national government has passed a law for the valuation of railroads?

Mr. Bryan. Yes.

The Chairman. Railroads engaged in interstate commerce, and that the process is now going on?

Mr. Bryan. Yes, sir.

The Chairman. Now, assuming that a fair valuation is arrived at by that process, what would you regard as a fair return with a view to maintaining that valuation on the market?

Mr. Bryan. I think it would be impossible to fix it in figures, but the principal is very easily ascertained. I would allow the market price of money to determine so that a margin of say from 1 to 10 per cent above the par value might be allowed; that whenever the dividend paid raised the value of the stock above 10 per cent it ought to be reduced. If the dividend paid reduced the value of the stock below 1 per cent it ought to be raised. I think it would be possible to simply state the principle that the dividends should be sufficient to keep that stock at par and a reasonable margin to cover the fluctuations that you could not possibly calculate.

The Chairman. How about the surplus, this return for a surplus which is to guard the lean years and protect the stockholders; have you any views as to the amount of return which should be allowed for that purpose?

Mr. Bryan. Nothing except a suggestion. It would be merely a matter of opinion. I should say tentatively 25 per cent, but when I say 25 per cent I do not mean to say that I would favor that and nothing else.

The Chairman. You mean 25 per cent of the amount of the return—

Mr. Bryan. The capital. No; I would say let the railroads—and I am just suggesting that by way of illustration—let the railroad collect enough in rates to pay the dividends and interest and, in addition, a certain amount that could be fixed that would go into the surplus until the surplus reached a certain sum and thereafter would cease until the surplus fell. To illustrate what I mean, suppose we fixed the dividend at 5 per cent and allowed the rates to be sufficient to collect a dividend of 5 per cent, and then suppose we allowed 2 per cent to be collected in

addition, that would be put into this surplus until the surplus reached, say, 25 per cent.

The Chairman. Twenty-five per cent of the capital?

Mr. Bryan. Of the capital. Then the 2 per cent would cease to be collectible until the surplus was reduced by being drawn on to pay dividends, and whenever it was reduced it would be again increased by the same process.

The Chairman. Now, regarding—

Mr. Bryan. May I just add a suggestion before you proceed? Now, you spoke of the ascertaining of the value of the road. I think that is the first step. When we have ascertained the value we will know, then, what amount of water they have or what excess their capitalization contains. I believe that excess ought to be dealt with and removed from the basis of calculation, and when you come to that there are equities that ought to be considered. I would not be willing to say that as soon as you ascertain what the actual value of the road is that then you should, by law, wipe out all the rest, because there may be equities to be considered; but when you find out what that actual valuation is, I think that ought then to be represented by stocks and bonds, and thereafter no stocks and bonds should be allowed to be issued except under supervision and for actual money invested. Then this excess, which will be greater in some roads than in others, should be treated by itself, and that the excess should be disposed of upon some equitable basis. It might be fair, all things considered, that that amount should be divided between the stockholders and the general public. It might be wise for the general public to assume the payment of a certain amount of that excess, if it can be shown to have an equitable claim; but I think we ought to get to some basis and not have this quantity of water made as a continuing foundation upon which there should be a perpetual tax upon the public. I would rather have that set apart and settled upon an equitable basis, and after that the railroad problem, so far as the stockholders are concerned, would be very easy. Then I think we ought to have legislation that would prevent the exploitation of roads, not by their owners, because the owners of roads do not exploit them.

The railroads are exploited by a group of men who use the power the stockholders give them, not for the benefit of the stockholders, but for the benefit of themselves. A railroad president drawing \$100,000 a year would have to serve 50 years in order to make \$5,000,000, and that on the assumption that he did not spend during that time more than the interest on this money invested. Now, nobody begrudges these railroad officials a fair return for their services, but when a president drawing \$100,000 a year is permitted to buy a railroad and then sell it to himself for five millions more than he paid for it he makes in one transaction as much as the railroad would pay him in 50 years, and the large fortunes, as I understand it, have not been made out of salaries; they have been made out of exploitation. One of the common ways has been when a railroad is to be built—of course, we do not have so much building now, and it is not, therefore, so much used—but the way used to be for the railroad company to elect its directors and then the directors would form a construction company, and the construction company would then deal with itself and the railroads represented by those men would pay to those men all that the railroad had, and these men

would get all the money that the railroad had by dealing with themselves.

Now, that has been the way in which a good deal of the exploitation has been done. Since that time we have had this other plan of buying a new road, as we have had some illustrations of it in the railroad life. The men in charge would buy a road and sell it to the corporation they controlled, and in that way they have made that money. I think we ought to have laws that will compel the railroad managers to do an honest business. We have had an investigation in the last few years that has shown that railroads that stood among the very best in the country, backed by men whom we recognize as our biggest financiers, have been guilty of things that would bring discredit upon an ordinary highway robber.

The Chairman. Would you have this legislation to prevent the exploitation of railroads, to which you refer, enacted by the nation or the states?

Mr. Bryan. I fall back upon my original proposition. I would have both. I would have the nation do its part, but not deprive the states of their rights; in other words, I believe that national remedies should be added to the state remedies and not subtracted. They can act concurrently within their respective jurisdictions.

The Chairman. With reference to the corporate organizations which are to operate in interstate transportation, with a view of meeting the demands of the nation as well as the respective states in which they are located, do you regard this tendency toward the consolidation of state railroads into great national systems, under which one system will operate railroads in 3, 4, 5, 8, or 10 states, a beneficial one?

Mr. Bryan. Well, I would not attempt to interfere except where competition was eliminated. That is, the mere extension of a line into new territory I would not regard as necessarily objectionable, and I would not care to say that a limit should be set to the length of a road or to the number of its branches, but—

The Chairman. Or to the number of states in which it runs?

Mr. Bryan. That would follow from its length—but I do think that no permission should be given to take competing lines. To my mind competition is essential unless you would have government ownership.

The Chairman. Now, taking into consideration the present 8 or 10 large systems of railroads, consolidating in their operation many miles of track, that belong to individual corporations, organized under the laws of the states, do you view any of these consolidations which have been effected, so far as their operation is concerned, as prejudicial to the public interest?

Mr. Bryan. I am not prepared, senator, to point out a case and explain the operation of its management.

The Chairman. Are you aware of any general public complaint against any one of these consolidations, so far as the area of its operations is concerned?

Mr. Bryan. No; I can not say that I know of any complaint based on area. Take the Pennsylvania and the Baltimore & Ohio. There was complaint based on the destruction of competition, and I think the same with regard to the Southern Pacific and Union Pacific—

The Chairman. Well, we have now in the east several great railway systems—the New York Central, em-

bracing six or seven states, running as far as Chicago and perhaps beyond; the Pennsylvania railway system—all extending from the Atlantic coast to the middle west. Do you know of any public complaint against the area in which those roads operate—as to the area, rather, in which those roads operate?

Mr. Bryan. I am not prepared to say that there is any complaint, and I do not recall ever having heard an objection based upon area alone. I know in the case of the southern railroads there have been complaints based upon combinations that have eliminated competition.

The Chairman. And there are also complaints as to capitalization, but I am confining myself simply to area served.

Mr. Bryan. I see your point.

The Chairman. I want to get at the question as to whether there is any public complaint against the size of the area of operations of these great systems.

Mr. Bryan. I know of no complaint based merely on length or area. It has been based merely on the elimination of competition.

The Chairman. You are aware in each one of these districts consolidations have been effected of from two to five or six hundred individual roads by a gradual process, are you not?

Mr. Bryan. I know that that process has gone on, but I am not sure that it has gone on in recent years as it did some time ago. Then, of course, that process may not at all interfere with competition—the extension of arms and branches may not affect the matter of competition.

The Chairman. Now, the statement was made some years ago, when I examined this matter thoroughly, that there were about 6,000 individual railroads in the country; that there were about 2,000 operating railways, and that the bulk of those operating railways had been through some process consolidated in their operation through the creation of great systems, some 10 in number, and this consolidation had gone so far that the entire trackage of these 10 systems amounted to about 200,000 miles of railway out of the 225,000 or 230,000 miles then existing.

Now, just simply from the economic standpoint, the question of service to the public, and disregarding the question of exaggerated stock issues and bond issues, do you regard that tendency as simply meeting the economic requirements of the times, or was it a mistake?

Mr. Bryan. I think it would be difficult to answer that question intelligently without more information as to the details of each particular case than I have from your question.

The Chairman. Do you not think if it had violated the economic requirements of the time we would have heard from the public?

Mr. Bryan. I think the public would not likely have complained, except as that consolidation deprives them of an effective competition.

The Chairman. I understand, and if it does not prevent an effective competition—

Mr. Bryan. Competition, to my mind, is the test question.

The Chairman. You are aware that each one of these systems has main trunk lines and also branch lines extending out like the bones of a fish from the spinal column, and you are aware that as to each one of these systems, these branch lines stretch out into each others' territories, and in that way create a competition between the branch lines, are you not? Does not that constitute