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The Companies Have Not \$2,000 a Mile Invested—Enormous Profits.

GIGANTIC MISREPRESENTATIONS

As to Profits—Cost of Roads From Their Own Reports—Everybody Read This.

There has never been a time within the history of our state when the economic relation of our railroad systems to the public at large has excited greater interest. This interest has been heightened by the fact that under the plea of necessity and of the right of self-preservation the railroad companies of our state—notably the Chicago, Burlington & Quincy Railway Company—have interested themselves in politics to such an extent that by controlling the machinery of political conventions they are interfering with the free expression of the will of the people.

A general impression seems to prevail that the tactics resorted to in the Hastings convention are not those which a corporation seeking simple justice would adopt; that unfair methods are not necessary to the accomplishment of any fair end. One great reason for the cry which has gone up from all over our state for investigation into our present freight rates and into the earnings of railway companies has been the fact that the people cannot be brought to believe that the just recognition of the rights of railway companies can only be obtained by the disregard of the right of the people to nominate their own candidates in political conventions.

The recent report of the secretaries of our State Board of Transportation, in which they declare that the result of their investigation into the relative cost and earnings of the roads of this state does not justify the rates which our present rates are too high, together with the fact that the C. B. & Q. Ry. Co., through its ablest spokesmen, has prepared elaborate statements designed to convince the people of the state that the stockholders of our railroads are not making but a reasonable sum on their actual investment, have led me to an examination of the past and present of the B. & M. Railway in Nebraska, the results of which I will now present.

The Secretaries of the State Board of Transportation, in their report, state that "A tariff of rates adjusted for its lines in Nebraska (the B. & M. in Neb.) on the basis declared just in the resolutions of the Board, will answer fully as well for all other lines in the state." The discussion into which I will enter may therefore be considered as applying in some slight degree to other lines in this state.

Mr. Holdrege, for whose ability and honesty of purpose I have much respect, on May 21st, 1890, at a meeting of the State Board of Transportation, made the statement that the B. & M. Ry. earned in 1887 on actual investment 7.89 per cent, in 1888, 8.17, and in 1889, 5.37 per cent. The Nebraska State Journal, my authority for this statement of Mr. Holdrege, does not give the amount of actual cost upon which these averages are figured, but it presumes that they are based upon a valuation of something over \$25,000.00 per mile—a figure which Mr. Holdrege once assumed, "for the sake of argument," in an open letter to Attorney Gen'l. Leach, justifying his efforts to secure a reduction in rates.

I will endeavor to show that these figures have no equitable bearing upon the question of reducing freight rates in this state at this time. In the following discussion I have endeavored to present whose relevancy may not be fully apparent until the final conclusion as to cost to stock holders and earnings, which I seek to establish, is reached. My reason for doing this is that they all form collateral arguments in favor of this conclusion.

In the first place, I wish to disprove the assertion, frequently heard, that the financial risks attendant upon the projection of the B. & M. Ry. Co. in Nebraska were such as to not equitably entitle it to a larger profit upon its investment than it would be entitled to had its road been built by some more densely populated district of our country. In Poor's Manual for 1872-1873, page 451, issued when the B. & M. Ry. was in operation from Plattsmouth to Harvard, 140 miles, and was graded ready for iron to Kearney, the junction with the Union Pacific Ry., fifty miles further, the cost of the construction and equipment of the road is given at \$5,675,981.57, while the bonded indebtedness is given at \$3,357,971. (Attention is here called to the correspondence in those two preceding amounts.) The capital stock of the road is given at \$5,385,700, but the amount paid in is stated at \$619,570.79. The statement therefore confesses that \$7,664,429.21 of unpaid stock, which may be considered as representing the value of the land grant.

By December 31st, 1873, the stock holders had increased their investment in stock to \$962,009, and had also gained control of the Omaha & Southwestern railway, having forty-eight miles of track, by guaranteeing 8 per cent interest on \$20,000 of bonds per mile and making a cash payment of about \$60,000, thus increasing their length of road to 239 miles. Therefore, the stock holders had paid in at that time, according to the railway company's statement, the sum of \$4,025.15 per mile to gain control of their road. Now, in connection with this fact, we will add that by June 30th, 1873, there had, according to a statement of this company, been certified to by the United States Land office 2,370,653.16 acres, and from Nebraska 80,000 acres (including 20,000 acres acquired with the Omaha & Southwestern railway) making a total of 2,450,653.16 acres, which magnificent donation it still expected an addition of about 12,000 acres.

least will not be regarded as entitling a stock holder to any special legal immunity at present.

Table with 3 columns: Year, Miles of new road, and Average rate of interest on bonds. Rows for 1887, 1888, and 1889.

The premiums derived from the sale of these bonds during these four years, together with a small sum resulting from discount on bonds purchased for sinking funds, amounting in all to \$556,908, have been paid to the stockholders in the form of dividends. These dividends have been subtracted from the cost of construction and equipment instead of being added in the bond column to the par value of the bonds—the result so far as the relation of the cost of construction and equipment to the income derived from the sale of bonds being the same. However, making this change, we have the actual cost of construction and equipment, \$93,375,533.20, and the income derived from the sale of bonds in approximately, \$33,040,388.84. The only conclusion which can be drawn from these figures is that the C. B. & Q. Ry. since, and during 1886, has been building and equipping its new lines in this portion of the state from the proceeds of the sale of bonds, drawing on an average a little over four per cent per annum. Taking the amount expended in the construction and equipment of new road in Nebraska these last four years, which is \$33,375,533.20, and dividing it by the number of miles of road constructed, which is 1,494,772-1,000, we have the amount expended in the construction of new road for construction and equipment (including telegraph lines), which is \$22,225. When we remember that of this 1,494,772-1,000 of new road, over 1,100 miles have been built in Nebraska, and that the amount expended in Nebraska more in proportion as is well known than branch lines, we are led to believe that the value of Nebraska rail ways per mile, assumed by Mr. Holdrege, "for the sake of argument," at \$25,000 is certainly not excessive.

Having shown that the new lines in this state in 1886 and thereafter have been built from the proceeds of first mortgage bonds, let us again consider the land grant and ascertain, if possible, the actual amount of cash the stockholders of this railroad have invested for road in this state, built prior to 1886. The road operated in Nebraska in 1887 was 1,781.77 miles. Subtracting from that sum, the number of miles operated in Nebraska in 1886, which is 370.69, we have as the length of the road in Nebraska, just prior to 1883, 1,411 miles. In the printed report of the board of transportation for 1883, page 414, the amount realized from the land grant of the B. & M. railway in Nebraska above expenses and taxes, is given as \$7,263,580.78, and the amount at present unpaid on outstanding contracts is \$1,183,622.23, with \$76,121.25 acres still unsold. Letting the acres unsold be an offset against the expense of selling them and of collecting the \$1,183,622.23, still outstanding, we will take \$6,452,203.01 as a low estimate of the value of the land grant of the B. & M. railway in Nebraska. It is my belief that in this total the proceeds of the thirty thousand acres received with the O. S. W. Ry. is not being included, but it is probable that certain as to this, I give the railroad company the benefit of the doubt. Dividing this \$6,452,203.01, accruing to the stockholders from the land grant, by the 1,411.77 miles of road, we see that for the road in Nebraska, built prior to 1886, the stockholders must have received the sum of \$5,990 per mile from the land grant. The exact amount of bonded indebtedness per mile for the portion of the road in Nebraska, outstanding just prior to 1886, I have not determined, as this matter is merely collateral to the figures I will give below. I will state, however, that on the 31st day of December, 1878, the bonded indebtedness of the B. & M. in Nebraska amounted to \$10,933,300, with 415 miles of road, or \$26,345 of bonds per mile, and that in 1880 by the consolidation of the B. & M. with the C. B. & Q. railway the C. B. & Q. acquired \$82 miles of road upon which it assumed a bonded indebtedness of \$18,701,200, or \$23,477 bonds per mile. My belief is that for the road built prior to 1886 the \$5,990 per mile from the land grant added to the funded indebtedness per mile would pay in toto for the construction and equipment of the whole road—not even taking into consideration the municipal and county bonds donated to the company. But in order to clinch the argument, let us take present statements and see if we are not justified in the conclusion to which all of the above tends—namely, that the B. & M. in Nebraska has been built from the proceeds of the land grant and first mortgage bonds, and the dividends over bond interest, arising from the earnings of the road are almost wholly paid upon watered stock, or stock representing the value of the land grant. The total amount of bonds outstanding on that part of the C. B. & Q. railway in Nebraska is \$26,515,580.82. (Written report C. B. & Q. to board of transportation for year ending June 30, 1888). The interest paid on the bonds amounts to \$2,064,729.88, or 5.09 per cent per annum. The length of road in this state given in the above report for 1888 is 2,120 miles.

The funded indebtedness per mile is therefore \$19,111.24. Dividing \$6,452,203.01 land grant value on above mileage gives us \$3,939.70. Estimated value of municipal and county bonds per mile.

Total, derived from bonds and land grants per mile, \$23,050.94. If the cost of the C. B. & Q. in Nebraska is \$25,000 per mile, as assumed by Mr. Holdrege "for the sake of argument" in his open letter to General Leach, the stockholders of this road have cash actually invested per mile of road the difference between \$25,000 and \$23,050.94, or \$1,949.06 per mile. We

benefit of the amount received by them from municipal and county bonds as a bonus upon these figures. I do not believe that the stockholders have any margin vested for having shown that since 1886 the new road has been built and equipped from first mortgage bonds, the land grant should be apportioned, not on 2,120 miles at the rate of \$5,990, but on 1,411 miles at the rate of \$5,990 per mile, which diminishes still more the probability that the stockholders paid in this margin of \$1,949.06 per mile. But "assuming for the sake of argument" that this will now take one of the best years of the B. & M. in Nebraska, and see what per cent on their actual investment the stockholders made.

In the printed report of the state board of transportation for the year ending June 30th, 1887, the proportion of dividends for Nebraska of the B. & M. is—Page 79, 944.814 92. The gross net earnings for Nebraska—Page 229—3,811,490 71. Subtracting, we have net earnings for Nebraska, \$1,527,675 71. Miles road operated in Nebraska exclusive of sidings—same report, page 254, note—1,781 77. Average net earnings—6 per cent net on \$8,570,000 per mile—2,314 20. The interest on \$9,112,000 of bonds per mile 5.09 per cent—972 55. Subtracting this from net earnings, we have as the net earnings on this road for the year ending June 30th, 1887, \$555,123 16. The sum of...

benefit of the amount received by them from municipal and county bonds as a bonus upon these figures. I do not believe that the stockholders have any margin vested for having shown that since 1886 the new road has been built and equipped from first mortgage bonds, the land grant should be apportioned, not on 2,120 miles at the rate of \$5,990, but on 1,411 miles at the rate of \$5,990 per mile, which diminishes still more the probability that the stockholders paid in this margin of \$1,949.06 per mile. But "assuming for the sake of argument" that this will now take one of the best years of the B. & M. in Nebraska, and see what per cent on their actual investment the stockholders made.

I think, therefore that I have demonstrated the unfairness of the argument of Mr. Holdrege and the state board of transportation in regard to earnings of the road, and the interest they pay or what they term actual cost. I have shown that the net per cent of the earnings which they have given are not the measure of the profit that these earnings bring to the stockholders. We will not claim that our rates should be so reduced as to allow the stockholders to earn only 8 per cent or 10 per cent on the net margin, but a comparison of the figures we have given above will convince us that the state can allow stockholders to earn a large rate of interest not only on whatever cash margin they have invested, but on the value of the land grant as well, and still make a very large reduction in local rates. And the time is past when the people will defer to an argument as to net earnings which takes no account of the proportion of bonds to the investment to total cost, and the relation of interest paid on bonds to earnings made on the proceeds of those bonds.

I would go further into this question did space permit. The board of transportation, elected by the republican party, have rendered it imperative upon that party to declare itself upon the railway question, not in words, as heretofore, but in action. It is the duty of citizens into those opposed to railroad domination in politics and those in favor of it, which has been at every political gathering in this state for two years, cannot be kept out of the coming state convention. The one man whose nomination for governor, above all others, would attest the sincerity of the vast platform of the republican party relative to railroad regulation, and would rally to its support all classes of honest men, is General William Leach, against whose honesty and unbending integrity no one dares to lift his voice.

Call for a People's Independent County Convention for Dodge County. In response to a call for delegates to a People's Independent State Convention, published in the FARMERS' ALLIANCE of Lincoln, a conference of the Alliance, Grange and Farmer's Clubs of Dodge County was held at North Bend on the 11th inst., which after deliberation on the manner and place of holding the county convention, appointed the president and secretary of the county Alliance as a committee to have the convention properly advertised.

People's Convention of Fillmore County. Resolutions of the People's Independent County Convention of Fillmore County, Neb., adopted at Geneva, July 12, 1890. Resolved, That we favor the nomination of pure and honorable men for our officers.

Resolutions of Benish Alliance. July 14th, 1890. Whereas, J. F. Deitz, a lumber dealer in Clark, Nebraska, has interfered with Alliance agents purchasing lumber of wholesale dealers, and made complaints to the Nebraska Lumber Dealer's Association to prevent Alliance men from buying lumber at wholesale prices. Therefore be it Resolved, That we will not patronize J. F. Deitz or any other dealer who interferes with Alliance men purchasing lumber at wholesale rates.

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