

Railroads and their relation to the public ...  
A colloquy between a farmer, a government official and a railroad superintendent ... 1875.

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Dr Philip Locklin  
Univ. of Illinois

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# RAILROADS

AND

THEIR RELATIONS TO THE PUBLIC.

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Should they be owned by the State?

Owned by Individuals, should their Earn-  
ings be fixed by the State?

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## A Colloquy

BETWEEN A FARMER, A GOVERNMENT OFFICIAL AND A  
RAILROAD SUPERINTENDENT.

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## INTRODUCTORY.



In presenting this plain and short discussion to the public, it is just to say that it does not pretend to be an exhaustive investigation of the subject of which it treats. A volume as large as "The Wealth of Nations" might be written, and then only a portion of the ground covered concerning railroads and their relations to modern civilization. This pamphlet is designed to suggest thinking upon these vast problems, rather than to demonstrate the method of their true solution.

The idea of presenting it in a colloquial form was suggested to me by conversations which I have overheard and sometimes taken part in, at various times within the past few months; and as the theme is one not only interesting to all thinking persons, but of vast importance to every one, I have ventured to try my unaccustomed hand. I have endeavored to present the different questions from the stand-point of both the consumer and the producer—whose interests are, in a certain concrete sense, always antagonistic. That is to say, the consumer always wants low prices and the producer high prices.

In my judgment, railroads are as much subject to the laws of trade as other commercial enterprises or industries. Others than myself must determine whether in this colloquy that idea has been elucidated.

Men of position and influence have taken the other side and declared railroads exempt from the law of competition. And this opinion begot the recent Granger (so-called) legislation in the West, even though the opinion was not formulated and directly avowed. Of the entire honesty of most men holding that doctrine, among Grangers and others, I have no doubt—nor have I any doubt as to the error of

the doctrine and the manifold evils to which it leads. However, I do not expect to work a revolution in public opinion, and if what I have here put down—most of which is from *bona fide* talks—suggests theories which have not before been thought of, or is, at last, the means of formulating just views which shall finally predominate in arranging harmoniously the relations between the people and the railroads, or brings out, through criticism, or otherwise, any new thought or additional valuable light, I shall be quite contented. The subject is vast enough and vital enough to merit serious and sober investigation, and its magnitude keeps pace with the development of the country. With those who think about such things, and who are willing to try to fairly solve them, I leave it to determine whether I am right or wrong in the views herein advanced.

THE AUTHOR.



## A Colloquy between a Farmer, a Government Official and a Railroad Superintendent.

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*Government Official.* Railroads should be managed exclusively by the General Government.

*Farmer.* That is my view about it; that would put up the bars and shut out the extortion which you railroaders practice.

*Railroad Superintendent.* How would governmental control better railway affairs in their relation to the public?

*Govt. Official.* Why, passenger tariffs and freight rates would be made equal all over the country, and the people would no longer be at the mercy of soulless corporations.

*Farmer.* And we should be able to put our products into the market without paying the high rates railroads now extort.

*R. R. Supt.* I do not agree with you; I do not believe you would get your products to market as cheaply as you do now; and do you not know that in a government like this, where officers are changed, for political reasons, every time the General Administration changes, there would be some stealing? And think of the enormous patronage which the supreme control of all railroads and all railroad employes in the United States would bestow upon a President — a position already too abundantly endowed with power of this sort. Suppose Gen. Grant, just at this moment, had all the railroad appointments of the Union; there are over six hundred thousand men in railway employment in the United States, and most of them vote. But upon the broader grounds that the business of governments is merely the protection of the life, liberty and property of the citizens, and that they cannot legitimately carry on railroading or any other business, I object to all your theories which make the government a parent, and the citizen an infant whom it must nurse and cherish.

*Govt. Official.* Well, then, upon your standing-ground it is impossible for you to advocate subsidies by the state and county to aid in the building of railroads.

*R. R. Supt.* True. The duty of government is merely to protect the citizen in liberty, property and life. For this service, and this alone, the citizen may be made to pay a tax. All other taxes, including those for paying interest upon municipal, state, and national bonds, which have been given to aid companies or individuals to construct railroads, are at best of doubtful expediency and vicious in their tendency. You know, however, that the development of the West would have been postponed, perhaps, half a century except for aid to railroads.

*Govt. Official.* There would be no more stealing if government ran the railroads than there is now, and government would not expect a profit of more than four or five per cent.

*R. R. Supt.* I doubt about the stealing. There are dishonest men in railroads, of course, but on the other hand it is safer to trust to the individual owners of railroads to look after their officials than to leave that vigilance to Congress, the heads of Departments, or the President. This one reason is enough, in my judgment, to deter us from giving government the control of the railroads. But if you differ from me, and still think it would be better to place the politicians of the country in control of its railroads, I say that upon economic grounds there are insuperable objections to this course.

*Farmer.* Why, you don't mean to say that we should not have lower fares and rates if government controlled the railroads?

*R. R. Supt.* I do mean to say that, in my opinion, you would *not* have lower rates, but if you did it would be made up by taxation; you would desire the government to earn enough on the roads to pay the cost of operating and keeping them in repair, and at least five per cent. on their cost. And by the governmental purchase of the railroads you would add to the National Debt over \$3,000,000,000, and the interest upon that at five per cent. would amount to \$150,000,000 a year, which would have to be earned by the roads over and above all operating expenses. If it were not earned then you and I and all the people would have to be taxed in some way to make it up. Now this is about what the railroads of this country earn at this time. They earned in 1872-3, 5.2 per cent., according to the best statistics.

*Farmer.* If your railroads are so generally impecunious, how can they afford, as most of them do, to furnish elegant and costly cars for

the private use, with locomotive and train-men attached, of their principal men and managers? Why cannot they be economical, and save money for their employers and stockholders by traveling in the ordinary passenger cars?

*R. R. Supt.* Well, there is money frequently wasted by operating special trains which ought to be saved. There is no excuse for many of them, and they only demonstrate the misuse of capital in railroads by incompetent and vain men, who value personal comfort and personal notoriety higher than the interests of the men whose property they mismanage. There is, however, a necessity for a plain, comfortable business car for the use of the general officers—an office, merely, on wheels—in which business may be transacted while passing on inspection tours from station to station. Such a car, run as a “special” by the General Superintendent or President, on purely business trips, is an economical adjunct of a well-managed railroad, and saves both time and money by its judicious use.

*Govt. Official.* Well, then, if they earned over five per cent., that is all—you say yourself—that would be necessary under Government, and we should have saved two-tenths of one per cent. on \$3,000,000,000, which would aggregate six millions of dollars.

*R. R. Supt.* Yes. But I contend that they would not have earned five per cent. in 1872-3, nor anything like it, if they had been run by the government. The 5.2 per cent. earned in 1872-3 was the average—some roads earned more and some roads earned less than five per cent., and some earned nothing at all over expenses. Now, under government control, those which earned more than the average would probably have been made to earn less than they did, and those which earned less than the average would certainly not have been made to earn more, and the people living in prosperous regions of the Union which, with good crops, are able to support railroads, would have had to pay for the maintenance of the lines of road in the unprosperous and crop-losing sections of the country where operating expenses eat up the receipts of the roads.

*Farmer.* Well, I live in Illinois, and I'd prefer that what I pay over and above a fair rate should go to help people in Arkansas and Florida than into the pockets of millionaires.

*R. R. Supt.* Why?

*Farmer.* Because they deserve and need it, and poor people should get it instead of rich ones.

*R. R. Supt.* There, my friend, is where you are mistaken. The money invested in railroads in America is, frequently, the money of poor people,—not day-laborers, but ministers of the gospel, teachers, widows and minors, and others in moderate circumstances, who have laid up something for a rainy day.

*Govt. Official.* Yes, that is pretty true; but the capitalists have a good deal in railroads also.

*R. R. Supt.* Very true; but poor people are in the same boat with them, and people just as deserving too of the sympathy of my friend, the farmer here, as are the people either of Arkansas or Florida. But there is another thing to consider. If the politicians managed the railroads and government owned them, the tendency would constantly be to building new lines into sparsely settled regions where no roads can pay for years to come. And the farmer in Illinois, Iowa and Wisconsin would then be taxed to support such roads. If railroads were owned by government, why would not every town or post-office in the land be entitled to a railroad—why should government discriminate? Whenever any district of country imagined that it needed a railroad it would at once—instead of investing its own capital or securing the investment of capital by others in the enterprise—proceed to elect members of Congress favorable to the scheme, and in a short time Congress would become a mob of railroad subsidy advocates, trading votes with each other and heroically bleeding the national treasury to build unnecessary lines of road and make unnecessary positions of pay to be filled by political paupers.

*Govt. Official.* There is a point which you evade. In 1872-3, you assert that the railroads of the country earned an average of 5.2 per cent. Now, what was this on; their actual cash cost, or their cost as it is represented by bonds which were sold at an enormous discount, and stock which has been largely watered?

*R. R. Supt.* It was on the cost as represented by the bonds and stock of the roads. It is true that the bonds, more or less of them, perhaps a large portion, were sold below par, because the enterprises were hazardous, and that the stocks have occasionally been watered. That is to say, taken as a whole, the bonds and stock represent the actual cost of the roads *plus* a margin for the risk taken in building them. In some instances this risk was over-estimated, and the investors made money, but in more instances it was under-estimated, and the investors lost money heavily.

*Govt. Official.* Well, then, if the government had built the roads, it would not have required this margin for risk, but would have built at actual cash cost.

*R. R. Supt.* As the government would not have constructed railroads as commercial enterprises, it would not have required this margin for risk, but, in my judgment, it would have exhausted a much wider margin in extravagance and jobbery, and it would have built many more good-for-nothing roads. Who ever saw government work carried on economically? Point out a river and harbor improvement or a government building which has been completed substantially well at moderate cost?

*Govt. Official.* Yes; but when business increases, as it has over the New York Central for example, so as to enable that road to earn perhaps 15 or 20 per cent. on its original cash cost, the owners of the road do not reduce the rates, but they say the property has increased in value, and immediately proceed to issue stock to represent the increase and thereby keep their dividends down to seven or eight per cent. That stock is not issued as a margin for risk of construction.

*R. R. Supt.* Admit that to be precisely as you state it, and what of it? If the property is worth the face of the stock and bonds, then there is no water in New York Central. Is there any legal or moral reason why the man who owns a railroad shall not pocket the increase in value, just as a real estate owner in New York City, a cheese maker, an iron manufacturer, a wool grower, a wheat raiser, a corn grower and pork manufacturer may pocket the increased value of their property? Shall Commodore Vanderbilt be made to surrender his increasement of values to the general public, and the Astors be permitted to hold their millions of increasement in real estate values, and Moses Taylor to enjoy his hundreds of thousands from iron mills? Should property and profits in railroads be assorted out from all other property and profits and governed by special law?

*Govt. Official.* Certainly not; I do not pretend to say that men who own railroads have no right to all the increase in value, and what you have just uttered is an argument on my side. If the government owned the roads, the people would get the benefit of the increase in value, *in reduced rates.*

*R. R. Supt.* Perhaps so; and the same is true of real estate, and iron mills and all other property. If the government retained the title to all lands, the public would get the benefit of all the increase in its

value ; and if the government owned all the iron and cotton mills, the public would get the benefits of any profits, just as it would if government owned the railroads.

*Govt. Official.* That is absurd. The government could not, of course, carry on every branch of industry.

*R. R. Supt.* Why not ?

*Govt. Official.* Because the machinery would be too complicated and cumbersome for Congress and the Executive to handle, and too powerful for the people to trust in the hands of a few men.

*R. R. Supt.* Exactly. Those are good reasons, and there are others all so patent that no man needs an argument to enable him to apply them. And I say the same reasons fit railroads. Put them into the hands of Congress and the President and you have bestowed a multitude of duties and powers so complex and so potent, that, under our form of government even, unjust discriminations and partisan extortions and prejudices in the management would breed revolution.

*Govt. Official.* Well, I don't agree with you. I think the government could run the railroads as — for example — it runs the post-office department.

*R. R. Supt.* Government does not carry the mails any more than express companies carry expressed merchandise ; railroads transport both. But the mail service is nothing compared to seventy thousand miles of railroads and their management, as you well know ; and even the mail service fails to pay its way under governmental control. And, moreover, if government had control of the railroad systems of the country, as I previously remarked, every hamlet post-office would demand a railroad, and congressmen would be elected solely on the railroad question, and the country would be full of small, unpaying short lines ; a deficit would result every year in the railroad department as much larger than the present annual deficit in the post-office department, as the railroad interests of the United States are larger than the post-office department and its mud-wagon lines of stages. Besides, the inequalities of transportation, concerning which complaints have been so often made, exist in the letter-carrying of the United States in a wonderfully developed perfection. What would you think of a railroad which should charge as much for hauling a hundred pounds of freight from Chicago to Aurora as to Omaha, to Calumet as to Kalamazoo ? And yet letters to Calumet cost three cents, and they cost no more to

San Francisco. Commercially no such inequality as this can be right or rightfully exist. But for educational reasons it may be permitted, though I doubt its soundness.

*Govt. Official.* Well, I should like to see governmental management of railroads thoroughly tried in the United States.

*R. R. Supt.* That is to say, you believe that the government could own and run the railroads cheaper on the whole than they are now run, and I believe it would cost more to then run them honestly than it costs now. And I furthermore believe the stealing would be sublime. The peculations of the Whiskey and Indian Rings would become microscopic in comparison with the magnificent plunderings of the government's railroad ring. Who ever saw any government work executed economically? The railroad patronage alone of the President of the United States, under your proposed management, could make him Dictator. And this whole question resolves itself into a very pertinent conundrum, which is merely this: *i. e.*, "Would it be wise and prudent to put the railroads into the hands of the politicians?"

You have possibly heard of the trip made in Pennsylvania by Judge Hoar, of Massachusetts, at a time when the Keystone State owned and operated the railroads within her limits. The train upon which that eminent New England jurist was traveling came suddenly to a halt, at a small station, and seemed to have permanently located there, when, upon inquiry by the Judge, who imagined some break in the machinery, it was ascertained that the delay was because the conductor, brakemen, engineer and greaser were attending a cross-roads caucus, by order of the political superintendent of the road.

I do not and cannot think the American people are yet ready for any such measure, or capable of so grave an error. And while I doubt whether, under any form of government, railroads should be owned and operated by the sovereign power, I am very clearly decided that under a republican, elective government it would not work at all.

*Farmer.* Probably it will not be best in our government to have the railroads owned by it; for, as you say, stealing would be great, and inefficient management expensive, while the patronage might be dangerous. But why should not the government force railroads to charge only reasonable rates?

*R. R. Supt.* What are reasonable rates?

*Farmer.* Why, rates which pay a fair return on the investment, say ten per cent.

*R. R. Supt.* No. Reasonable rates for transportation are all you can get, just as a reasonable price for wheat is all you can get. But your rule would not help you any, because, as I have already shown, railroad stockholders in this country now receive less than six per cent., taken as a whole. One objection to limiting the profits of railroads is, that it would prevent private parties from building them, and all attempts to limit the profits of roads already constructed, whether by legislation or otherwise, are efforts at robbery.

*Govt. Official.* But it will not deter the investment of private capital if the limitation is ten per cent. It did not prevent such investments in Massachusetts, and will not in the West.

*R. R. Supt.* Massachusetts was an old and thickly peopled State before the railroads were even dreamed about. The toil and accumulations of seven or eight generations of hard-working, gainsome and economical Yankees had made Massachusetts rich in gold and silver. And, therefore, even with the ten per cent. limitation in an aged and wealthy country like New England, railroads may be, possibly have been, built. The chances for loss were small, and the *probability* of ten per cent great. Had there been a *possibility* of twenty per cent., Massachusetts would certainly have been richer in transportation facilities than she is to-day, and the Boston & Albany would have had a rival years ago.

*Govt. Official.* Well, you admit that roads have been built in Massachusetts with the 10-per-cent. limit.

*R. R. Supt.* Yes, they have been built because in Massachusetts there was a surplus capital seeking investment *at home*; and because capital, always timid, wants to stay as near home as it can, and in so densely populated a state the chances for ten per cent. were good. These two causes combined built the Massachusetts railroads *in spite of the law!* But they have not been strong enough to build a rival to the Boston & Albany, because the chance of making ten per cent. in that case is not so good. A man will buy a mine of precious metal, and take the chance of failure in its development, because there is one possibility out of a hundred that he may make a hundred or a thousand per cent. But if the profits on mining were limited to ten per cent., very few individuals, in the face of all the risks, would undertake it. Now, the same holds good as to all railroads in a new country, remote from the owners of capital; and also holds good as to all new roads, in an old country, which are wanted as rivals to established lines. In each case, hazard is increased, and with it the chance of gain to the investor must also increase, or no



investment will be made. No rival to the Boston & Albany has been built, and, in my judgment, none will be built so long as the law fixes a limit of 10 per cent. to its earnings, without limit as to losses. If there had been no limit on the Boston & Albany road, it would have had stronger motives than it has had to stimulate its traffic to a point where it could earn more than 10 per cent. And the fact that it could earn more would have had a tendency to build a rival line, if such rival line was not limited as to its profits. The 10-per-cent. limit in Massachusetts is a relic of barbarism on a par with usury laws, which all intelligent people (especially those of Massachusetts) now admit are wrong in theory. I may say here that the present law of that State assumes the right to make rates for railroads absolutely, without any agreement on the part of the State that the roads may have ten or any other per cent.

*Farmer.* When railroads are once constructed they cannot be taken up and carried off; and as they cost a great deal of money, people do not build them without fair prospects of remuneration, as you truly say, and consequently there is not much competition. And for this reason railroads charge pretty much what they please, while iron makers and real estate owners, in fact all branches of business, are kept within bounds by competition.

*R. R. Supt.* If railroads as a general thing can charge what they please, you must give them credit for being very considerate and moderate, since in 1872-3 they only earned an average of 5.2 per cent. on their cost and were paying seven and eight per cent. on borrowed money. The stockholders really got less than five per cent., and in many cases got nothing at all. Since 1873, hundreds of roads have gone into bankruptcy and are now in process of being sold out to satisfy creditors. If stockholders could have charged what they wanted to for transportation, why should they have allowed the advent of such disasters to their property? They certainly, under the Granger theory of the potency of railway corporations, could have charged enough to have paid the interest on their cost as represented by their first mortgage bonds.

*Govt. Official.* They built too many roads for the country to support. There was not business enough for all the roads.

*R. R. Supt.* But they could have raised the rates, according to my friend here, and charging what they pleased, when business was light they should have raised rates.

*Govt. Official.* I presume they did charge all the business would endure. A bushel of wheat is worth only so much in New York or

Liverpool, and it costs so much to raise it in Iowa, and if the roads charged more than the difference the farmer had better burn than ship it.

*R. R. Supt.* Then it appears to be not entirely true that railroads may charge whatsoever rates they please?

*Farmer.* Of course, they can't charge more than an article will bear.

*R. R. Supt.* Tell me *why* it is that railroads cannot charge just what they please; *why* is it that they do not charge more than the freight will bear?

*Farmer.* Because, if they did, they would not get the freight, and would lose money.

*R. R. Supt.* Very well, then, self-interest has something to do with the rates charged by railroads?

*Farmer.* Yes, of course, the interests of a railroad are to make rates which will stimulate rather than destroy shipments.

*R. R. Supt.* Precisely. Now are rates which stimulate business such rates as are best for the community at large or not?

*Farmer.* Certainly, such rates are what we all want.

*R. R. Supt.* What would be the effect in business affairs generally if railroads should reduce rates below the point necessary to stimulate trade?

*Farmer.* I presume it would be still better for the rest of us.

*R. R. Supt.* But suppose it did not pay the railroads?

*Farmer.* That would not matter to me or my neighbors.

*R. R. Supt.* Not directly, perhaps, but in the end it would matter to you and your neighbors, in this way: The roads ceasing to pay would not be kept up in good order. The iron and rolling stock would wear out and not be replaced; accidents would become frequent; the roads would not have cars to do their business in an efficient manner. And what farmers fare best and thrive most—those who live on the line of a well-to-do, thrifty railroad, or those who reside upon a broken-down one? Hundreds of roads in America, and especially in the Western and South-

ern States have been stewing through bankruptcy since 1873. They have put rates too low, and have let the roads run down, and finally go to the wall.

*Farmer.* Why have they done this?

*R. R. Supt.* Because of the competition which you said did not exist.

*Govt. Official.* He did not mean that when two roads cross or come together, or where they are very near one another, there is not competition; of course, under those conditions, competition always exists. But take it at points which have only one road, with no other within many miles. There is certainly no competition at such points.

*R. R. Supt.* You are mistaken. Is there competition between the iron mines of Missouri and Michigan? Is there competition between the cheap lands of Nebraska and those of Minnesota and Texas? Put yourself in the place of a railroad owner. Suppose you owned a road in Iowa and I owned one in Missouri, and there are a hundred miles between your road and my road. Would you let me make rates so low as to attract settlements along my line, or enhance lands along my line, without doing the same thing with your road? Would you adhere to excessively high rates, while I kept moderately low ones, any more than the land owners along your line would keep prices on their real estate so high as to drive buyers to my line? Would not, on the other hand, self-interest prompt you to make your road and the country tributary to it as attractive as possible? In other words, is it not for the *interest* of every railroad to so adjust its rates as to stimulate business? It certainly is; and can the public and its prosperity need rates which do more than this?

Again, it is not necessary that the two roads should strike a common point to make even that kind of competition which you say does exist at such a point. To illustrate what I mean, let me show you on the map before us, the lines of the Chicago & Rock Island and the Chicago, Burlington & Quincy roads in Iowa. You will observe that these two roads run nearly parallel with each other across the State of Iowa. They are from twenty-five to fifty miles apart, say. Now, half way between the two lines, the country is well settled with prosperous farmers. These farmers and the country store-keepers with whom they trade can do their business with either one of these lines of road. Take now the towns of Atlantic on the Rock Island road, and Red Oak Junction on the Burlington line. Are not the merchants of both of

those towns striving for the business of this intermediate country, which may go in either direction?

*Farmer.* Undoubtedly they are.

*R. R. Supt.* Very well, then, suppose the Burlington road should reduce its rates on lumber, for example, so that the merchants of Red Oak could undersell the merchants of Atlantic, what would be the result?

*Farmer.* The Rock Island would probably reduce its rates, also.

*R. R. Supt.* Well, now, that very process is going on all the time. Roads which are miles apart are competing for this intermediate business, and the prices at which they are willing to do it fix the rates on all that traffic which is so near to one line that it could not afford to haul to the other.

*Farmer.* How do the rates at which the roads are willing to do this intermediate business affect the rates on business so near to them that there is no quarreling about it?

*R. R. Supt.* How can the railroad discriminate? Take the point of Atlantic on the Rock Island road. Rates are made to the merchants and grain buyers of Atlantic—not to individual farmers living between there and Red Oak. How can the Rock Island road make one rate on such portion of a merchant's goods as he sells to a farmer living half way between the two roads, and another rate on such portion of his goods as he sells to customers nearer home? It is, of course, impracticable, and rates to Atlantic cannot be higher than those at which the Rock Island road is willing to do that part of the business for which Atlantic is in competition with Red Oak.

*Govt. Official.* I guess you are right about that; but, it is easy generally for two persons to agree, and, no doubt, the two railroads you speak of agree as to what the rates to Red Oak and Atlantic shall be.

*R. R. Supt.* Of course, they might agree; but particularly, they do not. If they did, they never would agree to put rates higher than the people could pay and be as well off as any other section of the country. Railroads *can* agree on rates at points where they come in actual contact. I was only trying to show you that it was not necessary for two roads to come in contact with each other to make the same kind of competition that exists at points where they do come together.

*Farmer.* That sounds very well, but how is it that at points where railroads come together, they frequently carry freights and passengers at less rates than they charge to and from localities on their respective lines where the distance is much shorter?

*R. R. Supt.* Well, now, let me explain that to you. Suppose you had a railroad between Detroit and Chicago, and nobody else had a road between those points, and I owned a road from Toledo to St. Louis. Then, the rates all along the line of your road, that is, your local rates, and your rates to and from Chicago would affect my local rates and my rates to and from St. Louis. We could neither of us ignore the other. Each would be interested in making his line as attractive as the other for all kinds of business. If you pursued a wise and liberal policy, and I a mean and narrow one, you would develop your transportation, and add something to your profits annually, while on my line business would not pay and the road would not prosper. If, on the other hand, I also adopted a wise policy we should both do equally well, if the natural advantages of our lines were equal. Under these conditions, a healthy competition would exist between our roads.

*Govt. Official.* Yes, but suppose you chose to pursue a mean and narrow policy—then this healthy competition, as you call it, would not help anybody living on the line of your road.

*R. R. Supt.* Of course, that is true, but I should undoubtedly do what it was my interest to do, and it would not be for my interest to discourage business on my road.

*Govt. Official.* Yes, but you might do it. People on your line would be at your mercy.

*R. R. Supt.* Practically, what you say amounts to nothing. No railroad ever did or ever will persistently pursue such a policy if let alone. And if one or two out of the hundreds of railroads in the Union did or should pursue such a course, it would not justify governmental interference. The people would cease to patronize those lines, or others would be built, and the probability of such a condition of blind management is not worth considering.

*Govt. Official.* I cannot agree with you. The Boston & Albany road is to-day an illustration of just such a state of things. It has a monopoly of the New England business, and it keeps rates so high that Boston cannot compete with New York for foreign trade.

*R. R. Supt.* What you say of the Boston & Albany is measurably true, and yet neither Boston nor the towns along the B. & A. line seem to go into decay. But one principal reason why the laws of competition do not have full force in the case of the Boston and Albany railroad is, that Massachusetts legislators have seen fit to interfere with those laws, and virtually to enact that the B. & A. road shall never pay its stockholders over ten per cent. per year. Consequently that road has no great motive to stimulate trade beyond the point necessary to pay ten per cent., and no rival corporation has been formed to divide the business with the B. & A., because a limit of ten per cent. profit, with the full possibilities of loss, are no attraction. So Massachusetts, as a State, has expended millions of dollars to build up a rival to the B. & A. by the way of the Hoosac tunnel; whereas, if that State had let the laws of competition and self-interest have unrestricted play, and left railroads to earn what they could, private capital would probably have accomplished all that the Hoosac tunnel can do, and at much less cost to the public. I am, in describing the lines between Detroit and Chicago, and Toledo and St. Louis, supposing that the natural laws of competition are let alone.

*Govt. Official.* Well, go ahead. You have not answered the question: "How is it that railroads carry freight to and from points which are called competing points, at lower than local rates?"

*R. R. Supt.* Well, then, I own the Toledo and St. Louis, and you the Detroit and Chicago line, and we will suppose you are charging a little more per hundred pounds between your *termini*, *i. e.*, Detroit and Chicago, than you are asking between either of those cities and intermediate points, because the distance is greater—you are not charging *pro rata* per mile; because, as you know, *it costs you less per mile* for a long haul than for a short one—terminal and general expenses being as great in the one case as the other. Suppose your proportion of a rate from Chicago to New York, *via* Detroit, is 20 cents per hundred pounds, and the through rate is 60 cents per hundred pounds; and up to this time Chicago has no other route eastward, and the rates you have established are stimulating business and paying you a fair profit. Now, I build a branch from my Toledo and St. Louis road into Chicago, and I find that you have all the business there, and that people are in no hurry to come to my road at the same rates which you are charging. Therefore I reduce rates to New York to 45 cents a hundred. This is 15 cents below your rate, and I begin at once to get business; I may make very little profit on it, but a little is better than none. Now, what will you do under these circumstances: remain quiet and let me take all the business, or endeavor, by reducing your own to an equality with my

rates, to retain at least half of it, even at a small profit? Clearly, even if you can make half a cent on the hundred pounds, at the 45 cent rate, it is better for you to take it than to get nothing. So you obey the laws of competition and self-interest, and reduce your through rate. But if you were at the same time to reduce all your local rates in the same proportion, your road would soon be running down and going into bankruptcy.

*Farmer.* Well, now, if the government owned the roads, and one road could do the business out of Chicago, it would not build the branch from your road into Chicago.

*R. R. Supt.* Probably not. But then Chicago rates would remain as they were, say at 60 cents to New York; and how would the people, in that case, be any better off than if you and I owned the roads?

*Govt. Official.* I will tell you how. If you built your branch into Chicago and cut the rate to 45 cents, and forced the other road down in its rate, you would both, very likely, *increase* your local rates to make it up; at least you would not reduce them as much as you might be able to if the Chicago business to New York remained at the 60 cent rate.

*R. R. Supt.* Can I ignore the law of supply and demand? My local rates would always have been put as high as the business would bear, and I could not increase them if I would.

*Farmer.* What are "terminal expenses?"

*R. R. Supt.* By terminal expenses, I mean switching cars at stations, loss of use of cars, loading and unloading cars, etc., etc. And because there are no terminal expenses attendant upon taking up passengers at local stations, is the reason why those passengers can ride generally at the same rate per mile which is paid by those from the terminal points on the same road. The loading and unloading passengers at way stations, costs us nothing; we neither lose the use of cars, nor pay switchmen, nor stevedores, in their behalf. But as to freight, there are the same terminal expenses on local as on through business.

*Farmer.* How do you make local rates? What animates your action in their manufacture?

*R. R. Supt.* We make the prices of local passenger and freight hauling in such a manner as to bring the most gains—just as you make the price of pork. We want to haul men and things and make money;

you wish to sell pork and wheat and make money. We do not ask such prices that no one will travel or ship over our rails, and you do not demand such prices that no one will purchase wheat and pork. We demand all we can safely ask, and stimulate travel and shipments, and you, with your farm products, exact the last farthing which can be wrung from the public, and at the same time facilitate your exchanges. The railroad, an aggregation of men and money, is governed by the same motives which govern farmers and their money. There is, however, no limit to the *reduction* of rates; and rates, while they never can be unfairly high and stimulate trade, may be and often are unfairly low.

*Govt. Official.* What do you mean by fair rates?

*R. R. Supt.* I mean rates which will stimulate business and pay the railroad as much as possible. Our friend, the farmer, calls a fair rate for wheat all that he can get; that is, all the public will pay and facilitate the exchange between them and him. His wheat has a specific purchasing power; it will purchase money of all who want wheat, and he trades it for money, which has a general purchasing power, and will buy anything which is for sale. The farmer calls that price a fair price which is the biggest the market will permit him to get, and a fair freight or passenger rate is the biggest one railroads can command, and not paralyze transportation.

*Govt. Official.* Well, you just said rates were often made unfairly low, what do you mean by that? How is it possible on your theory of what a fair rate is?

*R. R. Supt.* Railroad rates are more often unfairly low than the prices of other things because of the nature of the business—the necessity of intrusting its management to a vast number of irresponsible agents who are not owners, and who, in their anxiety to get business, frequently go lower than the laws of trade require.

*Farmer.* There is much in what you say that I had not before thought of. Nevertheless, in my judgment, government may and should limit the earnings or profits of railroads to a certain fixed per cent., even without owning them.

*R. R. Supt.* But I have already shown you in the case of the Boston & Albany road, which is limited by Massachusetts legislation to a ten per cent. profit, that such enacted limitation crushes out all motives for placing the earning facilities of that line beyond the point of producing the ten per cent., however much more it might be made capable of



earning: 1st. Because it cannot, lawfully, divide any greater profits; and, 2d. Because it feels confident with such a law in force, no strong rival will enter the field—the possible profit being limited, and the possible loss being unlimited.

In other words, a law limiting earnings kills competition. Thus: The tendency of any one engaged in commerce, including the owner of a railroad, is to do all he can with his capital. Now railroads, unlike merchants, have always fixed capital in track and structures which they cannot move. Naturally, and if let alone, the tendency of railroads is to stimulate trade to the utmost, *so long as it pays them to do it*. If, now, you come with your law and say that after a road has earned 10 per cent. on its cost, it shall *no longer pay it* to stimulate traffic, what is the result? You kill the great motive power of all trade, *i. e.*, self-interest, after reaching a certain point, be it 10 or 5 per cent.

*Govt. Official.* There are other methods of holding roads to reasonable rates; why not fix their prices by statute, and then let them earn what they can according to law?

*R. R. Supt.* Do you mean that you would have the State make inflexible and perpetual rates?

*Govt. Official.* Certainly not; but I would have a Board of Commissioners appointed by authority of the commonwealth, who should establish tariffs on freight, and fares for passengers once a year, or oftener, if deemed advisable.

*R. R. Supt.* How would our friend, the farmer, like to have a Board of State Commissioners to fix the price of wheat and other agricultural productions? No man will invest money in property which he cannot lawfully manage and control; and no corporation will build or buy a railroad for a State legislature to manage. In short, the very idea of property of ownership conveys also the idea of the right to use, the right to manage and control.

*Govt. Official.* That is an altogether different affair; the price of wheat and commodities generally will take care of itself.

*R. R. Supt.* How? Sometimes it is very high and sometimes it is very low. How does it take care of itself?

*Farmer.* Why, the law of supply and demand regulates the price; but that law does not operate in the case of railroads. If, for example,

I demand more for my wheat than the market price, that is, more than some other persons having wheat to sell ask, I cannot sell it. But if the Boston & Albany railroad wishes to charge more for transporting a bushel of wheat one hundred miles to a local station, than some other road demands for similar distances, it can get it. The people residing at that station cannot move away, and they cannot avoid shipping on that road, and they must pay the price exacted.

*R. R. Supt.* Well, I had supposed that branch of this transportation topic exhausted. However, I maintain that railroads are just as much subject to the law of supply and demand as any other business. All over the Union, in villages and hamlets, there are isolated country stores, blacksmith shops, grist mills and saw mills; now what regulates their charges?

*Farmer. Competition!*

*R. R. Supt.* What competition? Few towns in the West have more than one saw mill, and many neighborhoods have only one store. What prevents extortion on the part of millers and merchants so located? Their customers, in many cases, would be obliged to trade with them just as much as people on the line of the Boston & Albany railroad would be forced to ship their wheat over its rails, in the case you instanced.

*Farmer.* If the miller or storekeeper takes advantage of his isolated position, and the power it gives him, he will drive away trade. We might suffer his exactions for a short time, but we should soon either trade elsewhere or get another miller and storekeeper to establish among us.

*R. R. Supt.* Possibly a law prescribing ten per cent. profits as the limit for capital in mills and merchandise, in any county or neighborhood, would meet your approval and save the community from extortion, though it would certainly never induce new mills, nor new stores, any more than the Massachusetts law has begotten rivals to the Boston & Albany road. But if the Boston & Albany road should take the power it has, and extort money from the people along its line, would there not be another road, or would not the population at last leave the line? They might have to submit for a little time, and in the case of a railroad, possibly for quite a length of time—longer than in the case of the miller or storekeeper—but finally any attempt on the part of a railroad corporation to extort money from its patrons would be more disastrous to the road than a similar attempt on the part of merchant or miller would be. Be-

cause a railroad is a fixture and cannot be moved away, even if it has killed its traffic by extortion. Therefore, the laws of self-interest, and of competition, and of supply and demand, do operate upon, and must always govern, inflexibly, the rates charged by railroads for transportation, and the earnings of capital in railroads, just as they govern the price of iron, wheat or cotton.

*Govt. Official.* The leading authority on the railroad question in the United States is absolutely against you on this point.

*R. R. Supt.* To whom do you refer? Who is the leading authority on this topic which has so vexed the souls of Grangers, legislators and owners of railroads?

*Govt. Official.* I refer to the Railroad Commissioners of the State of Massachusetts, Messrs. Charles Francis Adams, jr., A. D. Briggs, and F. M. Johnson, and, by your permission, I will read to you what they say in their fifth yearly report, page 48, as follows: "It may now be taken as very generally conceded that railroads are, and from the very nature of things, must always remain practical monopolies—that the operation of the law of competition as affecting supply and demand, can exercise a very limited control over them, and that even this limited control is rather of a disturbing than of an equalizing character. The supply of competing railroads is not and cannot be indefinite; nor does the increase in their number tend to diminish the cost of transportation; nor, when unprofitable in one place, can they be moved to another; nor can any excess of capital invested in them be released at will and otherwise used; nor can they be made to feel the influence of competition equally at all points which they serve. Competition is, however, made up of these very elements here wanting; it is their presence which supplies its effective, regulating force to the operation of the natural laws of supply and demand. The popular mind has been slow to realize that they were here wanting; but once the obvious fact conceded, it follows that all the dealings of railroads with communities must either be unregulated, except by the intermittent action of a disturbing force, or else they must be carried on under a greater or less degree of governmental interference. Very naturally, therefore, the character and degree of this governmental interference are most actively discussed in those countries which originally organized their railroad systems upon the assumption that no such interference was necessary. Of these countries, America was that one which carried its reliance upon economical laws the furthest. It is in America, consequently, that the work of readjustment is accompanied with the greatest amount of difficulty."

*R. R. Supt.* I have read that before; but it is not the truth, as I think I have already shown you. The point made, that increasing the number of railroads does not lessen the cost of transportation, may be applied to iron mills, which, however numerous they may become, cannot, by mere numbers, decrease the cost of making iron. Nor can capital invested in unprofitable cotton mills or hotels be released at pleasure, and yet no one pretends that the iron furnaces of Ohio and Pennsylvania and the hotels of Newport and Saratoga are not in competition. The Railroad Commissioners of Massachusetts, judging them by what you have just read, take a very narrow view of what competition is. I say that *competition is the desire of every man to do the very best he can for himself*; and a railroad, as I have shown you, cannot do the very best for itself except by making its charges such as will stimulate, and not depress business over its rails. The Railroad Commissioners of Massachusetts are respectable gentlemen, and Mr. Adams has at least given much time and study to these questions. And Mr. Adams is a hard-money man and a free-trader; he denounces all sorts of paternalism in government, and all restrictive laws upon commerce, except in the case of railroads, and here it is impossible to believe that his faith in governmental interference and regulatory legislation is very strong, because it is so at variance with the remainder of his political economy. Yet Mr. Adams suggests partial control by the government of all railroads, and cites the experience of Belgium—a pocket nation, so small in geographical extent that it might be dropped into an Illinois, Iowa, or Nebraska prairie and absolutely lost. But Mr. Adams fails to show us how governmental railroading would operate in a country so vast as ours, and one, too, whose productive interests are so diverse, and at times adverse, and he certainly fails to demonstrate that the law of competition becomes inoperative upon railroads; that is to say, the law of trade, of self-interest. And he might show now, that even in little Belgium, there is great opposition to governmental railroad management, for not many months since “the Industrial and Maritime Society, of Antwerp,” addressed to the Belgium House of Representatives a petition upon this subject, in which the following passage occurs, among others equally peppery: “Have we not seen “the administration forcing shippers to accept a declaration of irresponsibility so as to escape its obligations? Such a system can be tolerated no longer!” That is the esteem in which governmental railroading is now held, even in little Belgium! And Mr. Adams is not very clear in what you read from him just now. Perspicuity of style is not a distinguishing characteristic in the passage you have quoted. No one can read it, or hear it, casually, and get any definite idea of what Mr. Adams desires to expound or explain. He remarks that

railroads cannot be "made to feel the influence of competition equally at all points which they serve!" This astounding platitude would be no flatter, paraphrased to read "railroads cannot be made to feel, equally, a competition which is of unequal vigor at different points which they serve;" or, "railroads are influenced less by a little competition at one point which they serve, than they are by a big competition at a point where competition cannot influence them at all." He says: "Competition is, however, made up of these very elements." Now, read Adams again, and tell me what "elements" he refers to, or what he defines "competition" to mean? Railroads are oftener ruined and bankrupted by competition than any other class of business. They are more sensitive to the laws of trade—that is, the laws of self-interest—than many other branches of industry, because if they once kill the goose that lays their golden egg, if they drive away traffic by charging too much, they cannot get it back again, and it is impossible for them to seek new fields, as a merchant might, after driving away his business by a similar course.

*Farmer.* Well, if the laws of competition do operate on railroads, why is it that rates are so high?

*R. R. Supt.* They are not high—the earnings verify that. All the statistics in Poore's Railroad Manual prove by earnings that rates are too low. But if they were high, it would be for the same reason that in 1871 iron and wheat were high. People can no more get along without iron and wheat than without railroads, and yet when wheat is worth a dollar a bushel in Iowa, you do not claim the high price as a sequence of the inoperativeness of the law of competition among grain-growers in Iowa.

*Farmer.* Well, when our wheat in Iowa is worth a dollar a bushel, it may be because bad weather in the Spring, loss of first sowing, or drouth or rains may have enhanced the expenses of producing wheat, so that we may make less profits at a dollar than we have realized in former years at seventy-five cents. But railroads can carry for the same price one year as another.

*R. R. Supt.* What you say may be true. But what does cost of production have to do with market price? Do you not ask all you can get at all times for all your products? Because you happen, by a favorable season, to harvest and garner ten bushels of wheat where you only hoped or expected to get five bushels of wheat, do you reduce the price of your wheat?

*Farmer.* What does it cost to haul a ton of freight a mile?

*R. R. Supt.* What does it cost to produce a bushel of wheat, or raise a three-year-old steer? The cost of operating railroads, as well as their original cost per mile, varies as much at times and in different sections of the Union, as the cost, through soil changes or climatic vicissitudes, of producing a bushel of grain varies. Because a mile of railway through a tunnel, cut out of a mountain of granite, costs as much as twenty-five ordinary miles of railroad, is no reason why the company owning it should charge twenty-five times as much for carrying a ton of freight over that mile through the tunnel.

Moreover, there is another difference between the money in merchandising and farming as compared with the money in railroading. The former is circulating capital; it makes returns by transfers or exchanges of itself. The owners of it may convert it any day into something else.

The money in railroads is fixed capital; it cannot be transferred from the railroad to something else at will, nor can the road itself be taken up and moved to a better paying locality; and the only method of obtaining profits from this fixed capital is by its retention and use. This fact makes fixed capital more vigilant as to rivals, and more sensitive as to competition, than ever circulating capital becomes. Fixed capital, irrevocably merged into iron rails, machinery, and roadbed and depots, etc., etc., is chained to a locality. But circulating capital in merchandise, farms, or farm products, when business lags, may be transferred. Fixed capital is timid because it knows it must make profits where it is, or be consumed in the effort; while circulating capital may be bold and even aggressive, knowing that the world is open for its ventures. When competition reaches the first, it *must* submit to its decrees. When competition becomes uncomfortable to the latter, it moves away, to seek new fields.

*Govt. Official.* Well admit, as you assert, that competition does operate on railroads, yet so tardily is the influence felt that in the end there is not much practical result therefrom.

*R. R. Supt.* In one manner competition may operate slowly on railroads; *i. e.*, if a road oppresses you, you cannot get another road as easily as you would change your grocer or miller, if for their commodities they charged you more than some other grocer or miller would charge you. If you reside in a city, you can go from one store to another and take advantage of the lowest prices. But if you live in the country, and have but one store or one mill within miles of you, and the storekeeper and miller oppress you, you cannot at once

change. But the storekeeper knows and the miller knows that you will change as soon as possible; or, in other words, that excessive charges will depress trade, and that knowledge stops either of them from extortion and oppression. And just so it is with railroads. The owners of them know that rates which will depress trade are against their interests, the pickers of their pockets, and that knowledge keeps railroad owners straight and makes their interests and the commercial prosperity of the people along their lines identical and inseparable as the Siamese Twins—if one dies, the other must perish also. There may be isolated cases of folly on the part of the managers of railroads and likewise on the part of country storekeepers and rustic millers. But in the grand aggregate and in succeeding years it is quite safe to govern the merchant, the miller and the railroad by the equitable laws of competition and supply and demand, and the stronger law of self-interest.

*Govt. Official.* Why cannot and why should not the State regulate railroad fares as well as it fixes the rates of cabmen, hack-drivers and expressmen in the great cities?

*R. R. Supt.* In principle the charges of hackmen and baggage expressmen should no more be regulated by law than the charges of butchers and bakers, but the business of the expressman and hackman is exceedingly simple, and involves no large and inseparable amounts of fixed capital as a railroad does. The hacks, horses and wagons can be sold at any time, separately or together. Knowing this, individuals are willing to take their chances under the municipal regulations. And if, after trial, they find business unprofitable, they sell out. And in an avocation so uncomplicated as hacking and wagoning, any person can get up a tariff of charges. The case of the railroad is very different; the variation of a single mill on the hundred pounds, or passenger transported a mile, would to the baggage-expressman make no loss or gain worth noticing. But the variation of a mill per hundred pounds of freight on a railroad might involve the loss of thousands of dollars. Every railroad tariff is made or should be made so as to put on to each sort of freight what it can bear, and at the same time stimulate shipments of that sort of freight, just as the iron maker and the farmer fix the prices of their products. With the old railroads, already in existence, as I stated a little while ago, to regulate by legislative enactment would amount to robbery.

*Farmer.* Why? I don't understand that.

*R. R. Supt.* I mean to say that if I have built a railroad in good faith, expecting to use it, and the government then comes along and

forces me to accept rates which do not pay me as much as I could make out of it if left alone, it is taking my property for your benefit.

*Govt. Official.* Yes; but did not government grant you valuable privileges, which gives it a right to a voice in what you shall make?

*R. R. Supt.* What privileges?

*Govt. Official.* The right of eminent domain, for one; the right to take my house and land for your railroad.

*R. R. Supt.* True; railroads do have the right of eminent domain exercised for them, and that is a privilege not granted to natural persons. Are there any others?

*Govt. Official.* That is the most important one, and is not that enough? I cannot have it for my hotel, or to enlarge my farm or my store, no matter how much I want it.

*R. R. Supt.* Without the exercise of that right no railroad could be constructed, because it cannot turn sharp corners and go round every man's house, and without this right of eminent domain, exercised in behalf of railroads, no man would sell his house at a price railroads could afford to pay. At all events, that is the theory of laws providing for the condemnation of property, so as to give the right of way to railroads. Therefore it is not an especial privilege, but merely a *condition precedent* of their being. The public was traveling in stage-coaches, and wanted railroads. It was paying ten or fifteen cents a mile, and it wanted to go in much less time for three or four cents a mile. It could induce people to build railroads only by giving the right to condemn. It did so, and received in consideration therefor the building of the railroads, and all the enhanced facilities for transportation and travel which they furnish, which has been ample and complete consideration.

*Govt. Official.* I claim that the exercise of the right of eminent domain in your behalf makes you a common carrier. If I want to build a private railroad to my own farm, I could not exercise that right. You are a public carrier, and as such are governed by the law of common carriers.

*R. R. Supt.* Of course you are right about that, and as a common carrier I am, no doubt, bound to treat all my customers alike, everything being equal. That I admit. But the right of eminent domain, which the State has exercised for the railroads, does not give the State



nor the public any right to share in the earnings of the railroads, either directly or indirectly.

*Govt. Official.* I agree with you as to that. Your railroad is private property, but, having received the benefits consequent upon the exercise for you, by the State, of the right of eminent domain, that private property has become subject to public use at rates which must be equal to all. And the fact that railroads are close corporations, and that the public can find out but little about their internal management, makes it necessary that the Legislatures should have power over them to demand publication of their expenditures and receipts, and thus furnish the knowledge required in order to correct evils.

*R. R. Supt.* I will not dispute the power to send for persons and papers by any Legislature engaged in investigating the relations existing between railroads and the public; but I will add, there is no other purely commercial business which has always so freely published to the world all its details. "Poore's Railroad Manual" annually publishes the indebtedness, and its forms, of all railroads in the Union, with their receipts and their expenses. What more can you ask for? Moreover, all stockholders, little ones as well as big ones, have the right to demand and receive complete detailed statements of earnings, expenditures, and general management. And the vigilance of self-interest in stockholders themselves will generally discover and correct abuses. At all events, I would rather trust owners to manage property than politicians who do not own it, and I cannot see why publicity is required for the affairs of railroads more than for the affairs of dry goods merchants, millers, stock-raisers and granges.

*Farmer.* Mr. Adams, in his late speech at Oshkosh, expresses my notions. His idea of publicity is elucidated in this way: The bridges of a main line of Massachusetts railway were, in the opinion of the railroad commissioners of that commonwealth, not in proper condition. So Mr. Adams wrote to the President of the road; got no answer; wrote to the directors, and said if they were not heeded their next letter about those bridges would be addressed to the public at large. This threat of publicity brought the magnates of the rail to time, and every bridge was overhauled and repaired before the close of the year. Publicity's influence did it.

*R. R. Supt.* Of course. I have read that, and know all about it. That is well enough, perhaps, but the idea that men in charge of Massachusetts railroads should not know enough, or feel the influence of self-interest enough to mend their bridges unless told to do so by the rail-

road commissioners of the State, and that without their eyes to see, and their voices to warn, the bridges would have become the slaughter-pens of men and property, which the railroad would have the felicity of paying for, does not accord with my experience as a railroad manager. Publicity in that light may be an excellent thing. It ought to be brought to bear upon stove-pipes and chimney-flues in dwellings, and upon old ash-barrels about farm-houses. A publicity board would be a good thing for everybody; but if, instead of a general board of publicity, you prefer one for railroads alone, the railroads will never object to it. On the contrary every honest railroad official will be delighted to have the people inspect his works, bridges, tracks, machinery, rolling stock, and everything else, and report through their commissioners their exact condition. It might, though a work of supererogation, furnish us much useful information gratuitously, which would be a check upon, or a spur to, our employees. That, however, bears not in the least upon the commercial question, and in nowise approximates a demonstration of Mr. Adams' dogma, that "railroads are not subject to the laws of trade—competition and supply and demand."

There is a wide difference between police regulation and commercial regulation. The first is all right; the latter is all wrong. Mr. Adams, in his remarks at Oshkosh, to which you refer, talks a good deal about the laws of trade not affecting railroads, and then winds up, not by advice to remedy this alleged evil, but by advocating a system of bridge inspectors who shall compel the railways to take care of their own interests and the safety of the public. The connection between the premises he lays down and the bridge inspection conclusions which he deduces may exist, but if it does, it is veiled in as much mystery as the source of the Nile.

*Farmer.* But Mr. Adams also declares: "There is the post-office, "the supply of water and of gas, in our great cities, the telegraph, and "finally transportation by rail—as respects all these, a gradual experience has taught us that they are in their nature matters of monopoly "—that to be done economically they must be done as a whole, and "that each new competitor, if he does not deteriorate quality, does "increase cost. In other words, the State must sacrifice its abstract "principles and perform these functions for itself, or it must surrender "them into private hands, and make the best terms it can for their performance by others."

*R. R. Supt.* Experience has taught us no such thing. It is true that in most large cities water-works are managed for the public by the public. But, as a rule, gas-works are owned and managed by close

corporations, the city generally limiting the price of gas. Generally gas companies have a monopoly; the field is not open to all, like the railroad field. And the post-office and water-works are run by the public, the first for educational purposes, and the second for sanitary reasons. The cheap circulation of newspapers and periodicals for the mental health of the people is provided for by the first, and education thereby kept advancing. And in the great cities the cheap circulation of pure water keeps the people cleanly and healthy bodily, and moreover water is a natural product, like air, which employs no army of manufacturing operatives. But with regard to gas companies. If you will shut up the railroad field and give one railroad a monopoly, and then limit the rates to five cents per mile for a ton of freight or a passenger, all right. That is the way you manage gas companies. You limit *not* the earnings (for they generally earn from 20 to 50 per cent.) but the *rate*, and you put that high enough to make the limit of no practical effect. If any State should undertake to limit the earnings of gas companies to 10 per cent., the largest cities within its boundaries might get gas-works, but the smaller ones would not. Nor would the gas companies within the larger cities be disposed to make better gas in order to increase consumption, after they had reached a quality or a point just sufficient to declare the ten per cent. dividend. Finally, gas companies and water-works are very different from railroads. The influence of a railroad is felt for twenty or fifty miles on either side of it. The influence of a gas main or water pipe is measured by the street or ward in which it is laid. The gas and water field may be, as Mr. Adams remarks, a closed field, but the railroad field is not shut up—it is open to all.

*Govt. Official.* Why is—to change the drift of this conversation a little, and before I forget to ask—why is it that in a sparsely settled country, a long distance from market, railroads generally ask higher rates than in older and more thickly-settled regions?

*R. R. Supt.* It is not always true that rates are higher in new regions than in old; where it is true, however, it is simply in obedience to the laws of trade. Land in new countries is cheap, and farmers can afford to ship their products at higher rates from cheap lands than they can from high-priced lands.

*Farmer.* Well, you have talked pretty strongly about competition, and made out quite a decent defence for your occupation. But you are probably aware that railroads frequently “combine” to avoid competition, and sometimes even “pool” their earnings, so as to do away with even the possibility of competition.

*Govt. Official.* And that is one of the dangers to which our people are constantly exposed. Railroads might combine and put up rates all over the Union, and, as we *must* ship commodities and *must* travel ourselves, we are obliged to submit and pay tribute in compliance with their exactions. In another decade, by combinations, a few men, like Vanderbilt and Gould, may control the whole transportation business of America, and the people be completely at their mercy.

*R. R. Supt.* You are wide of the mark in saying that railroads *generally* combine to keep rates up. No other kind of property has suffered so much from warfare among its agents and managers. Throughout the country, irresponsible and unreasoning Agents are constantly allowing caprice, spite, personal ambition, and an insane desire to haul freight for the glory of quantity rather than a return of profits, to dictate rates, to prescribe tariffs. In this way millions of dollars are annually lost to railroad owners by cutting rates. Agents for real estate, clerks in stores, salesmen of all kinds, should they pursue a course which would persistently lose money for their employers, or jeopardize the property of their employers, would be discharged without notice. Only the vast sums of money buried in the railway system of the country are thus recklessly handled and abused. Gould and Vanderbilt have the brains to comprehend this, and they are personally looking after their agents in this regard. They are men of ability, and too sagacious to ever put rates above a point to stimulate business and increase receipts by increasing that business. They are not fools. They will never kill the goose which lays them golden eggs. They know that the only way for railroads to make money is to encourage industries of all sorts, stimulate production, stimulate shipments, and so get more business.

*Farmer.* Did you not admit, in the case of the Boston & Albany road, that rates were oppressive and aggressive for want of competition?

*R. R. Supt.* I did not admit that; but even if I did I should assign as a reason for such a condition of things along that line, the fact that Massachusetts legislation deprived the Boston & Albany of all motives for stimulating business, by the paternal provision of that absurd statute which limits the profits of capital in Massachusetts railroads to ten per cent. per year. I have been over this ground already, and I have no hesitation in declaring that railroads should be entirely unrestricted as to rates and tariffs. Left perfectly free, railroads will always be found endeavoring to increase their business by merely stimulative charges which will enable them to make all they possibly can and keep up the volume of commerce over their lines.

*Farmer.* Well, I don't know about all that; but what about "pools?" What can you say for or about "pools?"

*R. R. Supt.* Well, "pools" among railroads are co-operation applied to capital. Co-operation among laborers is popular and generally commended. Labor works for wages; capital for profits. If the former may justly combine to keep wages up to a living point, the latter certainly has the right to do the same thing to keep up profits. Co-operation among railroads—that is, "pooling"—is brought about to keep rates *fair to the roads*, and not to put them above the point at which industry will thrive. That the roads cannot do with advantage to themselves. Railroads "pool" occasionally, but they oftener agree on rates, or promise to keep them up. But they never put them so high that business cannot be carried on under them; never make them above a stimulating figure; never make them to prohibit business. There is no case recorded where a railroad company has made rates so high as to stop, or even diminish, business of a legitimate character. To do so would be idiocy. I speak of the rule—but there may be isolated exceptions to it—but no railroad owner wants to make rates that will depress business. Competition acts unequally in all sorts of business and all avocations, at times, but neither Mr. Adams nor any other advocate of the paternal plan of regulating commerce by statutes, proposes to legislate prices for commodities or services because those prices and services do not at all times, in all places and under all conditions, indicate an equal pressure of competition. The people ought to have steady and unvarying rates of passenger fare and freight tariffs. It would be a good thing for them, just as gold and silver are good things for a circulating medium and a measure of value; it would render fluctuations in trade less imminent. And it is easier and safer to carry on business where there is a permanent fixedness to the purchasing power of money and the rates of transportation. If railroads pool and give rates which shall be remunerative to their owners, and still stimulate shipments, the result will be beneficent to all the people. But if rates are down to-day and part of your merchants get goods into your town now, and rates go up to-morrow and then the other merchants get in their goods, the consequence is disaster to the latter shippers, is it not?

*Farmer.* Yes, unless they can make a combination with those who shipped in on the low rates to hold the prices up and they make more money, then the last shippers would *not* lose.

*R. R. Supt.* Precisely so. Sometimes men are utterly ruined by a change of rates which reduce railroad earnings from fair returns upon

the money invested to absolutely nothing; and sometimes combination would save them. Then, if combination may be of good as well as of evil tendencies, in labor co-operation, in merchandising, and in railroading, why should government and its politicians be importuned to go into store-keeping, or manufacturing, or railroading, to prevent it?

*Govt. Official.* Well, you say steadiness in rates is desirable, just as steadiness in the purchasing power of money. And that being the case, the best way to get it is by government ownership of the roads. What do you say to that?

*R. R. Supt.* Steadiness in rail rates is just as desirable as steadiness in the price of bread and potatoes, or the wages of labor. But there are fluctuations in all these things, and, with our paper money system, even energetic fluctuations in the purchasing power of denominational dollars. The price of wheat fluctuates on the Board of Trade in Chicago much more than railroad rates fluctuate. Pooling tends to stop sudden fluctuations in charges, and leaves railroads to change only as their interests prompt them to put rates up or put rates down, and never get them beyond a figure which will stimulate shipments. And though, at present, rail rates often go below a point which will stimulate trade, *they never go above that point!*

*Govt. Official.* But, if the tendency of railroads is, as you admit, to combination, why may not some great corporation in the future control all the great through lines, and then put rates up or down to please itself—why might it not, for example, build up Chicago, and destroy the trade of St. Louis? And what can prevent it becoming a mammoth political power in the land too great to be tolerated?

*R. R. Supt.* Self-interest, the great natural law of trade, will prevent the commercial wrong as to Chicago and St. Louis. And the political danger is as much a phantom as the commercial one, because railroads will never so combine as you and Mr. Adams seem to fear, any more than any other great industries will combine. The tendency to combination in railroads grows out of a necessity. They are trying to live on what is not enough to support them all; hence they fight and financially die, or must combine to financially live. But as business increases the tendency to combination will lessen. There will still be combinations, or consolidation of lines mutually dependent on each other, like the Chicago, Burlington & Quincy, in Illinois, and the Burlington & Missouri River Railroad, in Iowa. But the tendency to combination between rival lines will lessen as the volume of business increases with the growth of population, because the necessity will lessen. At the

worst, it is, perhaps, a question whether the railroads could become as dangerous as a political power in private hands, as they unquestionably would be in the hands of politicians.

*Govt. Official.* But suppose the owners or managers of the railroads did not think it for their interest to stimulate St. Louis traffic, and did think it their interest to kill it: we all know that the laws of trade are often disregarded by railroad managers for selfish purposes, and in disregard of the rights of the owners and interests of the stock holder; in such cases, where is your remedy?

*R. R. Supt.* What you say about railroad managers sometimes violating the laws of trade has some truth in it. But the violation is always, in effect, at the expense, ultimately of the stockholders and to the gain of the public. Managers often ruin roads and their owners by making transportation of men and things too cheap. They *never ruin either by making rates too high!* If the right to build railroads is free, as it should be, St. Louis would, in the case you suppose, build a railroad outside the combination, but such a case is practically impossible; admit, however, for the sake of the argument, that a railroad combination could be formed to kill off St. Louis, what remedy would you suggest? And then as to disregarding the laws of trade and the interests of owners, that will remedy itself; those laws can no more be violated with impunity, than can the laws of nature. Every infringement furnishes as a sequence, its own penalty. And at last, owners, men who have put money into railroads, are more vigilant in looking after their interests than ever the public will become. Place your hand on a hot stove, and it is burned; that is the penalty for violating a natural law. Put your hand into another man's pocket, and you are arrested and punished; that is the penalty for violating the statute law. Again I ask you where is the remedy to protect St. Louis, in your suppositious case, or to take care of the interests of owners, when managers violate the laws of trade?

*Govt. Official.* It is in governmental control of all railroads.

*R. R. Supt.* Suppose the government for the time being, should be — as it very possibly may be, at no distant day — in the hands of the people of the Mississippi Valley, and they should want to kill off New York, and build up St. Louis, as the great commercial centre of the country; could that be done?

*Govt. Official.* It would not be.

*R. R. Supt.* It would be more probable than the case which you suppose, and then New York would have no remedy. It could not build

a railroad outside the combination, because railroads instead of being free, would be part of the government. You can certainly depend for the correction of these abuses much more safely upon the self-interest and keen vigilance of private owners of railroads than on politicians connected with the government, who have no interest in the railroads. The paternal plan of government is not consistent with the republican system. In a country where there is no entailment of property, where all laborers may become capitalists, and in the vicissitudes of business all capitalists may become laborers, there can be no danger of railroads or other corporations usurping popular rights or oppressing the people. Perfect and unrestricted freedom, which will permit Labor to demand and obtain the highest possible wages, and Capital to demand and obtain the highest possible profits, will best promote the permanent prosperity of all the people. No legislature, no congress, ever existed wise enough to prescribe the number of hours which shall constitute a day's work for the laborer, nor the wages it is worth. And neither did any law-making power ever know enough to enact statutory profits for Capital, whether in railroads or out of railroads. Let both Labor and Capital stand upon their natural rights. Law-makers can render no aid in adjusting the wages of the one nor the profits of the other without violating all the laws of political economy. All attempts at such adjustments have been barren of good, and fertile in evil results.



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