

BANKERS SOUND WARNING

SERIOUS SITUATION IN SOUTH Middleendorf, Williams & Co. See the Necessity of a Change of Front on the Part of Southern Sentiment. Unless Capital is Freed from the Grip of the South, the South is Doomed to a Future of Confiscation—Bankers Declare That the Protest is Timely and Needed—Extremes to Which Legislation Has Gone Forward—On as Well as Progress—Capital Not Given Adequate Protection.

Special to The Observer. Baltimore, March 6.—In their weekly letter, which will be issued to-morrow, Messrs. Middleendorf, Williams & Co. have prepared an exhaustive and important article in which attention is called to the present serious situation in the South and the necessity of a change of front on the part of Southern sentiment unless capital is to be turned away through fear of confiscation. A synopsis of the article follows: Now that the force of the present widespread depression seems to have spent itself and that matters financial, commercial and industrial are so shaping themselves as to prepare the way for another tremendous leap forward, no question is of more vital interest than that which has to do with the part the South will play in the decade or two of progress and development which will follow the great crisis of 1907-1908, just as the unparalleled prosperity of the decade from 1897 to 1907 followed the trying period from 1893 to 1896. In the decade of unprecedented agricultural, industrial, railway and other progress, which began after the presidential inauguration in March, 1897, and ended only with the acute crisis of October, 1907, the South's forward leaps were among the most marvelous achievements of a marvelous time. No section of the country made such phenomenal gains in this period, which saw the end of one century and the beginning of another, and no section of the country has to its credit a more splendid record of accomplishment in so brief a span of years. It may be said for purposes of comparison that half a decade before the old century came to an end the South was the poorest section of the country—poor in known wealth, poor in recognized resources, poor in manufactures, poor in agricultural production with the prices which then prevailed, poor in railways and other forms of transportation, poor in every way, we may say, save hope and ideal and lofty purpose: half a decade after the dawn of the new century, a wholly different picture presented itself, a new Empire of the South, built on the solid, rough-hewn foundation of that old South, the memories of which are still treasured by all, an Empire of the South, rich in transportation facilities, rich in agricultural products, rich in manufactures, rich in mineral wealth, rich in industry of all kinds, rich in lumber—in it was a wealthy Empire instead of a poverty-stricken group of States. The South to-day is far more different from the South of fifteen years ago than was the South of the year 1865 from the South of 1845, although 30 years had elapsed and one-half that time had elapsed since 1823.

EVILS INCIDENTAL TO RAHID PROGRESS.

The real problem, therefore, for the South to solve at this time is the problem of anti-overwhelming importance, is to what limits the campaign of anti-corporate hostility which has been pushed vigorously in almost every Southern State in the past few years, is to be carried. Unquestionably, when growth and development go at such a vigorous pace as was the case in the South during the decade mentioned, evils of necessity creep in, and it is doubtless a wise procedure to halt and take stock before these evils had gone too far, with a view of weeding them out. The way for further advance along right lines. But, we regret to say, dispassionate hostility to corporate evil soon gave way to dispassionate hostility to corporations themselves, and, in time, dispassionate hostility and in a number of instances even to wild fury. The millennium has not been reached, nor is there any likelihood of it being reached in this epoch any time in the near future; and if the South hopes to bring about the millennium by its too often arbitrary action in the present anti-corporate campaign, it may make some day to find that the millennium, which is unreal, has not dawned, and that prosperity, which is real, has flown. It was well enough to attack evils and proceed against the various wrongs which had crept into railway operations, secret rebates, discriminations, unjust tariffs; but to attempt to dictate to owners of a property exactly how that property shall be operated, to legislate away almost every right which inheres in control, to arbitrarily enforce reductions of revenue at a time when hundreds of millions are needed by the railways of the South for growth and expansion and improvement, is in a word to kill the goose which lays the golden eggs scattered through the South. It was well enough, as we have said, to search out the evil, but in the vehement and too often blind search, the good was confused with the evil and the whole was suffered.

SELF-SUSTAINING RATES.

Instead of hammering rates and forcing the margin of profit of railroads to the lowest extremity, the people of the South will fare much better by insisting that the railroads charge for services rendered, rates which will yield a fair return on the investment and provide for surplus earnings, betterments and reasonable and necessary extensions to their property. Hammering rates down forces railroads to provide for extensions and betterments by increasing capitalization; thus the Legislatures and not the railroads become responsible for any overcapitalization which occurs. A continuance of the hammering process, furthermore, reduces the margin of profit below a reasonable compensation for the use of the money and promptly stops all extension and betterments. The only sound policy, therefore, is to permit but to force the railroad to charge sufficiently high rates to enable it to carry safely its capitalization, and to provide from earnings for the safe transportation of the public and accommodations necessary by the extension of business.

EXTREMES TO WHICH LAW-MAKING HAS GONE.

As an illustration of the extremes to which the present anti-railroad crusade has been carried, we direct attention to various bills passed by the law-making bodies of different States in the past few years. A glance at these laws will show the scope and power to the public authorities over these instruments of commerce. They stipulate how many trains shall be run each day, how many men shall be employ-

ed to operate each train, how many hours railway telegraphers shall work, how cars shall be equipped, how crossings shall be guarded, where trains shall be stopped, where and how they shall be built, how quickly cars shall be furnished following the requests of shippers, how many miles a day cars shall be moving, the number of days within which freight claims shall be paid, what shall constitute a cause of action to an injured employe, what defense the companies may make, how accounts shall be kept, what variations shall be for purposes of taxation, and what rates shall be charged for the transportation of persons and property.

NO PROGRESS POSSIBLE IN FACE OF LEGISLATIVE WARFARE.

We ask in all earnestness and seriousness, can the South hope to revive the freshening and life-giving power of capital, can the South hope to call the all-powerful forces of new enterprises into being, go forward and grow and expand and open new territory by railway extensions, and develop its vast resources in the face of a legislative state of mind similar to that which produced the laws above enumerated? Can the South hope to be other than isolated and neglected by outside capital, so essential to the welfare and prosperity of any growing region, while the public mind is directed against all manner of corporate enterprise? This is the great question the South must answer, must find an answer for.

HELPFUL WITHOUT ARTIFICES OF COMMERCE.

President Roosevelt has described railways as the arteries through which the commercial life blood of a nation flows. In our opinion, nothing has contributed so signally in the past decade to the commercial and industrial growth and development of the South, to the opening up of its vast resources and the uncovering of its great natural wealth, as the increase of railway mileage in that section and the establishment of through connections by the linking up of shorter lines into big systems. Without its great railways, the South would have been as helpless as without outside capital, and the one has contributed fully as much as the other to the wonderful progress and achievement of the past decade. If the South refuses to co-operate with these great arteries, blinds itself to the tremendous advantages of railway growth and extension, refuses to encourage them and meet them with a spirit of fair play, then the new South must inevitably be stunted in its infancy, before its commercial strength has developed beyond a bare beginning. We have been interested in railroads in the South for many years and have done our full share towards giving this section these sinews of commercial and industrial power; and we speak with reasonable authority when we say that the South cannot expect outside capital to risk itself further in Southern enterprise until there is a disposition shown to welcome and encourage and protect investors.

CHARGES OF OVER-CAPITALIZATION.

It has been charged time and again that American railways are over-capitalized. The net capitalization of all railroads in the United States in 1906 was \$11,671,840,649 and the total mileage 214,475. The average capitalization per mile was \$54.421. The following figures show the capital or cost of construction per mile of railroads in other countries as of the year named in the left-hand column:

Table with 2 columns: Country, Capitalization or Cost of Construction per mile. Includes United Kingdom, Russia, Germany, Austria, Italy, Spain, and United States.

It will be seen at once that the capitalization per mile in the United States is less than half of the capitalization or cost of construction per mile of railways in England, Germany, France, Austria and Italy, and but little over half of the average for Russia and Spain. More than this American railways have been constructed by high-grade labor, the wages being from two to twenty times as great as the wages paid in foreign countries. Comparison with England shows that railroads in the United States are capitalized at less than one-fifth the capitalization of British railways. It is difficult to understand, therefore, the repeated charges that our great transportation systems are heavily over-capitalized.

Table with 4 columns: Line, Passenger Cts., Freight Cts., Mile. Includes Southern Ry., Atlantic C. L., Seaboard, and Piedmont Bldg.

This four-year period covers the time of the greatest advance in all operating costs, yet, as the comparison shows, rates were virtually unchanged. In the face of this, however, drastic action has been taken in a number of States to enforce lower passenger and freight schedules. In that same period and despite the excessive cost of all new construction and operation, these four roads found the following increases of mileage necessary in order to meet the growing needs of the territory traversed:

Table with 2 columns: Line, Average Mileage Operated. Includes Southern, L. & N., A. C. L., and Seaboard.

TENS OF MILLIONS NEEDED.

Over 4,000 miles of new construction or about 1,000 miles a year. For this new construction about \$60,000 a mile was required, making the total construction requirements for each year of the four about \$60,000,000. \$100,000 paid by Dr. Shoop for any recent case of Grippe or acute Cold that a recent box of Preventives will not break. How is this to be done? The Doctor's supreme confidence in these Little Candy Cold Cure Tablets—Preventives—is certainly complete. A box against 25 cents—remember, contain no quinine, no laxative, nothing harsh nor sickening. Preventives would never appear if they were always bought. Safe and sure for feverish children. 4 Preventives 2c. Medic's Pharmacy.

ing the past decade contributed so much to its national welfare? CAPITAL NOT GIVEN PROTECTION The South cannot hope to go forward unless it gives evidence of willingness to encourage and welcome capital and give it protection, and capital can be encouraged and welcomed only through sincere assurances of fair play. Capital has proved what it can do for the South and policies has shown what it can do to protect the interests of those who are South to say whether it wishes to continue the advance begun so splendidly a decade ago and halted only when the feelings of the people got the better of their judgment. Capital is now looking toward the South because it knows of the tremendous possibilities of that great region; but unless the South is willing to guard and protect invested funds and give its great corporations fair and square treatment, capital will hold back. The South at this time owes a duty to itself, a duty of tremendous and incomparable import, the duty of showing to the country, to the world, that it is just and fair and willing to protect the interests of those who confide their all to her. If the South fails in this duty at this time, it will mean a tremendous backward step. Will the South do its duty to itself?

FIXED CHARGES BARELY EARNED.

Those who were loudest in their outcry in the South a few months back claimed that the facilities of the railroads for handling the traffic offered were by no means adequate. But a hickey club in the hands of a State Legislature or a State commission could not hope to make them adequate. Money is needed here just as it is needed in a legislative state of mind similar to that which produced the laws above mentioned; money and money alone will supply the necessary equipment. But where is this money coming from? Not from surplus funds, for the Southern railways are doing little more than earning their necessary fixed charges at this time, and despite their ordering radical reductions; salvation does not lie in this quarter then. Where else then can the railroads seek the millions necessary to equip their lines with adequate rolling stock and bring their lines to the highest efficiency? Where, indeed, except among investors at home and abroad? And it is just here that the widespread and increasing hostility lays a chilling hand on the South's advance. Investors are willing to place their funds in enterprises against which the public hand is raised, but they will not run any risk of public or one hand clamoring for greater facilities and lower rates, and on the other an investment sentiment paralyzed by this very clamor. Between these two millstones are the railroads of the South, and what the outcome will be time alone can tell. Without money there can be no increased efficiency; without this increased efficiency there can be no progress; without goodwill and hearty public co-operation there can be no money, investors holding back in fear.

A FINAL PLEA TO SOUTHERN LAW-MAKERS.

The South is now facing a far greater, a far more serious crisis, than it realizes, and we make a final plea to Southern law-makers to be influential in shaping opinion in the South to do everything in their power to stem the tide of feeling which must inevitably recoil upon this section. The South has barely begun to taste the fruits of commercial and industrial well-being, and those in power should think long and carefully before doing the slightest thing to retard the already advanced progress. The reservoirs of stored energy are now filling rapidly and matters are shaping themselves for another long upward swing which will carry this country to a higher stage ground of achievement. Will the South take its rightful place in this onward movement? Will it encourage commercial and industrial development, bring happiness and prosperity, or will it make politics its chief industry, appealing to prejudice and hate by adopting any kind of law just so it is against railroads or corporations, and follow policies which can only paralyze the wheels of commerce, and spread poverty and destruction over a land teeming with natural wealth and resources? Providence has done everything for the South; given it mineral wealth, agricultural wealth, favorable climate, artificial power in coal, to ship to its neighbors, and a natural power to run its mills. Capital can do the rest and make it one of the richest, most prosperous, and happiest sections of this great country, if it is permitted to do so. Will it own people lock the door of opportunity, destroy what capital it now has, and turn into other channels the tide of industrial activity which has dur-

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