

March 28th 1898.

Arthur Gwinner Esq.

Secretary Director, Deutsche Bank,

Berlin Germany.

My dear Sir:-

I expect to sail from New York on the 8th of April and to remain abroad about two weeks, during which time I hope to have the pleasure of seeing you in Berlin.

I have refrained from writing in regard to Northern Pacific matters, as I knew you were constantly advised as to all matters connected with that Company. The general business of the North West has shown considerable improvement, which is reflected in the earnings of the different Railways. Last year the Northern Pacific's loss in earnings was very marked, and this year its gain is equally marked; and what is more gratifying, the management of the road, although conducted mainly by the same officers, is very much more effective and economical. The proportion of net earnings is very creditable to the officers of that Company. The inauguration of our method of accounting and securing early information as to the details of operation has greatly facilitated the economic operation of the Northern Pacific; and in time, when it is thoroughly understood and applied, the result will be still more gratifying.

We find ourselves able to reduce our cost during the current

year as against the previous year equal to about \$1,750,000., and I do not feel that we have at all reached a point where we cannot materially improve.

When I was in New York a few weeks ago, there was a plan being considered for buying the entire land grant of the Northern Pacific at a price that would retire the First Mortgage Bonds of the old Company. I strongly urged, with both Mr. Coster, Mr. Adams, and Mr. Mellan, that any such plan should be abandoned, for the reason that any non-resident Land Company in the Western States has always found the greatest difficulty in keeping settlers from squatting on its land and appropriating it to their own use without any compensation. The most notable case of this kind was one of the earliest land grants, known as the Des Moines Improvement Grant. It took over thirty years litigation and a great deal of State and Federal legislation before the title was finally recognized, notwithstanding the lands had been patented to the Company by the General Government years before; and even now thousands of acres of these lands are occupied by farmers who have fine houses and farm buildings built on them, and the owners do not dare dispossess them by law.

The Northern Pacific Company has, I understand, about four million dollars of land contracts drawing 6% interest, which undoubtedly could be sold on a fair basis to realize nearly their par value. Add to this the proceeds of their most heavily timbered lands in Montana

and Washington and enough money would be realized to retire almost, if not quite, all of the outstanding First Mortgage Bonds of the old Company.

The recent decision of the Supreme Court of the United States in the so called "Nebraska case" is generally considered a favorable decision for the Railways. It is based upon equity and justice to the Railway Companies and the public, and holds substantially that State Legislatures cannot fix rates for the use of railway property by the public that will take from the railways the right to earn a fair and reasonable return upon the value of the property used by the public. The learned Judge who wrote the decision goes on to enumerate several standards by which the value of the property of the railway should be so estimated, which practically may be summed up in the statement that the value of such property is the amount of money honestly and intelligently spent in the construction of the property and the cash cost of permanent improvements and additions thereto.

There is at present a law suit being prosecuted by the State of North Dakota against the Railways, seeking to compel them to reduce their rates materially below the present tariffs. While our Company has no difficulty in showing the low cost of its railroads, as represented by its stock and bonds, our Counsel, in connection with the Counsel of the Northern Pacific, has had the very greatest trouble in meeting that question for the Northern Pacific, and in fact they are compelled

to avoid the question entirely if it can be done. When the present Chief Engineer of the Northern Pacific, Mr. McHenry, was called upon to furnish a statement as to what the Northern Pacific road did cost to construct, or what it could be constructed for at the present time, or what was a fair estimate of such construction, he placed the figures at \$35,000. or \$40,000. per mile. This as a matter of course made him an impossible witness for the Company in trying to justify a capitalization of stock and bonds of \$66,000. or \$67,000. per mile.

In this particular law suit I think that the Attorneys will be able to defeat the effort of the State to reduce rates without exposing the question of capitalization of the Northern Pacific; but while this may be so, every time the same question is tried the lawyers representing the State will know more and more of the actual conditions affecting the regulation of rates, and eventually it will be difficult to avoid trying the question of total capitalization as compared to the value of the property. In view of this, I think that altogether the wisest course the Northern Pacific Company could pursue would be to fix what might be considered a ^{fair} ~~low~~ price on its lands, and to accept in payment therefor the Common Stock of the Company at par. Under this arrangement lands selling at \$3. per acre would cost the purchaser 90¢ per acre in cash, provided he bought Northern Pacific Common at 30; and the broad area of cheap semi-arid lands between the Missouri River and the Columbia might be sold for a price averaging \$1. an acre, which would

cost the purchaser say 30¢ or 35¢ to pay in Common Stock at par. With the entire land grant bringing an average of \$1.50 per acre, or for say thirty million acres \$45,000,000., there could be retired forty five millions of the Common Stock which would reduce the capitalization of the Company over \$10,000. per mile and bring it more nearly in line with that of other Companies occupying the country West of Chicago, most of which lines do not exceed \$40,000. per mile.

The decision by the Supreme Court of the United States is so recent that the conditions laid down therein are not generally understood by the legal fraternity of the country at large, but I feel very confident that strong efforts will be made by all the Legislatures to continue, as far as they possibly can, the control of railway rates, and inasmuch as the Supreme Court has decided that railway property is entitled to the same protection accorded to other property and to reasonable compensation for the use of such railroads by the public, fixing the standard of value on the basis of a fair return on the actual value of the property used by the public, the Legislatures will be driven to the consideration of the capital question as the easiest means of securing the object they have in view.

It is difficult for people living in the East to realize the vital importance of these questions to the railways, and I have never realized how little the average Eastern Director appreciates the responsibility of such law suits as much as I have during the present

contest with North Dakota, where practically the whole question as it affects the Northern Pacific has been left to the Counsel, who is not skilled either in traffic rates or the principles upon which they are made.

If the Northern Pacific land grant can be used to reduce its capital from \$10,000. to \$15,000. a mile, the advantage to the Company will be several times greater than any advantage it might derive from devoting the lands to either ordinary income or any other purpose I now think of. The retirement of so large an amount of capital would greatly enhance the value of the remaining capital, and it might not be difficult to find a way to make all the shares of one class. In other words, to make it all Preferred or all Common, as might best suit the interests of the Company.

However, I will not occupy your time longer in discussing this, but hope to have the pleasure of considering it with you during my trip abroad.

Yours very truly,