

Personal.

August 2nd 1898.

J. Pierpont Morgan Esq.

Broad and Wall Streets,

New York City.

Dear Mr. Morgan:-

The recent decision of Judge Garland of the United States Court in South Dakota, in which he has decided that 1,101 miles of the Chicago, Milwaukee, and St Paul's Railway in that State which is bonded at \$17,500. a mile as shown by the officers of the Company and estimates of the Chief Engineer, the gross earnings of which in five years ending June 30th 1897 were nearly \$5,000,000. less than the operating expenses and interest on the bonded debt, has fixed the value of this property at \$10,000,000. or about \$9,000. per mile, or a little more than one-half its bonded debt. The case was admirably tried by the lawyers of the St Paul Company assisted by those of all the other leading Companies, and all the lawyers engaged, as well as everybody else, believed that the St Paul Company would maintain its capitalization. The case has been appealed to the Supreme Court of the United States.

The North Dakota case has not yet been fully tried. In that case the capitalization of the Northern Pacific in North Dakota, including its terminals and proportion of equipment used in the business both within the State and in interstate traffic to and from North Dakota, was fixed by the officers of the Company at \$28,000. per mile. In view of

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this situation, I deem it my duty to again call your attention most earnestly to the situation of the Northern Pacific Company with reference to its present enormous capital of about \$68,000. a mile. Every day increases the reasons for reducing this capital, and I feel that if it is not done within a reasonably short time it may be so late that the benefits of such reduction will be greatly impaired. If a friendly Court should hold that the Northern Pacific capital, upon which it might be allowed to earn a fair return, was \$40,000. a mile, there would be no reasonable ground for finding fault with the opinion of the Court, and the Attorneys, no matter who they might be, could not successfully oppose such a finding, and friends of the road would have to admit that the Court had gone as far as in all truth and fairness it could go. This would destroy over \$120,000,000. of the present capital of the Northern Pacific, or the entire Common Stock and over one-half of the Preferred. We cannot sit down with the assurance that the Counsel can take care of these matters in the Court, or that the Courts will shelter the Railroads to an unreasonable degree in order to preserve their capital. Judge Garland, at the time of his appointment, was considered the most favorable selection that could be made in South Dakota for corporations, and has always been considered a respectable lawyer and a fair Judge. Now after months spent in trying the case, with all the combined talent of all the Railroads, he has decided so adversely that if his decision stands, the Milwaukee and St Paul investment in South Dakota is practical-

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ly wiped out. The only way that I can see to preserve the Northern Pacific is to reduce its present capital stock by every means within reach. Any plan that will do this is attended with more or less difficulty; and I am, as I promised you in New York, working on a plan which I hope will be feasible and at the same time safe.

The Company has had remarkable success during the past year; and while the crop outlook is good, there are many favorable conditions which existed last year which will not exist during the present year. I have talked this matter over a great deal with Mr. Mellen, and I think he is greatly impressed with its importance. Still Mr. Mellen has been here so short a time that it is difficult for him to realize fully the magnitude of the danger. The seven States between Lake Superior and the Pacific Ocean, through which the Northern Pacific and Great Northern both run, are practically all spoiled by railroad construction far in advance of what is actually necessary, and they have come to think that the railroads are making enormous profits out of the construction of new lines. With a settlement, which I hope will soon be made, between the O.R. & N. and the Northern Pacific, and closer unification of the interests of the Northern Pacific and Great Northern, the race for railroad construction and over-reaching each other by the different Companies should be at an end; and let the different communities learn to use the railroads they have fairly and reasonably before they succeed in getting additional mileage or more investments. If it is once understood that

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no railways will be built or undertaken unless there is a certainty of a reasonable return on the money invested and the various communities desiring railways are forced to realize this condition, public sentiment will take an entirely different turn and railways will occupy a different position from what they do at present from the mad race in trying to occupy territory.

The Northern Pacific should not under any circumstances pay any dividend on its Common Stock. Its present equipment stands on its books at \$11,000,000., while its outside value is not to exceed \$7,000,000. The equipment of the Great Northern, which is fully equal to that of the Northern Pacific, stands on its books at \$4,000,000. The Northern Pacific Company should, out of its present year's earnings, write off at least \$1,000,000. of its equipment. During the re-organization, small old engines were valued at \$8,000. each, which are now being abandoned and thrown into the scrap pile to be sold by the pound for about as many hundred dollars each.

I am going West to take over the Spokane Falls and Northern, and hope to do some work on my plan of reduction. I expect to be in New York before the last of the present month, and to be able to lay the matter before you.

In closing, let me assure you that I do not feel at all panicky on the subject. At the same time, I desire to approach it without deceiving either you or myself, and I feel certain that unless some plan

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of the kind is adopted, the Northern Pacific will meet with a disaster that will be very humiliating to all concerned.

Kindly treat this letter as confidential, and I will be glad to discuss it fully with you when I see you.

Yours very truly,

James J. Hill Papers
Minnesota Historical Society