MISUSE OF WATER GRADE BY RAILWAY LINES IS EXPOSED

Evidence at Rate Hearing Shows Rates Bear No Relation to Cost of Hauling With Its Aid.

PUGET SOUND IS FAVORED

Whole Rate Structure Twisted and Perverted to Give Ports There Unnatural Advantage.

(Continued From Page One)

in Eastern Washington, the O-W. R. & N. in some instances, as for example the rate to Weiser, is today receiving more than it did 30 years ago. The rate to Weiser, Idaho, in 1885, was given as 30 cents, and today as 30½ cents a hundred pounds.

The obvious purpose of the counsel and rate expert of the Inland Empire Shippers' league was to demonstrate by recitation of actual facts and figures that every combination in Eastern Washington and competitive portions of Eastern Oregon has operated to the advantage of Puget Sound and to the disadvantage of Portland, while the water grade roads have everything to suit their own desires outside competitive territory and have used these opportunities without compunction.

"The O.-W. R. & N. has been made the kennel for all the sick dogs and cats of the Union Pacific system to come to and get medicine and nourishment," declared former Governor Oswald West, counsel of the Inland Empire Shippers' league, during the Monday afternoon hearing of the Columbia basin rate case.

FOUR LINES COMPETE

With Edward Ostrander, rate expert of the league, on the stand, West showed how the water grade units of the present Union Pacific system were in the process of reorganization, saddled with debts, excessive construction costs and capitalization, and the task of making returns upon the whole sum was imposed on the O.-W. R. & N.

He referred to inactive real estate owned in Seattle by the O.-W. R. & N., which went into the reorganization at a valuation of some $20,000,000 and was transmuted by the alchemy of railroad finance from a liability to an asset against which securities could be issued for the line to pay returns on.

The race of two great railroad men, Harriman and Hill, to get into competitive territory became a part of the Columbia basin rate case record. It was while their fight was keenest that the shotgun and revolver method was used to prevent interruption in the construction of the Hill and Harriman lines up the canyon of the Deschutes to Central Oregon. Four paralleling lines, the N. P., S., P. & S. and the two lines of the O.-W. R. & N. between Wallula-Pasco and Spokane, came into existence, not in response to the transportation needs of the district, but as excess investment incident to a fight between railroad builders.

OBJECTION SUSTAINED

Arthur Spencer for the railroads questioned West's assertion relative to the Seattle real estate and West told him the O.-W. R. & N.'s own auditor would testify to this fact and to the ownership of O.-W. R. & N. stocks and bonds by the Oregon Short Line before the hearing ends. Spencer also made objection, which was sustained, to having the general statistics of the Union Pacific entered as the parent company of the O.-W. R. & N., but J. N. Teal reminded him of another rate hearing, when the railroad representatives insisted on treating the Union Pacific as a single system, saying the units were named and maintained separately merely for convenience in bookkeeping. The rates and costs of the entire system do have a bearing, said Mr. Teal, who added that he would show how before the hearing closes.

All these showings were for the purpose of demonstrating that rate discrimination may grow out of indiscriminate investment, extensions and fights for territory, as well as through a railroad's desire to give to a mountain-walled community the unearned aid of a rate on a parity with a water grade.

110 PER CENT DIVIDEND

One of the most startling of all showings was that on June 30, 1908, the Oregon Short Line, now the owner of the O.-W. R. & N. company, paid a dividend of 110 per cent, which groups with a dividend of 30 per cent in 1907, 25 per cent in 1909 and 50 per cent in 1910.

Given a rate equal to that of the mountain routes and "unmilked" by the Union Pacific, it was declared, the water grade lines were among the most profitable railroads in the country.

Some 60 exhibits were presented by Mr. Ostrander, incident to his testimony. Photographic fac similes showing that at one time the O. R. & N. and the Northern Pacific joined in publishing rate tariffs were entered.

Seven shipping points of the Inland Empire are an average of 46 miles nearer Portland than Seattle, said Mr. Ostrander. This is without counting the fact that grades and curves add greatly to the mountain routes. The rate from each of these places is the same either to Portland or Seattle.

DIFFERENCE IN EARNINGS

But where the O-W. R. & N. earns almost 3.9 cents per car mile the Northern Pacific earns a little more than 3.3 cents a car mile. Thus Mr. Ostrander showed that if the rates on the O-W. R. & N. were reduced to shippers its earnings could still equal the earnings of the northern line.

The points in question are Spokane, 370 miles to Portland and 397 miles to Seattle; Connell, Wash., 325 miles to Portland, 286 miles to Seattle; Moscow, Idaho, 368 miles to Portland and 441 miles to Seattle; Raparia, Wash., 284 miles to Portland and 318 miles to Seattle; Dayton, Wash., 282 miles to Portland and 349 miles to Seattle; Walla Walla, 244 miles to Portland and 315 miles to Seattle; Pendleton, 218 miles to Portland and 306 miles to Seattle.

GRAIN DISTANCES COMPARED

Mr. Ostrander also took two grain shipping centers for comparison. Colfax, Wash., is 340 miles from Portland and 473 miles from Seattle. Walla Walla is 244 miles from Portland and 315 miles from Seattle. The two points are an average of 102 miles nearer Portland than Seattle. In each instance the rate is the same but where the O-W. R. & N. earns 3.9 cents a car mile the Northern Pacific earns 2.9 cents, and a difference of a cent a car mile will amount in the course of a year to a great sum, when figured on the total operations of a railroad moving thousands of cars hundreds of thousands of miles.

Referring further to the grain movement, the expert showed that rates on wheat should be made proportionately lower than the average rate on general commodities. Four cars will handle approximately the same tonnage of wheat as five cars will handle of general freight, so that the normal rate of 13¾ cents a hundred on grain from Pendleton to Portland could be reduced to 10 cents and still be profitable.

EXCESSIVE RATES SHOWN

The O-W. R. & N. grain rate, in fact, was shown to be much greater than for equal distances in the Middle West. The rate from Walla Walla to Portland for 244 miles is 13¾ cents. The rate from Chokio, Minn., to Duluth, for 267 miles, is 11 cents. The normal rate from La Grande to Portland, for 292 miles, is 17½ cents; from Brown Valley, Minn., to Duluth, for 300 miles, is 11½ cents, normal. The word "normal" means without including the extra 25 cents imposed on freight movement on account of war conditions.

Another weird relation of freight rates difficult to understand under rules of reason is that which permits the O-W. R. & N. to haul a 60,000 pound car of lumber 451.6 miles from Aberdeen to North Yakima, Wash., coming around by way of Kenton, a suburb of Portland, for $90 a car, when the charge for hauling a 60,000 pound carload of wheat from Moscow, Idaho, to Portland, a distance of 366.2 miles, is $102 a car. This rate permits an earning of only 3.42 mills per ton per mile for hauling the lumber but countenances an earning of 11.7 mills per ton per mile for hauling the wheat.

LUMBER GIVEN PREFERENCE

At the same time, Mr. Ostrander showed that the O-W. R. & N. is hauling a 60,000 ton car of lumber from Seattle to Pomeroy, Wash., by way of Portland, a distance of 488.4 miles, for $90 a car, although the same railroad charges $102 a car to haul wheat from Pomeroy to Portland, a distance of 310.7 miles.

Former Governor West and Mr. Ostrander had compiled the comparative records of the northern railroads and written a statistical history of the O-W. R. & N., which showed clearly that were water grade transportation to be based on cost, rates could be made much lower than at present and still be profitable.

It was also shown that if the operation of the water grade section of the O-W. R. & N. only should be charged against it and unnatural charges were not added on account of ownership and control by the Union Pacific system, the lines at lower rates would still be splendid money makers.

U. P. "MILKS" O-W. R. & N.

For instance, the old O. R. & N. line in 1908 paid a dividend of 79 per cent on common and of 79 per cent on preferred stock; in 1909, of 12½ per cent on both common and preferred; in 1910, of 15 per cent on the common and 17 per cent on the preferred stock. But beginning with 1912, under the name of the O-W. R. & N., under control of the Union Pacific, dividends disappeared, not because of abnormal operating conditions or extension costs, but simply because a new system of charges by the U. P. against the subordinate line transferred and credited its earnings to the entire system.

Based on distance alone, according to Mr. Ostrander's showing, the water grade routes earn 2.6 mills a ton per mile more between Walla Walla and Portland than between the same point and Seattle. Likewise the water grade earns between Pendleton and Portland 3.6 mills per ton mile more than between Pendleton and Seattle.

GRAIN COSTS LOWER

"The Northern Pacific railway and the O-W. R. & N. per ton per mile rates based on the findings of fact of the Washington public service commission in the valuation of the Northern Pacific railway in the state of Washington, showed that the average cost of moving a ton of freight one mile in Washington according to the method adopted by that company was 4.795 mills," he said. That the cost of moving a ton of grain within the state of Washington was 78.92 per cent of the average cost of moving the average ton of freight one mile, was shown.

This computation showed the average cost of moving a ton of grain within the state of 3.784 mills and the cost of moving of interstate grain was 3.738 mills.

PROFITS ON GRAIN SHOWN

"The distance between Walla Walla and Seattle is 317 miles. The normal rate of 13¾ cents a hundred pounds yields the Northern Pacific 8.7 mills per ton per mile. Deducting the cost from the rate shows a profit over expense of operation of approximately 5 mills. The distance from Pendleton to Seattle, via the Northern Pacific, is 304 miles. With a normal rate of 13¾ cents a hundred pounds, the amount is 9 mills per ton per mile. Deducting the average operating cost of interstate grain of 3.7 mills, the return over operating cost is 5.3 mills.

"The distance from Walla Walla to Portland is 242 miles. The normal rate of 13¾ cents a hundred pounds yields a revenue of 11.3 mills per ton per mile. Deducting the average cost of moving interstate grain in Washington of 3.7 would leave an operating profit of 7.6 mills. This shows an operating profit from Walla Walla to Portland of 2.6 mills greater than from Walla Walla to Seattle. This difference is due to distance and does not take into account the difference in cost due to mountain grade versus water route.

PENDLETON RATE COMPARED

"The distance from Pendleton to Portland is 216 miles and the normal rate 13¾ cents a hundred pounds would yield a revenue of 12.7 mills per ton per mile. Subtracting 3.8 mills, the cost of moving the grain, leaves an operating profit, based on distance alone of 8.9 mills per ton per mile, or an operating revenue of 3.6 mills greater per ton per mile to Portland than to Seattle."

Should rail rates be based on operating cost and return on investment or on watered stock? This question was pertinently asked by the showing of the Inland Empire Shippers' league that 80 per cent of the O. R. & N. was water at the time of its reorganization in 1896. The capital stock of the O-W. R. & N. is now owned by the Oregon Short Line and it, in turn, by the Northern Pacific.

BRIEF HISTORY OF O-W. R. & N.

The briefed history of this railroad as offered in the testimony of Edward Ostrander reads as follows:

1879

O. R. & N. company was organized

(Concluded on Page Eight, Column Three)

FIGURES IN GREAT RAIL RATE FIGHT

MEN who are contending for and against policy of rate making on basis of water grade and cost of haul. Above, from left, Seth Mann, San Francisco rate counsellor (with portfolio); Samuel J. Wettrick, attorney for the Seattle Chamber of Commerce; J. P. Newell, engineer of Oregon Public Service commission, and W. C. McCulloch, associate counsel for the Portland Traffic and Transportation association, and Chamber of Commerce. Lower, a suit case, found necessary by T. D. Van Heekeren and J. T. Lothrop of Portland Traffic association for data proving justice of Columbia basin cause. J. B. Campbell, Spokane rate counsellor.

RATE CASE REVEALS ALLIANCE BETWEEN LINES AND SEATTLE

IT HAS often been charged that the railroads serving the Northwest are partial to the Puget Sound ports. One of the reasons ascribed is that the carriers were perfectly well aware that if they could negotiate the mountain grades to the sound they would be free of possible parallel water competition such as is offered to the O-W. R. & N. and the S., P. & S. by the Columbia. Another was that the Seattle interests have been ready at any and all times to fight for their rights or their wants indiscriminately, and that the railroads have found it easier to serve than oppose their wishes.

However all these things may be, the Columbia basin rate case has given the railroads a chance to hobnob with the Puget Sound interests with no necessity for camouflage. Seattle, Tacoma and the railroads are united in endeavor to defeat recognition of the Columbia water grade. With them is the Washington public service commission, which takes the position that to maintain the investment and the business produced by artificial advantage is of greater importance than to obtain a lower rate, based on the cost of the water level haul for the grain growers, farmers and smaller communities of Eastern Washington who represent the true wealth of that state.

The attorneys and rate experts of the railroads, Tacoma, Seattle and Everett and of the Washington public service commission confer often and earnestly as the hearing of the Columbia basin rate case proceeds. What one can do to help the other is done, enthusiastically. And whatever may be the outcome of the case, the champions of justice for the Columbia basin believe that the hearing has brought out the real alignment of northwest community and railroad interests.

Cashier Admits He Stole From Bank $900,000

Philadelphia, July 22.—(I. N. S.)—A complete confession that he has made away with approximately $900,000 from the North Penn bank of which he was cashier, was made by Ralph T. Moyer. The cashier appeared at the city hall and surrendered himself.

According to officials, Moyer has admitted taking the money over a period of two years. He has consistently covered his peculations by substituting false leaves in ledgers whenever the state bank examiners made an inspection.

Man Swallows Gauze Sponge and Is Dead

San Francisco, July 22.—(U. P.)—While having his throat swabbed at a local hospital, William Lindsey swallowed a gauze sponge. He died a short time later.

Bryan at St. Johns

William Jennings Bryan lectures at St. Johns Chautauqua Thursday afternoon, 3 o'clock; and Ida M. Tarbell at 8 o'clock. Central high school grounds. Ad.

A SUMMER TONIC DRINK

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Healthful and agreeable. Refreshes and invigorates. Use it in place of lemons.—Adv.

Discovery of Skull May Solve Mystery

Santa Barbara, Cal., July 22.—(U. P.)—Efforts to identify a skull found on the beach here Monday by W. S. Wafford, a junk dealer, were being made by the police today. They are working on the theory that the skull was that of J. Lewis Clark, Spokane millionaire, who disappeared mysteriously here three years ago.

Why is Big Business Sinister?

Why does the public regard Big Business with apprehension and disfavor?

Chiefly, perhaps, because normally the "interests" are inarticulate—silent. Presumably, therefore, up to some nefarious scheme that will not stand publicity.

The long stillnesses are broken occasionally by a sudden, naive "campaign to the people" by some corporation whose hide is being pinched in the gate of legislation, at the moment.

All the other elements in the usual mix-up are constantly at work expounding. Labor is always at it. The politician lives by repetition.

The trust magnate alone remains silent until the eleventh hour and then tries to get his message across with one long shot.

Not so all corporations. The Telephone Company—has it not everlastingly *built* good-will in these last ten years?

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America's Greatest Character Actor

Mr. Keenan will appear in person tomorrow, Thursday and Friday—afternoon and evening

Also the New, Big "Keenan Special" Picture,

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