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AND—WHY NOT?
—Powers in the New York American.



NAILING IT TO THE MASTHEAD.
—Kirby in the New York World.

OPPOSITE VIEWS OF PRESIDENT WILSON'S PANAMA POLICY.

A RAP AT RAILROAD BOOKKEEPING

PUBLIC SYMPATHY with the railroads in their demand for higher freight-rates and their stories of financial starvation will not be augmented, thinks the conservative *St. Louis Globe Democrat*, by the Interstate Commerce Commission's revelation of the way the Chicago, Milwaukee & *St. Paul Railway* balanced its books. Nor, adds the same paper, will the confidence of the investing public in general railroad securities be increased. Hitherto, it goes on to say, this road "has been included among those believed to be cleanly as well as capably managed, and entitled to an advance in freight-rates for that reason." In Chicago, however, according to *The Tribune* of that city, "the *St. Paul* railroad has long been under suspicion." *The Tribune* is among the papers which think that "the answer of the railroad to the Commission is not complete." The incident, in the opinion of the *Albany Knickerbocker Press*, "gives emphasis to the need of Federal regulation of the issuance and sale of railroad securities."

In the course of what the *New York Commercial* calls "the severest indictment of railroad officials that has yet been made by it," the Commission avers that the *St. Paul* overstated its income for 1910 by more than \$5,000,000; misrepresented the cost of labor for the fiscal year ended June 30, 1911; greatly overstated the income of the Puget Sound line by means of "a variety of expedients"; and used this "fictitious showing" of income to aid in the sale of its bonds. The Puget Sound line, moreover, "falsely reported a valuation of its properties which was \$100,000,000 in excess of the cash investment." These results were achieved, we are told, by "serious irregularities" in accounting, which the Commission does not hesitate to characterize as "unlawful practises" meriting "the strongest condemnation." Of the first count in this indictment the Commission goes on to say:

"As the result of this overstatement of income for the fiscal year ending June 30, 1910, the report of the *St. Paul* company for the succeeding year showed an apparent falling off in revenue and income as compared with the previous year, of over \$2,000,000.

"In its report to its stockholders for the latter year the explanation offered by the officers of the company was that 'the large decrease in the net operating revenue is accounted

for by the inability to obtain increased rates, and the great increase in the cost of labor.'

"This statement was not in accordance with the facts in the case. Had the income for the year 1910 been properly reported, the net income for the following year, instead of showing a decrease, would have shown an increase of about \$2,800,000."

Replying to these charges, President Earling, of the Chicago, Milwaukee & *St. Paul* Railroad, offers explanations of the apparent discrepancies in the company's accounts and declares that there was "no intention to make other than accurate statements of its operating or financial condition for the purpose of promoting the sale of its stock, or for any other purpose." He explains that the alleged \$100,000,000 overvaluation relates solely to the nominal capital of the Puget Sound Company, the subsidiary corporation through which the Pacific Coast extension was built; that none of this stock was or will be offered to the public; and that it was put at that amount in order to comply with a Washington State law and permit an ultimate issue of \$200,000,000 bonds to cover the cost of building and equipping the extension. President Earling says:

"About a year ago the Commission called attention to the accounts of the Puget Sound Company in connection with its construction and early operation. After several conferences with a member of the Commission it was agreed that the accounts which had been questioned should be revised. Practically all the accounts have been revised in conformity with the requirements of the Commission.

"These differences in accounting during the transition of the Puget Sound lines from a construction to an operating condition covered three years or more. Construction and operating work was carried on simultaneously, necessarily leading to accounting discrepancies in auditing reports of large numbers of new men who were not familiar with the classification of accounts as prescribed by the Commission."

While admitting that "the bookkeeping should be rectified," the *Brooklyn Eagle* admonishes the Commission that—

"The interest attacked is so vast, and so many thousands of Americans have a direct or indirect concern in it, that any Government commission should have been cautious in approaching the subject. It would be folly for anybody not an expert to go into the minor and technical questions about bookkeeping methods, and it is a notorious fact that experts rarely agree on such points. The rectifying of railroad bookkeeping is not to be accomplished to the accompaniment of a brass band."

NO NEW HAVEN "LOOT" FOR MORGAN

THE DEFINITE STATEMENT by J. P. Morgan & Co., that their relations with the New Haven Railroad for the last twenty years have been simply those of an ordinary financial agent and that their profits for that time have totaled the "exceedingly moderate" sum of \$350,000, answers conclusively, in the New York *Evening Post's* opinion, the "charge that the road had somehow been bled by its bankers to their own advantage, and that such a process was responsible for the company's present condition." Most editors in New York and other Eastern cities seem to share this conviction, and some, who have never suspected the great banking firm of wrong-doing, show surprize that it should have been content with such meager legitimate profits in this series of transactions. It seems to the New York *Times* that the whole country will feel deeply gratified at such a "crushing" refutation of the late J. P. Morgan's "slanderers." But to others, even in New York, the Morgan statement is far from being a complete refutation of the charges that have been made. It "sheds darkness rather than light on the mystery of the wrecking" of the New Haven, asserts *The World*. As directors of the New Haven, says *The Globe*, members of the Morgan firm "were not merely under obligation not to steal themselves, but to prevent other persons stealing; they were also under obligation to conduct the affairs of the corporation with reasonable prudence and wisdom." The public, in *The American's* opinion, "is less interested in the alleged amount of the bankers' profits than in the fact that the most prosperous railroad in the country, except one, has been brought to the brink of ruin by the Morgan-Rockefeller management." The Morgan firm, agrees *The World*, can not get away from such facts as these: J. P. Morgan, Sr., was the dominating director of the New Haven when \$12,000,000 "vanished into thin air" in the purchase of the Westchester, when the Connecticut and Rhode Island trolleys were taken over, when the Boston & Maine deal was engineered, and while "\$200,000,000 of new capitalization was piled upon the New Haven, eventually to break the back of that prosperous property." "The firm of J. P. Morgan & Company are mistaken if they think they can now draw a herring across the trail."

We learn from the news dispatches that the Morgan statement is not making the slightest change in the plans of the government investigators of the New Haven transactions. Nor do the many papers convinced by the statement care to extend the Morgan "clean bill of health" to cover all these dealings. The mystery of New Haven financing still remains to be cleared up, notes *The Times*. The public, it adds, demands an answer to these questions: "Did anybody 'loot' the road? Did illegitimate gains to the amount of millions go into anybody's pockets as the result of the road's financial operations?" Mr. Elliott, as head of the New Haven system, says the New York *Commercial*, "owes it to the shareholders to open the books and make a disclosure of their contents relating to the investment of more than \$200,000,000 as full and complete as that which he asked and received from J. P. Morgan & Co."

J. P. Morgan & Company's statement was issued in response to Mr. Elliott's request and to aid in his own investigation of the situation and was published by the New Haven Company. It contained detailed figures, as well as this concise statement of the firm's relations with the New Haven:

"From 1894 to 1910 the New Haven generally disposed of its securities by selling them outright, sometimes to us, sometimes to other houses. . . . From December 19, 1910, until December 4, 1913, we acted, under contract, as the fiscal agent of the companies. In the course of these twenty years, from 1894 to 1914, we took part in the handling of New Haven and subsidiary company securities of the par value of \$333,000,000, from which our firm realized a total net profit of approximately \$350,000."

"None of our firms, nor any member of them, ever had any interest in any properties, such as the Westchester, the steam railways, the trolley-lines, or the steamship companies acquired by the New Haven Company or any of its subsidiary companies."

REVOLUTION IN BRAZIL

DESPITE THE VEIL of rigorous censorship drawn by Brazil between her present domestic difficulties and the outside world, such scant information as reaches the United States by way of Buenos Aires and London is causing our editors to turn uneasy glances toward the largest, and hitherto one of the most undisturbed, of South-American nations. The very fact that her affairs have gone smoothly so long moves the *Houston Chronicle* to predict that "now the storm is brewing, we may expect a tremendous upheaval." Accounts differ as to whether the revolutionary movement, which has placed the capital in a state of siege and resulted in the declaration of martial law in three provinces, has its roots in racial or economic causes. But whatever the source of her troubles, the situation is not heartening for those who counted on Brazil to set a good example to her more unstable Latin-American sisters, and perhaps even to join with Uncle Sam in the arduous duties of benevolent policeman in Mexico. Thus the *Columbus Dispatch*, in an editorial headed "Et Tu, Brazil?" remarks:

"That Brazil should be troubled with internal dissensions now, when we had come to think of that great country as one of the most satisfactorily governed of all the republics to the south, is disappointing. To the strength of government there, as in Argentina and Chile, we Americans of the north had come to look for assistance in establishing popular rule throughout the hemisphere."

Brazil's finances, we read in a London dispatch, "are in a weak state," and the commercial situation, owing to a number of causes, among them the decline in the price of rubber, "is far from encouraging." Another side-light is thrown on the present developments by D. A. McMillen, who on his recent arrival in London from Rio de Janeiro was interviewed by a correspondent of the *New York Sun*:

"Mr. McMillen said that the proclamation of martial law in Brazil was a piece of political strategy on the part of Pinheiro Machado, the beneficent boss of Brazilian politics. Machado, he said, is immensely rich. President da Fonseca conducted his régime with such wild extravagance that the credit of the country was stopt. The Government, Mr. McMillen said, owes \$20,000 to the merchants of Rio de Janeiro alone.

"The revolution in the State of Ceará gave Machado an opportunity to insist on the proclamation of martial law in Rio de Janeiro in order to make certain of the election of his candidate for the Presidency, Senhor Braz. The latter will certainly carry out Machado's wishes for financial reform and economy."

It is reassuring to learn from a Washington dispatch that "the lives and property of Americans in Brazil are not menaced by the political disturbances now occurring in that country, according to advices received at the State Department from the American Embassy at Rio de Janeiro." A dispatch from Buenos Aires states vaguely that a revolutionary movement has existed for some time in the Brazilian States of Pernambuco, Ceará, and Para, and that "the causes of the disaffection are said to be racial differences." And in the *New York Evening Post's* Washington correspondence we read:

"The negro population, which is nearly 80 per cent. of the total in Brazil, is a serious factor in the present situation. Various causes are assigned for the unrest, which began about a year ago in the State of Pernambuco. There was a disturbance there when the Federal Government took certain local actions which were regarded as an invasion of the State's sovereign rights. Troubles in financial affairs, in the rubber market, and the coffee business, were pointed out as being contributory to the present situation."