

most flourishing period of its career Jesse Harper stood high in its counsels. He was a man of intellectual ability and moral impulses, who thought of the rights of others rather than of comfort for himself; and his name deserves to be remembered as that of a pioneer in the American movement against plunder and privilege.

One of the men, great in his way, whose death is recorded this week, is J. Sterling Morton. He was a member, as secretary of agriculture, of President Cleveland's cabinet, though he will be longer and better known as the originator and patron of "Arbor day." Mr. Morton's character was distinctly intellectual. After once grasping an intellectual principle he clung to it with unyielding tenacity. Moral principles, however, as distinguished from ethical rules, did not seem to govern his thinking. Though a man of unchallenged probity in all his relations, the essential moral element in social problems did not appeal to him. He was not an idealist. And while a Democrat in politics, he was far from being a democratic Democrat. Closely affiliated as he was with the privileged classes of his time, and sensitively class-conscious, he defended the established order of things with vigor. His convictions were genuine and strong, and his methods were candid. No one ever doubted his sincerity, however much they may have questioned his conclusions.

FRANCHISE VALUES.

In profitable properties represented by shares on the stock market, there are two kinds of value. Though regarded as identical for ordinary business purposes, they are ethically and economically distinct. One is the value of services rendered; the other is the value of some monopoly power, secured by law, over the right to render services. In the former category are the values of plants, of good will, of operation, in a word, of all those things which the owners supply. In the latter category is the privilege, generally called a "franchise," conferred upon the owners by law to render those services, and which, either directly or indirectly, forbids their being rendered by others. For example: The value of street car tracks, of cars, of power houses, and of the human energy expended in operation, belongs in the former category; while the value of the right of way belongs in the latter. Values of the latter kind are known as "franchise" values. They are distinctively values which the owner does not earn, but which are conferred upon him at public loss simply as a legal privilege.

The following signed editorial regarding these franchise values is from the pen of one of the best equipped and best known observers and experts in that financial "sphere of influence" which bears the name of Wall street. He is the editor, and his business house (John Moody & Co., 35 Nassau street, New York) is the publisher, of "Moody's Manual of Corporation Securities."—Editor of the Public.

As an example of the manner in which modern municipal franchises increase in commercial value take the electric lighting industry in New York city.

In 1898, the Edison Electric Illuminating Company of New York controlled practically the entire illuminating business of Manhattan Island. There existed, it is true, several small competing concerns, with limited franchises, but the figure they cut was small; the Edison company doing all the city lighting, and furnishing over 90 per cent. of the entire commercial demand. The capitalization of the Edison company consisted of \$6,500,000 in five per cent bonds and \$9,200,000 in stock, the latter paying six per cent. dividends.

The business of the company had been expanding rapidly for many years, and by the end of 1898 the company was earning about 11 per cent. on its capital stock beyond a liberal amount set aside each year to cover depreciation of plant.

About this time a new concern, called the New York Gas, Electric Light, Heat & Power company was formed by the so-called Brady-Whitney interests. The new company secured a liberal franchise and was incorporated with an authorized capital of \$36,000,000. At the same time a corporation called the Consolidated Telegraph & Electrical Subway company was formed. The latter company acquired certain franchises giving it the right to use many streets for the laying of electrical subways; and also to use for electric current the subways already laid along Broadway and other thoroughfares by the Metropolitan street railway for its underground electrical system. This subway company had at this time no other tangible property, however.

At this juncture the New York Gas & Electric Light, Heat & Power company began its campaign of consolidation. In December, 1898, it acquired the aforesaid Consolidated Telegraph & Electrical Subway company and five small electric lighting concerns.

In acquiring these six corporations it issued \$7,500,000 in first mortgage five per cent. bonds, running 50 years. It then acquired the entire capital stock of \$9,200,000 par value of the Edison company by issuing in exchange therefor \$21,000,000 in its own four per cent. bonds, secured as a purchase money mortgage on the stock itself. In acquiring this stock, it agreed to deposit with a trustee \$4,000,000 in cash, to be ultimately spent on the property. This cash was raised by issuing \$4,000,000 more of its first mortgage five per cent. bonds, making the total of the latter \$11,500,000.

The entire electric lighting industry on Manhattan was now consolidated, and properties which a few months before had had an outstanding capitalization in the aggregate of about \$19,700,000 now had securities outstanding as follows:

Edison company's old mortgages, \$6,500,000; underlying bonds of the smaller companies, \$1,150,000; New York Gas & Electric Light, Heat & Power company, five per cent. bonds, \$11,500,000; the same company's four per cent. purchase money bonds, issued for Edison stock, \$21,000,000; the same company's capital stock, all outstanding, \$36,000,000; total capitalization, \$76,150,000.

Here was an increase in capitalization (par value) in three or four months from \$19,700,000 to \$76,150,000, all of which, less the \$4,000,000 cash mentioned above, represented franchise value or inflation.

That it was practically all tangible franchise value and not the mere "inflation of expectancy" is shown by events which shortly followed.

In December, 1899, the Consolidated Gas company acquired the entire capital stock of the New York Gas & Electric Light, Heat & Power company by issuing in exchange therefor \$16,517,000 in par value or \$29,730,060 in market value, of its own stock. Thus the owners of the \$36,000,000 of the New York Gas & Electric stock (which had cost them nothing less than a year before) sold out for a cash equivalent of \$29,730,060. But the market value of this Consolidated Gas stock has since increased to \$37,163,000. The aggregate

gate market value of the bonds at the time of the exchange was about equal to their aggregate par value.

To-day the market value of the stock and bonds has increased in all about \$8,533,000, making the total market value of all the securities involved something like \$78,500,000 or an increase of \$54,800,000 over the amount of money which has actually been put in the property. This \$54,800,000 logically represents nothing else but the values of the franchises.

Yet this franchise value, represented by \$54,800,000 of securities out of a total of 78,500,000 (about 70 per cent.) is certainly a very valuable asset. These franchises have cost the company no cash, it is true. Neither has the city received any cash for them. Yet the company has in some way realized \$54,800,000 from them. In other words the company has practically capitalized them at \$54,800,000, and is earning and paying interest and liberal dividends on all these securities. The credit of the company is high and it could undoubtedly sell its business and franchises to-day for fully as much and possibly more than the \$78,500,000 at which it is financially valued.

The speculator, and the speculator only, benefits from this condition of things.

In the long run, no one else benefits, not even the legitimate investor.

The loss which the community sustains in this way is certain to react, sooner or later, on every class of investor; both the rich who invest their surplus wealth, and the poor who invest their labor or their brains. For, in the last analysis, the interests of the "investor class," so called, and the working class are identical. I cannot say this, however, of the purely speculative or gambler class, for they could not possibly live in their present power and glory were the interests of the rest of the community in no way encroached upon.

It cannot for one moment be contended by any frank and disinterested observer, either in or out of Wall street, that the situation is either equitable or healthful when a community presents, absolutely without compensation, a \$54,000,000 premi-

um to a \$24,000,000 corporation; and, after presenting it, complacently pays a large rate of interest on its present year after year; and, further, not only pays this interest without complaint, but as the years roll on sees its present grow in value like a snowball, and then calmly and without a murmur, pays interest on the increasing increment.

On precisely the same principle I might turn over a thousand dollars to a man who had no special claim on me for him to start a business with; and then, in order to induce him to keep the money, pay him six or eight per cent. interest per annum; and, feeling that possibly this was not a sufficient inducement, then give him an additional hundred dollars or so each year, paying interest on the increased amount at the same rate.

JOHN MOODY.

NEWS

Astonishment at the revelations of American atrocities in the Philippines, reported last week, which had then risen to a high degree, became intense when Gen. Smith's counsel, speaking for him before the court-martial at Manila, admitted that Smith had given the atrocious orders which Maj. Waller attributed to him, but which it was expected he would sweepingly deny. The hearings before the court-martial began on the 25th, instead of the 29th as at first announced. Gen. Lloyd Wheaton presided, and Col. Chas. A. Woodruff appeared as counsel for the defense. At the opening, Col. Woodruff announced his willingness to simplify the proceedings by admitting that most of the accusations were true. He said he was willing, in behalf of Gen. Smith, to admit that inasmuch as the country was hostile Gen. Smith did not want any prisoners, and that he had issued orders to Maj. Waller to kill all persons capable of bearing arms, fixing the age limit at 10 years because many boys of that age had borne arms against the American troops; and that he had ordered Maj. Waller also to burn the homes of the people and to make Samar "a howling wilderness."

Gen. Smith's confession is defended by some army officers both at home and in the islands; and the surrender on the 27th of Col. Guevarra, Filipino

commander in Samar, is referred to by them as a happy result of Gen. Smith's bloody orders. But the revolting disclosure was not received so complacently by the civil officials at Washington. "There is a good deal of nervousness," writes Walter Wellman, the well known Republican correspondent, in the Chicago Record-Herald of the 29th, "over the possible effect of the disclosures in the Philippines." Continuing he says:

At the cabinet meeting to-day the subject came up for informal discussion. What the President and his advisers fear is that Gen. Smith and all other accused officers and men who are under trial in the Philippines will be acquitted by the court-martial and that a cry will then go up in this country that the military tribunals have "whitewashed" guilty men. It was said to-day in the cabinet discussion that this would be worse than the present state of things, for it would indicate lack of confidence in the integrity of the army and in its courts of justice. Instead of a few accused officers being under the ban of public disapproval, the whole army would suffer indictment. . . . It was agreed that the best thing that could happen would be the conviction of Gen. Smith and his severe punishment. But all the indications are that he is to be acquitted, and that then the storm will break more fiercely than ever before.

The storm broke heavily in Congress on the 28th, when bitter denunciations of Gen. Smith's order were applauded not only by Democrats but also by Republicans. One of the speakers was Representative Williams, a Democrat, of Mississippi. The other was Representative Sibley, a Republican, of Pennsylvania. Mr. Sibley denounced Gen. Smith as "a disgrace not only to himself but to every man who wears the uniform of his country," and demanded his dishonorable discharge from the army upon his own confession. In the course of this speech Mr. Sibley said:

I have always defended the course of the administration in the Philippines and have been an expansionist. When I have heard statements made that we were cruel in the conduct of the war I have thought perhaps the partisan was speaking. But when I have read, as I have within the last 48 hours, that a general wearing the uniform of the army of the United States, one who stands under the shadow of our flag, issues orders, not to conciliate a province but to leave it a howling wilderness and to kill all above ten years of age, then it seems