

then in men who were builders, though some lacked his wisdom, and some his character. Her enterprise and capital constructed, in large part, the Union Pacific, the Atchison, the Mexican Central, the Wisconsin Central, and 24 other railroads in the West and South. One by one these western and southern railroads passed out of Boston control; the greater part of them into the control of the Morgan allies. Before the Burlington was surrendered, Boston had begun to lose her dominion, even, over the railroads of New England. In 1900 the Boston & Albany was leased to the New York Central,—a Morgan property; and a few years later, another Morgan railroad—the New Haven—acquired control of nearly every other transportation line in New England. Now nothing is left of Boston's railroad dominion in the West and South, except the Eastern Kentucky Railroad—a line 36 miles long; and her control of the railroads of Massachusetts is limited to the Grafton & Upton with 19 miles of line and the Boston, Revere Beach & Lynn,—a passenger road 13 miles long.

THE NEW HAVEN MONOPOLY

The rise of the New Haven Monopoly presents another striking example of combination as a

Start at this last paragraph and read till the end. Read about Brandeis' complaints with the New Haven monopoly (this is the series of railroads owned by JP Morgan; Morgan kept trying to expand the system in hopes of having a trust that was able to control all trade across New England). At the end, ask yourself what Brandeis' central complaint is regarding big business. Then ask yourself about his recommendations: which of the 5 categories is this? laissez faire? regulation? antitrust? more than one?

developer of financial concentration; and it illustrates also the use to which "large security issues" are put.

In 1892, when Mr. Morgan entered the New Haven directorate, it was a very prosperous little railroad with capital liabilities of \$25,000,000 paying 10 per cent. dividends, and operating 508 miles of line. By 1899 the capitalization had grown to \$80,477,600, but the aggregate mileage had also grown (mainly through merger or leases of other lines) to 2017. Fourteen years later, in 1913, when Mr. Morgan died and Mr. Mellen resigned, the mileage was 1997, just 20 miles less than in 1899; but the capital liabilities had increased to \$425,935,000. Of course the business of the railroad had grown largely in those fourteen years; the road-bed was improved, bridges built, additional tracks added, and much equipment purchased; and for all this, new capital was needed; and additional issues were needed, also, because the company paid out in dividends more than it earned. But of the capital increase, over \$200,000,000 was expended in the acquisition of the stock or other securities of some 121 other railroads, steamships, street railway-, electric-light-, gas- and water-companies. It was these outside proper-

ties, which made necessary the much discussed \$67,000,000, 6 per cent. bond issue, as well as other large and expensive security issues. For in these fourteen years the improvements on the railroad including new equipment have cost, on the average, only \$10,000,000 a year.

THE NEW HAVEN BANKERS

Few, if any, of those 121 companies which the New Haven acquired had, prior to their absorption by it, been financed by J. P. Morgan & Co. The needs of the Boston & Maine and Maine Central—the largest group—had, for generations, been met mainly through their own stockholders or through Boston banking houses. No investment banker had been a member of the Board of Directors of either of those companies. The New York, Ontario & Western—the next largest of the acquired railroads—had been financed in New York, but by persons apparently entirely independent of the Morgan allies. The smaller Connecticut railroads, now combined in the Central New England, had been financed mainly in Connecticut, or by independent New York bankers. The financing of the street railway companies had been done largely by individual financiers, or

by small and independent bankers in the states or cities where the companies operate. Some of the steamship companies had been financed by their owners, some through independent bankers. As the result of the absorption of these 121 companies into the New Haven system, the financing of all these railroads, steamship companies, street railways, and other corporations, was made tributary to J. P. Morgan & Co.; and the independent bankers were eliminated or became satellites. *And this financial concentration was proceeded with, although practically every one of these 121 companies was acquired by the New Haven in violation either of the state or federal law, or of both.* Enforcement of the Sherman Act will doubtless result in dissolving this unwieldy illegal combination.

THE COAL MONOPOLY

Proof of the "coöperation" of the anthracite railroads is furnished by the ubiquitous presence of George F. Baker on the Board of Directors of the Reading, the Jersey Central, the Lackawanna, the Lehigh, the Erie, and the New York, Susquehanna & Western railroads, which together control nearly all the unmined anthracite as well as the actual tonnage. These roads have

been an important factor in the development of the Money Trust. They are charged by the Department of Justice with fundamental violations both of the Sherman Law and of the Commodity clause of the Hepburn Act, which prohibits a railroad from carrying, in interstate trade, any commodity in which it has an interest, direct or indirect. Nearly every large issue of securities made in the last 14 years by any of these railroads (except the Erie), has been in connection with some act of combination. The combination of the anthracite railroads to suppress the construction, through the Temple Iron Company, of a competing coal road, has already been declared illegal by the Supreme Court of the United States. And in the bituminous coal field—the Kanawha District—the United States Circuit Court of Appeals has recently decreed that a similar combination by the Lake Shore, the Chesapeake & Ohio, and the Hocking Valley, be dissolved.

OTHER RAILROAD COMBINATIONS

The cases of the Union Pacific and of the New Haven are typical—not exceptional. Our railroad history presents numerous instances of large security issues made wholly or mainly to effect

combinations. Some of these combinations have been proper as a means of securing natural feeders or extensions of main lines. But far more of them have been dictated by the desire to suppress active or potential competition; or by personal ambition or greed; or by the mistaken belief that efficiency grows with size.

Thus the monstrous combination of the Rock Island and the St. Louis and San Francisco with over 14,000 miles of line is recognized now to have been obviously inefficient. It was severed voluntarily; but, had it not been, must have crumbled soon from inherent defects, if not as a result of proceedings under the Sherman law. Both systems are suffering now from the effects of this unwise combination; the Frisco, itself greatly overcombined, has paid the penalty in receivership. The Rock Island—a name once expressive of railroad efficiency and stability—has, through its excessive recapitalizations and combinations, become a football of speculators, and a source of great apprehension to confiding investors. The combination of the Cincinnati, Hamilton and Dayton, and the Père Marquette led to several receiverships.

There are, of course, other combinations which have not been disastrous to the owners of

the railroads. But the fact that a railroad combination has not been disastrous does not necessarily justify it. The evil of the concentration of power is obvious; and as combination necessarily involves such concentration of power, the burden of justifying a combination should be placed upon those who seek to effect it.

For instance, what public good has been subserved by allowing the Atlantic Coast Line Railroad Company to issue \$50,000,000 of securities to acquire control of the Louisville & Nashville Railroad—a widely extended, self-sufficient system of 5000 miles, which, under the wise management of President Milton H. Smith had prospered continuously for many years before the acquisition; and which has gross earnings nearly twice as large as those of the Atlantic Coast Line. The legality of this combination has been recently challenged by Senator Lea; and an investigation by the Interstate Commerce Commission has been ordered.

THE PENNSYLVANIA

The reports from the Pennsylvania suggest the inquiry whether even this generally well-managed railroad is not suffering from excessive bigness. After 1898 it, too, bought, in large amounts,

stocks in other railroads, including the Chesapeake & Ohio, the Baltimore & Ohio, and the Norfolk & Western. In 1906 it sold all its Chesapeake & Ohio stock, and a majority of its Baltimore & Ohio and Norfolk & Western holdings. Later it reversed its policy and resumed stock purchases, acquiring, among others, more Norfolk & Western and New York, New Haven & Hartford; and on Dec. 31, 1912, held securities valued at \$331,909,154.32; of which, however, a large part represents Pennsylvania System securities. These securities (mostly stocks) constitute about one-third of the total assets of the Pennsylvania Railroad. The income on these securities in 1912 averaged only 4.30 per cent. on their valuation, while the Pennsylvania paid 6 per cent. on its stock. But the cost of carrying these foreign stocks is not limited to the difference between this income and outgo. To raise money on these stocks the Pennsylvania had to issue its own securities; and there is such a thing as an over-supply even of Pennsylvania securities. Over-supply of any stock depresses market values, and increases the cost to the Pennsylvania of raising new money. Recently came the welcome announcement of the management that it will dispose of its stocks in the anthracite

coal mines; and it is intimated that it will divest itself also of other holdings in companies (like the Cambria Steel Company) extraneous to the business of railroading. This policy should be extended to include the disposition also of all stock in other railroads (like the Norfolk & Western, the Southern Pacific and the New Haven) which are not a part of the Pennsylvania System.

RECOMMENDATIONS

Six years ago the Interstate Commerce Commission, after investigating the Union Pacific transaction above referred to, recommended legislation to remedy the evils there disclosed. Upon concluding recently its investigation of the New Haven, the Commission repeated and amplified those recommendations, saying:

“No student of the railroad problem can doubt that a most prolific source of financial disaster and complication to railroads in the past has been the desire and ability of railroad managers to engage in enterprises outside the legitimate operation of their railroads, especially by the acquisition of other railroads and their securities. The evil which results, first, to the investing public, and, finally, to the general public, cannot be corrected after the transaction

has taken place; it can be easily and effectively prohibited. In our opinion the following propositions lie at the foundation of all adequate regulation of interstate railroads:

1. Every interstate railroad should be prohibited from spending money or incurring liability or acquiring property not in the operation of its railroad or in the legitimate improvement, extension, or development of that railroad.

2. No interstate railroad should be permitted to lease or purchase any other railroad, nor to acquire the stocks or securities of any other railroad, nor to guarantee the same, directl or indirectly, without the approval of the federal government.

3. No stocks or bonds should be issued by an interstate railroad except for the purposes sanctioned in the two preceding paragraphs, and none should be issued without the approval of the federal government.

It may be unwise to attempt to specify the price at which and the manner in which railroad stocks and securities shall be disposed of; but it is easy and safe to define the purpose for which they may be issued and to confine the expenditure of the money realized to that purpose."

These recommendations are in substantial accord with those adopted by the National

Association of Railway Commissioners. They should be enacted into law. And they should be supplemented by amendments of the Commodity Clause of the Hepburn Act, so that:

1. Railroads will be effectually prohibited from owning stock in corporations whose products they transport;

2. Such corporations will be prohibited from owning important stockholdings in railroads; and

3. Holding companies will be prohibited from controlling, as does the Reading, both a railroad and corporations whose commodities it transports.

If laws such as these are enacted and duly enforced, we shall be protected from a recurrence of tragedies like the New Haven, of domestic scandals like the Chicago and Alton, and of international ones like the Frisco. We shall also escape from that inefficiency which is attendant upon excessive size. But what is far more important, we shall, by such legislation, remove a potent factor in financial concentration. Decentralization will begin. The liberated smaller units will find no difficulty in financing their needs without bowing the knee to money lords. And a long step will have been taken toward attainment of the New Freedom.