

The Railroad Game

O. C. Barber in Pearson's Magazine: Here is a remarkable article. The information it contains has all been laid before congress by Mr. Barber, but congress has made no effort to do anything about it. So Mr. Barber lays the information before you. He is not a "dreamer" or "loose talker." He is a man of affairs. He has been a man of affairs for fifty years. He was largely interested in the establishment of the

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Diamond Match Co. The first eight years he was its vice president or treasurer. Afterward its president for twenty years, and is now chairman of its board of directors. He is sometimes called the "Match King." He is an officer or director in companies which have a capital of over fifty million dollars. Their combined freight shipments are from 150,000 to 200,000 cars per year, and go to all parts of the world. So Mr. Barber has had some experience with railroads and he speaks as a substantial business man with a reasonable regard for business interest. Remember that. Some of his statements will surprise you. Remember that the man who makes them is a man of big business. Remember that. Remember that he has first-hand knowledge which makes him say what he does say. Read every word of what he says. If he is right it means dollars and cents to you.—Editors.

Shall the government control the railroads or shall the railroads control the government?

That is the question.

Not one man in ten thousand views the present situation in that light. For that reason it is not likely to enter into the coming presidential campaign unless there is an unexpected political upheaval and President Taft fails of renomination. Four years to come it will be the paramount issue. It is inevitable.

The railroad interest is the greatest individual influence in the country. It is the most dangerous. Its hand is heaviest upon the people. Its policies are the greatest menace to the nation. It spares nothing and nobody. All pay tribute to it. It is heartless, greedy, extortionate, pitilessly predatory. Allied with Wall street it controls the financial world, converts the stock market into a jumping jack and can force a financial stringency at will. Backed by Wall street it influences national policies at Washington and fearlessly dictates legislation, national and state. Its annual gross earnings of more than \$3,000,000,000 almost equal those of the entire industrial interests of America. Its annual tolls are nearly ten times as heavy upon the people as the tariff burden. Yet congress is always willing to tinker with the tariff but ignores the railroads. I ask you, Mr. Consumer, why is this?

The besetting weakness of the average American is his aversion to doing his own thinking. Upon economic questions nine times out of ten he will take the word of any blatant spellbinder rather than carry the proposition home and reason it out for himself. His mind runs to dollars, but more to the making than the saving of them. His public zeal and patriotism is more ideal than practical. He is generally indifferent to the national welfare. Many a campaign has been lost upon the assumption that the people think.

The Policy of Deception

Now and then the outraged voter rises up in his suddenly awakened wrath and takes a healthy swing at the solar plexus of the dominant political party. He did this in the congressional election of 1910. It was a protest against existing conditions of which he had only the haziest understanding. He knew the cost of living, the pinching of the pocketbook, was excessive to the point of extortion. He did not know why it was so but he knew it should not be. He suspected the tariff, the trusts, the so-called money power, but more than all he mistrusted the republican party. So he went to the polls and swatted it; smote it hip and thigh and left it, after the battle of

ballots, bruised and broken and pitiable in its shame. Yet after all it was only a blind blow in the dark. Nor did it help his case.

Had you told Mr. Voter the railroads were at the bottom of all the troubles assailing him he probably would have listened tolerantly and laughed at you. Before the American public will consider seriously any menace to its welfare some unusual attention must be directed toward that menace. For that reason presidential campaigns occasionally have developed into great educational movements. But the big party managers have never permitted the railroads to become an issue. The railroads have seen to that.

There has been a consistent policy of concealment and deception. They have hidden their earnings or misapplied them. Their accounting system has been framed deliberately to hide the real condition of their business. They have permitted unlimited grafting in connection with so-called construction companies backed by promoters of the big systems. They have distributed millions in stocks in their many "melon cuttings." They have juggled rate classifications to make it appear that rates were being reduced, whereas they were being boosted all the time. They have dodged their taxes. Nothing has been overlooked.

More than a decade ago I first voiced an open protest against these railroad methods. That protest and its succeeding denunciations won no support from the average American. They did bring, however, a spontaneous response from the understanding business element which was already beginning forcibly to feel the pinch of the railroad's relentless grasp. Sometime later I chanced to meet a man who is now president of one of the great western railroad systems. He chided me good-naturedly about my antagonism to the railroads. Finally he said: "Mr. Barber, you are too big a man to be fighting the railroads. Come, get into the game with us. It isn't how much money we make but how much we can conceal that counts in the railroad business!"

Right there he sounded the keynote to the whole railroad policy. Since the days of Huntington the railroads have been the pacemakers in over capitalization and stock watering for the monopolistic array now engaged in standing the American public in a corner with a gun at its head and filching its pockets of whatever of value they may contain. And this plundering, in which they have run amuck in recent years, has resulted in a complete disruption of business and industrial relations, has restricted the growth of industrial energy and outlay, brought chaos and uncertainty throughout the business world, put the brakes upon prosperity and wet-blanketed our much vaunted confidence in American institutions. The result of the election of 1910 was only a scribbling on the wall of the revolt that will come if the selfish interests now throttling the American public continue to persist in their ruthless method.

Huntington was the pioneer in promulgating the now accepted railroad doctrine that the secret of railroad success lies in the ability to issue, control and manipulate railroad stocks and bonds, rather than in the successful carrying of passengers and freight. His was the master mind that first worked out the scheme of railroad consolidation through over-capitalization. A later genius clothed the plan in the pretty catch phrase of "a community of interests."

Originally the plan contemplated through trunk lines of railroad from coast to coast. It was argued plausibly that such trunk lines would be-

come great arteries to maintain the life of commerce and furnish quick transportation. They would insure better service and lower freight rates from the natural economies of administration. Gradually the feeders of each system would be absorbed and there would be no encroachment one upon the other's territory. The whole country would be better served. Apparently the plan spelled progress and there was no criticism from the public either of the business policy or the railroad practice. The movement grew like a green bay tree. Soon, instead of trunk lines absorbing feeders, they were consolidating. Still it seemed void of objection. It was in the line of economy. It tended toward the ultimate placing of the entire railroad interests under one control, a condition which business men universally conceded would bring about the speediest solution of the railroad problem. Once consolidated their regulation by law could most certainly be insured, a uniform freight rate be established and stocks and bonds be placed upon a firm and substantial basis.

But what happened? The wildest riot of frenzied finance, of shameless stock and bond watering, of over-capitalization and manipulation of securities, of unbridled grafting and corrupt legislation that America has ever witnessed.

Out of the Pacific system of railroads Huntington and his associates divided, conservatively estimated, more than \$600,000,000. Hill and his fellow-operators have pocketed almost as much from their development of the northwest. No man can say how many millions Scott, Fisk, Gould, the Vanderbilts, Morgan, Harriman and others have reaped in their extensive manipulations.

Farcial Railroad Legislation

The community of interests has proved to be a juicy plum for all save the man who pays the freight. Boiled down it means no more nor less monopoly not only of the lines and territory and of the right to fix rates, but, what is all important, of the sacred and necessary privilege of issuing, controlling and manipulating railroad securities. Consider just one instance: the case of the Northern Pacific raid engineered by Morgan, Harriman and others some ten years ago. Northern Pacific stock had sold as low as \$16 a share. It jumped to \$1,000 before the raid ended. Then followed the organization of the Northern Securities company, controlling the Northern Pacific and Great Northern roads, parallel lines monopolizing the freight business of the northwest and free to fix rates as they pleased. Millions were raked off by the railroad manipulators before the Northern Securities company stock finally settled to a stable value of \$300 a share. Eventually the Northern Securities company was dissolved by order of the United States supreme court. Now Northern Pacific is quoted around 117. What gave it the \$600 valuation during the life of the Northern Securities company? Simply the right enjoyed by that company not only to fix freight rates but to issue, control and manipulate the securities of the properties it represented.

Harriman's raid taught the railroads a lesson. They must more firmly entrench themselves. Such a thing must not happen again. So they got busy. The interstate commerce commission's report for 1904, the year of the dissolution of the Northern Securities company, shows the railroads to have held a total of \$1,942,858,359 in railroad stocks. Two years later, according to the commission's special report of 1906 upon the intercorporate relationships of railroads, the railroad companies were holding \$4,114,851,990 of the