

RAILWAY COMBINATIONS.

[By H. T. NEWCOMB.]

Of the many addresses delivered at the recent Trust Conference in Chicago, none was of more interest to railroad men than that delivered by Prof. H. T. Newcomb, whose article on "Railway Economics," published exclusively by the *Railway World*, attracted such widespread attention. So much interest has been felt in this question of "Trusts," that we feel it a duty to our readers to present to them Professor Newcomb's address. It follows:

MR. PRESIDENT AND DELEGATES TO THE CONFERENCE:

Before beginning an examination of the nature and results of railway combinations, it is desirable to consider some of the facts that differentiate combinations in transportation from combinations in manufactures and trade.

First, in point of time. A strong tendency toward the combination of originally separate corporations has characterized the railway industry during its entire history; in manufactures and in trade such combinations were practically unknown prior to 1870.

Again, one of the methods of railway combination, formerly most effective,—I allude to the practice popularly known as 'pooling,'—has been illegal, so far as interstate traffic is concerned, since 1887, and even agreements to maintain reasonable rates were forbidden by the anti-trust law of 1890, which does not appear successfully to have been applied to any other industry. The years subsequent to 1887 have witnessed a stronger movement toward the consolidation of manufacturing and trading establishments than was ever previously known.

Further, combinations among railways can directly affect rates on but a portion of the transportation furnished to the public, for there are comparatively few points served by more than a single railway, and a large portion of the aggregate traffic must traverse a particular route, or it cannot be moved; manufacturing and trading combinations, if they affect prices at all, must affect those on the entire output of the establishments combined.

Railway combination has assumed three distinct forms. The first involves the actual merger of several properties through corporate consolidation, or practically perpetual leases. Nearly every great railway in the country is a result of this process. The line of the New York Central from Albany to Buffalo is formed of ten originally separate roads; the Atchison, Topeka and Santa Fe Railroad, which terminates in this city, operates lines that were formerly the property of more than one hundred distinct corporations. Such consolidations have been welcomed by the wiser section of the public, for they have improved the service and lessened the cost

and difficulty of travel and of moving freight.

Another form of combination is effected by the purchase of the control of separate corporations in a common interest. Combinations of this character do not affect the corporate organizations, which remain legally separate, and they may be brought about without publicity. Until recently the only connection among the lines composing the great Vanderbilt system was of this character, and at present most of the lines in that system are held in this manner. The system which is controlled by the banking establishment which is headed by Mr. J. Pierpont Morgan has no other connection and probably very few individuals outside of the firm know exactly what properties compose the system.

The third form of combination is by agreements between corporations, which remain legally separate and continue to exercise most of their functions independently. Such agreements may provide for through tickets, the forwarding of baggage, through billing of freight, interchange of cars and many other incidents of modern methods of operation that are essential to the efficient organization of transportation. Without them the production of utilities of place would be much more difficult and costly, and territorial division of labor, which permits the assignment to each locality of the particular industrial function to which it is best adapted by natural resources, climate and location, could not exist in its present state of development.

Another form of combination by agreements among otherwise independent railway corporations has probably furnished the occasion for more debate, and has been less understood by the general public, than any other incident of railway development,—I refer to agreements concerning the rates to be charged on traffic for which two or more rates are available.

As soon as the railway system of the United States had reached the point of development at which the same localities were connected by rival and competing lines, some peculiarities incidental to rate making began to attract attention. The business of railway transportation is not and cannot be competitive, in the ordinary sense, at but few points and with regard to but a small portion of the aggregate traffic. Railways cannot be, in many instances or for long distances, exactly parallel. At points not served by more than one railway or possessing facilities for transportation by water, the railway business is, from its nature, a monopoly. The business of such points can often be made to pay the entire fixed charges and a large proportion of the operating expenses, and the railway is left free to accept traffic at the competing points at rates that barely pay train expenses. In

the absence of express or tacit agreements concerning such charges, this result was found to occur very frequently. It involved discriminations, apparently unjust, against traffic from and to local points, which artificially accentuated the tendency toward the concentration of population and industry at large cities.

But the case was even worse than this. Competition in this form practically placed the rate-making power in the hands of the most reckless, incapable or unscrupulous officials connected with any line. Such an official could force rival lines to meet rates far below the remunerative point, or to witness the possibly permanent diversion of important traffic to the lines of their competitors. He could bankrupt his own road or that of his rivals, and at the same time profit greatly by the manipulation of the securities affected in the stock market. The competition of rival routes seeking to secure the same traffic therefore produced unjust discrimination in rates, artificially stimulated the tendency toward concentration of population in cities, and was an effective and dangerous instrument in the hands of railway wreckers. Few have failed to recognize these facts, but many have supposed that such competition has resulted in lower railway charges. An argument in favor of this contention can be plausibly supported by the common assumption, that too frequently passes undetected, that coincidence of time and place prove a relationship as between cause and effect. The decline in railway charges in the United States has been continuous and extensive. The average rate per ton of freight carried one mile, measured in gold, has declined from nearly two cents in 1867 to less than eight mills in 1898, the last year covered by the reports of the statistician to the Interstate-Commerce Commission. The price of wheat at the port of New York during 1867 would pay for the transportation of but 2.84 bushels of wheat from Chicago to New York at the rates of that year; in 1897 the price, though considerably lower than in 1867, would pay for moving six bushels. In other words, the decline in the railway rate from Chicago to New York was twice as great as the decline in the price of wheat. The decline in passenger rates from 1871 to 1898 amounts apparently to 25 per cent, but unlike that in freight rates, is not susceptible of satisfactory statistical presentation. The substantial identity of the service necessary to permit the use of the statistical method has not been preserved. The dollar that purchases transportation in a modern train, provided with automatic couplers and air brakes, traversing at sixty miles per hour a track of Bessemer steel rails weighing 100 pounds to the yard, and guarded by block signaling apparatus, purchases vastly more than did the dol-