THE CHICAGO AND ALTON CASE: A MISUNDERSTOOD TRANSACTION

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The Chicago and Alton Case: A Misunderstood Transaction by George Kennan

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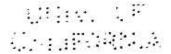


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No episode, perhaps, in the career of the late E. H. Harriman has been more severely criticised by the Interstate Commerce Commission, by certain members of Congress, and by an ill-informed part of the public than the reorganization of the Chicago & Alton Railroad in 1800 and 1900. It excited little comment at the time, but when, long afterward, the Government began its campaign against Mr. Harriman, through the Interstate Commerce Commission, the transaction was characterized as "indefensible financing," and was described as the "crippling," "looting," and "scuttling" of a well-managed and prosperous railroad by a syndicate of unscrupulous financiers in which Mr. Harriman was the "main conspirator."1

The Chicago & Alton Railroad, when Mr. Harriman became connected with it, was an

¹Reports of the Interstate Commerce Commission, Vol. XII, pp. 301-303; statement of Senator Cullom, New York Independent, Vol. LXII, p. 692; "Railroads: Finance and Organization," by Prof. W. Z. Ripley, pp. 262-267. N. Y., 1915.

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apparently prosperous and well-managed road. It had paid dividends of 8 per cent. on its invested capital for thirty years or more; its credit was good, and its shares of common and preferred stock were selling at from 75 to 100 points above their par value. From a financial point of view, it seemed to be as strong as any railroad of its class in the Middle West. Unfortunately, however, its managers had pursued an ultra-conservative policy in the matter of expenditures, and had neglected, for a long time, to make necessary appropriations to cover depreciation, and to provide for extensions, betterments, replacements, and additional equipment. The road had grown old without improving in physical condition; and had become more or less incapable of rendering the service demanded by a rapidly growing and developing territory. Speaking of this state of affairs, the well-known economist, Prof. E. S. Mead, says:

"The condition of the Alton was far below that of its competitors. The standards of construction were those of fifteen years before. The track was laid with steel rails, but these were only seventy pounds to the yard. The bridges were in good condition, but were too light for heavy engines. The capacity of the