

**THE CHICAGO & ALTON  
CASE:  
A MISUNDERSTOOD  
TRANSACTION**

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

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# The Chicago & Alton Case

*A Misunderstood Transaction*

By George Kennan



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## The Chicago and Alton Case: A Misunderstood Transaction

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 1899 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."<sup>1</sup>

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

<sup>1</sup>Reports 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

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sidings and second track was inadequate to handle large increase of traffic. In short, the company had not maintained a sufficient depreciation account, and its property had not been kept up to standard."<sup>1</sup>

According to J. H. McClement, expert accountant, who had occasion to investigate the affairs of the company:

"It had not added one mile of road in seventeen years. It had little or no reserve capacity to conduct a larger business. Its cost of operation, per unit of traffic, was very high in comparison with similar roads. Its grades were uneconomical. Its shops and equipment were uneconomical and old. Its settled policy against the expansion of its facilities, because of declining rates, was an absolute bar to the development of the tributary country. While for twenty-five years it had paid an average dividend of 8.3 per cent. on its capital stock, the gross earnings for the year 1898"—(the year before Mr. Harriman became interested in it)—"amounting to \$6,286,000, were the lowest since 1880, and had been gradually falling since 1887, when they amounted to \$8,941,000. In many respects the company was being conducted like a commercial enterprise having in

<sup>1</sup>"Corporation Finance," by Edward Sherwood Mead, Ph. D., Wharton School of Finance and Commerce, University of Pennsylvania, pp. 252-253. N. Y., 1914.