

CHAPTER XII

A FEUDAL SURVIVAL

THE railway question is at bottom a land question. The railway is a monopoly because of its identity with the land. It is this that differentiates the transportation industry from other business. The right of way of a railway is a site of land long drawn out. It is of much greater value than that of adjacent farms because of this fact. The particular site which it occupies cannot be duplicated. Terminals in the cities can only be obtained at a prohibitive cost. In many instances the only available routes through the mountains are already occupied. No new corporation could raise sufficient capital to force an entrance into New York, Philadelphia, Chicago, or any of the other large cities in the face of the opposition of the existing lines. We have an example of this difficulty in the entrance of the Gould lines into Pittsburgh. The Vanderbilt system owns a narrow strip of land along the Mohawk River, which is almost the only available railway route in New York state between the Hudson River and the West. The same is true of the Pennsylvania and the Baltimore and Ohio systems further south. Compe-

tion is only possible by tunnelling through mountain ranges and the appropriation of city lands of fabulous value.

It is their identity with the land that makes the highways of the nation natural monopolies. It is this that explains the ease of their consolidation, the watering of their securities, the constant growth of earnings, and the difficulty, if not the impossibility, of regulation by the nation or the states.

And the value which a railway enjoys is like that of the land underlying a city. Its earnings increase with the growth of population and of industry. Locomotives, cars, and equipment can be reproduced indefinitely, just as can wagons, carriages, or automobiles. In these things there can be no permanent monopoly. But in any industry affixed to the land, like a railway, a franchise corporation, or a mine, monopoly is almost inevitable. For continued competition is impossible.

We can see this identity of the railways with the land in the growth in their securities. In 1906 the aggregate outstanding railway securities of the country were \$14,570,421,478, of which \$7,766,661,385 was in the form of bonded indebtedness. According to the United States Census valuation, the total wealth of the country in 1904 was \$107,104,000,000. The outstanding securities of the railways amounted to 13.7 per cent. of the total. The bonded indebtedness alone amounts to \$36,213

per mile. This is more than the known average cost of construction of many roads. In many instances the bonds have been watered as well as the stock. In 1898 the total railway capital was but \$10,818,554,031; in 1900 it had increased to \$11,491,034,960, in 1903 to \$13,213,124,679, while in 1906 it had risen to \$14,570,421,478.

Capitalization fast outruns the growth in mileage. During the year 1905, \$600,000,000 of new securities were issued. The construction in that year was but 4,000 miles. This is equivalent to \$150,000 a mile, probably more than three times the actual cost of the increased mileage. According to the report of the Industrial Commission \$457,000,000 of securities were issued in 1900, of which not more than \$120,000,000 could be assigned to new construction.

Wherever population is densest there the capitalization is highest. The Erie Railway carries a capitalization of \$300,000 per mile. The Lake Shore and Michigan Southern, a road of much superior construction and equipment, is capitalized at \$100,000 per mile. The total capitalization of the Michigan Central Railroad amounts to \$402,000 per mile. The average capitalization for the entire country is \$81,791 per mile.

The watered securities of the railways are society's contributions to the owners. They represent no increase in the wealth of the nation, no

great intelligence or thrift on the part of the owners, no addition to the comfort and convenience of the people. Increased capitalization where no real investment is made means increased orders on the labor and industry of the future.

It is possible to measure the exertions of society on behalf of those who own the highways in the growth of their earnings, as well as in their increasing capitalization. In 1897 the gross earnings of the railways amounted to \$1,222,089,773. Ten years later they had grown to \$2,346,640,000. During the same period net earnings increased from \$369,565,009 to \$790,188,000, a gain of \$420,622,991. During these years railway mileage increased but 22.2 per cent., while the gross and net earnings increased over 100 per cent. and the dividends over 200 per cent.

In this, as in many other respects, the nineteenth century has reproduced the institutions of earlier ages. The private ownership of the railways is an instance of political atavism. Along the banks of the upper Rhine, perched upon some inaccessible crag or point of land, may still be seen the majestic ruins of castles fast passing to decay. They date from a period when the only authority was force, and the only government the will of the feudal overlord. Throughout lower Germany from the Netherlands to the Tyrol; in France, in Austria, in Italy—in fact all over the face of Europe, these

monuments of an earlier society stand out grimly from every point of vantage, suggestive of the reign of force and lawlessness which was the only government in continental Europe for a thousand years. From these fastnesses the lords of the surrounding territory levied tribute upon the caravans which passed that way. They, too, did it as a matter of right. Did they not own the highways? They filled their castles with the tapestries and the luxuries of the Orient. They took what they needed of the industries of Italy and Germany; theirs were the best of wines and the costliest of furnishings. Without labor they maintained themselves and their followers through the labor and industry of others. This tribute was exacted no more arbitrarily than that of the railways of to-day. Then as now this power was possible through the ownership of the land, by means of which the highways of the country were controlled.

The railways of to-day levy tribute upon all trade. They collect a toll upon all industry. By reason of the complexity of industrial relations, the railways have become indispensable to our life. They are the arteries of commerce. Were they closed by some calamity of nature, the entire population of our cities would be on the brink of starvation in a few days' time. All industry would come to a standstill. To this extent are we dependent upon the will of the modern barons of privilege into

whose hands we have intrusted this most vital function of our lives. Every article of consumption is subject to this tribute; a tribute which is fixed by the arbitrary will of a handful of men, just as was the toll of the passing traveller of the Middle Ages to the overlord of the territory through which he passed.

The identity of the railway with the land not only explains the increase in capitalization and the growth in earnings, it also explains the ease of their consolidation. The railways cannot be duplicated. The very nature of the railway business makes it a monopoly; a monopoly which has rapidly concentrated into a very few hands.¹

¹Senate Document No. 278, 60th Congress, 1st session, 1908, on "Interstate Commerce Corporations Owning Capital Stock of Other Transportation Companies," shows the extent of this community of control and interest between the railways of the country as well as the extent to which this control is lodged in the banking and financial interests. From this it appears that fifty-one persons constitute a majority of the board of directors of the great railway systems of the country, comprising 53.29 per cent. of miles operated, 64.7 per cent. of the gross earnings, 71.69 per cent. of the ton mile of freight carried, and 66.12 per cent. of the commercial value of operating property. The report says: "The extent of the centralization of control in railway administration is not fully disclosed by the information thus far presented. Community of interest and unity of direction extend beyond the contractual or proprietary relations which underlie the systems. This may be termed the control of group interests. It has long been a matter of common knowledge that in many cases a comparatively small number of men, acting unitedly, may, through their ownerships or control of stocks in the controlling corporations of two or more systems, unify the operations of those systems in such a wise as to produce as harmonious operation as could be had if all the elements were aggregated into a single

There are six great groups¹ whose mileage and capitalization includes practically all of the greater transportation agencies of the country. And these groups are interrelated by the closest of ties. They are banded together by the closest of business, personal, and financial interests.²

system. . . . When the same individuals constitute harmoniously acting majorities of the boards of directors of two or more corporations, it seems proper to say that the control of the particular corporations whose boards are thus constituted is actually unified."—P. 109.

It further appears from the same report that ninety-three persons, acting together, would be able to control more than 75 per cent. of the operated mileage of the country, more than 81 per cent. of the gross earnings, more than 87 per cent. of the tonnage, and more than 82 per cent. of the commercial value of railway operating property.—P. 110.

As a matter of fact, if the individuals who nominally appear upon the directorates of these railways were still further reduced to the real owners, it would be found that six or eight financial interests, the Rockefeller, Morgan, Vanderbilt, Harriman, Gould, Pennsylvania, Kuhn-Loeb, Moore, and one or two other harmoniously acting financial groups, really controlled from 75 to 90 per cent. of the railway systems of America.

¹ By 1903 the following community of interest had come to prevail:

Group	Mileage	Capitalization
Vanderbilt group	21,888	1,169,196,132
Morgan	47,206	2,265,116,350
Harriman, Kuhn-Loeb	22,943	1,321,243,711
Pennsylvania	19,300	1,822,402,235
Gould, Rockefeller	28,157	1,368,877,540
Moore	25,092	1,070,250,939
	164,586	9,017,086,407

See Moody's *Truth About the Trusts*, p. 439.

² "The financiers who are at the head of an entirely administered railroad trust are J. Pierpont Morgan, John D. and William Rockefeller, W. K. and W. F. Vanderbilt, George J. Gould, A. J. Cassatt, James J. Hill, Edward Hawley, H. H. Rogers, August Belmont, Thomas F. Ryan, W. H. and J. H. Moore. . . . The superior domi-

This narrowing of control will undoubtedly continue. Competition is already at an end. In the hands of a syndicate of stock speculators the life and industry of 80,000,000 people rests. Through discrimination and rebates they have crushed out competition in the oil business; they have concentrated the ownership of the anthracite and bituminous coal in their own hands; they have aided in the monopolization of the iron and the steel, the sugar and the tobacco monopolies. The meat-packing monopoly has been fostered by car and freight-rate favors until it is invulnerable. Almost every one of the universal necessities of life has been monopolized by this process, or its cost increased to the consumer. For the power to fix railway rates is the power to destroy. It is, in all respects, a power to arbitrarily tax. The standard of living of the consumer, the farmer, and the mechanic lie under this control. The prices of wheat and of corn, of beef and of other foodstuffs are now determined in the markets of the world. That which the farmer receives is fixed in Liverpool. The returns of his efforts are determined by none of the elements which control the returns of the manufacturer, the retail dealer, or the professional man. They are fixed by the

nating influence of Mr. Rockefeller and Mr. Morgan is felt in greater or less degree in all of the groups."—Moody's *Truth About the Trusts*, p. 442.

competition of Russia and Argentina. And the railways determine what portion of the world-made price the farmer shall receive. It frequently costs as much to place his wheat and corn at the seaport as he receives for it. The charges of the railways, like the rent of the landlord in Ireland, is fixed by what the railway managers think the farmer will bear. Such a power has no parallel in the history of mankind.

The railway problem is far more serious than the evils which have been thus far attacked. Legislation has been directed against discriminations and rebates. But a more serious evil remains, an evil far greater than that at which the legislation of the past few years has been directed. And that is the evil of monopoly charges and the inevitable consequence from the trusting of so important a function to private hands. This is an evil approved by law.

We have some means of knowing what the railways take in monopoly profits. That is shown by their dividends. But we do not know what they destroy. We have no means of knowing what the productive power of the country would be were the transportation agencies adjusted to the service of the nation rather than to the service of the speculators of Wall Street. We cannot tell what would be the effect upon the farmer and the manufacturer, the jobber and the worker were railway management concerned only with the convenience and comfort

of the community rather than with the making of dividends. We cannot tell what the gain to the nation would be were it not only freed from freight discriminations and favors, but from the excessive charges, and the desire for private advantage, which now form the motives in the administration of the highways of the nation. That can only be ascertained when the railways become in fact, as they are in legal theory, public carriers operated by the government for the service of the community.