

SOME ASPECTS OF RAILROAD MERGERS SINCE
WORLD WAR II, 1945-1960

by

Bobby Ray Ferguson

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TABLE OF CONTENTS

	Page
ACKNOWLEDGMENTS	2
TABLE OF CONTENTS	3
INTRODUCTION	5
Chapter	
I. BACKGROUND	8
II. THE ADVANTAGES AND DISADVANTAGES OF CONSOLIDATION	13
III. RAILROADS WHICH MERGED OR CONSOLIDATED BETWEEN 1945 AND 1960	22
Pere Marquette and the Chesapeake & Ohio	23
Alton and the Gulf, Mobile & Ohio. . .	34
Nashville, Chattanooga & St. Louis and the Louisville & Nashville . . .	46
Virginian and the Norfolk & Western. .	59
Charleston & Western Carolina and the Atlantic Coast Line.	76
Central Pacific and the Southern Pacific.	81
Delaware, Lackawanna & Western and the Erie	82
Wisconsin Central; the Duluth, South Shore & Atlantic and the Minneapolis, St. Paul & Sault Ste. Marie	92
Atlantic Coast Line and the Seaboard Air Line.	98

Chapter		Page
IV.	RAILROADS WHICH PROPOSED CONSOLIDATION BETWEEN 1945 AND 1960	106
	Missouri-Kansas-Texas; Chicago & Eastern Illinois and the Chicago Great Western	106
	Florida East Coast and the Atlantic Coast Line	107
	St. Louis-San Francisco and Gulf, Mobile & Ohio	110
	New York, New Haven & Hartford; Boston & Maine; Rutland; Maine Central; Bangor & Aroostook	111
	Chicago & North Western and the Chicago, Milwaukee, St. Paul & Pacific (Milwaukee)	114
	Missouri Pacific and Texas & Pacific	115
	New York Central and Pennsylvania . .	116
	Great Northern; Northern Pacific; Chicago, Burlington & Quincy; Spokane, Portland & Seattle.	120
	Chesapeake & Ohio and Baltimore & Ohio	122
	Norfolk & Western, New York, Chicago & St. Louis (Nickel Plate) and Wabash	123
V.	SUMMARY AND CONCLUSIONS	127
	BIBLIOGRAPHY	137
	VITA	141

INTRODUCTION

This study examines certain aspects of railroad mergers since World War II. Historical and factual information regarding specific mergers will be discussed. Only mergers involving railroads engaged in interstate commerce will be included. Also, the advantages, disadvantages and necessity of railroad mergers since 1945 will be examined. This study explores the effects of specific mergers on competition, on labor, on fixed charges and on the public interest. An attempt will be made to arrive at a conclusion as to the desirability or undesirability of specific mergers, based on facts presented in this study.

The present railroad systems are the results of many consolidations of railroads. The trend toward railroad mergers began in the middle of the nineteenth century.

In this study the terms consolidated and consolidation will mean any form of integration or unification of carrier properties under a single management. Unification must be on a permanent basis. Control of one railroad by another and coordination will not be treated. Coordination is an attempt to secure greater use of transportation facilities, and to avoid duplicate construction. This is accomplished

when two or more carriers make some arrangements for joint use of certain facilities. Such carriers remain under separate management.

The Interstate Commerce Commission decides railroad merger cases according to certain statutory criteria contained in the Interstate Commerce Act. These criteria are interpreted by the Commission and the courts. The Commission usually has permitted combinations unless their purposes or effects have been to restrain trade or commerce unreasonably, to lessen competition substantially or to tend to create a monopoly.¹

From the outset, the railroad industry has been characterized by high fixed cost and a high degree of specialization of equipment. So great were construction costs, that considerable economic waste resulted if two roads were built where one could handle the traffic. Abandonment of a road meant serious economic loss, since capital devoted to such a specialized use could not be withdrawn easily or in quantity from the enterprise.

Consolidation has played a major role in railway development throughout the United States. Railway managers

¹Consolidations and Mergers in the Transportation Industry, (Association of American Railroads), Washington, D.C., 1960, p. 3.

have used this technique for improving operating efficiency, economy and service which could not be produced by the component companies functioning separately.²

²Remarks of J.W. Barriger, President of P. & L. E. Railroad, "Why Consolidation" (Unpublished speech at Stanford University, California, July 17, 1959), p. 1.

CHAPTER I

BACKGROUND

The Atlantic seaboard was the site of the first railroads in this country. New railroads were built as the population grew and spread to the west. In some instances, the western roads were constructed in anticipation, rather than as a result, of commercial and agricultural development of the country.

The early railroads were mostly local projects. Until shortly before the Civil War relatively few of the railroads connected with other railroads, and construction was confined largely to the territory east of the Mississippi River. The separate roads were gradually connected and new mileage was constructed. There was an increasing tendency to consolidate the local roads into larger companies, and substantial progress was made in reducing the number of independent companies, which exceeded 6,000 in the latter part of the 19th century. The present operating railroads now number slightly over four hundred. In 1960, there were 110 Class I railroads (those having annual revenues in excess of three million dollars). The remaining roads are called Class II railroads. Of the 217,000 miles of rail line operated in

the continental United States today, Class I railroads operate 209,000 miles. In addition Class I railroads account for nearly ninety-nine per cent of the operating revenues of all line-haul railroads.¹

The greatest progress in railroad construction and consolidation took place between 1880 and 1904. For example, over 70,000 miles of railroad were built in the decade after 1880, and 425 consolidations occurred from 1884 through 1888.²

The progress of railroad mergers was seriously delayed in the early 1900's by restrictive legislation and unfavorable court decisions. For example, in 1904 the Supreme Court required dissolution of the Northern Securities Company, which had been formed to control the Great Northern and Northern Pacific. The court held that this control was in violation of the Sherman Antitrust Act of 1890.³ The Union Pacific's control of the Southern Pacific was

¹Association of Southeastern Railroads, Railroad Information (Washington, D.C., 1961), p. 1.

²ICC, Annual Report, 1889, pp. 77-79.

³ICC, United States v. Northern Securities Company, United States, (1904), Vol. 193, p. 197.

similarly invalidated in 1912.⁴

After the First World War, there was a sharp reversal of policy towards railroad regulation and consolidation. Before World War I, the policy of the Federal Government was negative in character and was designed primarily to protect shippers and travelers from unlawful discrimination and unreasonable charges. In the Transportation Act of 1920, Congress directed the Interstate Commerce Commission to prepare a plan for the consolidation of the railroads of the country into a limited number of systems.⁵

The Commission prepared a tentative consolidation plan in 1921. Lengthy hearings were held regarding this plan. These hearings were fruitless and in 1925, the Commission asked Congress to relieve it of the responsibility of preparing a plan.⁶ Congress would not grant the Commission's request and in 1929 the Commission issued a plan for consolidating the nation's railroads into twenty-one independent systems. Not one of the twenty-one systems

⁴ICC, United States v. Union Pacific Railway Co., U.S., (1912), Vol. 226, p. 61.

⁵Consolidations & Mergers in the Transportation Industry, (Association of American Railroads), 1960, p. 3.

⁶Ibid., p. 7.

contemplated by this plan has ever materialized.⁷

A number of consolidation plans were produced between 1920 and 1940. The plans could be classified into regional and competitive consolidated systems. The regional plan sought to have one railroad serve a particular area. The competitive plan attempted to preserve competition by having at least two roads serve a major region of the country.⁸

In 1933 the National Transportation Committee, headed by former President Coolidge, issued a report recommending compulsory consolidation of railroads under private ownership through nation-wide control of regional operating companies by a top holding company. Strong Congressional opposition developed, and Congress passed the Emergency Railroad Transportation Act of 1933 which rejected compulsory consolidation. Nevertheless, the Act did contain numerous provisions designed to tighten the Commission's control over proposed mergers.⁹

Another merger plan which might be considered compulsory was advanced in 1933. It was known as the "Prince Plan" and

⁷Ibid., p. 8.

⁸Consolidations & Mergers in the Transportation Industry, op. cit., p. 9.

⁹Ibid., pp. 9-10.

was undertaken at the request of President-elect Franklin D. Roosevelt. This plan was an attempt to minimize duplicate services and facilities by combining adjoining lines to reduce time and increase frequency of dispatch. The plan provided for seven railway systems.¹⁰

Since passage of the Transportation Act of 1940, emphasis has shifted to carrier responsibility for the initiation of suitable mergers with the Interstate Commerce Commission passing upon the merits of the respective applicants under the standards provided in section 5(2) of the Interstate Commerce Act.¹¹ A more detailed history of rail mergers has been presented by others,¹² therefore, it need not be restated here.

¹⁰ "Background on Transportation", (Association of American Railroads), Washington, D.C., July 29, 1960, p. 3.

¹¹ Ibid., p. 12.

¹² For example, Railroad Consolidation by Bird M. Robinson, 1950, and report by Association of American Railroads entitled, "Consolidations and Mergers in the Transportation Industry" submitted to the Special Study Group, February, 1960.

CHAPTER II

ADVANTAGES AND DISADVANTAGES OF CONSOLIDATION

Much has been said for and against consolidation. No attempt will be made to make an exhaustive list of advantages and disadvantages, but the study will include consideration of the benefits that reasonably can be expected, including the total savings to be realized from particular consolidations.

Federal control of the railroads in World War I provided certain economies of large scale management which could also apply to consolidation of railroads. Some of these economies are:

1. Joint use of passenger and freight terminals.
2. Joint use of yards and engine houses.
3. Consolidation of car inspection forces.
4. Joint use of running tracks.
5. Joint use of motive power and cars.
6. Short-routing of freight.
7. Consolidation of city ticket offices.
8. Abolition of off-line offices.
9. Elimination of competitive activities.
10. Standardization of new locomotives and cars.¹

¹W.J. Cunningham, "Railroads Under Government Operation", Quarterly Journal of Economics, Vol. XXV, 1921, p. 309.

Some reasons given by officials of railroads for consolidating their properties have changed with the passing of time. Early mergers placed much emphasis on competition between the railroads themselves, however, since 1957 the railroads have put more stress on competition from other forms of transportation rather than competition among themselves. Also, in the past, the policy of unification stressed the need of financially strong roads merging with financially weak roads.²

From the standpoint of the rail carriers, the four basic advantages are probably reduction in operating costs; increased opportunities for additional revenues; corporate reorganization and strengthening and the prospect of offering improved services.³ Each of these possible advantages will be explained in the following paragraphs.

Rail unification may reduce operating costs by lowering overhead, such as administrative and general expenses. Economies may be realized by greater utilization of

²U.S. Interstate Commerce Commission, Railroad Consolidations and the Public Interest, A Staff Study by Bureau of Transport Economics and Statistics (Washington, D.C., March, 1962), p. 13.

³Ibid., p. 5.

equipment and consolidation of maintenance and terminal facilities. Operating costs may also be lowered by reduction in the number of interline movements and switching and abandonment of uneconomical lines.

Increased opportunities for additional revenue may be realized by service improvements, which may attract new industry and in turn additional traffic. Improved efficiency in the use of facilities may reduce unit costs sufficiently to permit rate reduction, which could possibly increase total revenues.

The Central Pacific and Southern Pacific merger is an example of corporate reorganization and strengthening. In this instance the Southern Pacific had operated the Central Pacific under lease for many years and owned all of its capital stock. The specific objective of the merger was to simplify the Southern Pacific's corporate structure through an elimination of lesser subsidiaries.

Unification may put a carrier in a position to offer improved services to the public by reduction in transit time, and more frequent schedules. Also more reliable service could result from a reduction in the number of companies with which the customer must deal in completing a shipment.

The two main types of physical mergers are end-to-end and parallel. The end-to-end merger involves two roads

with only one or two common points. The parallel type involves two roads extending in the same direction. They usually operate close to each other and serve the same localities. A merger may be a combination of both types. Advantages are usually possible from either type.

In the end-to-end type, faster service usually can be given on longer hauls and some personnel can be eliminated. This type of unification should substantially reduce the number of rail car interchanges.

In the parallel type of consolidation two roads are usually competing with one another for the same traffic, however, this is not always the case. For example, the Virginian and the Norfolk & Western railroads were parallel but each served different coal fields in West Virginia and competition for coal traffic was not present between the two carriers. This type of merger allows trains to be routed over the most favorably located lines. Duplicate services, tracks and other facilities may be eliminated by this type of merger. Both end-to-end and parallel mergers should benefit from consolidation of many activities such as repair shops and traffic control, as demonstrated under Federal control during World War I.⁴

⁴Cunningham, op. cit.

The public may receive from rail mergers the advantages of faster service, better delivery time, more frequent trains between major cities and in some cases lower rates. The Government may benefit from rail mergers because it would be easier to deal with fewer systems in war time and easier to regulate the carriers.

Rail mergers are not necessarily a panacea for the railroad industry. Many rail officials are taking a close look at possible merger advantages. The surrounding circumstances of any proposed merger must be investigated and carefully studied before an accurate statement of the advantages from such proposals can be made.

Attention will now be directed to the possible disadvantages of railroad mergers. Certain groups opposing mergers have listed what they believe are disadvantages of rail combinations. Some of the groups which have listed disadvantages are railroad labor groups, certain members of Congress, some shippers, certain state and city governments, some railroads outside the merger pattern, and the Justice Department. The opposing groups usually believe that certain provisions of a specific merger plan are unreasonable.

Railroad labor unions believe that the greatest disadvantage of railroad mergers is the possibility that

certain employees will lose their jobs. Many unions are of the opinion that the large savings expected from consolidation will come through a permanent reduction in the number of jobs available to railroad employees. In spite of protective provisions for labor, individual employees believe that they will be at a disadvantage because of the following: loss of railroad employment, loss of seniority rights, loss of Railroad Retirement Act annuity rights, repeated transfers of residence resulting from later job abolishments and loss of acquired skills.⁵

Some members of Congress have stated what they believe to be disadvantages of current merger proposals. Congressmen fear that a merger might not result in better service to the public. Other members of Congress would like to see mergers stopped until formulation of a comprehensive national railroad plan. For example, Senator Smathers, Chairman of the Senate's Surface Transportation Subcommittee, has advocated consolidation of the railroads into four noncompetitive regional groups.⁶

⁵Railroad Consolidations and the Public Interest, op. cit.

⁶Remarks of J.W. Barriger, President of P. & L. E. Railroad, "Why Consolidation", (Unpublished speech at Stanford University, California, July 17, 1959), p. 18. (Mimeographed)

Some shippers believe that unified roads might give poorer service. Others believe that competition among railroads will disappear and leave them at the mercy of the surviving road. In this connection, Senator Estes Kefauver of Tennessee, Chairman of the Senate Antitrust and Monopoly Subcommittee, said of the Pennsylvania Railroad--New York Central Railroad merger plan; "The possibilities for discrimination, rate control, traffic diversion, reciprocity with suppliers and actual influencing of the pricing policies of shippers by the Pennsylvania road alone will be enormous".⁷

State and city governments have protested specific merger proposals. They believe rail combinations might diminish their rail service and cause payroll losses due to shop, office and other facility removals which would bring about a loss of tax dollars.

A few railroad officials often disapprove of various merger proposals. Opposition is usually raised by roads within the territory of the proposed merger. Smaller lines often fear that the larger lines will take the biggest part of profitable, long-haul traffic.

⁷Roanoke Times, (Roanoke, Virginia), July 17, 1962, p. 1.

As a result of a merger plan of northwestern railroads, Paul T. Smith, a Montana railroad and public service commissioner, had the following to say: "It will do more to put Montana back into the horse and buggy age than anything since statehood". He suggested that service abandonments would paralyze the economy in some areas.⁸

The Justice Department's anti-trust division has intervened and registered objections in several rail mergers in recent years. Even though mergers are exempt from prosecution under anti-trust laws, the Interstate Commerce Commission has to consider the competitive impact of a proposed merger on other rail carriers. The Justice Department has been interested primarily in whether a merger will reduce competition and in certain procedural aspects. For example, the Department is interested in the exchange of stock on a fair basis. In 1961, the Department supported the request of the New York Central Railroad that five pending merger applications involving Eastern railroads be combined into a single proceeding.⁹

Some minority stockholders often oppose specific

⁸Ibid.

⁹Railroad Consolidations and the Public Interest,
loc. cit.

rail mergers. They say that the exchange of stock ratio is unfair or that the method of determining the value of stock for exchange is unjust. While many of the disadvantages of rail consolidations mentioned in this chapter may reflect only the selfish interest of different groups, their objections help to slow down the pace of railroad mergers.

CHAPTER III

RAILROADS WHICH MERGED OR CONSOLIDATED
BETWEEN 1945 AND 1960

Most of the rail unifications since 1945 were by eastern railroads which seemed to be in worse financial condition than roads in other parts of the country. The following railroad mergers will be considered in this chapter:

1947--Pere Marquette and the Chesapeake & Ohio.

--Alton and the Gulf, Mobile & Ohio.

1957--Nashville, Chattanooga & St. Louis and the Louisville & Nashville.

1959--Virginian and the Norfolk & Western.

--Charleston & Western Carolina and the Atlantic Coast Line Railroad.

--Central Pacific and the Southern Pacific.

1960--Delaware, Lackawanna & Western and the Erie.

--Wisconsin Central; the Duluth, South Shore & Atlantic and the Minneapolis, St. Paul & Sault Ste. Marie.

1963--Atlantic Coast Line and the Seaboard Air Line.

Some of these mergers received little publicity while others had nation-wide recognition. Some roads were larger in terms of dollars and mileage and certain proposals broke the traditional pattern of mergers as will be seen in the following specific merger transactions.

The historical background for many of these mergers goes back many years before 1945. The process of getting the stockholders and the Interstate Commerce Commission's approval, alone, sometimes took years. In addition, financial technicalities often prevented a prompt decision by the Interstate Commerce Commission.

Pere Marquette and the Chesapeake & Ohio

The physical relationship of the Pere Marquette and the Chesapeake & Ohio stemmed primarily from the two systems connecting for interchange of traffic at Toledo, Ohio, at La Crosse, Indiana and at Chicago, Illinois. The Chesapeake & Ohio was incorporated in Virginia and was subject to the general laws of that state. Before the merger, it owned and operated 1,496 miles of main lines and 1,220 miles of branch lines. Including lines used under trackage rights, it operated a total of 3,106 miles of railroad. In general, the Chesapeake & Ohio lines linked the rich coal fields of Virginia, West Virginia, Ohio and Kentucky with the Atlantic seaboard and the Great Lakes.

The Chesapeake & Ohio had been engaged in railway transportation for 70 years prior to the 1947 merger with the Pere Marquette. It was predominately a carrier of coal and its lines originated more bituminous coal than any other road in the country.¹

The Pere Marquette was a Michigan corporation which owned 1,269 miles of main lines. Including branch lines, it operated a total of 1,950 miles of railroad. The Pere Marquette's system extended from Chicago, through Grand Rapids and Detroit, Michigan to Buffalo, New York; from Toledo, through Flint and Saginaw, to Ludington, Michigan on the East shore of Lake Michigan; and from Grand Rapids to Petoskey, Michigan.

The Pere Marquette had been engaged in railway transportation for 90 years prior to the merger. Manufacturers' and miscellaneous freight accounted for about half of the Pere Marquette tonnage and coal and coke comprised the other half.²

The affiliation of the Chesapeake & Ohio and the Pere Marquette dated from 1927, when the Interstate Commerce

¹Interstate Commerce Commission Report, "Decisions of the Interstate Commerce Commission of the U.S." (Washington, D.C.: U.S. Government Printing Office, 1947), Vol. 267, p. 211.

²Ibid., p. 212.

Commission authorized the former to purchase some stock in the latter. Again in 1928, the Commission allowed the Chesapeake & Ohio to purchase a numerical majority of the Pere Marquette's outstanding stock. This transaction gave Chesapeake & Ohio control of the Pere Marquette and allowed the two roads to operate under joint management.³ These changes brought about savings in overhead expenses and savings from more efficient operation of the Pere Marquette in excess of \$500,000 annually.⁴

This close relationship between the two roads improved the financial condition of the Pere Marquette and in 1943 the Chesapeake & Ohio began to consider complete merger with the Pere Marquette. In early 1946, the directors of both systems entered into a merger agreement which would eventually combine both railroads into a single corporation--the Chesapeake & Ohio Railway Company.

The primary purpose of the proposed merger was to extend the economies brought about by the joint management which had existed since 1929 and to diversify Chesapeake &

³"Would Approve P. M. and C. & O. Merger", Railway Age, November 2, 1946, Vol. 121, pp. 737-740.

⁴Interstate Commerce Commission Report, op. cit., p. 215.

Ohio's traffic pattern away from a heavy dependence on coal traffic.⁵ Overall monetary savings of \$1,200,000 annually were expected from unification.⁶

The Chesapeake & Ohio Railway Company, the Pere Marquette Railway Company and the Alleghany Corporation (a holding company which had control of Chesapeake & Ohio through stock ownership) applied March 8, 1946, for authorization and approval under the Interstate Commerce Act for merger of the properties and franchises of the Pere Marquette into the Chesapeake & Ohio for ownership, management and operation.⁷ The plan required the Chesapeake & Ohio to assume all obligations and liabilities of the Pere Marquette on the merger date.

The Chesapeake & Ohio stockholders gave their approval to the proposed merger on April 23, 1946, with 98.9 per cent of all classes of stock voting in favor of the merger and 1.1 per cent against. The Pere Marquette stockholders gave their approval on May 7, 1946, with 88 per cent of all classes of stock voting in favor and 12 per cent against

⁵Railway Age, op. cit.

⁶Railroad Consolidations and the Public Interest, op. cit., Appendix, p. 1.

⁷ICC, op. cit., p. 208.

the transaction.⁸

At the time the merger proposal was presented to the Interstate Commerce Commission, the Chesapeake & Ohio had total investments-less depreciation of \$530,894,875 and the Pere Marquette had total investments-less depreciation of \$131,558,926. Thus, the two roads had a total net capitalization-less depreciation of \$633,755,711.⁹

Under the terms of the merger agreement, each share of Pere Marquette prior preference stock was to be exchanged for one share of Chesapeake & Ohio convertible preferred and one third share of Chesapeake & Ohio common stock. Each share of Pere Marquette preferred stock was to be exchanged for .8 share of Chesapeake & Ohio convertible preferred and .4 share of Chesapeake & Ohio common stock. Finally, each share of Pere Marquette common stock was to be exchanged for one half share of Chesapeake & Ohio common stock.¹⁰

At first glance, the exchange ratios do not seem fair

⁸30th Annual Report of Pere Marquette Railway Company, 1946, p. 3.

⁹ICC, op. cit., p. 217.

¹⁰30th Annual Report of P. M. Railway Co., op. cit., pp. 3-8.

to Pere Marquette stockholders. The exchange ratios were based on the assumption that the Pere Marquette stockholders would experience a gain in the value of their securities.¹¹ The applicants had used the market price (current selling price of stock) in determining the stock ratio exchange. The Chesapeake & Ohio believed this was the just thing to do since it was in a much better financial position than the Pere Marquette. Chesapeake & Ohio stockholders had always received regular dividends whereas the common stockholders of the Pere Marquette had received no dividends since 1931. Pere Marquette's opposing common stockholders rejected this explanation and said that its stock should be valued on potential income basis. However, the applicants contended that the intervening stockholders were putting too much emphasis on the unusual earnings brought about by World War II. They pointed out that during the first quarter of 1946, the Pere Marquette operated at a deficit of \$326,971 while the Chesapeake & Ohio earned a net income of \$8,308,022.¹² After the merger was approved by the Interstate Commerce Commission the dissenting

¹¹Railroad Consolidations and the Public Interest,
op. cit., p. 6.

¹²ICC, op. cit., p. 245.

stockholders took the case to the United States Supreme Court. They contended that it was the duty of the Interstate Commerce Commission to consider anew and fully, on its merits, the question of allocations to dissenting stockholders. The interveners did not believe the Commission fully considered the preferential rights attached to the preferred stock in the event of actual liquidation. The Court ruled that the Interstate Commerce Commission must consider such rights granted to stockholders in event of liquidation to the extent that their rights might affect intrinsic or market values.¹³ This technical case illustrates the type of analysis sometimes necessary in working out financial arrangements for a merger.

After consolidation, the Chesapeake & Ohio was expected to give stiffer competition to other railroads. It was anticipated that the transaction would put the combined system in a more competitive position with the New York Central, Pennsylvania and the Baltimore & Ohio.¹⁴

Fixed charges were not affected by the merger. The Chesapeake & Ohio simply assumed payment of the fixed charges

¹³Railroad Consolidations and the Public Interest,
op. cit., p. 35.

¹⁴Railway Age, op. cit.

of the Pere Marquette. Few employees were affected immediately by this merger, since the merger did not result in any changes in train operation.¹⁵ In addition, traffic revenues increased from \$287 million¹⁶ in 1947 to \$344 million¹⁷ in 1953. Certain clerks were relocated as a result of the merger.¹⁸

In order to protect the interest of carrier-employees affected by a merger, Section 5(2)(f) of the Interstate Commerce Act provides:

as a condition of its approval, under this paragraph (2) of any transaction involving a carrier or carriers by railroad subject to the provisions of this part, the Commission shall require a fair and equitable arrangement to protect the interests of the railroad employees affected. In its order of approval the Commission shall include terms and conditions providing that during the period of four years from the effective date of such order such transaction will not result in employees of the carrier or carriers by railroad affected by such order being in a worse position with respect to their employment, except

¹⁵Letter from John S. Marshall, Assistant to Executive Officers, The Chesapeake & Ohio Railroad Company, May 22, 1963.

¹⁶Annual Report of Chesapeake & Ohio Railway, (1947),
p. 32.

¹⁷Annual Report of Chesapeake & Ohio Railway, (1962),
p. 30.

¹⁸30th Annual Report of Pere Marquette Railway Company,
op. cit.

that the protection afforded to any employee pursuant to this sentence shall not be required to continue for a longer period, following the effective date of such order, than the period during which such employee was in the employ of such carrier or carriers prior to the effective date of such order. Notwithstanding any provisions of this act an agreement pertaining to the protection of the interest of said employees may hereafter be entered into by any carrier or carriers by railroad and the duly authorized representative or representatives of its or their employees.

Employees in the Pere Marquette case were protected by the so-called "North Western" conditions. These conditions are used in merger cases where there is to be no effect on employees or in which the future effect is indeterminate. The conditions are a restatement of the above statutory language, directing a "fair and equitable arrangement" and "no worse position" for employees.¹⁹

The communities served by the two roads were not adversely affected by the unification, since the Interstate Commerce Commission required the combined system to maintain all of its 1947 routes and channels of trade.²⁰ Chesapeake & Ohio was not to make any changes unless ordered to do so by

¹⁹Railroad Consolidations and the Public Interest,
op. cit., p. 49.

²⁰Marshall, John S., op. cit.

the Commission.

In merger proceedings, safeguarding the public interest is a key consideration of the Interstate Commerce Commission. Whereas no voice speaks before the Commission for the public as a whole in merger cases, the directors of the Chesapeake & Ohio and Pere Marquette presented to the Commission the probable benefits and savings which they expected from the transaction.²¹

The Interstate Commerce Commission decided that the consolidation would be in the public interest and of substantial benefit to both parties to the transaction. The Commission's decision on the public interest criteria was based on the following assumptions:

1. Pere Marquette stockholders prospects for return on investment would be greater.
2. Protection of relocated employees' rights were adequate.
3. Total fixed charges would not be increased.
4. No changes were to be made in through routes or rates.²²

Final Interstate Commerce Commission approval of the merger of the Pere Marquette and the Chesapeake & Ohio came on June 6, 1947, when the agreement of consolidation

²¹"Would Approve P. M. and C. & O. Merger", Railway Age, November 2, 1946, Vol. 121, pp. 737-740.

²²"P. M. Merger Approved", Railway Age, April 5, 1947, Vol. 122, pp. 704-705.

was filed with the Michigan Secretary of State and the Virginia State Corporation Commission.²³ The agreement was also filed in the other states served by the two roads.

Robert J. Bowman, president of the Chesapeake & Ohio, became president of the new railroad. Based on 1946 operating revenues, the Chesapeake & Ohio became the seventh largest railroad in the country with approximately 5,000 miles of main track.²⁴

Interveners reopened the case after Interstate Commerce Commission approval of the transaction. Reasons for reopening of the case were stated in an earlier part of this study.²⁵ The Supreme Court required the Commission to show:

1. liquidation preference rights were given adequate consideration in the original case and
2. a modification in the terms of the merger was necessary to meet the Court's ruling that the ICC had erred in approving the provisions of a merger agreement which made the settlement of claims of dissenting stockholders contingent either upon the decision of some other tribunal or agreement of the parties themselves.²⁶

²³70th Annual Report of the Chesapeake & Ohio Railway Company, (Cleveland 1, Ohio, December 31, 1947), pp. 7-8.

²⁴Ibid.

²⁵"Supra, pp. 28-29."

²⁶Interstate Commerce Commission Report, "Pere Marquette Railway Company Merger, etc.", 1949, Vol. 271, p. 667.

The Commission's report on reconsideration of the case came two years after its original decision. The Commission reaffirmed its original approval of the merger and took into account the principles set forth by the Supreme Court. Necessary changes were made in the earlier decision to conform with the Supreme Court ruling.²⁷

Mr. John S. Marshall, Assistant to the President of the Chesapeake & Ohio stated the following in a letter dated May 22, 1963:

The merger of Pere Marquette into Chesapeake & Ohio in 1947 accomplished the objectives set for it. One of the main objectives was to diversify the traffic pattern away from heavy dependence on coal traffic. At the present time the mixture is about half and half--coal and merchandise freight. Other objectives such as cost savings in administration and common management have also been achieved. It is our joint opinion that the Pere Marquette merger was a successful one and we are glad that we went through with it.²⁸

Alton and the Gulf, Mobile & Ohio

Consolidation of the Alton and the Gulf, Mobile & Ohio was treated by the Interstate Commerce Commission as a purchase; however, since the Alton lost its identity in the

²⁷ Railroad Consolidations and the Public Interest,
op. cit., p. 35.

²⁸ Marshall, John S., op. cit.

transaction and the Gulf, Mobile & Ohio accepted full responsibility for the Alton, the transaction has all the characteristics of a merger. In order to show that these two roads were involved in a true merger, the following excerpt from testimony of Mr. E. D. Scruggs (a witness for the Gulf, Mobile & Ohio Bondholders Committee) is cited:

The Gulf, Mobile & Ohio is here proposing to take over the Alton road as such, so that in the future there will be no distinction between what is presently Alton lines and what is presently Gulf, Mobile & Ohio lines. In other words, they will sink or swim on the total consolidated picture and not on what might happen to one end of the line or what might happen to the other.²⁹

The physical relationship of the two roads was not as close as that of the Chesapeake & Ohio and the Pere Marquette. The lines of the Alton and the Gulf, Mobile & Ohio do not connect directly at any point. Interchange has been accomplished at East St. Louis by the Terminal Association (an independent association responsible for train interchanges).

Before combining with the Alton Railroad, the Gulf, Mobile & Ohio owned and operated a route from East St. Louis to Jackson, Tennessee, and two roughly parallel lines from that point to Mobile, Alabama, one by way of Artesia,

²⁹U.S. Interstate Commerce Commission, "Testimony of E. D. Scruggs", Finance Docket No. 14932, 1945.

Mississippi, and Meridian and the other by way of Union, Mississippi. The mileage owned was 1,417; that under lease was 227 miles and that operated under trackage rights was 304 miles.³⁰

The Gulf, Mobile & Ohio originated in 1871 when the first 62 miles of the line were constructed. The Alton was organized in 1931 as the successor of the Chicago & Alton.

Freight traffic carried by the Gulf, Mobile & Ohio was divided into three approximately equal categories - mine products, forest products and manufacturers' products. Some passengers were handled by train, but most of this traffic was carried by buses operated by its subsidiary, the Gulf, Transport Company.

The Baltimore & Ohio Railroad which owned Alton's outstanding stock had made net open-account advances to the Alton and had guaranteed a \$2,500,000 loan which the Alton had made through the Reconstruction Finance Corporation. Thus, the Baltimore & Ohio had claims against the Alton amounting, with interest, to \$15,576,128.³¹ The Interstate Commerce Commission found that no assets were available for

³⁰"Gulf, Mobile & Ohio Merger is Approved", Railway Age, September 29, 1945, Vol. 119, p. 514.

³¹Railway Age, op. cit., p. 513.

distribution and therefore no provision was made in the reorganization plan for these claims.

The Alton's system consisted of lines in Illinois, Missouri and Louisiana. The Alton owned and operated 501 miles of main line and 153 miles of branch lines. It operated, under lease, 276 miles of main line. Carload traffic was made up of approximately 50 per cent products of agriculture and mines. Manufacturers' and miscellaneous products made up the other half. The Alton had lost revenues with the decline in the mining of coal along its lines in Illinois.³²

In 1944 the Alton Railroad was bankrupt. During this year the Gulf, Mobile & Ohio had begun to study the possibility of merging with the Alton. As early as 1943, one of the Gulf, Mobile & Ohio directors had wanted the company to investigate the possibility of merging with the Alton.³³

In 1945 the Alton had only worn-out equipment and no money to buy new equipment. This was due primarily to the depression years when the Baltimore & Ohio had more

³²James Hutton Lemly, The Gulf, Mobile & Ohio, (Homewood, Illinois: Richard D. Irwin, Inc., 1953), pp. 184-185.

³³Ibid.

equipment than it needed and had supplied equipment to the Alton. The Baltimore & Ohio charged very little for use of the equipment and thus the Alton failed to replace its worn-out equipment.

The Gulf, Mobile & Ohio and the Alton had not been affiliated with one another prior to the merger. The two roads were not parallel to each other and any unification had to be of the end-to-end type (one road joining another to make possible longer hauls).

The purpose of the consolidation plan was to make possible longer hauls by the Gulf, Mobile & Ohio and to put the Alton in a better financial position. Gulf, Mobile & Ohio officers testified at Interstate Commerce Commission hearings that after the merger they expected to increase long-haul traffic by approximately 47,000 cars annually.³⁴

Applicants testified before the Interstate Commerce Commission that the merger of the financially sound Gulf, Mobile & Ohio with the bankrupt Alton would result in the formation of a single unit which would benefit from the

³⁴Letter from Mr. B.S. Sheridan, Assistant Vice-President - Public Relations, Gulf, Mobile & Ohio Railroad Company, Dated June 6, 1963.

financial results of the whole operation.³⁵ Mr. Patrick McGinnis, speaking for the Alton Bondholders Protective Committee at the merger hearings nearly twenty years ago stated:

Another reason that I recommend the plan is that in my opinion, even in normal times there is hope and justifiable hope for looking forward to reasonable dividends and if we should in some future years receive a dividend of \$1.00 a share on our seven shares, we are up pretty close to our former full return. I also think that this combined system eventually will justify a price of \$40 a share. It is presently selling at 27-7/8. In other words, since this deal was announced, the stock had advanced from 16 to 27-7/8.³⁶

The Alton had been controlled prior to 1945 by other carriers. Previous control had been by stock ownership without responsibility for Alton's debts and the other roads failed to release the Alton from its obligations in times of financial stress.

The directors of both roads gave approval to unification of the properties in early 1945. The necessary majority of the Alton's bondholders gave approval to joining of the two systems at about the same time.

The Gulf, Mobile & Ohio applied to the Interstate Commerce Commission on May 14, 1945, for permission to

³⁵Lemly, op. cit.

³⁶Lemly, op. cit., p. 190.

acquire the Alton. At the time, no opposition was expected from any source.³⁷

The terms of the merger were these: Gulf, Mobile & Ohio was to give each holder of a \$1,000 three per cent Alton bond a \$500 four per cent Series B Gulf, Mobile & Ohio income bond and $7\frac{1}{4}$ shares of Gulf, Mobile & Ohio common stock, which had no face value but was expected to be worth \$30 in the current market.³⁸ The basis of this plan was the expected rise in the value of Gulf, Mobile & Ohio securities.³⁹ The Alton bondholders felt that this was the best plan available to them and they were glad to agree to the merger.⁴⁰

The capitalization of the Alton in January of 1945 was \$40,895,537, and that of the Gulf, Mobile & Ohio was \$67,185,703.⁴¹ Thus, the two roads had a total capitalization of about \$108,081,240.

As a result of unification and assumption of Alton's

³⁷Ibid., p. 191.

³⁸U.S. Interstate Commerce Commission, "Alton Railroad Co. Reorganization Plan", Finance Docket No. 14030, 1945.

³⁹Lemly, op. cit., p. 184.

⁴⁰Ibid.

⁴¹Railway Age, op. cit., pp. 514-515.

equipment loan, fixed charges of Gulf, Mobile & Ohio were expected to increase slightly. Also, Gulf, Mobile & Ohio had agreed to assume the leases and payment of the rentals on the Joliet & Chicago Railroad, the Louisiana & Missouri River Railroad and the Kansas City, St. Louis & Chicago Railroad which were leased lines in the Alton system.⁴²

The directors of the Gulf, Mobile & Ohio did not anticipate that employees would be affected adversely by the consolidation. In fact, since the combination was to be primarily an end-to-end merger, some additional traffic was expected. Thus, all of the employees were to be retained and normal and natural attrition was expected to take up any slack. As an added protection, employees were to be safeguarded by the Washington Job Protection Agreement, of 1936, which had been signed by a majority of the Class I railroads (those having annual revenues in excess of three million dollars) and the railroad brotherhoods.⁴³ Mr. S. M. Sheridan, Assistant Vice President of the Gulf, Mobile & Ohio stated in a letter dated June 6, 1963 that not a single employee was displaced because of the acquisition

⁴²Lemly, op. cit., pp. 184-186.

⁴³The Washington Job Agreement is described on pp. 223-234 of Railroad Consolidation Under the Transportation Act of 1920, by William N. Leonard.

of the Alton by the Gulf, Mobile & Ohio. "Also, not a single employee complaint arose that was not settled on the property itself."⁴⁴

Competition was a minor consideration at the Interstate Commerce Commission hearings. As far as can be determined the transaction did not decrease or increase competition for rail, water or highway traffic.⁴⁵

No communities protested the consolidation of the two roads. The expanded system allowed shippers to take advantage of longer hauls, and the financial improvement of the Alton line assured shippers of more dependable and prompt service. The communities, civic leaders and shippers saw in this union a strong permanent resident carrier. Several appreciative newspaper editorials in communities along the former Alton Railroad justified the consideration as a very realistic one.⁴⁶

The Gulf, Mobile & Ohio was carrying out a program to equip its lines with Diesel-electric locomotives in all services which made it possible to release its steam power for use on the Alton. This saved the Alton from heavy

⁴⁴Sheridan, op. cit.

⁴⁵Ibid.

⁴⁶Ibid.

expenditures for additional equipment. Also, a number of Gulf, Mobile & Ohio cars were shifted over to the Alton line, making for additional economy.⁴⁷

The principal opposition to the merger was expected to come from the Baltimore & Ohio Railroad, which had a variety of secured and unsecured claims against the Alton totaling over \$15,000,000. This did not include \$25,000,000 in Alton stock held by the Baltimore & Ohio. This stock represented no equity, and many of the Baltimore & Ohio's claims were unsecured bookkeeping transactions such as those which resulted from the Baltimore & Ohio's practice of providing equipment to the Alton for use during the depression. In an effort to hasten consolidation, Gulf, Mobile & Ohio paid the Baltimore & Ohio \$1,190,925 for all the latter's claims against the Alton plus all of the Alton stock held by the Baltimore & Ohio.⁴⁸ Thus, the Baltimore & Ohio received about two cents for every dollar of total claims that it held against the Alton. Nevertheless, the Baltimore & Ohio was satisfied with the transaction and decided not to oppose the consolidation. It has been suggested that one of Baltimore & Ohio's reasons for settling its claims so cheaply was its

⁴⁷Lemly, op. cit., p. 190.

⁴⁸Lemly, op. cit., p. 185.

income tax situation in 1945. The Baltimore & Ohio had long before written off its investment in the Alton's stock, but evidently the Internal Revenue Department had not been convinced of the losses involved. By this transaction the Baltimore & Ohio was able to prove its losses and was able to have a major deduction in 1945 to offset its high net income for that year.⁴⁹

The Interstate Commerce Commission gave its approval to the plan on September 19, 1945. The Commission stated that the merger would be in the public interest for the following reasons:

1. The expanded system would expedite and improve services.
2. No existing routes or gateways would be closed because of the merger.
3. The transaction would assure permanency of service along the Alton route.
4. The combined road would result in a stronger road which could overcome periods of financial weakness.⁵⁰

The merger was completed on June 1, 1947, after a final approval order signed by Judge John P. Barnes in Federal District Court at Chicago. The merger created a new 3,000 mile railroad system which reached from Chicago to the

⁴⁹Ibid.

⁵⁰Railway Age, September 29, 1945, op. cit., pp. 514-515.

Gulf Coast. Issac B. Tigrett, president of the Gulf, Mobile & Ohio, reported in his 1947 annual letters to the stockholders that the benefits derived from the Alton acquisition were well in line with previous estimates.⁵¹

In June 1963, Mr. S. M. Sheridan, speaking for the Gulf, Mobile & Ohio, stated:

We are convinced that the purchase of the Alton was a very successful move of the Gulf, Mobile & Ohio Railroad. It was a particularly timely acquisition because it fitted in perfectly with the industrilization which was then beginning to take form in the Gulf Coast South on the territory which the Gulf, Mobile & Ohio serves. For example, the paper industry was blossoming forth and is still an expanding tonnage producer. Rich oil discoveries were just then being made in Mississippi and later in Alabama and these resources are now more than ever being exploited. Mechanization generally had followed through this Deep South area of which we have been a part for more than a hundred years. The Alton purchase perfectly met the expanding needs of not only our territory, but also of our own economies. Of course, this being an end to end consolidation there were not the opportunities for savings that are always present when parallel lines are joined and duplicating facilities can be satisfactorily eliminated with resultant savings.⁵²

The primary objective of the merger was achieved soon after the Commission's approval. For example, during the first six months of 1948, Gulf, Mobile & Ohio handled 27,707

⁵¹Lemly, op. cit., p. 201.

⁵²Sheridan, op. cit.

cars from one segment of the line to the other. This was at the rate of 55,400 cars annually as compared with a total of 9,610 cars interchanged between the two lines in 1945.⁵³

The increase in dividends and in share prices exceeded those predicted by Mr. McGinnis.⁵⁴ In 1962 Gulf, Mobile & Ohio paid \$2.00 per share dividend. The common stock sold June 6, 1963 at 40-7/8.⁵⁵

Nashville, Chattanooga & St. Louis and
the Louisville & Nashville

The merger of the Nashville, Chattanooga & St. Louis Railway and the Louisville & Nashville Railroad is especially significant, since this was the first rail merger in which a large number of rail employees were to lose their jobs. Also, this was the first time that the Interstate Commerce Commission apparently considered meeting highway, water and air competition of major importance in railroad merger analysis.

Physically, the two roads were well adapted to integration and unified operation since both roads served Atlanta, Nashville and Memphis. More than a third of the

⁵³Ibid.

⁵⁴"Supra, pp.39-40."

⁵⁵Sheridan, op. cit.

Nashville, Chattanooga & St. Louis's interline carload business was with the Louisville & Nashville.⁵⁶ Unification was to be a combination of the parallel and end-to-end type merger.

The Louisville & Nashville, which operated in Ohio, Louisiana, Kentucky, Tennessee, Georgia, Missouri, Alabama, Florida and Virginia, was organized in Kentucky in 1850. Prior to its merger with Nashville, Chattanooga & St. Louis it operated more than 4,700 miles of railroad, of which more than 3,000 miles were main line and 1,400 miles were branch lines. In 1955, its mileage ranked 19th on a national scale.⁵⁷

Mine products comprised the majority of the Louisville & Nashville's total tonnage and provided two fifths of its total revenue with the remaining revenue and tonnage derived from manufacturers and miscellaneous products. In recent years the Louisville & Nashville had lost part of its coal tonnage and revenue as a result of a decline in coal mining, and was attempting to develop manufacturing industries along

⁵⁶Interstate Commerce Commission Report, Vol. 295, Finance Docket No. 18845, p. 460.

⁵⁷"ICC Approves Merger of N.C. & St. L. into L. & N.", Railway Age, March 18, 1957, p. 10.

its lines to make up for coal traffic loss.⁵⁸

The Nashville, Chattanooga & St. Louis, with principal lines extending through Tennessee, Georgia, Kentucky and Alabama, was incorporated in the State of Tennessee in 1845. Prior to 1957, it operated approximately 1,000 rail miles, of which about two thirds were main lines and one third were branch lines.

Manufacturers and miscellaneous goods accounted for 50 per cent of the total revenue of this road. Since coal traffic accounted for only 20 per cent of its total tonnage, the Nashville, Chattanooga & St. Louis was less dependent on coal traffic than the Louisville & Nashville.⁵⁹

The affiliation of the two roads dated back to 1880 when the Louisville & Nashville obtained control of Nashville, Chattanooga & St. Louis's stock. In that year, the Louisville & Nashville obtained three fourths of the total common stock of the Nashville, Chattanooga & St. Louis. The Atlantic Coast Line Railroad controlled the Louisville & Nashville through ownership of over 35 per cent of the latter's total stock. The Atlantic Coast Line Company in turn controlled the Atlantic Coast Line Railroad Company

⁵⁸ICC, Finance Docket No. 18845, op. cit., p. 466.

⁵⁹Ibid.

through ownership of more than one fourth of its total stock. All four of these companies had been operated and managed as separate entities, although they did have a number of officers and directors in common.⁶⁰ The Louisville & Nashville and the Nashville, Chattanooga & St. Louis were closely affiliated during World War I, since they were operated under a single federal manager. The managements of the two roads had always worked in close cooperation with each other. Neither road was considered to be financially weak and both roads had prospered over the years under separate operation and management.⁶¹

The purpose of the merger was to produce more efficient and economical transportation service and thereby attract more business.⁶² It was assumed that combining facilities and resources under one management would give more control over mounting operating costs. Officers of the two roads believed consolidation would better enable the single organization to meet competition from highway, airway and waterway transportation which were receiving some form of

⁶⁰ ICC, Finance Docket No. 18845, op. cit., pp. 461-462.

⁶¹ Ibid.

⁶² Letter from Raymond E. Bisha, Assistant to the President, Louisville & Nashville Railroad Company, Louisville, Kentucky, dated July 1, 1963.

public subsidy and place them in a better position to meet competition from other railroads.⁶³

During the years 1952 to 1954, the two roads began intensive studies concerning a possible merger. These studies proved to the satisfaction of Louisville & Nashville officers that merger of the two roads would bring many advantages.⁶⁴

On November 18, 1954, the board of directors of the Louisville & Nashville worked with management on a specific plan of merger. Its board approved the merger on December 16, 1954. The board of directors of the Nashville, Chattanooga & St. Louis approved the merger plan on April 26, 1955.

The two roads filed a joint application with the Interstate Commerce Commission for authority to merge in May of 1955. Holders of over 98 per cent of the Louisville & Nashville stock voted for the merger.⁶⁵ Stockholders of the Nashville, Chattanooga & St. Louis gave their approval

⁶³"L. & N.-N. C. & St. L. Merger", Railway Age, November 29, 1954, p. 12.

⁶⁴Ibid.

⁶⁵"Overwhelming Approval of Merger", Railway Age, April 18, 1955, p. 7.

in May of 1955. Holders of ninety per cent of the shares voted in favor of the merger.⁶⁶ In June of 1955 the Louisville & Nashville had a total par value capitalization of \$125,000,000. The value of its property for rate making purposes, at this time, was \$358,721,955. The Nashville, Chattanooga & St. Louis had a total par value capitalization of \$25,598,000. The value for rate making purposes was \$53,618,798.⁶⁷

The directors of the Louisville & Nashville drew up a plan for stock exchange which was accepted by the directors of the Nashville, Chattanooga & St. Louis. Each share of Nashville, Chattanooga & St. Louis common stock (\$100 par) was to be exchanged for 1.5 shares of Louisville & Nashville common stock (\$50 par).⁶⁸ This exchange was based on the assumption that Nashville, Chattanooga & St. Louis's stock would show an increase in value after consummation of the merger.

In order to show that the merger would be in the public interest, the applicants pointed out the many anticipated

⁶⁶"Merger of the L. & N.", Railway Age, May 2, 1955, p. 5.

⁶⁷U.S. Interstate Commerce Commission, op. cit., p. 640.

⁶⁸"L. & N. - N. C. & St. L. Merger?", Railway Age, op. cit.

advantages such as: better service; more efficient and economical single-line operations; aid in developing industrial territories; more open routes and additional gateways and interchange points; longer hauls; substantial increase in traffic volume and revenues; better solicitation; estimated savings of \$3,250,000 in reduced operating expenses; tax savings of approximately \$120,000 and general miscellaneous savings aggregating \$354,200. These annual savings were not to be fully realized for several years following the merger.⁶⁹

In each of the two previous mergers discussed,⁷⁰ one of the two roads were financially weak and one was financially strong. In this transaction both roads were considered to be financially strong. Applicants testified at Interstate Commerce Commission hearings that the consolidation would not involve an increase in Louisville & Nashville's fixed charges.⁷¹

Some employees were expected to be affected adversely by the transaction. In their testimony, applicants stated

⁶⁹Railroad Consolidations and the Public Interest, op. cit., Appendix, p. 4.

⁷⁰"Supra, pp. 23 and 34."

⁷¹ICC, Finance Docket No. 18845, op. cit., pp. 477-478.

that approximately 550 employee positions of the Nashville, Chattanooga & St. Louis would be abolished, and an additional 289 employees would be transferred. Thus, 839 employees were to be affected adversely by the merger.⁷²

The Interstate Commerce Commission requires that conditions for the protection of employees be included in every railroad merger plan. In this merger, the conditions were designed to protect both the employees initially affected by the transaction and those who might be affected after expiration of a four year period.⁷³ Dismissed employees were to receive monetary benefits based on the length of employment with the company. The monetary benefits were not to continue for more than five years after the merger date. The Interstate Commerce Commission described the protective conditions as "more favorable to employees than any heretofore imposed in merger cases".⁷⁴ The dismissal of the 550 employees was one of the major long-run savings expected from the merger.⁷⁵

⁷²Ibid., p. 500.

⁷³Railroad Consolidations and the Public Interest, op. cit., p. 49.

⁷⁴Bisha, op. cit.

⁷⁵ICC, op. cit., p. 501.

Nashville, Tennessee was the principal city expected to be affected adversely by the merger. The merger plan called for removal of Nashville, Chattanooga & St. Louis's central offices from Nashville, Tennessee to Louisville, Kentucky. This would make Nashville a one railroad town and some residents believed that this would put the city at a disadvantage in commercial competition with other cities.⁷⁶

The economic effects of the merger on the area served by the two roads were uncertain. However, the merger was expected to bring about a stronger transportation company to serve the commerce of the thirteen states in which the two roads operate. In addition, the longer combined system was expected to make this area more attractive to new industries and encourage expansion of old ones.⁷⁷

No other railroad sought to be included in the transaction. The two railroads which might have been interested were the Southern Railroad Company and the Illinois Central Railroad Company, both of which exceeded the combined Louisville & Nashville system in mileage operated and in gross revenue. Neither road believed the combined

⁷⁶Ibid., p. 478.

⁷⁷"The Merger--A Great Step Forward", The Louisville & Nashville Employees' Magazine, September, 1957.

Louisville & Nashville would be a hinderance to them.

In addition to the opposition from the city of Nashville and from labor organizations, a protective committee for minority stockholders of the Nashville, Chattanooga & St. Louis Railway Company also intervened. The minority stockholders disagreed with the terms offered to them.⁷⁸ Even though all stockholders of the Nashville, Chattanooga & St. Louis were offered the same terms the Interstate Commerce Commission had to listen to all complaints involving stockholders. This complaint delayed Interstate Commerce Commission approval of the merger.

The unification would eliminate any competition which might have existed between the two roads. Interveners contended that the two roads competed extensively with each other. On the other hand, applicants pointed to the fact that the two roads had been closely coordinated in service, operation and managerial relations for over three-quarters of a century. Thus, applicants contended that competition between the Nashville, Chattanooga & St. Louis and the Louisville & Nashville was not the same as competition between two entirely independent roads. They stated that

⁷⁸"Merger of the L. & N.", Railway Age, May 2, 1955, p. 5.

antagonistic competitive situations had not existed between the two roads.⁷⁹

Applicants claimed that the railroads must do everything in their power to improve their competitive positions. They stated that other modes of transportation were being subsidized by the government and that expenditures for highway improvement over a ten year period were more than four times the total value of all Class I railroads built up over more than a century. In addition, applicants contended that airline carriers and water carriers are subsidized to a considerable degree by the federal government.⁸⁰

The Interstate Commerce Commission in March of 1957, authorized merger of the Nashville, Chattanooga & St. Louis into the Louisville & Nashville for ownership, management and operation. The decision authorized the Atlantic Coast Line Railroad to continue its direct control of the Louisville & Nashville. Also approved was indirect control of the Louisville & Nashville by the Atlantic Coast Line Company. The merger became effective on August 30, 1957

⁷⁹The L. & N. Employees' Magazine, op. cit.

⁸⁰Railroad Consolidations and the Public Interest,
(Washington, D.C.: U.S. Government Printing Office,
March, 1962), See Appendix p. 4.

after more than two years of study and proceedings.⁸¹

The Commission stated in its decision that the terms and conditions were just and reasonable and even though some individuals would be affected adversely, the merger would still be consistent with the overall public interest. In reaching its conclusion the Commission considered mainly the need for adequate transportation service and the best use of transportation facilities. The Interstate Commerce Commission believed that since the two companies had operated in harmony so long, the interest of both the public and stockholders would best be served by consolidation.⁸²

Unification was a combination of the parallel and end-to-end type merger. In 1957, the Louisville & Nashville ranked 16th in total mileage, 13th in gross revenue, 9th in net railway operating income and 8th in net income. Mr. John E. Tilford, president of the Louisville & Nashville stated in the Louisville & Nashville Employees' Magazine that the combined organization will operate 5,700 miles of main track or approximately 9,300 miles of all track. In addition Mr. Tilford stated that the combined roads will

⁸¹"ICC Approves Merger of N. C. & St. L. into L. & N.", Railway Age, March 18, 1957, p. 10.

⁸²ICC, Finance Docket No. 18845, op. cit., p. 502.

have 734 diesel locomotives, 593 passenger train cars, 67,336 freight cars, combined gross investment of approximately \$907 million, about 25,000 employees and over 16,000 stockholders.⁸³

In August 1963, six years after completion of the merger, Mr. George G. Barbee, Industrial Director for the Nashville Area Chamber of Commerce stated in a letter "without question the merger resulted in loss of jobs and purchase of services and supplies locally which had an effect on the Nashville area economy". Mr. Barbee stated that since 1957 the situation has adjusted itself through emphasis on our industrial development program.⁸⁴

Mr. Raymond E. Bisha, Assistant to the President, Louisville & Nashville Railroad, stated in a letter dated July 1, 1963 that the Louisville & Nashville is convinced that the merger has helped to build business for the railroad and in the long-run the merger will promote job security for Louisville & Nashville employees. He added that the efficiencies made possible by the merger have, as predicted,

⁸³ "The Merger--A Great Step Forward", The Louisville & Nashville Employees' Magazine, September, 1957, p. 3.

⁸⁴ Letter from George G. Barbee, Industrial Director, Nashville Area Chamber of Commerce, Nashville, Tennessee, dated August 13, 1963.

helped in meeting competition from other modes of transportation. In addition, Mr. Bisha indicated that consolidation has allowed the Louisville & Nashville to spend \$300 million since 1957 on additions and improvements to roadway and equipment which have resulted in better service to communities.⁸⁵

Virginian and the Norfolk & Western

One of the more important rail mergers since World War II was that of the Virginian Railway Company and the Norfolk & Western Railway Company. This merger received nation-wide publicity and had many features which prior mergers did not have. Tradition was shattered, since this was the first merger of major nonaffiliated railroads in the twentieth century. The merger was accomplished in a record time of a little over one year. This is especially significant, since both roads were financially healthy and both had weathered the recession of the 1930's better than most roads. Perhaps the most important reason for the rapid progress of the merger was that large blocks of securities were concentrated in a few hands. The Pennsylvania Railroad and its affiliate, Pennsylvania

⁸⁵Bisha, op. cit.

Company, owned about 44 per cent of the Norfolk & Western's voting stock. The Eastern Gas & Fuel Associates, through the Virginian Corporation, owned a little over 50 per cent of Virginian's voting stock.⁸⁶

Physically, the two roads were both complementary and duplicating. Each road served a different area in the Virginia-West Virginia coal fields. The roads paralleled each other for some distance, thus duplicating one another.⁸⁷

The Norfolk & Western had its beginnings in 1837. It started as a nine-mile rail link connecting Petersburg and Hopewell, Virginia. In 1870 the road was consolidated with several other short lines to form the Atlantic, Mississippi & Ohio Railroad. The road was short-lived and went into receivership in 1876. In 1881 the road was sold at public auction and reorganized as the Norfolk & Western Railway Company. The present Norfolk & Western was incorporated in Virginia in 1896. In 1959 Norfolk & Western equipment included 479 locomotives, of these, 336 were diesel-electric. It also included 311 passenger service cars

⁸⁶ Stuart T. Saunders, "The President's Letter", Annual Report of Norfolk & Western Railway, (1959), p. 3.

⁸⁷ Interstate Commerce Commission, Finance Docket No. 20599, April 4, 1959, p. 18.

and 64,560 freight cars and cabooses.⁸⁸

The Norfolk & Western is principally a carrier of coal. In 1958 coal and coke traffic made up 67.1 per cent of total revenues.⁸⁹

In 1958 the Norfolk & Western operated 2,132 miles of road from the West Virginia coal fields, east to Norfolk, Virginia. Lines also extended to Cincinnati and Columbus, Ohio. Before consolidating with the Virginian there were 605 miles of branch lines.

The Virginian Railway was incorporated in Virginia and had its beginnings in 1904. Its original name was the Tidewater Railroad Company; this name was changed in 1907 to the Virginian Railway Company.⁹⁰

In 1958 the Virginian operated 608 miles of road from Deepwater Bridge, West Virginia, to its port facilities near Norfolk. Of this mileage, 150 miles were branch lines.

In 1959 the Virginian owned 92 locomotives, of which 64 were diesel-electric and 28 electric. The road owned

⁸⁸U.S. Interstate Commerce Commission, "Testimony of Stuart T. Saunders", Finance Docket No. 20599, 1959, p. 5.

⁸⁹Ibid., p. 6.

⁹⁰Ibid.

17,143 freight cars of which 15,530 were open-top hoppers.⁹¹

The Virginian was a one commodity, one way railroad and was almost completely dependent on coal and coke traffic for its continued existence. Less than 15 per cent of the Virginian's total revenue came from sources other than coal and coke.⁹²

The two roads were not affiliated in any manner at the time the merger was proposed. However, the lines had made prior proposals for unified operations. In 1918, under federal control, joint operation resulted in the dispatching of freight trains over each others tracks. After their return to private operation in 1919, this unified operation was ended.

As a result of the economies realized by joint operation under federal control, the Norfolk & Western in 1925 filed an application to acquire control of the Virginian by lease. This possible transaction was opposed by almost every community along the two roads and by the governments of both Virginia and West Virginia. In addition, the lease arrangement would have involved a \$3.5 million

⁹¹Ibid., p. 6.

⁹²Ibid.

increase in fixed charges for the combined lines. The Norfolk & Western would have been obligated to pay all operating expenses, taxes, interest on funded debt, maintenance of the Virginian and an annual amount equivalent to 6 per cent of the par value of the Virginian's preferred and common stock.⁹³ In the fall of 1926, the Interstate Commerce Commission denied the application.

A study, made in the spring of 1958, showed the need for consolidation. The study revealed that even though both roads were in excellent financial condition, the Virginian was a small road and served a limited territory. The directors of both roads were of the opinion that inevitably the Virginian would have to combine with some railroad.⁹⁴ They concluded that the Virginian should be combined with the Norfolk & Western while both roads were financially strong. In addition, Mr. Stuart T. Saunders, President of the Norfolk & Western believed that competition from other modes of transportation, especially motor carriers, would increase over the years and that voluntary consolidation of the two roads would help meet

⁹³ICC, Finance Docket No. 20599, pp. 13-14.

⁹⁴"Two Great Railroads to Become One", Norfolk & Western Magazine, November, 1959, p. 519.

this increased competition.⁹⁵

Mr. Saunders and Mr. F. D. Beale, President of the Virginian, in November of 1958, "released a joint statement that the two roads were studying merger of the two properties". The two roads hired the First Boston Corporation, a leading investment banking firm in New York, to assist them with their merger studies.⁹⁶

The Boards of Directors of the Virginian and the Norfolk & Western adopted a plan of consolidation in March of 1959. In this plan the Virginian was to be merged into the Norfolk & Western and the Virginian would lose its identity. Mr. Beale was to be made a new director of the Norfolk & Western.

Stockholders of the Virginian approved the merger on April 30, 1959, with 97.87 per cent of the stockholders approving the merger and 2.13 per cent dissenting. Norfolk & Western stockholders approved the plan on May 14, 1959, with 99.03 per cent of its stockholders favoring the unification and .97 per cent opposing the

⁹⁵R.R. Horner, "To the Editor", Norfolk & Western Railway Company, An unpublished press release, dated June 15, 1959, pp. 2-3.

⁹⁶ICC, "Testimony of Stuart T. Saunders", op. cit., p. 16.

merger.⁹⁷ In early April 1959 the two roads applied jointly to the Interstate Commerce Commission for a hearing and decision on the proposed merger. Both roads anticipated a speedy approval of the merger by the Commission.

The Norfolk & Western's general balance sheet on April 30, 1959 showed total assets of \$759,942,800. The Virginian Railway's general balance sheet on the same date showed total assets of \$210,412,156. The combined assets of the two roads were \$970,354,956.⁹⁸ The balance sheet of the Norfolk & Western as of January 31, 1959, shows that the capitalization of its system is as follows: capital stock - \$163,388,500, long-term debt - \$93,772,600, surplus and retained income - \$435,935,758. Capitalization of the Virginian system as of January 31, 1959 is as follows: capital stock - \$35,855,300, long-term debt - \$107,849,900, surplus and retained income - \$54,436,615.⁹⁹

Briefly stated, the merger plan allowed for a tax-free exchange of shares on the basis of 0.55 shares of Norfolk

⁹⁷ Interstate Commerce Commission, Finance Docket No. 20599, 1959, Exhibit H-5 and H-6.

⁹⁸ "N & W Railway Company-Merger", Finance Docket No. 20599, ICC, 1959, pp. 8-9.

⁹⁹ Ibid., pp. 64-67.

& Western common stock, par value \$25, for each share of Virginian common stock par value \$10. In addition the Norfolk & Western would issue six per cent, \$10 par cumulative non-callable preferred stock with voting rights. This, in turn, would be exchanged for outstanding Virginian \$6.10 par cumulative non-callable preferred stock. The latter stock would have voting rights on a share for share basis.¹⁰⁰

The ratio for conversion of Virginian stock into Norfolk & Western stock was arrived at after extensive negotiations between representatives of the two roads. It was believed that as a result of the merger, Virginian preferred holders would receive a similar security in a larger and stronger company and a company which is not so heavily dependent on one commodity for its existence. The .55 ratio represented the agreement of the Norfolk & Western and Virginian as to the relative value of the two stocks. The two companies took into account a great many factors bearing on the relative values of the stock of the two companies in reaching the exchange ratio. They made many statistical comparisons and studies which they presented

¹⁰⁰ "Norfolk & Western, Virginian Push Merger", Railway Age, March 2, 1959, p. 13.

at the Interstate Commerce Commission hearings.¹⁰¹

Mr. Saunders, in his testimony before the Commission, listed six advantages of the proposed merger. He testified that the merger would be in the public interest because of these advantages. His testimony may be summarized as follows: First, the merger will increase efficiency and economy of operation and bring about \$12 million annual savings. Second, the merger will greatly benefit the coal industry in the area served by the two roads. The merger will enable coal producers to send all of their coal originating on both lines to one set of piers at Norfolk which will afford them much greater flexibility in marketing their products. Third, the combined lines will offer shippers improved service. Fourth, the stronger system will have a better chance to attract industry to the areas served by the two lines. Fifth, the economic life of the Virginian will be substantially extended. Sixth, employment opportunities for railroad employees will be stabilized if the merger is approved. Actually, Mr. Saunders expected over-all savings eventually to exceed the \$12,000,000 annual figure.¹⁰²

¹⁰¹ICC, op. cit., pp. 23-24.

¹⁰²Finance Docket No. 20599, op. cit., pp. 25-49.

The merger was not expected to result in any increase in the total fixed charges of the two lines. This was one advantage over the prior proposal for unified operation in 1926. Certain minor increased costs for joining of the two lines at certain points would be incurred as well as renovation of certain facilities in Roanoke and the Port of Norfolk.¹⁰³

Applicants believed that the merger would be in the interest of employees of both roads, since the combined system was expected to handle more traffic.¹⁰⁴ Officers of the two roads had conducted a five-year study between 1954 and 1958 regarding turn-over in employment on the two roads. The study showed that new jobs available on a combined system would be in excess of the number of positions adversely affected. The Railway Labor Executives Association disagreed with applicants as to the effect of the merger on employees. Representatives of that Association testified at Interstate Commerce Commission hearings that the merger would result in "wholesale layoffs".¹⁰⁵

¹⁰³Ibid., pp. 55-56.

¹⁰⁴Railroad Consolidations and the Public Interest, op. cit., p. 27.

¹⁰⁵"Making a Good Railroad Better", Modern Railroads, Reprint from November, 1959 issue, p. 9.

The Association withdrew its opposition to the merger in June, 1959.¹⁰⁶ It did so only after winning an agreement which provided that members of the Railway Labor Executives' Association Union would receive one hundred per cent protection for a maximum period of four years from the effective date of the Commission's order.¹⁰⁷ Employment on the new system was offered to all Virginian employees working on June 18, 1959. For employees electing not to accept this offer when a transfer to a new location was involved, severance pay in the amount of one year's salary was provided.¹⁰⁸

The United Mine Workers made a favorable presentation at Interstate Commerce Commission hearings on the proposal. This Union believed the rail combination would help the coal industry and provide greater opportunities in the coal fields.¹⁰⁹

The Commission found that there was no direct competition between the two roads for their principal

¹⁰⁶David P. Morgan, "The Morning After Steam", Trains, September, 1959, p. 29.

¹⁰⁷Leonard, op. cit.

¹⁰⁸"Employees", Norfolk & Western Railway Annual Report, 1959, p. 19.

¹⁰⁹Morgan, loc. cit.

traffic which was coal. It found only slight competition between the two roads for other merchandise traffic. Norfolk & Western considered the competition of motor carriers more severe than competition afforded by the Virginian.¹¹⁰

No other railroads made any attempt to be included in the merger. Intervening railroads included the Atlantic Coast Line, Chesapeake & Ohio, New York Central and the Southern. Their only concern was that the Commission require the maintenance of existing routes. In regard to this, Mr. Saunders had the following to say:

It will be our policy to maintain existing routes with the Virginian, which will continue to be available to shippers as in the past. I believe however, that the matter should be mutual and, considering our agreement to maintain existing Virginian routes, that connecting lines should likewise agree to maintain the routes which they presently have with the Virginian.¹¹¹

The reaction of most communities to the merger proposal was generally favorable. Only a few communities objected to the merger. Over seventy civic and industrial

¹¹⁰"Norfolk & Western Union Approved", Railway Age, October 19, 1959, p. 36.

¹¹¹"Saunders Lists Merger Benefits", Railway Age, June 22, 1959, p. 62.

organizations, state and local governments filed formal support for the merger.¹¹²

The Interstate Commerce Commission gave its approval to the union of the two railroads, the biggest 20th century merger of independent railroads, on October 13, 1959. The merger was physically put into effect on December 1, 1959, with a train moving from the former Virginian Railway onto the rails of the Norfolk & Western at Abilene, Virginia.¹¹³

The merger created a railroad with 2,743 miles of line and assets of almost one billion dollars. After merger the Norfolk & Western had more freight cars per mile of line than any other railroad in the United States.¹¹⁴

Much economic waste was eliminated by the merger. For example, there are three major mountain ranges between the West Virginia coal fields and Norfolk, Virginia. Before unification of the two properties, the Norfolk & Western had to cross them all. The Virginian had more favorable eastbound grades over two of the mountain ranges

¹¹²ICC, Finance Docket No. 20599, Exhibit No. H-3 & H-62.

¹¹³"Two Great Railroads to Become One", Norfolk & Western Magazine, November, 1959, pp. 518-519.

¹¹⁴Modern Railroads, op. cit., pp. 54-55.

than the Norfolk & Western, while over the third mountain the Norfolk & Western's grade was better than the Virginian's. Thus, after the merger was completed, much economic waste was reduced by co-ordinating the movement of traffic over the most suitable route.¹¹⁵ In April, 1962, Mr. Stuart T. Saunders stated that "use of the superior grades and facilities of each railroad has resulted in greater efficiency and made possible a reduction in transit time from the coal fields to Norfolk, in a number of cases by as much as twenty-four hours".¹¹⁶

The merger did much to promote industrial development. The new system offered more complete transportation service and a greater variety of industrial sites. For example, in 1960 the Norfolk & Western's efforts helped to locate 236 new and expanded plants and warehouses, with a total investment of \$162 million along their lines. These new industries created 8,400 jobs and increased the traffic

¹¹⁵"H. C. Wyatt Speaks on Merger", Norfolk & Western Magazine, December, 1959, pp. 581-612.

¹¹⁶Stuart T. Saunders, The American Railroads; An Industry with a Challenge, (New York: The Newcomer Society in North America, 1962), p. 12.

potential by about 24,000 cars annually.¹¹⁷ In 1961 the Norfolk & Western helped locate 239 new or expanded manufacturing plants and distribution facilities in 109 separate communities throughout the six-state area it serves. This represented a total investment of approximately \$165 million and created 14,000 new jobs. The new plants will produce an annual traffic potential of approximately 16,000 cars.¹¹⁸

In April, 1961 Mr. Stuart T. Saunders, president of the consolidated system, made a speech in Cleveland, Ohio in which he outlined some of the merger results. He stated that in 1960 the Norfolk & Western increased its earnings to a point where they represented 13.8 per cent of the total net income of all class I railroads in the United States. In addition, Norfolk & Western's operating ratio (the amount of each operating revenue dollar spent for running the railroad) was 59.7 which was the lowest of any major American railroad. Also, Norfolk & Western's wage ratio was the lowest of any major railroad in the country. Mr. Saunders further stated that the merger has enabled the

¹¹⁷"Results of the Year", Annual Report of Norfolk & Western Railway, 1960, pp. 14-15.

¹¹⁸"Growth Through Industrial Development", Annual Report of Norfolk & Western Railway, 1961, p. 16.

Norfolk & Western to give better service to shippers on both of the former lines and as a result, shippers are greatly pleased with what the merger has accomplished.¹¹⁹

The merger has had some adverse effects. For example, some facilities were abandoned and passenger schedules are less frequent in some areas. The Narrows Power Plant in Narrows, Virginia was abandoned in mid 1962. The plant provided power to the electric locomotives operating between Mullens, West Virginia and Roanoke, Virginia, and was part of the old Virginian system. Electric wire had been strung in 1925 to increase train speed and tonnage over the 2.11 per cent grade from Elmore up to Clark's Gap without laying extra track.¹²⁰ Before the merger was completed, Mr. Saunders had stated that the Norfolk & Western would keep up the Narrows plant. After completion of the merger, loads could avoid the 2.11 per cent grade and most trains could roll east of Kellysville, West Virginia, on the Virginian track and west on Norfolk & Western track, but this would complicate utilization of motors.¹²¹ The plant was not

¹¹⁹Stuart T. Saunders, Speech made in Cleveland, Ohio, April 20, 1961, pp. 5-6, (Mimeographed).

¹²⁰"The Morning After Steam", Trains, September, 1959, p. 29.

¹²¹Ibid.

abandoned until 1962 because at the time of merger, the Virginian electric locomotives were practically all new.¹²²

The town of Narrows has lost its chief source of tax revenues as a result of abandonment of this plant. It has been necessary to increase taxes on other property.

Efficiencies made possible by the merger have resulted in a decrease in the average number of employees. In January 1959 the Norfolk & Western and the Virginian had 18,235 employees. In 1961 the average number of employees had decreased to 13,391. This represents a 27 per cent decrease in the number of employees in less than three years.¹²³

Sources of the operating economies resulting from the merger may be summarized as follows: Closing of the Virginian's Sewells Point Coal piers and dumping of all coal over the Norfolk & Western's Lamberts Point Facilities; moving Tidewater coal over the former Virginian line from Roanoke to Abilene; retirement of duplicating tracks and facilities; transfer of administrative functions and personnel from Norfolk, Virginia to Roanoke, Virginia;

¹²²Interview with A.F. Brooks, Retired Virginian Railway Employee, (Roanoke, Virginia), July, 1962.

¹²³Annual Report of Norfolk & Western Railway, 1959-1961.

consolidation of shops servicing facilities and off-line traffic offices; more efficient utilization of equipment.

In May, 1962 Mr. Saunders speaking in Kansas City, Missouri stated, "Now that physical integration of the Virginian into the Norfolk & Western system has been accomplished, we are realizing the bulk of the \$12 million annual savings".¹²⁴ This was just 2½ years after the merger of December 1959. These anticipated savings had not been expected until five years after the merger date.

Charleston & Western Carolina and the
Atlantic Coast Line Railroad

About two months after Interstate Commerce Commission approval of the Virginian--Norfolk & Western merger, the Commission approved the merger of the Charleston & Western Carolina into the Atlantic Coast Line Railroad. The Commission disposed of this application without public hearings in about two months after its filing. This merger will be treated only briefly in this study, since the anticipated savings were not very great and the plan was not opposed. The Atlantic Coast Line Company was a party in the application because of its control, through stock ownership,

¹²⁴Speech by Stuart T. Saunders, Kansas City Society of Financial Analysts, Kansas City, Missouri, May 15, 1962. (Mimeographed).

of both applicants.

The Atlantic Coast Line Railroad was established in 1836 and operates in Alabama, Florida, Georgia, South Carolina, North Carolina and Virginia. The Charleston & Western Carolina was established in 1896 and operated only in Georgia and South Carolina. The applicants, even though operated as separate entities, had in common a number of officers and directors.

The mileage of the Atlantic Coast Line was approximately 5,107 miles and that of the Charleston & Western Carolina was 342 miles. The two roads connect with each other at Yemassee and Robbins, South Carolina and Augusta, Georgia. Physically, the merger was of the end-to-end type.¹²⁵

The purpose of the proposed transaction was to provide improvements in public services and effect economies in the operation of the involved railroad properties.¹²⁶ A number of studies and investigations undertaken by the two roads disclosed that these purposes could be accomplished by consolidation. Mr. W. Thomas Rice, President of the Atlantic Coast Line Railroad, referred to the merger as an "arms

¹²⁵ICC, Vol. 307, 1959, Finance Docket 20852, p. 22.

¹²⁶Ibid., p. 10.

length" merger and stated that it was largely a corporate simplification.¹²⁷

On June 30, 1959, the Atlantic Coast Line Railroad had total assets of \$519,012,372 and the Charleston & Western Carolina Railroad had total assets of \$19,309,857. Thus, the combined system had total assets of \$538,329,582.¹²⁸

Applicants decided that the fairest exchange of stock was 1.55 shares of Atlantic Coast Line Railroad Common Capital stock of no par value for one share of the Charleston & Western Carolina Capital stock, par value \$50.¹²⁹ Each share of the Atlantic Coast Line Railroad Common stock continued to be a share of common stock in the surviving corporation.

The stock exchange ratio was determined after both roads had given great weight to comparative earnings. Also considered were property investment (original cost, book value, increased valuation of assets over book value),

¹²⁷Letter from W. Thomas Rice, President of the Atlantic Coast Line Railroad, Jacksonville, Florida, May 30, 1963.

¹²⁸Figures obtained from General Balance Sheets of the two companies. Balance sheets furnished by W. Thomas Rice, President of the Atlantic Coast Line Railroad Company, July 7, 1962.

¹²⁹Interstate Commerce Commission, op. cit., p. 4.

strategic significance of properties, nature of industries served, products transported, market appraisal of stock, future prospects and miscellaneous matters such as passenger deficit of Atlantic Coast Line and management policies.¹³⁰

Monetary savings of \$300,000 annually were expected within five years after the merger.¹³¹ These savings were to result in part, from the following: better control of operating costs, better position to meet competition from other modes of transportation, material reduction in number of reports, more simplified corporate structure and more coordinated, economical, efficient and expeditious service.¹³²

There were to be no changes in the rail competitive situation and collectively, there were to be no increase in the fixed charges of the two companies. The Atlantic Coast Line assumed the fixed charges and obligations of the Charleston Company. Applicants felt that the additional liability for fixed charges which the Coast Line would

¹³⁰ICC, op. cit., p. 22.

¹³¹Ibid., p. 8.

¹³²Railroad Consolidations and the Public Interest, op. cit., Appendix, p. 5.

assume was justified by the increased earning power, coordination of service, and economies anticipated from the merger.¹³³

It was contemplated that most of the employees of the two companies would be needed and employed in carrying on business after the merger. To the extent that any employees were adversely affected, they were protected by the Washington Job Agreement.¹³⁴ The Commission stated that the proposed merger was not only consistent with, but would promote the public interest.¹³⁵

In May, 1963 Mr. W. Thomas Rice stated that "to the extent we estimated savings, the merger has been a hundred per cent success. Also, employees and communities were not affected by the merger--each is in the same position today as prior to the merger."¹³⁶

¹³³ICC, op. cit., pp. 23-24.

¹³⁴Ibid.

¹³⁵"Railroad Mergers", Railway Age, January 18, 1960, p. 76.

¹³⁶W. Thomas Rice, op. cit.

Central Pacific and the Southern Pacific

One other merger of minor importance in 1959 was that of the Central Pacific and the Southern Pacific. The Interstate Commerce Commission made public its decision on April 29, 1959.

This was not a merger of previously independent railroads. For years prior to the merger, all of the Central Pacific's stock had been owned by Southern Pacific Company, and the lines owned by the former had been operated by Southern Pacific under lease as part of its railroad system.

The primary reasons for the merger were to eliminate California sales taxes on necessary transfers of tangible personal property between the two corporations and to avoid the expense of holding Central Pacific stockholders' and directors' meetings.¹³⁷ This resulted in \$5,343 annual savings.¹³⁸

The merger allowed the transfer of ownership of all Central Pacific's properties to its parent company. Central Pacific's corporate existence was terminated and

¹³⁷D.L. Russell, President Southern Pacific Company, San Francisco, California, Letter Dated June 5, 1963.

¹³⁸Railroad Consolidations and the Public Interest, op. cit.

all its debts were assumed by Southern Pacific.¹³⁹

The public interest issue was minor and the Commission considered the merger to be consistent with the public interest. A public hearing was not held in this case, nor were there any objections to the transaction.

In a letter dated June 5, 1963, Mr. D. L. Russell, President of the Southern Pacific Company stated that "the merger had no effect on employees, nor on the competitive railroad picture, nor on Southern Pacific's service to the public". He added that "the intended results were successfully achieved as a result of the merger".¹⁴⁰

Delaware, Lackawanna & Western and the Erie

In September, 1960 the Delaware, Lackawanna & Western Railroad Company (often called the Lackawanna) was merged with the Erie Railroad Company to form the Erie--Lackawanna. Unlike most of the other mergers since 1945, the major emphasis in this transaction was upon competition.¹⁴¹

¹³⁹D. L. Russell, op. cit.

¹⁴⁰Ibid.

¹⁴¹"Background Information on the Erie-Lackawanna Merger", prepared by the Erie-Lackawanna Railroad, (New York, New York, August 8, 1960), p. 21. (Mimeographed.)

The competition was primarily between the applicants and to some extent other rail carriers. Elimination of this competition was one of the chief sources of expected savings.¹⁴²

The Erie Railroad Company was incorporated in 1895 as the successor to the New York, Lake Erie & Western Railroad. Its original route was wholly within the State of New York. The Erie now crosses into New Jersey, Pennsylvania and Ohio, through Indiana and into Illinois. Prior to the merger, the Erie operated 2,352 miles of railroad.

The Delaware, Lackawanna & Western Railroad (Lackawanna) had its beginnings in 1851. It operated in Delaware, Pennsylvania, Ohio, New Jersey and New York. Prior to the merger, the Lackawanna operated 940 miles of railroad.

The area covered by the two roads, which parallel each other at a number of points, contains more than one third of the nation's population and the greatest concentration of diversified industries in the country.¹⁴³

The merger plan grew from a study started in 1956. This study called for a three way merger which would include

¹⁴²"Merger of Erie, D. L. & W. Favored", Railway Age, April 4, 1960, pp. 9-10.

¹⁴³Ibid., pp. 12-13.

the Delaware & Hudson Railroad. The plan was dropped in April 1959 with a joint announcement that "under present conditions it has not been possible to find a basis for merger that would be equitable to the shareowners of the three companies".¹⁴⁴ The two and a half year merger study cost the three roads \$275,000.¹⁴⁵

Nevertheless, the Erie Railroad Company and the Lackawanna Railroad continued with merger plans. The two roads were operating heavily in the red and the presidents of the two roads decided that merger was the only solution to their financial problems. For example, in 1958 the Erie had a deficit of \$3,668,879 and the Lackawanna lost \$3,934,319.¹⁴⁶

The primary purpose of the proposed merger was to lessen deficits which the two roads had experienced since 1958. Applicants believed that consolidation would reduce the cost of operating the two railroad properties. The location and nature of the two railroad properties offered many opportunities to reduce costs by eliminating duplicate

¹⁴⁴Ibid., p. 7.

¹⁴⁵"Delaware & Hudson--Delaware, Lackawanna & Western--Erie Merger Off", Railway Age, April 20, 1959, p. 42.

¹⁴⁶Ibid.

facilities and operations. A study made by the two roads showed that savings of not less than \$13.5 million annually, before federal income taxes, could be achieved within a period of five years by merging the two lines.¹⁴⁷

The monetary savings were expected to result from better use of motive power, the elimination of duplicate facilities, savings in traffic and general expenses, use of more favorable grades and consolidation of repair and other facilities.¹⁴⁸

In June of 1959 the directors of both companies approved the merger agreement. A joint application was filed with the Interstate Commerce Commission in July and in September, 1959 the shareholders of both companies gave their approval to the merger.

Total assets of the two roads were approximately \$719,000,000. Estimated outstanding long term debt of the combined system was expected to be about \$319,000,000.¹⁴⁹

Under the merger plan, Erie stockholders would receive

¹⁴⁷"Background Information on the Erie-Lackawanna", op. cit., p. 22.

¹⁴⁸Ibid., p. 9.

¹⁴⁹Ibid., p. 11.

$1\frac{1}{4}$ shares of common stock in the new company for each share held. Owners of the Lackawanna capital stock were to receive share for share in the new company.¹⁵⁰ The proposed stock distribution was based primarily on an analysis of the comparative earnings of the Erie and the Lackawanna.¹⁵¹

The merger was expected to result in a reduction in the number of employees. Employees were protected by the so-called "New Orleans Conditions" which were designed to protect employees initially affected by a rail merger and those who might be affected after the expiration of the four year period as outlined in section 5(2)(f) of the Interstate Commerce Act.¹⁵² Depending on the length of service, an employee whose job is abolished can receive monthly payments equal to his past year's earnings for as long as four years. In other cases, where an employee is transferred to a lower rated job, he carries with him the rate of pay on his former job.¹⁵³

¹⁵⁰Ibid.

¹⁵¹Railroad Consolidations and the Public Interest, op. cit., p. 42.

¹⁵²Ibid., p. 49.

¹⁵³"Background Information on the Erie-Lackawanna", op. cit., p. 24.

All communities along the lines of both railroads were expected to benefit in many ways from the merger. Together the two railroads were expected to make a greater contribution to the economy of the areas they served than either could make independently. The combined road would allow more frequent, faster and regular trains for the communities served. In addition, elimination of unnecessary facilities made a large amount of real estate available for the location and expansion of industrial plants.¹⁵⁴

Opposition to the proposed merger came primarily from other railroads. In September of 1959, the following parties filed briefs in opposition to the merger: Nickel Plate Railroad, New York Central Railroad, Wabash Railroad, Lehigh Valley Railroad, Grand Trunk Railway, Railway Labor Executives' Association, minority group of Lackawanna shareowners and Cohocton Valley Committee.¹⁵⁵ Railroads opposing the merger feared carload and revenue losses since they would lose their inter-line traffic with the Erie and

¹⁵⁴"Background Information on the Erie-Lackawanna", op. cit., pp. 20-25.

¹⁵⁵"Background Information on the Erie-Lackawanna", op. cit., p. 8.

Lackawanna. It was estimated that the railroads which connected with the Lackawanna for traffic by way of through routes to and from points West of Buffalo would lose \$6,949,000 a year in gross revenue. The largest losers would be the Nickel Plate with a loss of \$3,528,000 and the Wabash with a loss of \$893,000.¹⁵⁶ Altogether fourteen railroads were expected to experience financial loss if the Erie and Lackawanna were allowed to merge. The fourteen railroads requested the Interstate Commerce Commission to attach restrictive provisions to the merger in order to prevent loss of traffic.¹⁵⁷

A few of Lackawanna's stockholders appeared before the Commission to object to the stock ratio exchange. The stockholders requested that the Commission require the Erie-Lackawanna to change the stock ratio exchange to one share in the new company for each share held by Erie stockholders.¹⁵⁸ The Railway Labor Executives' Association requested that the Commission require the Erie-Lackawanna to keep all employees

¹⁵⁶"Erie-Lackawanna Hearings Begin", Railway Age, October 5, 1959, pp. 32 and 37.

¹⁵⁷Ibid.

¹⁵⁸Railroad Consolidations and the Public Interest, op. cit., Appendix, p. 6.

on their jobs. The Commission rejected all of the foregoing requests.

Final Interstate Commerce Commission approval of the merger came on September 15, 1960 and the plan became effective on October 15, 1960. Harry W. Von Willer, former President of the Erie Railroad was made chairman of the board, and president and chief executive of the new Erie--Lackawanna. The Erie Railroad Company was the surviving corporation and its name was changed to Erie-Lackawanna Railroad Company. The general offices of the new system are located in Cleveland, Ohio.¹⁵⁹

From the standpoint of gross revenues, the new corporation ranks twelfth among the 110 major railroads in the United States. The new Erie-Lackawanna Railroad has a total of 3031 miles of operational railroad.

The Commission ruled that the merger would be in the public interest because of the many savings expected from consolidated operation. The Commission believed that elimination of competition between the Lackawanna and the Erie was in the public interest since the combined system would still have stiff competition from other railroads and

¹⁵⁹"Merger Creates New Class I Railroad", Railway Age, October 24, 1960, p. 24.

other modes of transportation. Thus, the Commission hoped that the merger would restore earning power to the Erie-Lackawanna.¹⁶⁰

Although the primary objective of the merger was to reduce costs, and the Interstate Commerce Commission's approval of the merger was based on the expected savings, such savings were not immediately realized. In April 1961 Mr. Milton G. McInnes, new president of the Erie-Lackawanna stated that to date the merger had resulted in almost no monetary savings.¹⁶¹ Mr. McInnes had anticipated first year savings of \$1,268,189 from a reduction in the number of employees,¹⁶² however, a court order barring the company from discharging workers affected by the merger, along with abnormally low traffic levels and high operating costs prevented the Erie-Lackawanna from achieving expected monetary savings.¹⁶³ As a result, the system had a loss

¹⁶⁰Ibid.

¹⁶¹"Why Railroads Demand a New Deal", U. S. News & World Report, April 3, 1961, p. 94.

¹⁶²"Background Information on the Erie-Lackawanna", op. cit., p. 10.

¹⁶³U. S. News & World Report, op. cit.

of \$26,488,759 in its first full year of operation.¹⁶⁴

According to Mr. McInnes the deficits shown by the Erie-Lackawanna in 1960 and 1961 should not be construed as meaning that the merger of the two properties has not been successful. He stated that without merger, both companies operating independently probably would have been forced into bankruptcy, considering the depressed level of traffic and higher operating costs.¹⁶⁵

In 1962 part of the anticipated 13.5 million dollar annual savings¹⁶⁶ were realized. In that year Erie-Lackawanna was able to reduce its deficit by nearly \$10,000,000 even though there was no increase in total revenues over that of 1961. The reduction in the deficit was accomplished primarily by savings produced as a result of the merger.¹⁶⁷ The merger has permitted annual savings in wages, rental payments and material costs.

In 1963 the new Erie-Lackawanna had 2,365 fewer

¹⁶⁴Annual Report of Erie-Lackawanna, "Industrial Development", (Cleveland, Ohio), 1962, p. 12.

¹⁶⁵Ibid., p. 4.

¹⁶⁶"Supra, p. 85."

¹⁶⁷Report of Annual Meeting of Shareowners of the Erie-Lackawanna Railroad Co., Cleveland, Ohio, April 9, 1963, pp. 1-2.

employees than it had in 1960. Retirements, deaths and resignations accounted for this decrease. The decrease in the average number of employees has been made possible by the merger.¹⁶⁸

The merger has promoted industrial development along the Erie-Lackawanna lines. In 1961 the Erie-Lackawanna helped locate 111 new or expanded industries along its lines with potential revenue of \$3,557,860. In 1962 the combined system helped locate 153 new or expanded industries with estimated revenue of \$4,648,866.¹⁶⁹ The Erie-Lackawanna is presently working with approximately 270 industries interested in relocating facilities or proposing new plants and expansions.¹⁷⁰

Wisconsin Central; the Duluth, South Shore &
Atlantic and the Minneapolis, St. Paul &
Sault Ste. Marie

The next merger to be considered in this chapter is that of the Minneapolis, St. Paul & Sault Ste. Marie; the Wisconsin Central; and the Duluth, South Shore & Atlantic. The Minneapolis, St. Paul & Sault Ste. Marie will be called

¹⁶⁸Ibid., p. 2.

¹⁶⁹Annual Report of Erie-Lackawanna, op. cit., p. 12.

¹⁷⁰Ibid.

the Soo Line in this study, since this was the common name used in describing this railroad for nearly a century prior to unification. Potential savings in this transaction did not compare with savings realized in some of the other mergers. Nevertheless, the merger was significant to the three roads involved, since the three roads were operating on the financial border-line prior to merging. In 1959 the Wisconsin Central lost almost \$950,000 and the Soo Line had a net income of only \$495,336. The Soo Line would have had a net loss had it not been for a tax refund.¹⁷¹

The three lines had been closely affiliated and had cooperated with one another in many respects. For example, the Wisconsin Central was operated as part of the Soo System for many years. Even though the Duluth, South Shore & Atlantic operated independently, such activities as accounting and purchasing were coordinated with Soo Line practices. All three roads had a common parent from a corporate stand-point. The Canadian Pacific owned all of the Duluth, South Shore & Atlantic's stock. It also owned

¹⁷¹"Soo Line, W.C., DSS&A OK Merger", Railway Age, March 21, 1960, p. 9.

over half the stock of Soo Line and Wisconsin Central.¹⁷²

Studies regarding the possible merger of the three roads, were conducted almost entirely by the personnel of the roads. This differed from most other mergers, since in the past, applicants had called in experts to conduct most of the studies.

From the applicants' studies a number of economies and advantages were expected to result from consolidation. Annual savings of \$1,200,000 before Federal income tax were anticipated. The monetary savings were expected to come from consolidation of operating and maintenance facilities, abandonment of duplicating trackage and facilities, more efficient use of motive power and other similar savings.¹⁷³

The Soo Line operated in Minnesota, Michigan, Wisconsin, North Dakota, South Dakota and Montana. The Wisconsin Central operated in Wisconsin, and Illinois. The Duluth South Shore & Atlantic operated in Wisconsin and Michigan. All three hauled considerable amounts of iron ore. The

¹⁷²"DSS--M. St. P. & SSM (Soo) and Wisconsin Central", Railway Age, January 26, 1959, p. 44.

¹⁷³Railroad Consolidations and the Public Interest, op. cit.

largest of the roads was the Soo Line with 3,222 miles of line. The Wisconsin Central had 1,031 miles of line and the Duluth, South Shore & Atlantic 543 miles of line¹⁷⁴

The terms of stock exchange were: one share in the consolidated company for each share of Soo Line stock; 2.05 shares in the new corporation for each share of Wisconsin Central stock; and three fourths share in the unified company for each share of Duluth, South Shore & Atlantic stock.¹⁷⁵ The stock exchange ratios were based on studies made by representatives of the three roads. Past earnings and future potential earnings were compared and the financial condition of each road was considered in arriving at the final ratios.

The unification was not expected to result in any substantial reduction in railroad competition since for many years the three roads had coordinated many activities and had made arrangements for joint use of facilities.¹⁷⁶ There was to be no increase in total fixed charges and physical changes in the three roads were limited to the abandonment

¹⁷⁴"Soo Line, W.C., DSS&A OK Merger", Railway Age, op. cit., p. 9.

¹⁷⁵Ibid.

¹⁷⁶"Supra, p. 93-94."

of duplicating trackage and facilities.¹⁷⁷

Applicants stated that employees would not be affected adversely by the merger. Nevertheless, some of Duluth, South Shore & Atlantic employees feared loss of their jobs. This fear was lessened somewhat after a spokesman for the Soo Line assured the Interstate Commerce Commission that the merged company would retain all its employees.¹⁷⁸

Main opposition to the merger was voiced by the City of Marquette, Michigan, which was depressed economically at the time. The city feared that such unification might cause the abandonment of its repair station and increase unemployment.¹⁷⁹

The merger became effective December 13, 1960, just one year after the directors of the three roads had given their approval to the plan. The name of the merged roads became the Soo Line Railroad Company, a 4,800 mile system. Total assets of the new company were approximately \$22,500,000.¹⁸⁰

¹⁷⁷Railroad Consolidations and the Public Interest,
op. cit.

¹⁷⁸"Western Mergers Move Closer", Railway Age,
August 8, 1960, p. 29.

¹⁷⁹Ibid.

¹⁸⁰"Soo Line, W.C., DSS&A OK Merger", Railway Age,
op. cit.

The Interstate Commerce Commission ruled that the merger would be in the public interest, since the new company could provide better services with no increase in fixed charges. In addition, existing routes and channels of trade were protected as well as rail employees.

Leonard H. Murray, former president of the Duluth, South Shore & Atlantic Railroad, became president of the new company. In April, 1961 Mr. Murray stated, "the New Soo Line stresses service and is more efficient, more reliable and more profitable". He added, "our aim is to pull down the actual transportation expenses and have room for required maintenance".¹⁸¹

In 1962 the Soo Line Railroad Company realized \$750,000 of the expected \$1,260,000 in savings.¹⁸² As a result of the merger, Soo Line is in a better position to meet present competition from highway, waterway and airway transportation.¹⁸³

¹⁸¹"New Soo Line Stresses Service", Railway Age, April 10, 1961, p. 18.

¹⁸²Letter from Mr. Leonard H. Murray, President of Soo Line Railroad Company, Minneapolis, Minnesota, dated May 21, 1963.

¹⁸³Ibid.

Atlantic Coast Line and the Seaboard Air Line

The Atlantic Coast Line Railroad and the Seaboard Air Line Railroad began to explore the possibilities of unification in late 1958. The presidents of the two roads stated that in their opinion tangible economies and greater efficiency could be achieved by consolidation.¹⁸⁴ The two roads have been fierce competitors for Florida-New York trade. Their tracks run virtually side by side in Virginia, North and South Carolina, Georgia, Florida and Alabama.¹⁸⁵ In mid 1958 the Atlantic Coast Line operated some 5,300 route miles and the Seaboard Air Line operated around 4,100 route miles.¹⁸⁶ The proposed transaction would create the eighth largest railroad in the nation, in terms of 1958 operating revenues.¹⁸⁷

The two roads are financially strong, dividend-paying lines whose revenues, earnings and assets have grown over the years. For example, the balance sheet of the Seaboard

¹⁸⁴"Seaboard, ACL Consider Merger", Railway Age, October 6, 1958, p. 9.

¹⁸⁵"Big Deal or Quick Economies", Business Week, October 11, 1958, pp. 84-88.

¹⁸⁶"Seaboard, ACL Consider Merger", Railway Age, op. cit.

¹⁸⁷Ibid.

Air Line shows that as of March 31, 1960, that carrier had total current assets of approximately \$44,300,000 and total current liabilities of approximately \$23,900,000. Thus, the ratio of the carrier's current assets to its current liabilities is approximately 1.85. As of March 31, 1960, the Atlantic Coast Line had current assets of approximately \$50,600,000 and current liabilities of \$19,187,000. Thus, the Atlantic Coast Line has a ratio of current assets to current liabilities of 2.64.¹⁸⁸ Both roads have paid regular dividends for the last decade. In 1959 the Seaboard Air Line paid \$3.48 in dividend per share of stock and the Atlantic Coast Line paid \$4.48. The Atlantic Coast Line general balance sheet as of March 31, 1960, reveals total assets of \$545,185,778. The Seaboard Air Line general balance sheet as of March 31, 1960, discloses total assets of \$372,355,305. The average net income for Atlantic Coast Line for the ten year period 1950-1959 was \$12,943,000 and that of Seaboard Air Line was \$18,565,000.¹⁸⁹ Despite this prosperity the net railway operating income of both

¹⁸⁸ICC, Finance Docket No. 21215, "Brief of RLEA to Hearing Examiner Hyman J. Blond", October 30, 1961, p. 6.

¹⁸⁹ICC, Finance Docket No. 21215, "Brief of the U.S. Department of Justice", October 30, 1961, p. 3.

carriers has gradually declined since 1955. For example, the Seaboard Air Line's net railway operating income declined from \$24,686,131 in 1955 to \$19,077,922 in 1959. The Atlantic Coast Line's net railway operating income decreased from \$13,841,881 in 1955 to \$9,987,771 in 1959.¹⁹⁰

A team of independent engineering and transportation consultants were called in to study merger possibilities in early November 1958. The studies lasted eighteen months and revealed that consolidation could produce savings of up to \$38,700,000 annually before federal income taxes.¹⁹¹ The monetary savings would result from consolidation of stations and terminals, abandonment of over 1,000 miles of duplicate lines, rearrangement of train services, consolidation of various departments, use of shorter or more economical routes, elimination of 4,200 employee positions and transfer of another 4,439 employees.¹⁹²

The board of directors of both roads approved the merger in May 1960 and in July 1960 applied to the Interstate Commerce Commission for approval of the plan. The plan

¹⁹⁰ICC, op. cit., "Joint Application of SAL and ACL", July 22, 1960, pp. 84 and 87.

¹⁹¹Ibid., p. 31.

¹⁹²ICC, Finance Docket No. 21215, "Abstract of Testimony", November 28, 1960 - February 18, 1961, p. 11 and 18.

called for merger of the Atlantic Coast Line into the Seaboard Air Line, with the Seaboard surviving the transaction. The combined properties will be known as the Seaboard Coast Line Railroad Company.

Between May 8, 1961 and July 28, 1961, over a hundred individuals appeared before the Interstate Commerce Commission and testified against the proposed transaction.¹⁹³ Rebuttal testimony came from county and city governments, manufacturers, wholesalers, retailers, bankers, stockholders, railroad labor unions, Chambers of Commerce and the Department of Justice.¹⁹⁴

Some county and city government officials opposed the merger since it would leave them dependent on one railroad, which might retard the growth of their communities. Some businessmen feared that the merged company would abandon many rail operations and lines which would result in inefficient rail service. Other rail carriers which connect with the Atlantic Coast Line and Seaboard Air Line feared that the merger would jeopardize their existence since they would lose much interchange freight traffic. It was estimated that the

¹⁹³ICC, Finance Docket No. 21215, May 8, 1961 - July 28, 1961, pp. 16-289.

¹⁹⁴Ibid.

Norfolk Southern Railroad would lose \$274,144 annually from loss of interchange freight traffic. The merger was expected to divert revenues of approximately \$2,308,000 annually from the Central of Georgia Railroad. The Georgia & Florida Railroad expected to lose \$369,549 in annual freight revenue. The Florida East Coast was expected to lose \$1,862,607 annually which according to the Department of Justice could mark the end of this railroad. The Southern Railroad wanted the Commission to require the merged company to divest itself of Atlantic Coast Line's one-third interest in the Louisville & Nashville Railroad since otherwise the Southern would lose additional interchange freight traffic with the Louisville & Nashville.¹⁹⁵

The Railway Labor Executives' Association opposed the merger since in its opinion "the merger would have tremendous adverse effects upon employees and seventy-four per cent of all savings anticipated from consolidation would be gained at the direct and sole expense of the employees".¹⁹⁶ Also, the Association did not believe that the "New Orleans

¹⁹⁵Ibid.

¹⁹⁶ICC, Finance Docket No. 21215, "Brief of RLEA", op. cit., p. 46.

Conditions"¹⁹⁷ would be adequate to protect employees affected adversely by the merger.

In November 1961 the Department of Justice asked the Interstate Commerce Commission to deny the joint application of the Atlantic Coast Line and the Seaboard Air Line for authority to merge. The following statement by the Department of Justice before the Interstate Commerce Commission summarizes the Department's position on this merger.

It is the position of the Department that the proposed merger would be contrary to the policy of the antitrust laws, section 5(2) of the Interstate Commerce Act, and the National Transportation Policy, since it would destroy the vigorous competition which now exists between the SAL and the ACL, two of the principal railroads of the Southeast, jeopardize the existence of several small railroads which are vitally important to the Southeast, impose an unnecessary hardship on communities and shippers and impair adequate transportation.¹⁹⁸

Notwithstanding the opposition of the Department of Justice, in September 1962, Interstate Commerce Commission Examiner Hyman J. Blond, urged the Commission to permit the merger and the Commission gave its approval to the plan

¹⁹⁷"Supra, p. 86."

¹⁹⁸ICC, Finance Docket No. 21215, "Brief of the United States Department of Justice", October 30, 1961, p. 2.

on December 18, 1963. The Commission stated that merger will allow the new railroad to provide better rail service at lower cost to shippers and consolidation will help the Seaboard Coast Line to meet competition from trucks and barges.¹⁹⁹

As to the issue of competition, the Commission stated:

There is no question that there will be a significant reduction in rail competition in Florida. However, the overall reduction in rail competition in the Southeastern states will be relatively moderate when considered in the light of the alternative rail service that will be provided by competitors of the merged company at practically all the major industrial centers throughout the affected area.²⁰⁰

While no other railroad requested inclusion in the merger, the Commission maintained jurisdiction for five years for the purpose of considering petitions for inclusion. If petitions are filed by any or all of nine southeastern roads, all of which are financially weak, the Commission may consider the possibility of permitting one or more of them to be combined with the Seaboard Coast Line. The nine railroads are: Appalachicola Northern; Atlantic &

¹⁹⁹"Green Light for Rail Mergers", Business Week, December 21, 1963, p. 82.

²⁰⁰"ACL-SAL Case Viewed as Merger Milestone", Railway Age, December 23/30, 1963, p. 24.

West Point; Atlantic & Danville; Columbia Newberry & Laurens; Florida East Coast; Georgia; Norfolk Southern; Piedmont & Northern; and Western of Alabama.²⁰¹

Creation of the Seaboard Coast Line Railroad leaves the Southeast with two principal rail systems - the Southern Railway and the merged line. Officers of the merged company are Chairman John W. Smith, former president of Seaboard Air Line, and President W. Thomas Rice, former president of the Atlantic Coast Line. Former directors of the Atlantic Coast Line and the Seaboard Air Line are now first members of the consolidated company's board.

²⁰¹Ibid.

CHAPTER IV

RAILROADS WHICH PROPOSED
CONSOLIDATION BETWEEN 1945 AND 1960

At the close of 1962 only those railroads mentioned in chapter III had been successful in merger attempts. This chapter will consider proposed consolidations that have not been completed, with principal emphasis on the reasons for the proposed mergers and why attempts to consolidate have failed.

Missouri-Kansas-Texas; Chicago & Eastern
Illinois and the Chicago Great Western

The first unsuccessful merger attempt after World War II involved the Missouri-Kansas-Texas; Chicago & Eastern Illinois and the Chicago Great Western. The possibility of a three way merger followed a meeting of the railroad presidents in February 1946, in which Patrick H. Jayu, President of the Chicago Great Western, announced that "something might be worked out in from one to three years".¹

¹"Hint Great Western Merger", Railway Age, February 16, 1946, Vol. 120, p. 374.

If joined, the new system would have had combined assets of approximately \$440,000,000 and 5,500 miles of track in the Middle West and the South West.² The purpose of the proposed merger was to make possible operating economies and to increase traffic on the three lines.³ The three roads made intensive merger studies for nearly two years.

The Missouri-Kansas-Texas voted down the merger in 1948 since its studies showed that a merger with either the Chicago & Eastern Illinois or the Chicago Great Western would not be advantageous to or in the best interest of Missouri-Kansas-Texas.⁴

Florida East Coast and the Atlantic Coast Line

In May 1947 the Interstate Commerce Commission stated it would permit the Florida East Coast to merge with the Atlantic Coast Line and provided that three reorganization managers be appointed by the Federal Court to execute the plan. The three managers had authority to decide on the

²Ibid.

³"Merger Committees Formed", Railway Age, June 15, 1946, Vol. 120, pp. 1189-1190.

⁴Letter from M. R. Craig, Assistant to President, Missouri-Kansas-Texas Lines, January 24, 1961.

effective date of the merger.⁵

The proposed merger was confronted with many technicalities. For example, the Florida East Coast had been under trusteeship since 1931 and the St. Joe Paper Company, owned by the du Pont Estate, was also attempting to gain control of the Florida East Coast.⁶ The Interstate Commerce Commission had approved a number of reorganization plans for the Florida East Coast. These plans were in and out of the courts for many years.⁷

The principal purpose of the proposed merger of the Florida East Coast and the Atlantic Coast Line was to give better passenger and freight service to the customers served by the two roads.⁸ Economy was expected to result from the unification of supervisory forces, consolidation of yards and freight stations and reduction in inventory.⁹

⁵"ICC Approves Coast Line Control of F.E.C.", Railway Age, May 24, 1947, Vol. 122, pp. 1072-1083.

⁶"Judge Reverses ICC Decision", Railway Age, January 29, 1949, Vol. 126, pp. 278-279.

⁷Interstate Commerce Commission Reports, Vol. 282, 1951-1953, p. 198.

⁸"ICC Approves Coast Line Control of F.E.C.", Railway Age, op. cit.

⁹Ibid.

The Florida East Coast's creditors objected to the Atlantic Coast Line's plan to settle the creditors' claims. The bankrupt Florida East Coast had claims against it totaling over \$83 million. The Atlantic Coast Line proposed to settle these claims with cash and securities amounting to \$40,500,000. Past earnings of the Florida East Coast were used in determining the basis for settlement. It was believed that since the Florida East Coast was bankrupt, creditors would be willing to accept this lesser amount. However, the creditors did not agree and made formal protests to the Interstate Commerce Commission in 1951. They believed that payment for the Florida East Coast's properties should be based on its future earning powers. On this basis the properties would be capitalized at \$58,000,000.¹⁰

Such technicalities as the foregoing prevented Interstate Commerce Commission approval of the merger, and in November 1958, the Interstate Commerce Commission dismissed the application of the Atlantic Coast Line Railroad Company to purchase, acquire control of and operate the reorganized Florida East Coast Railway Company.¹¹

¹⁰ICC, Vol. 282, op. cit.

¹¹Interstate Commerce Commission Reports, "Florida East Coast RR Co. Reorganization", Vol. 307, August 1958-March 1960, p. 5.

Instead, the Commission approved and authorized acquisition of control of the Florida East Coast by the St. Joe Paper Company and by the testamentary trustees of the Alfred I. du Pont Estate.¹²

St. Louis-San Francisco and Gulf, Mobile & Ohio

In August 1947, Mr. Isaac B. Tigrett, President of the Gulf, Mobile & Ohio, announced that talks were being carried on between the controlling interests of the St. Louis-San Francisco Railway and the Gulf, Mobile & Ohio, which might lead to the merging of the two companies.¹³

Union would have brought about a rail system with 8,000 miles of lines in eleven states. The purpose of the merger was to reduce interest charges, improve the financial conditions of the St. Louis-San Francisco and to expand the two roads' traffic.¹⁴

Merger conversations failed to develop a basis for consolidation. The proposed merger apparently has been

¹²Ibid.

¹³James Hutton Lemly, The Gulf, Mobile & Ohio, (Homewood, Illinois: Richard D. Irwin, Inc., 1953), pp. 199-200.

¹⁴"Another Rail Merger?", Business Week, August 30, 1947, pp. 62-66.

shelved completely by the two roads.¹⁵

New York, New Haven & Hartford; Boston & Maine;
Rutland; Maine Central; Banger & Aroostook

The New York, New Haven & Hartford and the Boston & Maine roads began considering consolidation in 1955. The purpose of the proposed plan was to bring about new economies and added efficiency of the two lines.¹⁶

In January 1955, Mr. Patrick B. McGinnis, President of the New Haven, stated, "any consolidation of these railroads would have to wait until the two roads are financially sound and have their credit restored. This would require at least two years".¹⁷

The merger plan was expanded in 1958 to include the Rutland, the Maine Central, and the Banger & Aroostook. Business Week magazine in November 1958 suggested that the motive for this proposed merger was fear of the Pennsylvania-New York Central merger plan.¹⁸ It was suggested that "roads had started talking merger simply to

¹⁵Lemly, op. cit.

¹⁶"No Quick Merger for N.H.-B&M.", Railway Age, January 17, 1955, pp. 7-8.

¹⁷Ibid.

¹⁸"Fears Spur Merger Talks", Business Week, November 29, 1958, pp. 47-50.

defend themselves against the supposed benefits that their competitors would reap from their get-together".¹⁹

Spokesmen for the five roads stated that their aim was "to prepare to meet any threat which possible consolidation of railroads in other sections of the country might present".²⁰

The five carriers would have been able to scrap or sell few facilities had they merged, since their systems connect end-to-end. Mr. P. B. McGinnis stated that the main purpose of the proposed transaction "was to improve service and that monetary savings would be secondary to the advantages of straight-line managements".²¹

In 1957, the five roads had 5,000 miles of track. They had total operating revenues of more than \$293,000,000 and combined assets in excess of \$800,000,000.²²

By April 1960 the proposed merger of the five roads was apparently dead since Mr. E. Spence Miller, President of the Maine Central Railroad and head of the Association of New England Railroad Presidents, announced that a merger

¹⁹Ibid.

²⁰Ibid.

²¹"More Nuptials?", Business Week, November 22, 1958, p. 34.

²²Ibid.

wasn't feasible at that time.²³ Miller stated that "depressed earnings and low security prices were the chief factors behind the decision to end their talks". "The New Haven and the Boston & Maine, between them, lost \$20,000,000 on passenger business in 1959."²⁴

In July 1961 the New York, New Haven & Hartford Railroad filed for reorganization under the Federal Bankruptcy Act. The New Haven was losing \$6,000,000 a year on commuter service and had insufficient money to operate the railroad.²⁵ The federal court appointed trustees to operate the New Haven and pay its current bills. Trustees were allowed to ignore interest payments on bonds and "were required to reduce the railroad to that part which shows hope of earning money". Trustees hope to rebuild and modernize the railroad by selling government-backed receivers' certificates.²⁶

²³"Plan for New England Rail Merger is Derailed by Financial Troubles", Business Week, April 30, 1960, p. 60.

²⁴Ibid.

²⁵"Symes Gives Views on Rail Mergers", The Roanoke Times, (Roanoke, Virginia), July 16, 1962.

²⁶"New Haven Says it is Licked", Business Week, July 15, 1961, p. 34.

Chicago & North Western and the Chicago, Milwaukee,
St. Paul & Pacific (Milwaukee)

The directors of the Chicago & North Western and the Milwaukee began studying possibilities of a merger in November 1955. Studies by the two roads revealed that merger would improve their opportunities to attract additional traffic and to reduce the great amount of duplicate facilities. The Milwaukee board of directors announced in November that they were ready to press for a decision on out-right consolidation with the Chicago & North Western.²⁷ The Chicago & North Western lost \$2,000,000 in January 1956 and temporarily called off the merger.²⁸ Again, in March 1961, the merger was blocked when directors of the two lines disagreed over terms of an exchange of stocks.²⁹

The two roads if joined will operate more than 21,000 miles of line, serving fifteen states and 141 communities. Estimated annual savings from the proposed merger total

²⁷"Milwaukee Likes Merger With C & N.W.", Railway Age, November 14, 1955, p. 68.

²⁸"C-N.W.-Milwaukee Merger Off", Railway Age, February 16, 1956, p. 61.

²⁹"Why Railroads Demand A New Deal", U. S. News & World Report, April 3, 1961, p. 94.

\$40,000,000 before taxes.³⁰

Missouri Pacific and Texas & Pacific

The Missouri Pacific and the Texas & Pacific began to study merger possibilities in early November 1957. The Missouri Pacific already owned all the preferred stock of Texas & Pacific and 77 per cent of its common stock.³¹

Rail officials of the two roads stated that the purpose of the merger was to reduce wasteful excess capacity of the two roads. They stated that "diesel locomotives, radio communications, roller bearings and other improvements have enabled railroads to haul more freight on less track".³²

The Missouri Pacific called off the proposed merger in July 1959 after its study committee recommended that merger talks be ended on grounds that an end-to-end merger would not produce sufficient economies to justify consolidation.³³

³⁰"Merger Report", Railway Age, March 27, 1961, pp. 16 and 33.

³¹"Wedding to be a Long Ways Off", Business Week, November 9, 1957, pp. 31-32.

³²Ibid.

³³"Missouri Pacific May Take New Look at Merger", Railway Age, January 25, 1960, p. 7.

New York Central and Pennsylvania

In early November 1957 the presidents of the New York Central and the Pennsylvania announced they had begun merger studies which were expected to cost almost \$1,000,000 and to take as long as five years to complete.³⁴ In January 1959 the studies showed possible annual monetary savings of from \$100,000,000 to \$125,000,000.³⁵

The two railroads had the largest assets and gross revenues in the United States. In 1962 the New York Central's total operating revenues were \$622,558,693. The Pennsylvania's total operating revenues were \$850,655,325. Total assets of the two companies were approximately \$5.4 billion.³⁶

James M. Symes, President of the Pennsylvania, stated, "railroads are over-regulated, over taxed and under compensated. Roads will eventually face nationalization if they don't receive help".³⁷ He stated that the purpose of

³⁴"Wedding to be a Long Ways Off", Business Week, November 9, 1957, p. 33.

³⁵"N.Y.C., Pennsylvania RR.", Railway Age, February 2, 1959, p. 32.

³⁶Standards and Poors, (L-O) "Corporation Records", (N.Y., N.Y.), 1963, p. 5817.

³⁷Ibid.

the proposed merger was to meet competition from other forms of transportation, and to cut down on wasteful excess capacity.³⁸

In early January 1959 the New York Central canceled plans to merge with the Pennsylvania. Officials of the Pennsylvania stated, "there isn't a chance it will merge with the New York Central".³⁹ Mr. James M. Symes stated, "there are too many obstacles, too much horsetrading involved".⁴⁰

No one factor was responsible for the merger failure. Robert R. Young's suicide in early 1958 was probably one set-back. Business Week magazine suggested that the failure resulted from the New York Central outspending the Pennsylvania between 1955 and 1959 for such facilities as centralized traffic control systems and electronically operated freight yards. In addition \$400 million of the Pennsylvania's long-term debt compared with \$285 million of the Central's long-term debt reaches maturity by 1966.⁴¹

In November 1961 the two roads once again agreed to

³⁸Ibid.

³⁹"Railroad Romance Ends in a Jilt", Business Week, January 17, 1959, p. 33.

⁴⁰Ibid.

⁴¹Ibid.

apply to the Interstate Commerce Commission for permission to merge. The Pennsylvania and New York Central made the agreement because the Norfolk & Western and the Nickel Plate were eliminating opposition to their merger plan. Stuart T. Saunders, President of Norfolk & Western, had been negotiating with the smaller and weaker railroads that were objecting to the Norfolk & Western-Nickel Plate merger. Saunders had talked these railroads into supporting Norfolk & Western's merger; he also raised the possibility that these smaller and weaker lines might funnel traffic away from the New York Central and the Pennsylvania to the merged Norfolk & Western-Nickel Plate. Business Week magazine suggested that under such conditions, the New York Central would not be able to survive alone and the Pennsylvania would suffer badly.⁴²

The stockholders of both roads gave their approval to the new plan in January 1962. Under the terms of the merger agreement, each share of Central capital stock will be exchanged for 1.3 shares of the stock of the surviving company and each share of the Pennsylvania capital stock will

⁴²"Two Large Railroads Push Merger Talks", Business Week, November 11, 1961, p. 36.

be exchanged for one share of the surviving company.⁴³
Thus, 8,478,390 shares of the new company or 39.2 per cent of the total would be held by present New York Central stockholders and 13,167,754 shares or 60.8 per cent by Pennsylvania stockholders.⁴⁴

Several obstacles have delayed Interstate Commerce Commission's approval of this merger plan. For example, the railroad labor unions have strongly disapproved of the transaction. The Justice Department has expressed interest in this merger. Also, Senator Estes Kefauver, Chairman of the Senate Anti-Trust and Monopoly Subcommittee has opposed the plan. In addition, some shippers served by the two roads have protested the unification.⁴⁵

The two roads estimate that the proposed merger will result in a total reduction of 7,800 jobs during the five years following merger - an average of 1,560 per year. Directors of the two roads noted that 110,000 employees have been laid off during the past ten years - an average of 11,000 per year. Employees affected by the merger will

⁴³1962 Annual Report of the New York Central Railroad Company, 1962, p. 5.

⁴⁴Railway Age, "NYC, PRR Agree on Merger Terms", January 22, 1962, p. 10.

⁴⁵"Two Top Railroads Call it a Deal", Business Week, January 20, 1962, p. 20.

receive protective benefits while those laid off during the last decade did not receive such benefits.⁴⁶

If the Interstate Commerce Commission approves the merger, the new system will be called the Pennsylvania-New York Central Transportation Company. The company will have assets of almost 5.4 billion dollars and more than 20,000 miles of track.⁴⁷

Great Northern; Northern Pacific; Chicago,
Burlington & Quincy; Spokane,
Portland & Seattle

The Great Northern and the Northern Pacific began formal merger talks in 1959. The proposed merger will include the Chicago, Burlington & Quincy and the Spokane, Portland & Seattle, both of which are jointly owned by the two Northerns.⁴⁸ This was the fourth attempt to combine all or some of these lines. James Jerome Hill, legendary rail empire builder, tried twice to weld a northwestern rail complex - once in the 1890's and again in the early 1900's.⁴⁹

⁴⁶1962 Annual Report of the New York Central Railroad Company, 1962, pp. 6-7.

⁴⁷Business Week, op. cit.

⁴⁸"Northern Directors Get Report on Rail Merger", Business Week, December 14, 1957.

⁴⁹Ibid.

The roads decided to push for a merger after studies revealed possible savings of about \$40,000,000 annually, before taxes. Principal savings would come from the elimination of duplicating facilities.⁵⁰

Directors of the roads voted to consolidate in July 1960. If unified, the new system will have 24,597 miles of track from Chicago to Seattle and from Portland to Galveston. This would form the largest rail network in the United States. Revenues of the four roads in 1959 totaled 735 million dollars.⁵¹

Main opposition to this merger has come from the railroad unions and businessmen in communities along the routes.⁵² In addition, powerful resistance to rail mergers began building up in the Senate in June 1961. For example, three Senate leaders are behind a resolution asking the Interstate Commerce Commission to "go slow" on rail mergers. They are: Senate Majority Leader Mike Mansfield of Montana, Whip Hubert H. Humphrey of Minnesota and Warren G. Magnuson

⁵⁰"Great Northern and Northern Pacific Vote to Merge Four Rail Systems", Business Week, July 23, 1960, p. 58.

⁵¹Ibid.

⁵²"Why Railroads Demand a New Deal", U. S. News & World Report, April 3, 1961, p. 94.

of Washington, Chairman of the Commerce Committee.⁵³ These senators fear that rail service in each of their states will be affected adversely if the merger goes through.⁵⁴

Chesapeake & Ohio and Baltimore & Ohio

The transaction between the Chesapeake & Ohio and the Baltimore & Ohio in December 1962, involved only acquisition of control and not an actual merger as defined in this study. This control may lead to a true merger of these properties in the future.

In May 1960 the New York Central proposed a three way merger of the Chesapeake & Ohio, Baltimore & Ohio and the New York Central. Chesapeake & Ohio objected to a three way merger and applied to the Interstate Commerce Commission for control of the Baltimore & Ohio as a first step toward alignment of eastern carriers.⁵⁵

The Chesapeake & Ohio operates about 5,000 miles of railroad and its property is valued for rate making purposes at \$197,460,975. The Baltimore & Ohio operates about 6,000

⁵³"Rail Map Arouses Senators", Business Week, June 10, 1961, p. 42.

⁵⁴Ibid.

⁵⁵Letter from John S. Marshall, Assistant To Executive Officers, Chesapeake & Ohio Railway Company, July 23, 1962.

miles of road and its property for rate making purposes is valued at \$695,453,455.⁵⁶

In May 1962 the Interstate Commerce Commission Hearing Examiner issued his report recommending approval of the application for control. On December 31, 1962 the Commission approved Chesapeake & Ohio control of the Baltimore & Ohio. Control will be by stock exchange and both carriers will continue operating as separate railroads.⁵⁷ The United States Supreme Court upheld the Interstate Commerce Commission's decision in December 1963. Railroad labor unions and the Justice Department had contested Chesapeake & Ohio's control of Baltimore & Ohio.⁵⁸

Norfolk & Western, New York, Chicago &
St. Louis (Nickel Plate) and Wabash

The Norfolk & Western began conducting merger talks with the Nickel Plate in March 1960. The two roads do not parallel or connect with one another. No grades can be

⁵⁶"Salisbury Evening Post", (Salisbury, North Carolina), December 31, 1962, p. 1.

⁵⁷Ibid.

⁵⁸Railway Age, December 16, 1963, p. 7.

eliminated and few if any duplicate facilities abandoned.⁵⁹ In order for the two roads to unite, the Norfolk & Western will have to purchase a 111 mile Pennsylvania branch that links the two. This is not expected to be a major problem since Pennsylvania owns one third of the Norfolk & Western's voting share.⁶⁰

The purpose of the proposed merger is to give Norfolk & Western direct access to important markets for metallurgical coal. In addition, consolidation with the Nickel Plate will diversify the Norfolk & Western's traffic to a more desirable mix of 50 per cent coal and 50 per cent merchandise. If the Interstate Commerce Commission allows the Norfolk & Western to lease the Wabash Railroad within the same transaction the ratio will be 60 per cent merchandise and 40 per cent coal.⁶¹ Savings which will result from combining the operations are estimated at more than \$25,000,000.⁶²

⁵⁹"Rails Make up Time in Mergers", Business Week, May 28, 1960, p. 38.

⁶⁰"Mergers on Track", Business Week, June 18, 1960, p. 31.

⁶¹"Rails Make up Time in Mergers", Business Week, op. cit.

⁶²"Mergers on Track", Business Week, op. cit.

The Norfolk & Western plan calls for:

- (1) Merger with Nickel Plate
- (2) Purchase of 111 miles of connecting lines from the Pennsylvania Railroad for \$27,000,000 cash
- (3) Lease and later merger with the Wabash Railroad⁶³

The chief advantage of tying the Wabash into the Norfolk & Western is to further diversify the Norfolk & Western's traffic. At present Norfolk & Western's business is 69 per cent coal and 31 per cent merchandise. Also, the Wabash has 650 miles of track which closely parallels the Nickel Plate and much duplication can be eliminated.⁶⁴

The directors and stockholders of the three railroads gave their approval to the plan of merger in early 1961. The proposed transaction received nearly 100 per cent approval from the voting stockholders. The three roads applied to the Interstate Commerce Commission for approval of their plan in March 1961.⁶⁵

The New York Central intervened in early 1961, since it feared loss of traffic if the consolidation should

⁶³"On the Track of Bigger Profits", Business Week, December 10, 1960, p. 90.

⁶⁴Ibid.

⁶⁵U.S. Interstate Commerce Commission, Finance Docket No. 21510, 1961, p. 42.

go through.⁶⁶ In May of 1961, New York Central's President, Alfred E. Perlman, asked the Interstate Commerce Commission to make it a fourth party in the proposed merger. However, the New York Central withdrew its opposition to the plan after merger talks with the Pennsylvania were renewed in November 1961.

The Commission's approval of the Chesapeake & Ohio's application for control of the Baltimore & Ohio, was regarded as a sign that the Norfolk & Western's application would be approved. On April 17, 1963 Interstate Commerce Commission Examiner Lester Conley recommended approval of the plan. He stated that the Pennsylvania will have to dispose of its financial interest in both roads. In addition, Norfolk & Western may lease the Wabash, but it cannot purchase it.⁶⁷

Final approval of the plan by the Commission is expected in the near future. The three roads together will have over 7,000 miles of road and assets of approximately 1.7 billion dollars.⁶⁸

⁶⁶"Red Signal on Rail Mergers", Business Week, April 8, 1961, p. 34.

⁶⁷"Eleven O'clock News", WSLS Television Station, (Channel 10), Roanoke, Virginia, April 17, 1963.

⁶⁸ICC, op. cit., p. 53.

CHAPTER V

Summary and Conclusions

Since World War II approximately 50,000¹ miles of Class I railroad line, which represents over 23 per cent² of all rail line in the continental United States, have been consolidated. Of the nineteen railroads that merged, eleven were closely affiliated prior to consolidation and eight were nonaffiliated. Physically the nine rail mergers since 1945 were divided equally among the end-to-end, the parallel and a combination of the end-to-end and parallel type merger.

Annual savings anticipated from the nine rail mergers total \$70,625,543³. Of the total savings expected \$27,975,543 have been realized as a result of mergers.⁴ The savings have resulted primarily from a reduction in

¹The Atlantic Coast Line Railroad was involved in two mergers during this period, therefore the original 5,100 mile line is counted twice.

²Twenty-three per cent is based on a total of 217,000 miles of rail line in 1961.

³No estimate of monetary savings was made in the Alton and Gulf, Mobile & Ohio merger.

⁴Annual savings are based on information furnished by presidents or assistants to the presidents of the nine railroads which merged since 1945.

administrative and operating expenses. One author recently estimated that if all railroads were unified into four noncompetitive regional systems the potential savings would reach \$1 billion annually.⁵

Several factors are responsible for the railroad industry's increased desire for monetary savings. The fact that the industry's rate of return on net investment was only 2.13 per cent in 1960 (the lowest since 1939) is of importance since this percentage is well under the traditional 6 per cent rate of return allowed or earned by most other government regulated industries.⁶ The railroad industry's net income in 1960 of \$445 million was less than half that of 1929. A total of twenty-seven Class I railroads, nineteen of them in the East, turned in deficits for 1960.⁷ It is quite evident from these statistics that the railroad industry must improve its financial position, whether by mergers or other means.

Five of the rail mergers since 1945 involved financially

⁵Gilbert Burck, "A Plan to Save the Railroads", Fortune, August, 1958.

⁶Charles F. Phillips, Jr., "Railroad Mergers", Washington and Lee Law Review, Volume XIX, (Spring, 1962), p. 1.

⁷Ibid.

strong carriers. Two of the mergers involved financially weak carriers, and the new systems are still considered to be financially weak. The other two mergers consisted of a financially weak carrier consolidating with a financially strong carrier. The trend in railroad mergers is characterized by proposals to merge two financially strong lines, while lines in the most serious financial condition have only slight opportunity to merge with lines whose financial positions remain at least reasonably satisfactory. The trend is best illustrated by the recent merger of the Atlantic Coast Line and the Seaboard Air Line in which both carriers were financially strong and competing carriers. The Journal of Commerce suggests that the Interstate Commerce Commission's approval of the merger may be defined as "permitting two strong carriers to merge in order to strengthen those carriers resistance to ailments which already plague others in the industry".⁸

Five of the rail mergers which have taken place since 1945 consisted of railroads which did not compete with each other, and one merger included two carriers that competed slightly. Three of the mergers included carriers which were

⁸"Rail Merger Picture Gets Hopeful Glow", The Journal of Commerce, New York, N. Y., December 18, 1963, p. 1.

highly competitive and consolidation of the carriers resulted in a substantial reduction in railroad competition. The only rail merger which resulted in an overall increase in fixed charges was the Alton and Gulf, Mobile & Ohio.

Substantial opposition to six of the rail mergers was encountered at Interstate Commerce Commission hearings, whereas three of the mergers met no opposition. The Railway Labor Executives' Association has recently gone on record opposing all pending merger plans. The Association proposes "a temporary halt which would provide time to substitute thought for fears, analysis for propaganda, a long-range approach for the threat of a dangerous series of disconnected emergency actions". The temporary halt would not embody a final decision that no further railroad mergers, carefully evaluated in terms of appropriate criteria, would be favorably considered. The Association recommends the establishment of a National Transportation Commission which would decide on the appropriate criteria for any further processing of proposals for railroad mergers.⁹

⁹Leon H. Keyserling, The Move Toward Railroad Mergers, (Washington, D.C.: Railway Labor Executives' Association), February, 1962, p. 85.

In five of the railroad mergers employees are expected to be affected adversely. An estimated 7,704 employees have lost their jobs as a result of the five mergers and many other employees have been relocated.¹⁰ In four of the mergers all employees are to be retained.

While the reduction of jobs is not the direct objective of mergers, two recent mergers (Delaware, Lackawanna and Western and the Erie and the Atlantic Coast Line and Seaboard Air Line) call for substantial monetary savings from a reduction in the number of employees. Rail labor has estimated that if the present merger proposals now pending are permitted, "it will ultimately result in the elimination of 200,000 jobs or roughly 25 per cent of the present railway work force".¹¹

Since 1929, the trend in railroad employment has been downward. For example, in 1929 almost 1.7 million employees were working for the Class I railroads of America. In 1953 employment totalled 1.2 million but by 1960 it was only

¹⁰ Estimate based on same source as footnote 4 and on a comparison of Railroad Annual Reports before and after merger. The Seaboard Coast Line Railroad is not included since it is too early to make an accurate estimate.

¹¹ "A Growing Threat to Railroad Jobs", Textile Labor, Vol. XXIII, No. 4, April, 1962, p. 1.

780 thousand or 35.3 per cent lower than in 1953.¹²

Mergers accounted for an insignificant percentage of this decline. Automation and a decline in freight traffic have been the primary reasons for the decline in railroad employment. Freight business amounted to 30.4 million carloadings in 1960, down from 52.8 million in 1929.¹³

In the short-run some communities have experienced losses as a result of rail mergers. As was pointed out earlier in this study, the City of Nashville, Tennessee has suffered commercial losses. The City of Marquette, Michigan has experienced a cutback in railroad services and the Town of Narrows, Virginia has lost its chief source of tax revenues as a result of railroad mergers. Some shippers have suffered as a result of the abandonment of rail facilities which serve their plants and the shippers have had to resort to highway transportation.¹⁴

In many instances railroad mergers have resulted in

¹²Keyserling, op. cit., p. 40.

¹³Phillips, op. cit.

¹⁴Roger Sheldon, Victims of Merger Fever, (Washington, D.C.: Railway Labor Executives' Association), November, 1962, pp. 2-16.

benefits to the public. The benefits may be summarized as: reducing transit time, increasing industrial development, improving train schedules, eliminating interchange delays, reducing rates,¹⁵ and increasing capital expenditures for better service.

The principal conclusions which were reached concerning the success of the nine railroad mergers since World War II may be summarized as follows:

1. Pere Marquette and the Chesapeake & Ohio. The primary objective of this merger was to diversify Chesapeake and Ohio's traffic pattern away from a heavy dependence on coal traffic. The merger accomplished its objective since the Chesapeake & Ohio is now less dependent on coal traffic - the traffic pattern is presently half coal and half other freight.

2. Alton and the Gulf, Mobile & Ohio. The objective of this merger was to make possible longer hauls by Gulf, Mobile & Ohio. The intended results were achieved within the first year following the merger.

3. Nashville, Chattanooga & St. Louis and the Louisville & Nashville. The directors of the two roads initiated the

¹⁵Railroad Consolidations and the Public Interest,
op. cit., p. 44.

merger in order to help the Louisville & Nashville attract additional business and meet competition from highway, airway and waterway transportation. The merger has helped attract additional business to the new Louisville & Nashville. Efficiencies made possible by the merger have helped the Louisville & Nashville meet competition from other modes of transportation.

4. Virginian and the Norfolk & Western. The primary objectives of this merger was to extend the economic life of the Virginian and to lower its dependence on coal traffic. The Norfolk & Western's directors believed that consolidation of the two lines would help meet competition from other modes of transportation. As was pointed out earlier in this study, the objectives were realized.

5. Charleston & Western Carolina and the Atlantic Coast Line. The directors of the two roads initiated the merger in order to provide improvements in public services and effect economies in the operation of the two roads. The merger has accomplished the foregoing objectives.

6. Central Pacific and the Southern Pacific. While the merger was primarily a corporate simplification, the consolidation resulted in elimination of the California sales tax on transfer of tangible personal property between the two

corporations and avoided the expense of holding Central Pacific stockholders and directors meetings.

7. Delaware, Lackawanna & Western and the Erie. The directors of the two roads initiated the merger in order that the financial condition of both roads be improved. Consolidation has partially accomplished this objective but both roads are still operating with deficits.

8. Wisconsin Central, the Duluth, South Shore & Atlantic and the Minneapolis, St. Paul & Sault Ste. Marie. The primary objective of this merger was to improve the financial position of the three roads. Consolidation has improved the financial condition of the roads and resulted in \$750,000 annual savings.

9. Atlantic Coast Line and the Seaboard Air Line. The purpose of this merger was to meet competition from other modes of transportation and to achieve tangible economies and greater efficiency. It is too early to make an accurate estimate of the success of this merger.

In addition to the foregoing railroad mergers, twenty-seven other railroads proposed ten separate plans of consolidation that have not been completed. The Interstate Commerce Commission dismissed only the application of the Florida East Coast and the Atlantic Coast Line. Five of the plans were dismissed by the railroads involved in the

proposed consolidations. The Chesapeake & Ohio acquired control of the Baltimore & Ohio and this control may lead to a merger in the near future. The Interstate Commerce Commission's approval of the remaining three mergers is expected in the near future.

Finally, this study concludes that mergers offer railroad managers an opportunity to solve some of their problems and that since World War II, resulting rail mergers have proved desirable for both the railroads and the public. Barring Congressional and Department of Justice interference in railroad merger procedure, the trend of railroad mergers in the future will be toward fewer railroad corporations.

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ABSTRACT

The purpose of this study is to give historical and factual information regarding merger of railroads since World War II. The study examines the effects of specific mergers on the railroads, on the railroad employees, on competition and on the public interest.

Data for the history of the railroad mergers were gathered from government documents and railroad magazines, while information concerning the success of individual mergers was supplied primarily by railroad officials. An attempt was made to arrive at a conclusion as to the desirability or undesirability of railroad mergers.

This study shows that consolidation has played a major role in railway development in the United States, since the middle of the nineteenth century. The study infers that mergers offer railroad managers an opportunity to solve some of their problems and that since World War II resulting rail mergers have proved desirable for both the railroads and the public. It is suggested that barring Congressional and Department of Justice interference in railroad merger procedure, the trend of railroad mergers in the future will be toward fewer railroad corporations.