

## GOVERNMENT AND THE RAILROADS DURING WORLD WAR I: POLITICAL CAPITALISM AND THE DEATH OF ENTERPRISE

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## About this Article

The following article was Chris Matthew Sciabarra's first essay to appear in a professional scholarly journal: *Historian: The Undergraduate Journal of Research and Scholarship*, Vol. 20, May 1980, pp31-45, published by New York University. With a few pages restored which were omitted from the published version, and extremely minimal copy-editing, this is the first time that the full essay is being made available. About this work, Sciabarra states: "This essay was written over 20 years ago, and I remain proud of it. Would I have done some things differently? Of course. And I think my research, writing and editing have improved immeasurably. But the government-business dynamics that I discuss herein have remained, essentially, the same up till the present day. Considering that so many people are already advocating the subsidization and take-over of the airlines in the post-9/11 world, I think this piece remains timely."

"Whatever one's views of the mixed record of President Ronald Reagan," Sciabarra says, "his comment about 'government's view of the economy' is particularly apt in this context: 'If it moves, tax it. If it keeps moving, regulate it. And if it stops moving, subsidize it.' I hope this essay will shed some light precisely on some of the techniques by which an intrusive government destroys competition and freedom."



## Introduction

*Now, therefore, I, WOODROW WILSON, President of the United States, under and by virtue of the powers vested in me... do hereby... take possession and assume control at 12 o'clock noon on the 28<sup>th</sup> day of December 1917 of each and every system of transportation... within the boundaries of the continental United States...* (Dixon and Parmelee, 1919, p198).

The government "takeover" of the railroads during World War I was the culmination of a long process of interventionism that had dramatic political and economic repercussions. To understand the dramatic effects of "war collectivism" on the railroad industry is to grasp the essential significance of all nonmarket controls.

The historical analysis of the events leading to federal control can best be interpreted by the Misesian theory of class conflict. Ludwig von Mises (1978, p6), the great Austrian economist, once wrote that in a free society "there are no irreconcilable conflicts of the rightly understood interests of various individuals and groups of individuals." How-

ever, with the market intervention of government, there is a necessary creation of conflict between those classes of people who are the beneficiaries of State privilege and those of what Mises calls, a burdened "caste."

*Thus, there prevails a solidarity of interests among all caste members and a conflict of interests among the various castes. Each privileged caste aims at the attainment of new privileges and at the preservation of the old ones. Each underprivileged caste aims at the abolition of its disqualifications. Within a caste society there is an irreconcilable antagonism between the interests of the various castes.* (von Mises, 1978, p3)

## "Political Capitalism" and the Railroads

Up to the First World War, there was no other industry that was as much the product of state intervention as the railroads. The historian, Clarence Carson (1971, p32) once said that virtually all railroad trackage was laid in consequence of some special privilege. Government, at various levels, gave the railroads favored tax status and insured the use of eminent domain, through incorporation, for land acquisition. From 1861 to 1890, state and federal subsidies of more than \$350 million were granted to the railroads, as part of the government's commitment to "internal improvements" (Hughes, 1971, p76). The lines were recipients of over 130 million acres in federal land grants, and approximately 50 million acres through the intermediary or direct actions of the states (Ekirch [1955] 1967, p54).

It is true that the cost of the bulk of railroad construction after 1873 came from private capital. Government land grants accounted for less than 10 per cent of the total mileage laid (Blum, 1977, vol. 2, p422). Yet, most of the government aid accounted for more than 25 per cent of the total railroad capital stock of a billion dollars in the antebellum period (Hughes, 1971, p72). The crucial significance of this direct aid is that it came at a time when the factors of production were extremely underdeveloped, and at a juncture in history that witnessed the greatest inflationary expansion of the money supply, one of the catastrophic results of the Civil War (Childs, 1977, p5). These conditions led to a high degree of economic malinvestment and the process of liquidation that necessarily followed, namely, a depression in the 1870s. The consequent growth of competition and economic decentralization continued until the turn of the century, forcing most of the nation's businesses and financiers to seek economic or political methods of stabilization.

The railroads are the archetypical industry, the pioneers of

what Gabriel Kolko has called, “political capitalism.”<sup>1</sup> Their overexpansion and malinvestment led to a movement for consolidation by way of pools and mergers. But price-cutting and rebates were the prime weapons of competition, which undercut the larger, over-extended roads.

*In this context of declining income, fixed costs, growing competition, and imminent bankruptcy, the leaders of American railroads naturally attempted to stop the secret rebates, rate cutting, and over-expansion that threatened them all. The outcome was a continuous effort, from 1874 on, voluntarily and cooperatively to maintain rates, preserve existing market divisions, and end internecine competition by use of the pool.* (Kolko, 1965, p8)

Despite these voluntary efforts at stabilization, railroad freight rates declined almost continuously from 1877 till the turn of the century.

Increasingly threatened by what industrial leaders called “cut-throat” competition, the railroads would work on explicitly anti-laissez-faire premises. The establishment of the Interstate Commerce Commission was hailed as a first step toward ending the devastation wrought by rate wars. “Laissez-faire is gone,” said railroad executive, Fairfax Harrison, and “personally, I do not repine at the change . . .” (Kolko, 1965, p207).

In the erection of the regulatory apparatus, the support of the shipping interests was crucial. The shippers, however, were even more instrumental on the state level, where local concerns and political expediency fostered endless attacks on the railroads by state regulatory agencies. “In 1913 alone, 42 state legislatures passed 230 railroad laws affecting the railroads in such areas as extra crews, hours of labor, grade crossings, signal blocks, and electric headlights—and many of the laws were expensively contradictory” (Kolko, 1965, p218). In 1914, 166 railroads spent \$28 million to meet the requirements of state laws. Between 1900 and 1916, state taxes per mile of railroad increased 140 per cent, with the passage of more than 1700 new state regulatory laws (Kolko, 1965, p218).

For the railroads, federal regulation was the means of transcending burdensome state regulation. At first, they proposed to eliminate the “repression” of the shipper-dominated state legislatures through federal incorporation. Yet, there was nothing to insure their control of the federal apparatus. The economic historian, Albro Martin (1971, pviii), suggests that the shipper-influenced I.C.C. was unwilling to grant general rate increases, preventing the flow of capital investment from keeping pace with the demands upon the system and paving the way for a collapse in the profitability of railroad operations after 1911. The repressive Hepburn Act—which gave the I.C.C. jurisdiction over terminals, pipelines, storage facilities, and ferries, as well as the power to establish maximum rates—combined with the movement to apply the antitrust laws more forcefully, the hostility of state legislatures, and the rising demands of powerful labor unions, reduced the railroads’ ability to bid for capital resources in an ever-tightening market (Martin, 1971, p132).<sup>2</sup>

Martin, however, believes that an “enlightened” commission policy would have had better long-run effects on the industry. Yet, commissioners admitted frankly that there was no objective criterion for determining the “reasonableness” of rates (Martin, 1971, p355). But this was not just a “lack of economic wisdom.” A misallocation of resources is the inherent, inevitable consequence of state economic control. The more an industry is insulated and “protected” from the market pricing system, the more difficult it becomes to promote any rational economic calculation. For the railroads, the result was and is a state of economic chaos. Indeed, as Albro Martin suggests, “the guns of August were about to blow archaic Progressivism into oblivion” (Martin, 1971, p294).

### Wartime Collectivism

The economist, J. M. Clark (1917) once said, that “in an individualistic democracy things are worth what they are worth to individuals; in a state of war, the individual himself is worth only what he is worth to the state.” Integrated with businessman Howard E. Coffin’s dictum that World War I was “the greatest business proposition since time began” (cited in Koistinen 1967), wartime collectivism featured a planned economy that would serve as the inspiration for a state corporate order. As George P. Adams (1942, p142) put it in his book *Wartime Price Control*, there was an “incompatibility of laissez-faire with the conditions of modern warfare.” And financier Bernard Baruch (1941) extolled the virtue of “taking the profits out of war.”

But there was much profit to be made; not the least of which, for the railroads, was a means of resolving the political and economic conflicts surrounding the industry (Kerr, 1967-68). The months preceding the period of federal control testify to the conflict. Once control was realized, the “caste” conflict was finally institutionalized, with the Railroad Administration serving as the unofficial agency of “revenge” against the shippers.

The war transportation crisis was real, and the railroad industry would spearhead a dramatic mobilization effort to offset the operational catastrophe that was laying bare the industry’s shortcomings. Many of the railroads suffered, overburdened with mortgages. By 1917, the railroads had the largest traffic in their history, consisting of 12 per cent more passenger-miles and 9 per cent more ton-miles of freight than in 1916 (Soule, 1947, p33). The nation’s shippers produced loadings for 100,000 to 150,000 more freight cars than the railroads could furnish. Allied war orders led to traffic congestion on eastern trunk lines and in terminals. As the war exports increased, car shortages and terminal congestion posed a dangerous problem. There was also a severe manpower shortage created at first by wartime geographical mobility and augmented later by military conscription (Kerr, 1968, p40).

Railroad-government cooperation for war seemed to displace the traditional “railroad problem” as early as Octo-

ber 1915. A communication between the Secretary of War and the American Railway Association led to the establishment of a Special Committee on Cooperation with the Military Authorities, which adopted a general plan of transport cooperation at any time of public emergency. The Committee was staffed entirely by railroad men: Fairfax Harrison, President of Southern Railway; R. H. Aishton, President of the Chicago and Northwestern Railway; A. W. Thompson, Vice President of the Baltimore & Ohio Railroad; and W. G. Besler, President of the Central Railroad of New Jersey.

The Army Appropriations Act of 29 August 1916, however, would lay the foundation for the concerted efforts of the American mobilization. The Council of National Defense was formed “for the coordination of industries and resources for the national security and welfare” (Dixon and Parmelee, 1919, pp37-38). It consisted of six cabinet officers who were directed to nominate for presidential appointment an advisory commission with individuals having special knowledge of the various industries. Daniel Willard, the President of the B. & O. Railroad was appointed by Wilson as Chairman of the Committee on Transportation and Communication (and later, Chairman of the Advisory Commission). Willard met with the American Railway Association on 16 February 1917, to firmly establish the railroads within the scheme of national defense. Fairfax Harrison was named to represent the railroads on the Special Committee on National Defense of the A.R.A.

The Army Appropriations Act also included an important clause empowering the President, in times of war, to take possession and assume control of any systems of transportation, for the “transfer or transportation of troops, war material and equipment, or for such other purposes connected with the emergency as may be needful or desirable” (Dixon and Parmelee, 1919, p39). With this threat of outright federal control on the minds of railroad executives, it is no surprise that a day before American entry into the war, Harrison issued a public statement that the railways would put themselves at the service of the government in a national emergency and give it the preferential use of any facilities that might be needed. Five days after Wilson’s war declaration, 700 railway executives settled in Washington, D.C. at the behest of Daniel Willard, signing a “revolutionary” resolution that would pledge cooperation, loyalty and unity for the war effort.

*RESOLVED, That the railroads of the United States . . . stirred by a high sense of their opportunity to be of the greatest service to their country in the present national crisis, do hereby pledge . . . that during the present war they will coordinate their operations in a continental railway system, merging during such period all their merely individual and competitive activities in the effort to produce a maximum of national transportation efficiency.* (Dixon and Parmelee, 1919, p19)

An executive committee of five selected from the Special Committee on National Defense would become known as the Railroads’ War Board. It consisted of Fairfax Harri-

son; Samuel Rea, President of Pennsylvania Railroad; Howard Elliot, Chairman of the Committee on Intercorporate Relations of the Executive Committee of the Northern Pacific Railway; Julius Kruttschnitt, Chairman of the Southern Pacific Railroad Company; and Hale Holden, President of the Chicago, Burlington and Quincy Railroad. Willard was named ex-officio member, as was E. E. Clark of the I.C.C.

It has been assumed by many historians that the threat of federal control was execrated by the railroads. But the quasi-legal, governmentally-sanctioned monopoly behavior of the Railroads’ War Board served two purposes other than transport mobilization. Firstly, it was a step toward sweeping aside the antitrust policies of the government, a movement toward a cartelized, rather than a competitive, industrial structure. Secondly, while cloaking itself in altruistic rhetoric, it was a program designed to insure the industry’s self-regulation, rather than its submission to state control. However, the *Railway Age Gazette*, the famous voice of railroad management, did not object to state control per se:

*The step taken by the railway heads... was revolutionary... They deserve much credit because they have done it spontaneously in recognition of the needs of the country and of their patriotic duty... No voluntary railway organization ever has been able to get all of the railways to subordinate their individual interests to the welfare of all... The success of the plan will depend, first, on the tact, self-restraint, fairness, wisdom, and courage of the executive committee and second, on the unselfishness, self-restraint, and wisdom of the individual managements... It is the conviction of many leading railway men that if they do not do this, the government will intervene. The Railway Age Gazette shares this view. If this should occur, would the central control be left in the hands of men selected by the railways? This is improbable.* (*Railway Age Gazette*, LXII, 11 May 1917, pp985-86)

*The Railway Age Gazette* added that “the whole future of our railways is now in process of determination. The unrestricted and excessive individualism . . . if allowed to assert itself during the war . . . would probably ruin them. The interests of the country must be put above those of the railways . . . and in doing so, further their own permanent interests in the most effective manner” (*Railway Age Gazette*, LXII, 11 May 1917, pp985-86).

### “Rallying Around the Flag”

The “most effective manner” of control did move in a more unified direction and was instrumental in alleviating much of the initial crisis. It formulated effective car-service rules, pooled boxcars and coal-carrying cars, conserved facilities through intensive car loading, and discontinued 28,656,983 “unnecessary” passenger-train-miles, thus saving 1.8 million tons of coal per year. It transported nearly 2 million troops, simplified accounts, and systematized settlements between the government and the carriers (*U. S. Senate Hearings*, 1918, pp9-17). Embargoes were used to penalize shippers who ordered more cars than they could load or against consignees at ports who

ordered shipments without contracting vessel space in advance.

Statistically, the increase in equipment available for use (from 1916 to 1917) was only 1.3 per cent in freight locomotives and 2.5 per cent in cars. Increases in output were accomplished largely by the use of existing equipment. "The freight locomotive in 1917 was hauling nearly a twelfth more tons to the train, and covering more miles each day with the heavier train, than in 1916" (Dixon and Parmelee, 1919, pp37-38).

Despite the accomplishments of mobilization, the railroads faced many obstacles to improved efficiency. With the coming of the harsh winter of 1917, worsening conditions intensified. One of the most serious problems was the lack of labor, leading to continual wage increases of from 15 to 75 per cent, as well as the greater use of female labor (Dixon and Parmelee, 1919, pp64-65). Earlier in the year, the court had upheld the constitutionality of the Adamson Eight-Hour Law in an atmosphere of labor tension and threatening strikes. Now, in the midst of the greatest transportation crisis in history and victimized by the increasing cost of living, the four railroad brotherhoods were sitting in conference with the President. The national union of railway switchmen was demanding wage hikes of 50 per cent, and on 1 December, the Order of Railway Conductors and the Brotherhood of Railroad Trainmen demanded hikes of about 40 per cent. While both labor and management were usually committed to the principle of arbitration, they left their interests in the hands of the President, since "no interruption [of service] can be tolerated under war conditions" (Dixon and Parmelee, 1919, p68).

Railroad management, however, always contended that wage increases should be tied to the rate structure and that the pressures of war necessitated an advance in rates. In June 1917, the I.C.C. denied the railroads their call for a 15 per cent increase in rates. Clifford Thorne, the counsel for various shipping organizations, thundered, "The railroad Presidents are rallying around the flag, saying, 'Give us more money...' You can hear the jingle of the dollars" (Kerr 1968, pp51-52).

Shipper hostility continued on the state level, too, leading the *Railway Age Gazette* to suggest that the national government should "suppress the activities of the state regulating authorities at least during the period of the war" if they failed to act in harmony with the national authorities (*Railway Age Gazette*, LXII, 22 June 1917, p1417).

This aspect of government disorganization was only part of the picture. Congress passed the Priority Law in August 1917, authorizing the President to direct carriers to give preferences to traffic necessary to the defense of the nation. A system of "tags" was instituted to provide for the implementation of the priority policy. All government agents were supplied with these tags to designate freight shipped on government account. Since every agency considered its own traffic to be most important, an indis-

criminate policy of tagging inevitably led to overwhelming terminal congestion, and total freight embargoes. Calls for further government intervention multiplied; the situation worsened.

The Railroads' War Board announced its "revolutionary" plan for unification in November. The pooling of available facilities east of Chicago would require private routing of freight and the appointment of a federal traffic controller to determine routing and priorities. Almost immediately, the executives got a call from the Attorney General who told them that the anti-pooling clause of the Interstate Commerce Act and the Sherman Anti-Trust Act were still in effect and enforceable. Fairfax Harrison answered that the law forbade pooling of freight traffic and earnings, and that the railroads had "merely arranged for the use of physical facilities in common . . ." (*Railway Age Gazette*, LXIII, 7 December 1917, p1031). The *Railway Age Gazette* called for the immediate "repeal of every law which interferes with . . . efforts to operate as a single national transportation system" (*Railway Age Gazette*, LXIII, 23 November 1917, p920). But that was politically explosive.

### Wilson Takes Control

The I.C.C. issued a Special Report on 1 December stating that "it has become increasingly clear that unification in the operation of our railroads during the period of conflict is indispensable to their fullest utilization for the national defense and welfare" (*U. S. Senate Hearings*). It offered two proposals: the legalization of pooling or outright federal control of the railroads. Apparently, the shippers favored control to block rate increases, as did the railroad brotherhoods to insure wage demands. Plans for a federal takeover were being formulated since mid-November, under the direction of the Secretary of the Treasury William G. McAdoo.

Charles McChord, the I.C.C. commissioner, argued that no voluntary effort at unification would be effective because of the resistance inherent in corporate self-interest. Walker D. Hines, Chairman of the Board of the Santa Fe, and later the Second Director-General of the Railroads, would comment that "it was against human nature to expect any such complete unification... It was impossible in such a short time to overcome the competitive and individualistic instinct which characterized the management of every company" (*U. S. Senate Hearings*, 1918, p19).

*The New York Times*, however, asserted that "we hear a great deal of the necessity of unifying the railways, but it would be timely to hear something more about unifying the process of Government... The army wants lumber moved by the millions of board measure. The navy wants steel moved by the million tons. The army and the navy do not co-operate, nor does either cooperate with the ship-building corporation... there is no board of railway strategy at Washington, and no commander-in-chief of the sergeant drill-masters ordering high railway executives.

It is not an altogether unfortunate coincidence that these conditions force themselves upon attention just at the time when it is thought that the remedy of our transportation troubles... is Government operation. Let the Government learn how to govern first" (*The New York Times*, 18 December 1917).

"Our servants in Washington," added *The Times*, "think that the railways have 'broken down' and ought to be punished for their malicious failings to enjoy the blessings of regulation... What has broken down is the attempt to regulate business, all business, including railways..." (*The New York Times*, 7 December 1917).

But the railroads were not nearly as adamant in criticizing the regulatory authorities. Samuel O. Dunn, the editor of the *Railway Age Gazette*, claimed that "the trouble is not with regulation in itself . . . [but] with the particular *policy* of regulation that has been followed" (Dunn, 1919, p39). As late as 14 December, the *Railway Age Gazette* alleged that "nine railway men out of ten believe that the adoption of government operation is unnecessary and a mistake" (*Railway Age Gazette*, LXII, 14 December 1917, p1064). The major obstacle to federal control was the issue of compensation. With government monopolization of the securities market, it was increasingly difficult to secure the necessary capital for investment. The estimated \$11 million outstanding in railroad bonds and obligations was seen by Treasury Secretary McAdoo as "an essential part of our financial structure," in need of stabilization (*U.S. Senate Hearings*, 1918, p201). Ironically, McAdoo, a former New York railroad executive who dealt from time to time with the Morgan interests, the leading underwriters and owners of railroad bonds, would be named the first Director-General of the Railroads (Rothbard, 1972, p90).<sup>3</sup>

The chief financial obstacle to unification, however, was in the pooling of revenues, since those railroad companies voluntarily surrendering traffic would be betraying their own stockholders. Thus, a plan of government operation would have to entail guaranteed income. The effect of the war on income from railroad operation was considerable. Such income had increased from \$704 million in 1914 and \$728 million in 1915 to \$1,043,000,000 in 1916 and \$1,069,000,000 in 1917 (*U. S. Senate Hearings*, 1918, p814). The ratio of income from operation to the costs of road and equipment had averaged 4.96 over the period 1900 to 1915.<sup>4</sup> The ratio, which was very much below average in the years immediately preceding U.S. entry into the war, went from 4.09 in 1915 to over 5.8 in 1917.

Wilson met with the railroad officials on 18 December, informing them of his decision for federal control. Federal financial guarantees were promised, averaging the net operating income from 1915 to 1917, estimated at over \$940 million per year. Despite criticism of the inclusion of the "unusually depressed" year of 1915, the railroads were pleased. But control would achieve more than this. It would override shipper-influenced state commissions, cartelize the industry, and placate the forces of labor with

wage increases.

Yet, hopes of economic and industrial harmony were short-sighted. The ensuing debate over federal control, and the implementation of the United States Railroad Administration, would finally elevate "caste" conflict to the uppermost levels of government.

Wilson made his official declaration on 26 December 1917. Later, Director-General McAdoo would appoint all railroad men to official administrative positions: Walker D. Hines; Edward Chambers, the Vice President of the Santa Fe; Henry Walters, Atlantic Coast Line Board Chairman; Hale Holden of the Railroads' War Board; A. H. Smith, President of the New York Central; and Treasury department officials, John S. Williams and John Barton Payne, who had past connections with private railroad management. W. S. Carter of the Brotherhood of Firemen and Enginemen headed the Labor Division, and Carl R. Gray, President of Western Maryland Railroad, headed the Division of Operation.

The Railroad Administration divided the country into seven regions, with each assigned a regional director. Districts were created with federal managers who were all usually chosen from the very roads that they would direct. As McAdoo stated in the Senate Hearings on Government Control and Operation of Railroads: "The railroad managers, all of whom . . . were left in control of their properties . . . have been given . . . all the powers and authority of the Federal Government to support them . . ." (*U. S. Senate Hearings*, 1918, pp816-818).

The most reassuring words would come from the President himself:

*It was in the true spirit of America that we should first try to effect the necessary unification under the voluntary action of those who were in direct charge of the great railway properties... Nothing will be altered or disturbed which it is not necessary to disturb. We are serving the public interest and safeguarding the public safety, but we are also regardful of the interest of those by whom these great properties are owned and are glad to avail ourselves of the experience and trained ability of those who have been managing them.* (cited in *Railway Age Gazette*, LXIV, 11 January 1918, p98)

### The Guaranteed Profits of Patriotism

The immediate reaction to the government takeover of the railroads was ecstatic. The *Railway Age Gazette* reported "a feeling of relief on the part of many who realized that a great burden of responsibility for railroad credit had been lifted from their shoulders" (*Railway Age Gazette*, LXIV, 4 January 1918, p4). Above all, government control would undo the Gordian knots of unwise regulation, and vindicate private management.

Daniel Willard exclaimed, "If I had been in the President's position, I should have done exactly the same as he did under all the circumstances" (Kerr, 1968, 67). W. H. Tuesdale, President of the Delaware, Lackawanna and

Western, saw the plan as “a fair, reasonable and workable method of taking over the railroads.” Walker D. Hines, hailing the program, stated that railroad people would, “with the utmost loyalty, exert themselves in making the plan the greatest possible success” (*The New York Times*, 27 December 1917). Julian Kruttschnitt assured his colleagues at the Southern Pacific Railway Company that “there is nothing in the proclamation or order requiring the discontinuance of solicitation or the closing of offices or agencies... We are free to decide such questions of policy on our own lines, irrespective of proposals made by other lines.” He added: “The railroads made up their minds from the beginning that they were going to be good soldiers... we accept what has been done... as necessary and we are going to work... loyally under the new conditions” (*U. S. Senate Hearings* 1918, pp275 & 308).

H. H. Dean, general counsel of the Gainesville Midland Railway, who was summoned to the Senate Hearings, was more expressive. “We come here in a spirit of loyalty, and we bow submissively to the demands of the government” (*U. S. Senate Hearings*, 1918, p595). Even labor saw it as a policy that would lead to “a better state of affairs.” The Official Journal of the Brotherhood of Railway Clerks believed it was the first step toward the democratization of the railroads (*The Railway Clerk*, XVII, January 1918, p2).

However, not all the parties were ecstatic. The shippers, who had always favored government involvement to protect their interests, were particularly disturbed by McAdoo’s suggestion that “the shipper will have to become accustomed . . . to the new methods . . . which will . . . be materially and radically altered during Government control” (*U. S. Senate Hearings* 1918, pp816-818). The “radical” alterations were already being manifested.

R. H. Aishton, who served as the President of the American Railway Association, explained later that railroad lawyers descended on Washington and were “told to go into an adjoining room and dictate what orders they want” (Kerr, 1968, p80). The railroad executives used their new administrative powers to introduce reforms designed to achieve industry-wide standardization and rationalization from a perspective of “national efficiency” (Kerr, 1968, pp81-82). In doing this, the traditional shipper privileges were suspended. Shippers were denied the right to specify freight routes (i.e., the cheapest shipping routes). Freight cars were ordered to remain in terminals until filled, sharply curtailing service to small-town shippers. In addition, the burden of proof for damaged shipment (for which the railroads were liable) was shifted to the shippers (Rothbard, 1972, p92).

The Railroad Administration took over the rate-making functions of the I.C.C. In the spring of 1918, it announced freight rate increases of 25 per cent. By the time the government returned the railroads to “private management,” rates advanced another 32 per cent (Martin, 1971, p354).<sup>5</sup> The rate hikes were enacted as a “war measure” without any formal consultation with the I.C.C. or the

state commissions.

The *Railway Age Gazette*, perhaps recognizing this trend at an early stage, commented on 15 February 1918, that “The Shoe [is] now on the Other Foot . . . now the shippers are suffering and their productive capacity is restricted because of their having crippled not only a faithful servant, but an indispensable one” (*Railway Age Gazette*, LXIV, 15 February 1918, p341). Clifford Thorne, the shipper counsel, asserted that the railroads had been trying to destroy the I.C.C.’s rate-making powers for fifteen years. The railroad “ripoff” consisted of a compensation guarantee that was to be given without any inducement for efficiency and regardless of the services performed:

*What industries in the United States outside those directly connected with the manufacture of munitions, would not gladly welcome such a guaranty. It is not strange that 200 industrial, logging, and trolley companies scattered over the United States have petitioned Mr. McAdoo to let them in on the guaranty. They want to be taken over by the Government, God bless them for their patriotism... The country is just full of this brand of patriot, wearing the dollar sign... (U. S. Senate Hearings, 1918, pp905-906)*

## Conclusion

While government control of the railroads did accomplish what the Railroads’ War Board couldn’t (primarily because it was able to by-pass the government restrictions on pooling), Walker D. Hines, in his book on the *War History of American Railroads*, estimated the cost of that control at \$1,123,500,000 (Hines, 1928, pp83-84).

Ironically, it was long noted by *Business Week* that “the railroads constitute the first line of defense against state socialism” (cited in *Private Ownership and Operation*, 1939, p49). The trend toward socialism, however, if defined in the Marxian sense, is the supplanting of the market as the primary agency of circulation (Becker, 1977, p273). It therefore entails the destruction of the only way to rationally allocate resources: through the price system. The “grand, lasting demonstration of the value of government intervention in the public interest,” as McAdoo put it, would officially end in March of 1920, with the return of the railroads to private management (Kerr, 1968, pp65-66). They would return to their historical destiny of guaranteed rate increases, guaranteed profits, government subsidization and complete economic decay. But more importantly, the war history of American railroads stands as a crude illustration of the political effects of interventionism, of the inevitable “caste” conflict that develops, and the loss of productive enterprise that must necessarily follow.

## Notes

1. Kolko’s thesis is presented in Kolko [1963] 1977 and 1965. See also Weinstein 1969.
2. Martin’s study shows that the flow of resources into American railroads rose consistently until about 1907,

hesitated, and then sagged dramatically. See Martin, 1971, pp369-379.

3. Aside from their dealings with New York railroads, both McAdoo and Morgan were key figures in the fight for centralized banking—and the establishment of the Federal Reserve System. See Kolko, 1977, pp217-254.

4. These ratio figures were computed from the *Annual Report of 1917 on All Railroads of the United States* of the Interstate Commerce Commission, cited in *Government Control and Operation of Railroads*, 1918, p207.

5. Martin points out that the increases in rates added up to the three rate denials of the Progressive era.

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