Erie Lackawanna: Early Warnings of Disaster in the Railroad Merger Movement

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Consolidation was a dead topic in railroading after the 1920s, in spite of a government policy to encourage it. Then, in the mid-1950s, it took off, pushed by the railroads themselves as their most urgent need as a means of orderly retrenchment in the fact of rising costs and aggressive competition. The result was a series of consolidations that permanently altered the structure of railroading.

Standard thinking of the mid-1950s, as reflected in several of the popular transportation textbooks, was that consolidation would make it possible to concentrate heavier trains on fewer lines and use the savings for capital improvement. It was assumed that the capacity lost in this slimming-down process would never be needed again, and it was further assumed that economies of scale were real. Affluent railroads might have more private motives for consolidation, such as a desire to eliminate their own railroad competition, but it suited them to adopt this "textbook" rationale for public posture. It had a nice ring of economic realism and it might, if not ease the pain, at least excuse the inconvenience for those who were going to pay a price -- some shippers, some communities, and many of the men and women who had devoted their careers to railroads, from track workers to vice-presidents.

The movement had already produced two mergers when hearings began on a combination of the Erie and the Delaware, Lackawanna & Western in September 1959. Neither of those first two combinations had quite lived up to the textbook ideal. The first, a merger of the Louisville & Nashville and the Nashville, Chattanooga & St. Louis, was little more than a corporate streamlining for two subsidiaries of the Atlantic Coast Line. It permitted only an insignificant reduction of route miles, and did little to boost the notion of economies of scale. The little NC&StL, it turned out, kept some of its unit costs, particularly in locomotive repair, lower than the big L&N.[1] The other, a combination of the Norfolk & Western and the Virginian, was between two of the most profitable railroads in the country, hardly in need of drastic, irreversible medicine to stay solvent.

But Erie and Lackawanna were different. By textbook standards, they were perfect merger partners. They were nearly parallel between Buffalo and New York Harbor, so there seemed to be a real possibility for a reduction of route miles and a concentration of traffic. They were well maintained, which seemed to indicate they were well managed and thus deserving of favorable consideration. Both had lost their once-dependable tonnage of anthracite coal, nearly a mortal blow for the Lackawanna. Both had suffered damage and loss of revenue from Hurricane Diane in 1955. Both were now dependent on the traffic of finished and semifinished goods which left them vulnerable to every downswing of the business cycle. Both had found the capital to dieselize in the late 1940s, but since neither fully covered fixed charges after 1953, it was doubtful they were going to find it for the next round of essential improvements, such as jumbo freight cars, or computerized records, or new diesels when the old ones wore out, which was expected to begin about 1964. If they could not afford these, they would be at the point of no return, unable to stay competitive, and hence unable ever to afford them again. Both had major debt issues coming due in the near future, and refinancing at acceptable interest rates was out of the question. Merger seemed to be a panacea, a gamble really, that might solve all problems.

But when it was all over, merger had solved nothing. Erie Lackawanna showed a net income for only two years in all the 1960s and then plunged into receivership in 1972. It never even became a desirable merger partner for anyone else. If Erie and Lackawanna had made an honest mistake in the panacea mentality of the 1950s, those who followed should have been warned by experience. At least, the ICC should have learned what questions needed to be asked, so as better to guide the mergers that followed. But it did not, not until after the Penn Central debacle when the shortcoming of merger was obvious to all. All the problems that finally sank the Penn Central had ravaged Erie Lackawanna before Penn and Central ever merged.

The first bad omen was the withdrawal of the Delaware & Hudson from the merger planning. This was a blow to everyone who hoped the railroads could group themselves into rational units "that preserved normal routes and channels of trade," as called for far back in the Transportation Act of 1920. D&H was profitable, mainly from the New England-bound traffic it received from Erie and Lackawanna at Binghamton. Its good management and good credit promised to bring stability to the merger and some thought its president, William White, had originated the whole idea in the first place.

When the first studies were completed, after two and a half years of work, White said he was enthusiastic. D&H was slated to play a pivotal role, with company headquarters and an electronic classification yard to be located at Binghamton. However, no one could find a ratio for the exchange of securities that would be acceptable to security holders of either the strong road or the

weak ones;[2] and so, after much planning, at great expense, the D&H just pulled out one day in April 1959, without warning to anyone else.

In fact, through all the mergers that were coming, there were never to be combinations of railroads of different financial standings, no matter how natural they would be in terms of traffic flow or the kind of competitive balance they would produce. It was going to be remarkable how the affluent roads would seek out other affluent roads, leaving the less fortunate lines to each other or out altogether. The D&H was something of an anomaly -- the lonely rich kid in a very poor neighborhood, cut off from fellow rich roads by an unbridgable 200-mile gap. But the portents were ominous Merger was not going to solve the old weak road, strong road problem; it was going to accentuate it, often breaking up the historic channels of trade in the process. None of the mergers of the 1960s bore any resemblance to the combinations suggested in the Ripley or ICC plans of the 1920s, save that of the Northern lines.

Even without the D&H, there was considerably less to the Erie Lackawanna merger than met the eye. If it reduced the number of independent railroads between Buffalo and New York Harbor from five to four, it was not going to eliminate much route mileage. Between Buffalo and Corning, the Erie followed the Genesee River, the Lackawanna, the Cohocton, and neither could be abandoned without loss of on-line traffic. At best, the Lackawanna could be downgraded to branch-line status and an Erie branch adjacent to it could be abandoned in part -- a branch which the ICC had nearly allowed the Erie to abandon in 1944 without a merger.[3] Farther east, between Binghamton and the New Jersey terminals, neither line could be abandoned or downgraded. The Erie line along the Delaware River was thought to be the best for through freight, while the Lackawanna, through the Pocono Mountains via Scranton, originated more on-line traffic, provided connections with the Jersey Central and Reading systems, handled what was left of the anthracite traffic, and was the superior passenger route.[4]

Only on one stretch, the 80 miles between Corning and Binghamton where the roads were adjacent, where mountain grades posed no problem of congestion, was it possible to rip out one of the two railroads. The problem was, that had already been done without a merger. Erie and Lackawanna, as independent and fiercely competitive railroads, had worked out an agreement by which the Erie line would handle all the trains of both roads, then about 60 a day, 14 of them passenger trains.[5]

It was called coordination, and some thought it was a good way to get most of the savings from consolidation without the unstabilizing structural changes that went with it; but railroad people, having decided on merger, always insisted that dreams of coordinatic were naive. The issue came up in every one of the mergers of the 1960s, most extensively in the Northern Lines case, and always received the same put-downs -- that proponents did not understand

railroading, that they did not understand such arrangements never worked.[6] But Erie and Lackawanna had made it work, not only on this vital segment of their mainline, but in their New Jersey passenger terminal as well. In both cases, annual savings from coordinated operation were greater than the capital invested in making the necessary physical changes -- a better return than railroads got on most of their investment. Both lines seemed immensely pleased, although Lackawanna had nearly been unable to find the capital necessary for the physical changes, a sign that it was skidding close to the point of no return.[7] The bigger point was that merger was not going to be an effective way to reduce mileage, and where mileage could be reduced, merger was not necessary.

Erie Lackawanna sent the other great textbook misconception of merger to a sudden death as well. It was not going to be possible to consolidate trains and thus reduce train-miles by very much. A daily eastbound manifest out of Buffalo on the Lackawanna averaged 90 cars, and one on the Erie averaged 50 cars; they could be combined, as could a few local runs on the eastern part of the system. All other trains operated at or near capacity, and further reduction of train miles was impossible. It was calculated that 550 round trips a year could be eliminated by merger, less than two per day. That did figure to a saving of $685,349 a year, two-thirds of it in crews' wages, not an insignificant sum but not the sweeping increase in efficiency implied by the textbooks.

This analysis came from the Wyer Report, as it was called, a study of the savings a merger could produce, prepared by Wyer, Dick, and Company of Upper Montclair, New Jersey. That firm would do most of the studies for the mergers of the 1960s, the Penn Central being the principal exception, and this report was going to be the prototype of them all. It indicated possible savings of $13 million a year, a figure which, once determined, seemed to take on an almost mystical quality to all concerned, self-justifying and self-explanatory.

The Wyer Report was a vaguely unsatisfying document. It was little more than a statistical summary of field studies, without supporting data. There was no indication of how physical changes were going to be made, or in what order, or how employees were going to be trained to cope with them. It was internal company business, but it would have been nice, in hindsight, if the ICC had required about these things, to see if management really knew what it was doing and had the resources to go through with it.

Beyond that, the report dealt in a strange combination of generalities and details. A massive portion of savings ($1.7 million, or 13 percent of the total) was to come from the elimination of yard crews when terminals were consolidated at Buffalo and Jersey City, yet there was no indication of how this figure had been arrived at, or which crews would go, or why that number. Tiny items, like savings from the elimination of an icing ramp at Lackawanna's Secaucus Yard, or the savings from a reduction of steam

heat supplied to waiting sleeping cars at Binghamton when competitive services were eliminated, all were separate line items. It was a reminder, at least, that merger savings were not going to drop like manna from heaven, and coming in little bits and pieces, might tend to be rather elusive.

On the only part of the report that was challenged, the studies on traffic diversion, the scientific, computerized study turned out to be based on something less than objective judgment. The study was about the traffic which Lackawanna turned over to western connections -- Nickel Plate, Wabash, and New York Central -- at Buffalo, which could now be diverted to the Erie lines for westward movement, and the traffic those lines could be expected to divert away from a merged Erie Lackawanna in retaliation. Information was gathered car by car, and it was all fed into a computer, which was rather new back then, and everyone involved with the study was very proud of how modern they were. But it turned out, in cross-examination, that each of those computer cards, each representing a loaded freight car, was based on a pure guess -- perhaps a good one, perhaps not. The Wabash, for example, was furious when it discovered how Erie figured to capture the long haul on traffic moving out of a certain plant in Decatur, Illinois, the very heart of the Wabash. It was because certain Lackawanna people were good friends with the traffic manager down there, met him socially often, and thought they could get him to divert.[8] It may have been a perfectly reasonable assumption, but it was not the kind of objectivity implied by the graphs and tabulations of the Wyer Report. When, with the insistence of opposing railroads, the computer cards were rerun, the dollar figures came up differently, and the only explanation was that something must have gotten stuck the first time around, or the second; nobody knew which.[9]

Diversion was the only part of the report to be challenged because it was the only part of interest to the merger's adversaries. So many questions needed to be asked, for which the report had no answers, on why certain areas had been selected for study, on what kind of input they received, on how calculations were made, on how qualified were the people who made them, and on how they were going to be implemented. Instead, the ICC took the report on faith, never asking for the data that underlay the $13 million, and very likely lacking the staff or the expertise to evaluate if it had asked for it.[10]

The hearings were a failure because the ICC relied solely upon adversaries, who presented only the kinds of cases that pleased them. Two railroads, for example, the Wabash and the Lehigh Valley, merely used the proceeding to get some trackage rights over Erie Lackawanna in the city of Buffalo so they could better divert traffic away from Erie Lackawanna. Only one group of opponents came close to deflating the merger's inflated predictions -- a group of speculators in Lackawanna's common stock. They were an unsavory lot, for they had tried to blackmail the Lackawanna into buying

them out at excessive prices. They wanted to prove that Lackawanna management had somehow conspired to bail out the Erie, and asked question after question on the behavior of Lackawanna management, on its relationship to Erie management, and on its conduct of Lackawanna affairs. There had been no such conspiracy, and so the questioning ultimately ran into a blank wall; but if these speculators had not been there, no such questions would have been asked and the final decision would have been made in greater darkness than it actually was. So it would be through all the mergers.

Something else was ominous about this hearing. The only participants who were always present, always well-heeled, with batteries of lawyers and plenty of witnesses equipped with expensive exhibits, were railroads, whether they were for or against the merger. By comparison, the efforts of everyone else looked weak. The combined labor brotherhoods were represented by only one organization, the Railway Labor Executives' Association, and by one lawyer, William Mahoney, who appeared for the RLEA in all the merger hearings of the decade. He was frequently eloquent, very effective, but always quite alone. Two states, Missouri and Illinois, appearing at the request of the Wabash Railroad, put on abysmal performances, their lawyers revealing a total unfamiliarity with railroading or its problems. So it would be in all the mergers, with state and local agencies often the least prepared of anyone. Not until the Northern Lines case would figures be revealed on how much railroads actually spent to get their merger approved (over $5 million for the Northern), how in contrast, the Minnesota Railroad and Warehouse Commission had to beg a stingy legislature year-by-year for appropriations, with never enough money to buy a transcript of the proceedings (the Milwaukee Road let it use its copy). At the peak of the merger movement, the United States Department of Justice had only six lawyers to work on five mergers at once, doing none of them very well [6]. The point was, these hearings were titanic battles between railroads, their outcome determined always, in the end, by railroads.

The Erie Lackawanna merger was consummated 15 October 1960, with smiles of triumph and hope all around. Presidents Von Willer and Shoemaker smiled as they shook hands before a huge wall map of the two railroads. Fireman Truman G. Knight smiled as he was awarded 25 shares of Erie Lackawanna stock for designing the company's new diamond-shaped emblem. Painter Harold Johnson smiled as he applied the new emblem to the front of a diesel locomotive at the Hornell shops [3]. And then one by one, the smiles began to fade.

Luck went sour from the start. The recession continued and the blizzards were unmerciful. The trains were late, the plowing costly, the customers irritated. But the problem was more than luck, for the planning had been wholly inadequate and now it began to show. Down at the locomotive-ready track, where the engines were groomed for their outbound assignments, it was discovered that

Erie units used electric devices to spray sand under the wheels, while Lackawanna units used pneumatic devices. The two systems could not intermingle, and keeping the units separate was a headache and costly. No one had thought of it before. "Almost to a man," said the *Wall Street Journal*, "Erie Lackawanna department heads concede pre-merger planning was inadequate" [7].

It should have come as no surprise. The Wyer Report was based on 1956 data, three years out of date even when it was presented to the ICC, three years that had seen significant changes in the composition of railroad traffic in the East. It took the railroads much longer to plan their mergers than it took the ICC to give all parties due process; and when it came time to implement the plan, there was nobody left who could interpret the bare-bones summary of the Wyer Report. Wyer, Dick and Company had long since returned to Upper Montclair, and the wise old men who had worked with the Wyer people, Erie operating chief Stanley McGranahan and Lackawanna comptroller Philip Johas, had retired.[11]

It was planned, for example, to concentrate all disbursement accounting at the Lackawanna's offices in Scranton, and all revenue accounting at the Erie offices in Cleveland. But no one asked the senior Lackawanna revenue clerks how they felt about it, and rather than move, most of them used their seniority to bump junior disbursement clerks. So, shortly after merger, 70 percent of all disbursements were being handled by inexperienced people. The same thing happened in locomotive repair, where all shopwork was to be concentrated at the Erie shops in Hornell. Only a few of the skilled Lackawanna men at Scranton opted to move, so while there was a shortage of mechanics at Hornell, others were drawing unemployment benefits at Scranton [1, p. 51].

There was a tendency for those responsible to blame working people for a lack of team spirit and for creating the railroad's problems. Erie Lackawanna management, when asked why their merger had not lived up to expectation, candidly put all the blame on labor, mainly in reference to a lawsuit by the RLEA, which delayed any job changes or reductions for three months, However, that delay may have saved Erie Lackawanna from debacle, for in that time implementing agreements with individual lodges of each brotherhood were worked out, seniority rosters were merged, and there was time for some training before the changes went into effect. None of this had been done prior to merger. There was no such delay at Penn Central, where inadequate training and improper deployment of personnel sank the merger altogether. By that time, after the experience of Erie Lackawanna and others, it would have seemed someone should have learned something about human capacities and human nature.

Things did not go smoothly in the executive suite either, although the evidence was circumstantial. Some key Lackawanna men, who apparently felt they would be junior to their Erie counterparts jumped ship for jobs elsewhere, like William G. White in the

traffic department and Rowland Davis in the legal department, a talent drain that would be repeated in other mergers. When former Erie president Harry Von Willer moved up to the chairmanship, former Lackawanna president Perry Shoemaker was passed over in favor of another Erie man, Milton McInnes. During that time, plans of the Wyer Report to reorganize the administrative structure of the company so as to include the best elements of each of the former components, were quietly dropped and the Erie structure retained. McInnes's tenure coincided with whopping losses -- $26 million in 1961 and $17 million in 1962. Perry Shoemaker did move to the chairmanship, and soon a number of key departments were headed by Lackawanna men. Then, Shoemaker suddenly took a 30 percent pay cut to go to the Jersey Central. If any of this were a problem, it was apparently never as severe as the red team-green team polarity that shook the Penn Central to its foundations, but at least it was prima facie evidence that management stability was an area that deserved scrutiny; but the ICC never looked back.

Neither did other of the best laid merger plans work out. Diversion, for example, was very nearly self-defeating. The preponderant flow of traffic was eastbound and thus largely controlled by the very roads Erie Lackawanna hoped to take business away from. Sure enough, interchange with the Nickel Plate declined 50 percent from 1960 to 1964, most of the loss presumably diverted to the Lehigh Valley. Before long, Nickel Plate and Lehigh Valley were operating run-through freight service, stopping in Buffalo only to change crews.

A number of the customers whose traffic Lackawanna and Nickel Plate had solicited jointly before the merger did not want to reroute over Erie Lackawanna, and even got annoyed when Erie Lackawanna became insistent. One example was the Norwich Pharmaceutical Company of Norwich, New York, which routed a sizable volume in Lackawanna-Nickel Plate piggyback service. It was furious when it found Erie Lackawanna service to Buffalo and the Nickel Plate connection deteriorated -- it thought deliberately -- so it gave Erie Lackawanna only a short haul, to Utica, where for a higher rate it turned the long haul over to the New York Central.[12]

The point was that merger could never solve the real problem of getting more traffic on the rails. Trying to steal it from other railroads through merger was only likely to set off retaliatory mergers. Nickel Plate, for example, now a wealthy bridge line, had fended off all would-be merger suitors for better than a decade. One by one, they had all tried and been rebuffed -- Chesapeake & Ohio, Pennsylvania, Lackawanna, Baltimore & Ohio; but immediately after the Erie Lackawanna merger was approved, Nickel Plate agreed to merge with the Norfolk & Western, apparently with the support of the clique on the Nickel Plate board that had most adamantly opposed merger in the past.

In Buffalo, Erie Lackawanna built the Bison Yard, an electronic classification facility which neither railroad could have afforded

separately. It was to be the merger's monument, the kind of real benefit that only a merger could bring. Unhappily, it was a fiasco. Its success required its use by the Nickel Plate and the Wabash for their Buffalo operations. Nickel Plate even put up some of the money -- $7.5 million -- because that was part of the deal worked out by the N&W's Stuart Saunders to buy Erie Lackawanna silence in the N&W-Nickel Plate merger. But no Nickel Plate or N&W train was to be seen at Bison. Officially, the word was that Bison just did not work out, due to certain labor difficulties. Unofficially, it was said that N&W lost all interest when Erie Lackawanna refused to allow it to use Bison as a means of improving its connection to the Lehigh Valley mainline, which lay a tantalizing 600 feet beyond the far end of the yard.[13] So instead of being the bold fruit of merger, it was a white elephant. Not until the early 1970s, and then only under ICC order (to protect Erie Lackawanna from the effects of the Penn Central merger) did Bison finally become the focus of all non-Penn Central activity on the Niagara Frontier.

Elsewhere, neither did the plans to use the Erie route east of Binghamton work out, partly because of the periodic flooding of the Delaware, and partly because Penn Central had effectively closed the Maybrook Gateway, where once Erie traffic had been turned over to the New Haven Railroad. But since the original plans called for use of the Erie line, Erie's Croxton Yard at Jersey City became the main terminal in the North New Jersey area, and the Lackawanna's Secaucus Yard was abandoned. When it was decided the freights would be better on the Lackawanna line instead, they could enter Croxton only by a difficult back-up operation through a tight wye, with frequent derailments, that bottled up the throat of the yard for long periods at a stretch. To remedy that, a balloon track was built for trains to make a 180-degree turn as they left the yard but derailments continued to be frequent, especially with piggyback flat cars.

In the wake of the terrible losses that followed the merger, the company began to sell pieces of real estate. President McInnes wanted to use the proceeds for working capital, but his creditors firmly ordered him to use it only for capital improvement. For lack of maintenance, 14.5 percent of the freight car fleet was out of service by 1962, while the rental of off-line cars became a hemorrhage of cash. By October 1963, the company treasury was holding $2-1/2 million in unpaid bills, and on 1 December had to meet $4-1/2 million in New Jersey taxes and $1-1/2 million in interest charges. On the next October 1, $11-1/2 million of Erie Railroad Series E Consolidated Mortgage bonds were due.

Right after the merger, a consortium of lenders was found -- led by the Mellon National Bank and John Hancock Life, to provide $15 million at 5-1/4 percent -- to begin the implementation of the Wyer Report, but only if the government would guarantee repayment, as provided by the Transportation Act of 1958. By 1963 when more

money was needed, this time just for working capital, no creditor could be found. Finally the New York Teacher's Retirement System expressed halting interest if the government would guarantee, which it would not, because, said the ICC, there was no way the railroad was going to be able to pay.[14]

So the directors turned in desperation to William White, the president of the Delaware & Hudson, who had been president of the Lackawanna before he was wooed to the New York Central, there only to be ousted by Robert Young in the famous proxy fight. They wanted him to come to Erie Lackawanna and accept its chairmanship simultaneously with his post at the D&H. It was an unusual interlocking arrangement, but the ICC gave its approval. "I did not seek the position," said White, "but on the Erie Lackawanna's board are old friends who thought I could help them. One does not easily refuse a request from those with whom he has always had pleasant relations" [8].

"How would you like to be in the shoes of William White?" asked David P. Morgan in *Trains*, "Luckless Erie Lackawanna, the problem child of the East... is the road for which merger has yet to write a miracle" [5, p. 9].

To those who fancied themselves realists, White had a peculiar way of starting out. He rechristened a tradition-empty passenger train called the *Erie Lackawanna Limited* with the famous old name, *Phoebe Snow*, and he pulled the *Phoebe Snow's* famous tavern cars out of storage and put them back in revenue service. All the cars were fixed up and repainted Lackawanna maroon-and-gray and were made lovely once again. It was a master stroke, for the flagship flew the company's flag with pride and rallied the morale of employees and all who knew it. First National City Bank and Metropolitan Life, the big holders of the series E bonds, agreed to extend the maturity date for five years, and equipment trusts were arranged for new locomotives and cars. New Jersey state authorities agreed, ever so reluctantly, to help finance the reequipping of the commuter lines. There was a small profit in 1965 and another, somewhat smaller, in 1966. Of course, these were boom years for the national economy, so a tiny profit was an accomplishment only in context. "In mid-1963," said White,

> when we set for ourselves the goal of getting in the black by 1965, we knew it would be difficult... and there were times we feared bankruptcy could not be avoided.... We weathered those times, and favored by good business conditions and running a tight ship, the company in 1965 turned a profit. It is a big boost to the morale of our entire staff [2, p. 3].

However, even in a moment of sunshine the shadows were gathering. White died suddenly in 1966, the master manager, that rarest of individuals, who alone brought order from the chaos of merger. The Penn Central merger would soon be a reality, which threatened to engulf little Erie Lackawanna with massive diversion. Norfolk

& Western would not take in this Erie Lackawanna in any circumstances, a railroad with $320 million in outstanding debt, one of the highest debts-per-mile of any railroad in the country.

Still, Erie Lackawanna outlived its giant rival, Penn Central as a solvent railroad, not capitulating to bankruptcy until Hurricane Agnes put most of its mainline under water in 1972. Even then, it looked for a long time as though it could reorganize on its own, something that was unthinkable for Penn Central. Not until the recession of 1975 was it forced to throw in the towel and join Conrail.

There were other mergers in the 1960s, but as with Erie Lackawanna, the ICC never investigated on its own and never looked bacl once approval was given. Like Erie Lackawanna, each one of them revealed bits of evidence to indicate that merger was no panacea for the ills of railroading. Then came the Penn Central disaster, and the errors of merger were magnified and splashed all over the public press and the ICC was very embarrassed. It never made the mistake again. It investigated the causes of the Penn Central failure and exposed most of what is yet known about the total operating collapse of a great railroad.[15] It pressed the western rail roads on their elaborate but self-serving plans for merger, and finally told them either to take some public-spirited responsibili or not merge at all.[16] In the planning for Conrail, while the Department of Transportation met behind closed doors with unknown but presumably powerful people, the ICC held open debate in cities throughout the Northeast, keeping a verbatim record, and gleaning from this enough evidence to call DOT's planning into serious question.[17] However, Conrail was the government solution, which the ICC-planned mergers was supposed to avoid in the first place. The ICC's credibility was gone and Congress and the Administration were listening now mostly to DOT. So much for the effectiveness o regulation that was supposed to adjudicate wisely and carefully th best interests of all the parties.

Immediately after the Erie Lackawanna merger, other railroads began delivering cars bound for points on either the Erie or the Lackawanna to any junction of either road wherever it pleased them It saved a few petty dollars to make one delivery instead of two, but Erie clerks did not know Lackawanna junctions or routings and vice versa, and so shipments were lost and delayed. At great expense, individual cars had to be sorted out of trains. Shippers put up with that only once and the railroad industry was the loser So much for the willingness of railroads to help each other stem the motor carrier onslaught.

The State of New Jersey let Erie Lackawanna wallow in its commuter burden until the eleventh hour. Perhaps managements before White had failed to make the facts plain enough but it was likely the politicans had chosen to ignore them. For example, listen to the state senators discuss the matter in hearings in 1965 [4, p. 50]:

Senator Ozzard: I would interject at this point, Senator Stamler and Senator Hillary, that if we take over the passenger service and the freight service is profitable, that the railroad might assist us very easily through increased taxes.

Senator Hillary: That was on my mind, too.

The same was true for Hudson County taxes, finally reduced under similar duress, but not before the company had come to the brink of default. The same was true for New York's full-crew law, which required a crew whose size was apropos to the technology of the year the law was adopted, 1913. So much for the help states could give to railroads they said were essential to their economies.

If there were any validity to merger, and that was a big if, it should have included all natural merger partners. That could be a little hard to define but in this case would have meant a combination of that pair of railroads between New York Harbor and Buffalo, the Lackawanna and the Lehigh Valley, and that pair between Buffalo and the midwestern gateways, the Nickel Plate and the Wabash, and the Erie, which was parallel to them all. Only then would it have been possible to significantly reduce mileage and hopefully reap some benefit from economy of scale, without fear of a lot of petty diversion. Such could not be, however, because investors would not allow it. One of the big investors was the Pennsylvania Railroad, which controlled the Wabash and the Norfolk & Western and held a majority of the Lehigh Valley stock in trust. It planned to use this leverage to come out on top. It certainly had no interest in seeing the smaller roads emerge as a competitive trunk line; but even the other investors, particularly of the affluent roads, made it clear in the course of the later mergers that they would never permit any combination that might lower the value of their securities, no matter what it might mean to the long-run welfare of railroading. They cared not for the industry in which they had invested but for their interest and dividends. So much for the resolve of capital to help itself over the long run. It was self-destructive, not quite in the same way as Marx had predicted, but self-destructive all the same.

The old Lackawanna Terminal in Buffalo was closed in 1962 despite optimism about passenger service at the merger hearings. There, where the marble stairs were smashed beyond recognition, where vandals scrawled their dirty slogans, where blizzards whistled through the broken windows, where the bodies of dead rats and dead pigeons collected on the floor, and on the counter where once tickets had been sold for a ride on the *Phoebe Snow*, was an apocalyptic vision of the future of private enterprise.

NOTES

*Material for this paper has come entirely from the ICC's finance dockets, including exhibits, briefs, correspondence, and transcripts, except for related government documents, press accounts, and seminar transcripts as indicated in these notes.

1. Louisville & Nashville R. Co.--Merger, 295 ICC 457 (1957)
2. ICC Finance Docket (FD) 20707, Erie R. Co.--Merger--Delaware, L & W R. Co., tr. 853-857, 969.
3. Erie R. Co., Abandonment, 252 ICC 697 (1944).
4. FD 20707, exhibit H-48 (the Wyer Report).
5. Erie R. Co., Trackage Rights, Binghamton-Gibson, NY, 295 ICC 743 (1958).
6. FD 21478, Great Northern Pacific--Merger--Great Northern, tr. 1527, 1557-1558, 1694.
7. FD 20707, tr. 1067-1073.
8. FD 20707, tr. 592.
9. FD 20707, tr. 1138-1141.
10. FD 20707, Rowland Davis to Howard Serlin, 8-12-1959.
11. Telephone interview with Charles Wyer of Wyer, Dick and Company, 26 March 1969.
12. FD 23422, Erie Lackawanna v. Lehigh Valley, tr. 122-123 and report, 330 ICC 306 (1966).
13. FD 21510, Norfolk & Wn. R. Co.--Merger--New York, Chi. & St. L. R. Co., tr. 1386.
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