The Management of the Illinois Central Railroad in the 20th Century

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Quite naturally the story of the Illinois Central Railroad in the 20th century has been the result of the five decades of growth and development which preceded 1900. As the Illinois Central, the first land-grant railroad in the nation, started to push across the prairies of Illinois in the early 1850s, it seemed to many to be running the "wrong way." The road ran north and south, when most projected lines of that day were headed west to capture the traffic of the frontier. When the 705 miles of charter line were completed in 1856 it was for a time the longest railroad in the world. By the early 1870s a line had been completed across Iowa to the Missouri, and a decade later control was obtained over a southern extension from Cairo south to New Orleans.

Early in the new century, on 9 February 1901, the Illinois Central celebrated its Golden Jubilee with a formal all-stag banquet which included in its menu, Blue Points, Filet of Black Bass Rochelaise, Roast Philadelphia Squab on toast, and Croustade of Fresh Strawberries, Princess Style. President Stuyvesant Fish presided, and proudly pointed out to 150 guests that the Illinois Central with its more than 5,000 miles of line in 13 states was among the 10 largest railroads in the nation. The total system was capitalized at nearly $200 million, had gross annual receipts of $37 million, employed 32,000 men, and owned 900 locomotives, 770 passenger cars, and 36,000 freight cars.

President Fish was also happy to announce that at long last the financial control of the IC had returned from Europe to America -- in 1901 more than 60 percent of the capital stock was held in the United States. A note of humor was added to the dinner when former president William Acherman related that he had finally given away nearly the entire edition of his company history, the *Historical Sketch of the Illinois Central*. He had managed to *sell* only two copies. Perhaps the high point of the evening came when Edward H. Harriman rose to speak. In 1901 Harriman held a certain primacy in the nation's railroad affairs, for his controlling interests included the Union Pacific and the Southern Pacific, as well as the Illinois Central. Harriman rarely spoke in public, for he had little of his rector father's speaking ability. He praised the top officials who had made possible the recent growth of the Illinois Central, and concluded with a toast to President Fish. In 1901 Harriman and Fish seemed to be the best of friends.

In the 71 years between 1901 and 1972 -- the year of the merger of the Illinois Central with the Gulf, Mobile & Ohio -- the IC had nine different presidents:

Stuyvesant Fish, 1887-1906;
James T. Harahan, 1906-11;
Charles H. Markham, 1911-18; 1919-26;
Charles A. Peabody, 1918-19;
Lawrence A. Downs, 1926-38;
John L. Beven, 1938-45;
Wayne A. Johnston, 1945-66;
William B. Johnson, 1966-69;
Alan S. Boyd, 1969-72;

Five of these men had rather brief periods of presidential tenure, but the remaining four, Stuyvesant Fish, Charles Markham, Lawrence Downs, and Wayne Johnston were each in the presidential chair a dozen years or more. In general the problems facing these presidents of the Illinois Central in the 20th century were much like those of other rail managers in recent decades.

In the 20th century the Illinois Central has continued to be an innovative road. A century ago it was one of the first lines to ship southern fruits to northern markets under refrigeration. It was an early sponsor of agricultural fairs and crop diversification. More recently it has pushed scientific farming and reforestation. Half a century ago, in 1926, it was the first steam railway west of the Alleghenies to convert its commuter trains to electric operation. More recently it has introduced such concepts as Rent-a-Train and the JOBS (Joint Opportunity for Better Service) Commission. The IC was an early proponent of railroad diversification, a move which in 1962 resulted in the creation of a holding company, Illinois Central Industries. Since the Illinois Central has been embarrassed by few scandals, it may not have had its share of headlines. But in its century and a quarter of history it has never suffered receivership, been reorganized, or defaulted on its bonded debt. And annual dividends have been paid from 1861 to the present except for the years 1932 through 1949.

The presidency of Stuyvesant Fish ended when he quarrelled with Edward H. Harriman in 1906. Even though he had worked closely with Harriman during his long presidency, Fish was clearly the subordinate member of the partnership. When evidence of the split became public in the early spring of 1906 the *Wall Street Journal* referred to President Fish as the latest in a long line of "enemies or antagonists of one man, E. H. Harriman" [6]. During the weeks of July third parties succeeded in working out a compromise between the two men, but their quarrel broke out again during the election of company directors at the annual meeting in Chicago in October. Fish won that contest, since he controlled most of the proxy votes. However, he realized that since a majority of the 13-member board of directors probably was siding with Harriman, his position as president was in real jeopardy. Twice he sought an audience with director John Jacob Astor, but received no reply from the New Yorker [5]. He was no more successful in gaining the support of a subordinate, James T. Harahan, a fellow director and second vice-president of the Illinois Central. By a vote of 8 to 4 James T. Harahan was elected president of the Illinois Central on 7 November 1906.

Few top executives of the Illinois Central were as different as Harahan and his predecessor, Stuyvesant Fish. Harahan reached the top office at the age of 65 -- while Fish left the office, after nearly a 20-year tenure, at age 55. Harahan came from a poor family and had been forced to work at an early age. Fish, on the other hand, was an aristocrat with an ancestry going back to the early history of New York. Fish was interested in finance, Harahan in operations. Most of the IC top executives of the 20th century were more in the mold of Harahan than Fish. An early change introduced by Harahan was to shift the president's office from New York City to Chicago. Contrary to the fears of Fish, the Illinois Central remained independent and did not become subordinate to the other rail holdings of E. H. Harriman.

In fact the size of the Harriman rail system started to decline after Harriman's death in 1909. Four years later, in 1913, W. Averell Harriman, son of E. H., was elected to the board during his senior year at Yale. While the younger Harriman remained on the board for many years, he never had the influence of his father. The year of 1910, Harahan's last year in office, was marred with the news of a major scandal in the repair of IC freight cars by outside repair facilities. Estimates of company losses in the affair ran as high as a million dollars, and the *Chicago Record Herald* reported that some of the participants in the car repair scandal were causing a sensation in certain Chicago cafes by using $50 bills to light their cigars [2].

Charles H. Markham's years as president (1911-18 and 1919-26) were years of continued growth and prosperity, interrupted only by World War I and the resulting federal control and operation. Between 1905 and 1925 freight ton-mileage on the IC nearly tripled, growing from 5 1/2 billion ton-miles to nearly 15 billion, while passenger traffic increased by more than 60 percent. During the early 20th century freight rates had declined, and on the IC in 1915 they averaged only .55 cents per ton-mile, well below the national average of .73 cents. During all the Harriman years the Illinois Central had been a model of efficiency and economical operation. Harriman's subordinates recalled that on one inspection trip over one of his roads he had ordered a shift to shorter bolts, a saving of an ounce per bolt or eventually 50 million ounces for the entire line.

Along with other rail executives Markham complained of the poor rental arrangements, undermaintenance of track and equipment, and high wage rates which were the heritage of 26 months of federal operation during World War I. The Illinois Central operating ratio during the war years had climbed from 71.6 percent in 1916 to 84.1 percent in 1918, and 98.3 percent in 1920. But even with the post-war problems and the high wages paid the more than 60,000 IC employees, Markham was operating a prosperous railroad. During the decade of the 1920s there was sufficient money to complete such improvements as the Edgewood Cutoff, the Paducah locomotive shops, and the electrification of Chicago commuter service [2]. Between 1911 and 1926 the annual dividend rate remained at $7 or above, except for four years. However, even with the growth and prosperity of the Markham years, the Illinois Central, like all American railroads, no longer possessed the monopoly in the movement of people and freight it had known a generation earlier.

The increased competition from new modes of transport plus the depression after 1929 meant increasing problems for Lawrence A. Downs, president of the Illinois Central from 1926 to 1938. Between 1930 and 1935 freight traffic on the Illinois Central dropped from 14 billion to 9 billion ton-miles a year, and passenger traffic declined nearly 40 percent. Only half dividends were paid in 1931, and they were dropped entirely in 1932, a policy that would continue until midcentury. Illinois Central common stock was a blue-chip stock in the 1920s, listing at a high of 153 1/2 in 1929. In 1930 it was as low as 65 3/4, followed by lows of 9 1/8 in 1931 and 4 3/4 in 1932.

Naturally there were reductions in rail employment. Between 1929 and 1933 the workforce on the IC dropped from 60,000 to just over 25,000. Relative to the cost of living American railroad wages were not low in the late 1920s, averaging $1,744 per year in 1929. In that year average annual pay for maintenance-of-way workers was $1,067; while clerical and station employees received $1,546; passenger brakemen, $2,161; freight conductors, $2,893; and passenger engineers, $3,458. President Downs, along with many other rail officials, believed that the lower price levels of the early 1930s justified a modest reduction in the pay and wage scales of railroad workers. The leader in this movement was Daniel Willard, president of the Baltimore & Ohio, and well known for both his empathy with railroad workers and his skill as a labor negotiator. Late in 1931 a committee of nine railroad presidents, led by Willard, was set up to negotiate a possible wage reduction with the railroad brotherhoods. President Downs was one of three "western" line presidents in the group. Early in 1932 a series of meetings were held in Chicago between railroad labor leaders and the nine railroad executives. Finally on 31 January 1932 an agreement was reached to cut railroad wages by 10 percent for the next 12 months, a reduction which would save the industry $210 million. The Illinois Central was able to save $4,144,000 during 1932 from these wage reductions.

The man with the longest tenure as president of the Illinois Central was Wayne A. Johnston who succeeded John L. Beven early in 1945. When Jack Beven died suddenly in January 1945, the board of directors delegated the job of nominating a new president to Eugene W. Stetson, chairman of the executive committee. Stetson visited privately with the six top men in the railroad -- four vice-presidents, the chief engineer, and the general counsel -- asking each man who his choice for president would be, if he himself were not selected. All six men replied "Wayne Johnston." In 1945, at the age of 47, Johnston had only recently been promoted to general manager, but in his 27 years with the IC he had gained a broad experience in the accounting, transportation, traffic, and operating departments. Of Johnston's election on 23 February 1945, Stetson remarked: "They recommended, I nominated, and the board elected Wayne Johnston president of the Illinois Central Railroad" [3].

In 1945 Wayne Johnston was heading up a busy and prosperous railroad. The freight traffic had doubled and the passenger business had tripled during the war years between 1940 and 1945. Increasing wartime revenues had allowed major reductions in the company's funded debt and by the end of 1944 the total debt of the Illinois Central was just under $282 million, a figure $101 million below the peak of $383 million back in 1927. Under the leadership of Johnston and Stetson the debt reduction program continued in the postwar years and by 1951 the total debt was below $206 million.

Early in his presidency Johnston led the Illinois Central in the celebration of its centennial. During 1951 banquets, pageants, medallions, stone markers, a special centennial history, and a new bridge across the Ohio at Cairo all helped the 6,542 mile "Main Line of Mid-America" celebrate the birthday throughout the 14 states served by the railroad. The general prosperity of the 100-year-old line had been earlier marked by the resumption of dividends on the common stock in 1950. Both Johnston and Stetson believed that the general high level of revenue, the completion of a $100 million capital improvement program since the war, and the major reduction in the company debt all justified the restoration of dividends.

No doubt the most important technical advance during the Wayne Johnston years was the full adoption of the diesel locomotive. In Johnston's first year as president, 1945, the steam locomotive made up 96 percent of the entire IC motive power roster. While the IC was certainly not a leader in the dieselization program, in 1961 Johnston was able to report that the shift to diesel power was complete. Both in original cost and in dollars per horsepower, diesels were expensive compared with steam locomotives; but in the long hours of service available per day, the low costs of maintenance, and the low fuel consumption, the new type of power had significant economic advantages. The diesel could not haul a ton of freight a mile on a spoonful of oil, as some were reported to claim, but a gallon of diesel fuel could provide 200 ton-miles of freight service. The dieselization program, along with such other technical advances as unit trains, computers, microwave communication, welded rail, and centralized traffic control, all greatly increased the productivity of railroad labor. During the Wayne Johnston years the average annual ton-mileage of freight service per IC employee increased from 522,000 in 1945 to 977,000 in 1966.

Even with the increased productivity of labor the IC, like most railroads, was suffering from a very low rate of return. Two defensive actions have been taken in recent years. In 1962 the Illinois Central turned to diversification, forming Illinois Central Industries as a holding company with varied interests in commercial and consumer products, real estate and financial services, in addition to railroad transportation. And in 1971 the 6,760-mile Illinois Central merged with the 2,734-mile Gulf, Mobile & Ohio to form the new Illinois Central Gulf (ICG). Compared with the rail industry generally, the Illinois Central Gulf may still be a viable railroad. However, it provides only a small portion of the net profit of the Illinois Central Industries. In 1972 the ICG furnished 43 percent of the total revenues of Illinois Central Industries, but only 29 percent of the pretax income. There has been no improvement in recent years. In 1977 the railroad provided 34 percent of the total ICI revenue but only 4 percent of the pretax income [4].

The Illinois Central story in the first eight decades of the 20th century has been one of much progress and innovation. But given the current conditions of strong competitive modes of transport, the tough stance by railroad labor, and the dead hand of federal bureaucracy, future prospects for the railroad do not seem bright.

REFERENCES

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