THE CHICAGO, BURLINGTON & NORTHERN: A CASE STUDY IN EXPANSION

On your programs you will see that there are four students from the University of Western Ontario speaking at this Conference — Mr. Fuller and I this evening, and tomorrow morning, Mr. Tanner and Mr. Johnston. All of our papers are centered around Charles E. Perkins and the Chicago, Burlington & Quincy Railroad.

To serve as an introduction to these four papers, I will outline what we have been doing in our graduate seminar in American History. The overall purpose of the course is to study the phenomenon of "Big-Business" and its effects on American Society in the period following the Civil War.

In our course, the entire seminar group (10 students in all) uses the *Cunningham—Overton Collection* as the basic core of primary source material. This collection is comprised of the private papers of Charles E. Perkins who worked for the Chicago, Burlington & Quincy Railroad and its associated lines from 1859 until his death in 1907. From 1881 until 1901 Perkins was President of the Burlington Lines and from 1901 to 1907 continued to serve on the Board of Directors. Perkins was first and foremost a "Railroad Man" and naturally most of his letters deal with his work in this sphere. His interests, however, varied widely, and his personal letters to his friend and mentor, John Murray Forbes, and his memoranda reveal a plethora of information ranging from literature, religion, politics, ethics, and morality to administrative practice, labor relations, bimetallism, and so on.

Because of the wide variety of Perkins' interests, and most of all his importance as a leading business man, the Perkins' Papers are an excellent focal point for the study of business history in this important period. The fact that each member of the class uses these papers in preparing his individual topic means that everyone has some common knowledge as a background for each topic. As a result, class discussions are much more meaningful and lively than if each of us was studying a separate, unrelated subject.

As source material for my topic — the expansion of the Chicago, Burlington & Northern — the largest amount of material was derived, of course, from the *Cunningham—Overton Collection*, in particular from the personal letters of Perkins to

J. M. Forbes. Some of the other sources used were: the *Annual Reports* of the C. B. & Q. 1885-1890, the *Corporate History* of the C.B.&Q., Thomas Cochran's *Railroad Leaders,* and Grodinsky's *Transcontinental Railway Strategy,* and some unpublished manuscripts on the subject.

The basic outline of the full length version of my research paper is as follows: the introduction consists of a brief outline of the Burlington expansion procedure, the reasons for the extension to the C. B.&N. to the Twin Cities, and a short description of the construction and organization of the new line. The main body of the essay deals with the inter-company relations between the parent company, the Chicago, Burlington & Quincy, and the subsidiary company, the Chicago, Burlington & Northern, from the year 1885 when the Northern Line was organized until 1890 when the Burlington acquired stock control of the C. B. & N.

For the purposes of this discussion, I will limit myself to a description of the following aspects of my research topic: 1. the expansion policy of the Burlington as seen through the organization of the C.B.&N., 2. the reasons for the extension to St. Paul and Minneapolis, 3. a general statement of the various problems in inter-company relationships and some of the attempted solutions, 4. and, finally some conclusions that can be drawn from the research.

The Chicago, Burlington & Northern Railroad Company was organized in 1885 to run from Oregon, Illinois, where it joined with the main Burlington line to Chicago, northwest to Illinois-Wisconsin border and from there north along the east bank of the Mississippi River to St. Paul and Minneapolis.

Three reasons for this important extension to the North are indicated in Perkins' letters and the report of the engineer who carried out the preliminary survey work for the new line. The most important reason was to obtain the business of St. Paul and Minneapolis. Perkins wrote to Forbes in 1882, "We ought to get a line to St. Paul, the Kansas City of the North. Business has grown enormously in St. Paul and will grow even more upon completion of the Northern Pacific." In another letter dated October, 1886, Perkins indicates that the new line could tap the business of the other three roads which terminated at St. Paul, — the Northern Pacific (which was then completed), the Manitoba, and the Canadian Pacific. And finally, a third important source of expected revenue was the extensive pine lumber business that had developed along the tributaries of the Mississippi. Thus, the financial prognosis of the new road looked sound, and the line probably would have been an immediate financial success if it had not been for the problem of competition — about which more will be said later.

At this point I wish to outline the expansion policy of the Burlington as it has a direct bearing on the problems of intercompany relations. It was the general practice of the Burlington to organize subsidiary companies with separate officials who had a considerable amount of freedom in running their roads. It was expected that the associated lines would follow Burlington policy. This was usually the case, since either the controlling or a major stock interest of any new line was held by various members of the Forbes group who, in turn, controlled the C.B.&Q. The subsidiary companies, however, retained their separate identities until such time as the Burlington, if it so desired, took them over. This was generally not done until the new lines had proved their worth. The new lines were financed, not from Burlington reserves of cash, but by the investment of stockholders (usually C.B.&Q. stockholders) and by the projected profits of the new line.

Perkins favored this method of expansion for two reasons: Because new lines had separate administrators, they could be managed without adding to the burdens of Burlington administration. Second, it was cheaper to finance a road in this manner because the railroad could utilize the services of an existing construction company instead of forming its own construction forces for one or a limited number of enterprises. This method just outlined was followed in the organization of the new Chicago, Burlington & Northern.

A closer look at the financial arrangements between the two companies reveals that at the outset, the Burlington acquired a one-third stock interest in the Northern. The C.B.&Q. was also to invest $100,000 00 a year in C.B.&N. bonds which could be converted into stock. In this way, the Burlington would gradually acquire financial control. Actually, the fact that the C.B.&Q. stockholders as individuals bought the major share of C.B.&N. stocks gave the Burlington virtual financial control from the beginning. This situation would lead one to believe that the relations between the two companies would be relatively harmonious.

Unfortunately, intercompany relations in this instance were anything but harmonious. From 1885 to 1890, the C.B.&N. was a constant source of trouble to the Burlington. The greater part of my research has been to study the course and solutions of these troubles in intercompany relations.

The problem centered around the difficulties of competition. The C.B.&N. had built into territory already serviced by three other lines: the Northwestern, the Milwaukee, and the Rock Island. In order to attract business, the C.B.&N. felt rate-cutting was necessary. On the other hand, the C.B.&Q., which was held responsible by the other lines for the actions of the C.B.&N., could not afford to antagonize the Milwaukee or the Northwestern which could retaliate against the Burlington in Iowa. Thus, the Burlington maintained constant pressure on the Northern to keep its rates in line with the others. An examination of the individual conflicts that ensued between the Northern and the Burlington and the Northern and its competing lines, reveals one rate war after another.

Perkins' attempts at controlling C.B.&N. policy were complicated by the aggressive and independent actions of A. E. Touzalin, President of the Northern line — and by the way — this was a policy which Touzalin was nominally entitled to pursue according to the separate administrative set-up of the subsidiary line. In addition, because of the severe competition in which the Northern was emeshed, the road was in constant financial difficulty. The Burlington, because it did not want the road to fall into enemy hands, was forced to subsidize the line several times to keep it from receivership.

One solution to the C.B.&N. problem offered by Perkins was to buy out the troublesome road. Repeated attempts to gain the consent of the Burlington Board were of no avail, for the directors were unwilling to pay the price demanded by the C.B.&N. for its financially unstable road. Another solution was the attempt to persuade James J. Hill to make a joint purchase of the line. This too was unsuccessful.

After awhile Perkins just gave up and allowed the problem to drift. In 1890, when the "price was right," and the C.B.&Q. directors, according to Grodinsky, felt it was best to follow a policy calculated to stabilize the Northwestern Railroad industry, they agreed to acquire a controlling stock interest in the rebellious C.B.&N.

From this time until 1899, when the Northern line was wholly absorbed into the Burlington system, intercompany relations ran as smoothly as any good conservative Burlington man could desire.

In conclusion, the study of the C.B.&N. extension, points out two problems inherent in the Burlington's expansion policy. One is the financial risk of expanding into an area already serviced by established lines. The competitive struggles that followed led to problems that were not easily solved and which adversely affected the parent system. Secondly, the study points out the danger of granting administrative freedom to a subsidiary company which was not completely controlled.

(Mrs.) Judith A. Moffitt
The University of Western Ontario