

Bet You an Empire

By John T. Flynn

See that group of men watching the ticker? They're waiting for the lucky number to come up, and the prize is the greatest railroad empire in America. This particular game of chance was started by the Van Sweringens—who also devised the rules. It's one answer to the question of what's wrong with our railroads

ON a clear, warm Sabbath day in August, 1935, two deeply troubled little men got into a motorcar at their farm outside Cleveland and set out for Muncie, Indiana. This was the last stage of a long journey—a journey that had begun many years back on the sidewalks of Cleveland when both boys sold papers upon the same corner and one that had led them to the mastery of the greatest railroad empire on earth.

These two shy and now a little frightened brothers dominated a railroad kingdom larger than all the railroads in Great Britain or in France. It included not merely railroads but steamship lines, trucking companies, coal mines, hotels, department stores, streetcar lines, skyscrapers. And all this they held in the palms of their four pudgy hands. But they were broke.

From New York bankers they had made a personal loan of a small matter of forty million dollars. It was past due. The bankers felt they had reached the end of the trail. So they quietly told the insolvent brothers that at an early date they would put up at auction the securities pledged as collateral. These securities represented their control of this great rail structure. This was indeed the end of the road.

But they had one chance left: The securities would be sold for a song. Could they get someone to advance the money to buy them? Through their fingers flowed millions monthly. But they had no money. They could not pay their living expenses. Old friends in Cleveland had refused to trust them just this one time more. Now they were going to Muncie to ask a complete stranger for a few more millions.

Of course these two brothers were Oris P. and Mantis J. Van Sweringen. And they were driving over to Indiana to see Mr. George A. Ball, grand maharaja of that amazing little cosmos known to the geographies as Muncie and to the world of social literature as Middletown.

This was to be a desperate throw of the dice. But the Vans were men of endless guile and inexhaustible hope. Besides, they had no inhibitions when it came to asking for money. Had not O. P. walked one day into the office of a neighbor he knew only slightly and bowled him over by asking him to buy the Cleveland Plain Dealer for him? And had not that neighbor, when he got his breath, gone out and offered ten million for the paper? Now, that gentleman—George Tomlinson, big lake ship owner—was in the car with them taking them to his friend and remote relative, George Ball, for one last desperate touch.

At the moment it looked as if that simmering broth, the New Deal, was about to boil over into an ebullient prosperity. The morning newspapers told them, as their car with Mantis J. at the

wheel hurried along the Ohio roads, that on the preceding day ninety-five stocks had hit high for the recovery. Mixed in with news of Huey Long's warning to the Senate that he had discovered a plot to assassinate him, and with the orgy of summer sports results, were the prophecies of a possible coming boom. O. P. had carefully rehearsed the story he would tell old man Ball. So the two harried men dared to hope.

But before we can understand clearly the strange series of events they were to set in motion this Sunday morning, it is necessary to see clearly, but swiftly, the formula these men had used to get control of the vast empire they ruled, how they could use that formula now and to what uses it would be put later. All of which is worth telling, not only because it is an astonishing personal drama, a story of the struggle of promoters for the richest prize in America, but because it involves the essential features of the great railroad crisis itself.

Why We Face a Rail Crisis

For the railroads are at a crisis. A few simple facts tell the tale in an instant:

Nearly 100 railroad companies are in the hands of receivers—76,000 miles of road gone to the cleaner, more than at any other period in history.

In the first half of this year the total earnings of the roads were only a little over half what they were in 1929—a quarter less than last year.

The roads employ 800,000 men less than in 1929 and about 250,000 less than last year. Pretty serious!

It is serious because the roads are not only a means of transportation; they are our biggest buyer—our billion-dollar customer. They buy 23 per cent of all our soft coal, 20 per cent of our oil and our timber, 17 per cent of our iron and steel and about 70,000 other items produced in every state and county in the union. And they hold the direct investments of two million Americans and millions more indirectly.

But in six months this year they cut down their purchases by nearly 700 million dollars under 1929 and 345 million under last year.

That's why we face a railroad crisis. But why? The railroads say the government has done 'em wrong; over-regulated them and forced them to pay higher wages and work for smaller rates. They blame the automobile, the truck and the bus. It's everybody's fault but that of the roads themselves.

Well, let's watch this great Van Sweringen system sink down. This is a little railroad world. It contains within itself all the virtues and faults of the roads. It's easier to look at than the whole railroad world. When we are through looking at it we will be better able to form an opinion of what is the matter.



Year after year these wheels have rolled up profits for the Chesapeake and Ohio Railroad, making it a rich prize in the mad scramble for control of a railroad empire

PHOTOGRAPH FOR COLLIER'S
BY VALENTINO SARRA

I'll tell the story. You bring in the verdict.

Now the first thing to look at is the simple device by which the Vans got together this immense tangle of properties. The story of how they entered the railroad field by purchasing the Nickel Plate road with only \$500,000 has been told over and over. But they didn't. They bought it with nothing. And the trick they used is little understood. Here it is in a nutshell. You might try it sometime.

They agreed to buy the Nickel Plate road from the New York Central for \$8,500,000. They agreed to pay \$2,000,000 down and \$650,000 a year—as you buy a piano. But they didn't have the \$2,000,000. Now watch them get it.

They took the agreement to the now defunct Union Guardian Trust Company and borrowed \$2,000,000, putting up the agreement as collateral. Now they had to get the money to repay the bank.

Roads and Still More Roads

They organized the Nickel Plate Securities Corporation, a holding company, to take title to the Nickel Plate. They then issued \$2,075,000 of preferred stock. They sold \$1,575,000 around Cleveland. They needed \$500,000 more. They subscribed to that themselves, borrowed the \$500,000 from a bank and gave the bank the stock as collateral. Thus they had the \$2,000,000 to repay the Union Guardian and \$75,000 to boot. Then they issued \$12,000,000 of common stock and took \$10,000,000 of it themselves, giving them complete control of the Nickel Plate Securities Corporation, without putting up a cent. Thus they dominated the road. If you don't grasp the scheme from this overhasty description of an intricate financial deal, read it over again. For this was the device they used to buy more roads—the Chesapeake and Ohio, the Erie, the Pere Marquette, the Missouri-Pacific and many others until they ruled 28,000 miles of railroad, running from the Atlantic to the Pacific and from the Great Lakes to the Gulf.

Nothing seemed to stop these strange, shrinking brothers. Newspapers, magazines, businessmen glorified them. By this wondrous device they might have continued until they had swallowed the world—if the depression had not intervened. The depression!—that was the dragon that slew them—at least so they said. But it was not the depression. It was because they built a fair-weather vessel. They made a craft that was good only upon a tranquil sea, under the delusion that there would be no more storms. They put together a vehicle good only upon smooth, level roads in a world of soaring hills and murderous curves. Having seen the magic formula that made them, we can now see what unmade them and what now vexes their successors.

They decided to create one great master holding company that would own all their others. They owned about 200 corporations caught up in an inextricable tangle of holding-company threads. At the same time they would use this corporation to realize some of their fabulous profits and raise more millions for more adventures.

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**She looked even more beautiful dancing.
She made me wonder what I'd been doing
just sitting around these past months**