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ACKNOWLEDGMENTS

For most of my life I have lived in the shadow of the Rock Island Railroad. I grew up in Brookfield, Illinois, in west suburban Chicago, nestled along the Burlington Northern Railroad’s triple-track, high-speed, high-density freight and passenger mainline. For as long as I can remember, I was captivated by trains. My father worked for a time at Electro-Motive Division in LaGrange before leaving to teach high school mathematics, and my grandfather worked at EMD for close to 40 years. I used to watch Burlington Northern trains go by Bob’s Barber Shop in downtown Brookfield and then watched while playing Little League baseball at Kiwanis Park—part of the reason (I tell myself) I never made it to the Major Leagues. I also lived close to the crossing of the BN with the Indiana Harbor Belt Railroad at Congress Park, which led me trackside, camera in hand, hoping to catch the odd locomotive and the different railroads that traversed the tracks near my childhood home. I captured many on film, but much to my heart’s discontent, I never captured a Rock Island locomotive. My railfan days began as the Rock was at its endgame, and, as I didn’t yet drive, the Rock was too far away from my cloistered little world. I did see Rock Island commuter trains several times as a boy in the 1970s while sitting on Comiskey Park’s leftfield upper deck and staring out of the Comiskey arches to watch trains across the Dan Ryan Expressway (watching the White Sox in the 1970s, apart from South Side hit men of 1977, was painful, so watching trains while at the game was a relief).

As a student at Quigley North High School (it, too, now gone, but its building now occupied by the Archdiocese of Chicago), I commuted into the city, witnessing the decline of the railroads, the many changes in store between 1979 and 1983. And the one line I fell in love with more than any other was the Rock Island. As a commuter into Union Station in Chicago, I could glance (read: “stare”) out of my bilevel coach window and see the crimson and yellow bilevel commuter cars bearing the Rock Island letters coming into nearby LaSalle Street Station. Once in a while, I could even see the Rock Island Electro-Motive Division SW-1, moving cars to and fro on the Regional Transportation Authority track (it is still in service as a Metra switcher today). Being a bit romantic, and idealistic, I could imagine seeing the Rocket pulling into the station, the train I had read about in articles...
about the Rock Island in *Trains* magazine, which I devoured more eagerly than other boys my age devoured *Playboy*.

Two events that happened in high school influenced my later decision to write on the Rock Island. I wrote a history paper on the Rock Island. The second was writing a short opinion piece for the *Chicago Tribune*, which was published in 1982 as “A Requiem for the Railroads.” I could have neither envisioned then, nor assumed later, that I would write a book with a similar title. I assumed I would have been running a locomotive, not writing about them.

But here I am, living in Topeka, Kansas (a Rock Island town), where the writing of this book was completed, after having attended college at Drake University in Des Moines, Iowa (a Rock Island town), and returning to the University of Illinois at Chicago for a Ph.D. (clearly, a Rock Island town). The only years of my life not centered on the Rock Island were spent working on an M.A. in diplomatic history at Ohio University in Athens (hey, it had the Baltimore & Ohio, so that wasn’t too shabby either). I am writing about the railroad I fell in love with as a young man, and hopefully I have done the story of its long and rather sad collapse historical justice.

This is my first railroad history book after having spent my career writing on the history of American conservatism. I owe thanks to many of the fine railroad scholars whose work I have drawn on and who have helped me, sometimes inadvertently, along the way. H. Roger Grant provided a great sounding board for ideas and was gracious with his loan of photographs for the book, and for pointing out some silly errors before it went to press. Don Hofsommer’s work on Iowa railroads, and the SP, is first-rate. Maury Klein’s encyclopedic knowledge of the Union Pacific Railroad is unsurpassed, and I drew heavily on his trilogy of the UP in the book. Rush Loving Jr., Don Phillips, and Fred Frailey, knowledgeable railroad journalists, also informed and inspired this work. I have never met any of these gentlemen, but their work on railroads has been an inspiration. My good friend Don Critchlow of Arizona State University always provided a sounding board for my ideas and listened patiently to me going on about the Rock Island. He even arranged for me to give a talk to a discussion group on railroad history and public history, where the Phoenicians heard a lot about a former Midwestern railroad—but then everyone who lives in Arizona is from Chicago, so they already probably knew about it. Of course, I alone am responsible for any errors that remain.

I had the great privilege of speaking about the themes of the book in October 2011 to the Sandhouse Gang at Northwestern University’s Transportation Center and was treated to a wonderful audience of knowledgeable
Acknowledgments

railroad officials, historians, attorneys, and engineers. It was a bit intimidating, but the Sandhouse Gang was a lovely experience, one I hope to repeat. John Barriger IV was in attendance, as was then-Union Pacific Vice President for Strategic Planning John Rebensdorf (who I was told came into town just for the talk; thanks, John). All the individuals in attendance that day gave me fruitful points to consider as I finished the book, and I am very grateful for their expertise and interest in the project. I also thank them for providing an excellent lunch focused on the Rock Island. I thank Norman Carlson, Diana Marek, William Sippel, Paul Schuch, David Burns, Edward Burkhardt, Daniel Behr, Mike Arizzi, and all the others who attended. To others who I inadvertently left out, thank you for a wonderful event.

I would also like to thank the innumerable archivists and librarians who helped me in the various archives I visited to complete this work. These individuals are indispensable to a historian doing primary research. I would especially like to thank Albert Nason of the Carter Presidential Library; the staff of the Hagley Museum and Library; Hank Zalitel of the Iowa Department of Transportation; the Hoover Institution; the Gerald Ford, Harry Truman, and Dwight Eisenhower Presidential Libraries; and all of the other libraries and archival staffs who helped with the book. I am especially grateful to Brice Oakley for arranging, and Robert Ray for allowing me the permission to use the Governor Robert Ray papers at the Iowa State Historical Society. Ray was a former president of Drake University (more important than being governor of Iowa?), and he probably didn’t know I was a Drake Bulldog through and through.

I am especially grateful to Daniel Murray of the law firm Jenner & Block, who took time out of his busy schedule to talk to me about the bankruptcy case and arranged for me to meet with Lester Crown. Dan’s expertise proved especially important as I waded into railroad bankruptcy law, and he has always been available to me for my mundane questions about the law. He is a gentleman and a fine attorney.

My research was supported by several institutions. I owe immeasurable thanks to the Earhart Foundation, which supplied me with a generous research grant that allowed me to complete almost all the research in one long summer of travel in 2009. Earhart has supported my work consistently, and I owe Ingrid Gregg and Montgomery Brown a tremendous debt of gratitude. I was awarded a research grant to complete an article on the Rock Island and the state of Iowa’s efforts to save it, and I thank the Iowa Historical Society for their munificence. Finally, I thank Emporia State University for its support of the manuscript, both for a research grant that allowed me to complete research in the summer of 2012, as well as for a sabbatical
leave in the fall of 2012 that allowed me to complete the writing of the manuscript.

I chose specifically not to do many interviews with former Rock Island employees. Everyone has their own opinion on why the Rock failed, and I did not want to get too bogged down in separating the wheat from the chaff. I wanted the book to reflect my own work and opinions on why the Rock Island collapsed. I could have learned much about the Rock from the thousands of people who worked for it, and I hope to do so now that the book is done. You can certainly feel free to tell me where I went wrong. However, I did conduct a few interviews and thank Ted Desch, the last surviving CEO of the Rock Island, as well as Dr. Paul Banner, Paul Victor, and Dennis Opferman for their insights on the Rock Island and successor lines. Alas, all of the principal figures in the bankruptcy case are now deceased, most recently Judge Frank McGarr (in 2012), Nicholas Manos (in 2011), Albert Jenner (1988), John Ingram (2008), and William Gibbons (1988). I would have relished meeting them all.

Many individuals allowed me the use of photographs for the book. I thank Tom Kline, Joe Pierson of the Chicago and North Western Historical Society, Jenner & Block, Mark Llanuza, William McGarr, and all the others who sent me photos for consideration to use in the book. The Rock Island Technical Society listserv was a valuable sounding board for me, and I appreciate all of the Rock’s fans who responded to my request for photos.

I also want to thank the extraordinary staff at the University Press of Kansas. I have known Fred Woodward for about ten years now, and I am very happy to be able to have this book published by UPK. I want to thank Sara Henderson White for her help with the photographs, Larisa Martin for her assistance getting the manuscript into shape for publication, Susan Schott for her marketing expertise, and the entire staff of this wonderful press. I hope this is the beginning of a long and fruitful partnership. I also want to thank Edward Brunner, one of the reviewers of the manuscript for the press, who worked for the Rock Island from 1973 to 1980 while a graduate student in English at the University of Iowa and was a huge supporter of the proposal and the book. What Ed doesn’t know is that his articles on the Rock Island published by Trains, especially “Tales from the Peoria Rocket” (1983), were the main reasons I fell in love with this charming Midwestern line. I thank him for his contributions to my love affair with the Rock Island and for helping me see it to realization with the publication of this book.

Finally, I have no bigger supporters of my work than my family. My wife, Petra, has put up with constant travel, separate vacations to do research (while the family goes to the beach), and the constant irritability of a grumpy...
author. She has done this now through five books, and I suspect there will be five more (I hope) before it’s all said and done. Poor Petra! While other newly married thirty-somethings went to the Caribbean on vacation, she was driven along U.S. Highway 6 to take pictures of old Rock Island depots in western Illinois and eastern Iowa. Words cannot express how much that means to me.

The dedication goes to my two children, Bailey Noelle and Balin Gerhart. They are both growing up too fast and now find themselves in high school and middle school. I hope that they will one day read this book to better understand their father’s passions (and quirks) and come to understand how history can enlighten and inspire. They mean the world to me and, with Petra, are the rocks in my life.
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ACRONYMS AND ABBREVIATIONS

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<tr>
<td>“A-OK”</td>
<td>Arkansas-Oklahoma Railroad</td>
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<tr>
<td>AAR</td>
<td>Association of American Railroads</td>
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<tr>
<td>ADM</td>
<td>Archer Daniels Midland</td>
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<tr>
<td>ASTRO</td>
<td>America’s Sound Transportation Review Organization</td>
</tr>
<tr>
<td>ATSF</td>
<td>Atchison, Topeka and Santa Fe</td>
</tr>
<tr>
<td>B&amp;O</td>
<td>Baltimore and Ohio Railroad</td>
</tr>
<tr>
<td>BLE</td>
<td>Illinois Brotherhood of Locomotive Engineers</td>
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<tr>
<td>BN</td>
<td>Burlington Northern</td>
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<tr>
<td>BNSF</td>
<td>Burlington Northern Santa Fe Railway</td>
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<tr>
<td>BRAC</td>
<td>Brotherhood of Railway and Airline Clerks</td>
</tr>
<tr>
<td>C&amp;O</td>
<td>Chesapeake and Ohio Railway</td>
</tr>
<tr>
<td>CAB</td>
<td>Civil Aeronautics Board</td>
</tr>
<tr>
<td>CB&amp;Q</td>
<td>Chicago, Burlington and Quincy Railroad</td>
</tr>
<tr>
<td>CDOs</td>
<td>collateralized debt obligations</td>
</tr>
<tr>
<td>CEA</td>
<td>Council of Economic Advisors</td>
</tr>
<tr>
<td>CGW</td>
<td>Chicago Great Western Railway</td>
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<tr>
<td>CNJ</td>
<td>Central Railroad of New Jersey</td>
</tr>
<tr>
<td>C&amp;NW</td>
<td>Chicago and North Western Railway</td>
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<tr>
<td>ConFac</td>
<td>Consolidated Facilities</td>
</tr>
<tr>
<td>Conrail</td>
<td>Consolidated Rail Corporation</td>
</tr>
<tr>
<td>CPI</td>
<td>Consumer Price Index</td>
</tr>
<tr>
<td>DOT</td>
<td>U.S. Department of Transportation</td>
</tr>
<tr>
<td>DRGW</td>
<td>Denver and Rio Grande Western</td>
</tr>
<tr>
<td>DSO</td>
<td>Directed Service Order</td>
</tr>
<tr>
<td>EL</td>
<td>Erie Lackawanna</td>
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<tr>
<td>ERSA</td>
<td>Emergency Rail Services Assistance Act</td>
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<tr>
<td>FEC</td>
<td>Florida East Coast Railway</td>
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<tr>
<td>FRA</td>
<td>Federal Railroad Administration</td>
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<tr>
<td>FSP</td>
<td>final system plan</td>
</tr>
<tr>
<td>GM&amp;O</td>
<td>Gulf, Mobile and Ohio Railroad</td>
</tr>
<tr>
<td>IC</td>
<td>Illinois Central Railroad</td>
</tr>
<tr>
<td>ICC</td>
<td>Interstate Commerce Commission</td>
</tr>
<tr>
<td>Iowa DOT</td>
<td>Iowa Department of Transportation</td>
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Acronyms and Abbreviations

Katy  Missouri–Kansas–Texas Railroad
KCT  Kansas City Terminal Railroad
M&StL  Minneapolis and St. Louis Railway
Monon  Chicago, Indianapolis, and Louisville Railroad
MP ("MoPac")  Missouri Pacific Railroad
MRRA  Milwaukee Road Restructuring Act
N&W  Norfolk and Western Railway
NHL  National Hockey League
NWI  Northwest Industries
OKT  Oklahoma, Kansas, Texas
OMB  Office of Management and Budget
OPEC  Organization of the Oil Exporting Countries
PC  Penn Central Railroad
PRR  Pennsylvania Railroad
RFC  Reconstruction Finance Corporation
RI or CRIP  Chicago, Rock Island and Pacific Railroad
RLEA  Railway Labor Executives’ Association
RTA  Regional Transportation Authority
SP  Southern Pacific Railroad
TARP  Troubled Assets Relief Program
TOFC  trailer on a flat car
TP&W  Toledo, Peoria and Western Railway
UP  Union Pacific Railroad
UPC  Union Pacific Corporation
USRA  United States Railway Association (1970s); to be distinguished from the United States Railroad Administration (1917–1920)
UTU  United Transportation Union
ROCK ISLAND REQUIEM
Map 1.1  Map of the Chicago, Rock Island and Pacific Railroad as it looked in 1975. Author's collection.
INTRODUCTION

The story received news coverage worthy of the financial deals of Gilded Age railroad baron Jay Gould. In November 2009, Warren Buffett, the veteran investment capitalist known as the “Sage of Omaha,” announced he was buying a railroad; to be exact, the rest of a railroad. His Berkshire Hathaway Corporation was purchasing 77 percent of the remaining stock of the Burlington Northern Santa Fe Railway (BNSF) to acquire total ownership of the mammoth 32,000-mile system. Buffett paid $26 billion for BNSF, offering stockholders $100 per share to buy out the company, a huge inflation of the stock’s trade that day of $67 per share; stockholders approved the deal in February 2010. “This is all happening because my father didn’t buy me a train set as a kid,” Buffett joked to the New York Times.1

More serious, it was happening because railroads had not only rebounded to prove their worth as investments; they were also energy efficient transportation companies certain to benefit as “green” corporations in the future. During one of the worst economic recessions in modern American history, and one in which President Barack Obama touted green energy and fuel-efficient transportation alternatives, Buffett was making a statement not only about his faith in the American economy but also in an old smokestack–style industry reborn for the twenty-first century.

Buffett’s decision to buy BNSF focused attention on the quiet revolution in American transportation that had been at work for the previous thirty years. If you weren’t stopping, looking, and listening, you easily would have missed the revival of the railroads. Since the early 1980s, the railroad industry had reemerged as a major force in the American economy. A major reason for this revitalization was the Staggers Rail Act, signed into law by President Jimmy Carter on October 14, 1980. Staggers partially deregulated the railroads. It kept the railroads under the regulatory control of the Interstate Commerce Commission (ICC) while allowing them greater flexibility over ratemaking. Effectively, Staggers ended the maximum and minimum ratemaking power of the ICC, which for much of the twentieth century con-
strained railroad competition with other modes of government-subsidized transportation.²

This partial deregulation helped revolutionize the industry. Railroads could speed up abandonment procedures on unprofitable branches and mainlines that in the past had taken as long as a year due to lengthy and expensive public hearings. Often railroads had simply postponed abandonment procedures due to litigation costs and kept operating unprofitable lines.³ They could negotiate long-term contracts with major shippers who benefited by seeing their transport costs go down by as much 49 percent, which allowed them to ship twice as much freight compared to prices being paid in the 1970s.⁴ Railroads were able to reinvest profits back into plant and equipment with astounding regularity. By 2006, railroads ranked just below the median Fortune 500 index of return on equity, at 15 percent, a far cry from the 2.6 percent investment return of the industry in 1970, a figure that remained static the entire decade.⁵

By the end of the twentieth century railroads had pared their mileage from a high of 254,000 miles in 1915 to less than half that number, around 120,000 miles.⁶ Railroad workers have declined from 480,000 in 1980 to 164,000 by 2008; however, they are much better compensated, with the average wages rising from $24,659 to $72,836 during that same period.⁷ To tap lucrative traffic in Wyoming’s Powder River coal basin, railroads considered expanded lines—the Dakota, Minnesota and Eastern (now a subsidiary of Canadian Pacific Railway) proposed construction of a 250-mile extension of its route into the coal fields of eastern Wyoming before postponing the project.⁸ The Union Pacific Railroad (UP) was so busy with traffic in the late twentieth century that it triple-tracked part of its original mainline through Nebraska. The overall reduction in railroad mileage and the profitability of the industry reflected many things—a changing economy, the deindustrialization of America, more intense competition in specific corridors with trucks and barges, and the globalization of the world economy. Consolidations, mergers, and liquidations led to fewer and fewer railroads running trains through fewer parts of the continental United States, a rationalization of the railroad system long sought by executives, politicians, and regulators.⁹ By the mid-1990s the number of Class I railroads (defined by the ICC’s successor, the Surface Transportation Board, as a railroad with more than $250 million in operating revenue) in the United States had declined to six.¹⁰ But the six remaining Class I systems were powerful and profitable.

It was not always that way. The transformation of the American economy during the 1970s and 1980s, from an industrial and manufacturing economy to a service-oriented economy that imported much of its manufac-
tured goods, impacted railroads drastically, especially lines in the industrialized Northeast and Midwest. By 1976, the bankrupt Penn Central Railroad (PC), Erie Lackawanna (EL), Reading, Lehigh Valley, Central Railroad of New Jersey (CNJ), Ann Arbor, and Lehigh and Hudson River companies were joined into the federally owned Consolidated Rail Corporation (Conrail). In the Midwest, the Chicago, Rock Island and Pacific Railroad (RI or CRIP) declared bankruptcy in 1975, followed in 1977 by the Chicago, Milwaukee, St. Paul and Pacific (the Milwaukee Road). Teetering on the brink of bankruptcy in this era were the Missouri-Kansas-Texas Railroad (Katy) and the Illinois Central Gulf as well. Politicians and railroad managers feared outright nationalization of all remaining railroads if the industry could not improve its performance.

Railroads depended on strong industrial production and a vital agricultural sector. By the mid-1970s, however, American industry was staggering under the weight of increased foreign competition, aging plants, environmental regulations, and high labor costs. Many steel mills were operating at 50 percent of capacity, and foreign steel was undercutting the market for American-produced products. Beginning in 1977, steel companies began the long process of shutting down mills throughout the Midwest. Youngstown Sheet and Tube Company of Ohio would abruptly close its Campbell Works in its namesake city on September 17, 1977, furloughing 5,000 workers in the process. Such a shutdown was shocking enough, but it paled compared to what was yet to come. By 1983 more than half of the operating steel mills in the country had been shutdown, with more than 250,000 steel workers thrown out of their jobs. The economic and social devastation to cities like Youngstown, South Chicago, and Homestead and Braddock in Pennsylvania was not seen since the Great Depression; unlike the 1930s, however, these mills closed for good.  

Other industries were in dire straits as well. Chrysler Corporation would require a federal bailout. General Motors and Ford Motor Company shut down plants and sold fewer automobiles than at any other point in postwar history as American consumers turned to fuel-efficient Japanese cars. Heavy industry, anthracite coal mining, and manufacturing all took downward turns in Northeast and Midwest industrial states. America’s industrial economy was in ruins as workers and corporations adjusted to the grim realities of the new globalized international capitalism.

Although the industrial sector lagged, agriculture boomed for much of the 1970s before surpluses, inflation, and debt triggered a farm crisis in the 1980s. Farmers were increasingly more efficient producers, blending new technology, equipment, better fertilizers, and insecticides to produce more
food. As new export markets opened in Europe and Asia, especially brought about by the export of wheat to the Soviet Union (a consequence of Richard Nixon’s détente policy), American farm income grew during the 1970s. Low interest rates allowed farmers to return capital to their operations, purchasing more land and equipment. Farm income soared. But at the same time, inflation led to additional costs of farming—especially fuel and transport—which increased drastically, eventually outpacing returns on crop prices. Diesel fuel shortages in the Midwest in 1979, owed to the OPEC oil embargo, as well as historically harsh winters each year from 1977 to 1979, compounded the problem. To stem the inflationary spiral in the wider economy, the chairman of the Federal Reserve Board, Paul Volcker, supported driving up interest rates, effectively cutting off credit and borrowing for small farmers and businesses. Interest rates reached 18 percent by 1981. Soon thereafter, farm foreclosures and personal bankruptcies reached levels in rural America unseen since the Great Depression. The perfect storm of agricultural depression reached its crescendo when Jimmy Carter placed a grain embargo on the Soviet Union following the Soviet invasion of Afghanistan in December 1979.12

By any appreciable measure the state of the nation’s economy in the late 1970s was dire. Inflation was the main culprit, but the declining dollar, trade deficits, a tumbling bond market, and a bearish Wall Street also contributed to the malaise. (The Dow Jones average had topped 1,000 in 1973 during the Arab oil embargo, would retrench to half that number in the recession of 1974–1975, and would not attain the 1,000 figure again until 1986.) The postwar economic boom seemed at an end. Economic growth weakened substantially in the 1970s, averaging 1.8 percent from 1973 to 1982, after having attained consistent growth of 3.3 percent from 1945 to 1968, and the same level from 1983 to 2007.13

“Stagflation,” first used by Washington Post columnist Joseph Craft in 1971, became the term employed to describe the stagnant economy: a combination of high unemployment and inflation. Economists had no ready explanation for why it was occurring. If one accepted the Keynesian formula that government could fine-tune the economy through fiscal policy, there was supposed to be a tradeoff between unemployment and inflation and not a twin rise in both. However, both were increasing simultaneously, challenging the Keynesian consensus and allowing economists dubious of Keynes, such as Milton Friedman, Robert Mundell, and Arthur Laffer, an opening to tout their proposals for monetary discipline, cuts in government spending, and lower taxes. The supply-side economists proposed cuts in marginal income tax rates as a solution to the economic doldrums. Combined with
controls and cuts in government spending, supply-side economists argued that economic growth would return. Inflation proved a more intractable problem. To deal with inflationary pressures, the Federal Reserve would have to raise interest rates. Doing that, however, worked against economic growth, a real dilemma for the administrations of Carter and his successor, Ronald Reagan, as the Federal Reserve Board increased interest rates to end inflation. There was no easy solution to the economic problems of the 1970s.

Economic and business conditions were so poor during the 1970s that corporations clamored for relief from corporate tax burdens and government regulations. It was natural that businesses sought to restore competitiveness, cut labor costs, promote efficiencies, and restore profitability in the face of declining revenues, high costs of production, and slackening demand for American manufactured goods.

Historians of the 1970s economy have been nearly unanimous in their verdict concerning the role of business activism in the making of the Reagan revolution. Many have argued that deregulation was brought about by a cabal of free-market economists, business elites, think-tanks, and conservative politicians to end government regulation of the private sector, restore the power and profitability of business, and reduce the power of the New Deal electoral coalition and organized labor. In this reading, deregulation was not a necessity for business but rather a sordid effort to roll back the progressive agenda of governmental support for workers’ rights. When examined in that context, the deregulation movement was simply a political process engineered by business elites and their allies within the developing conservative movement.

Beginning with Democrat Jimmy Carter, the deregulation of industry, transportation, banking, finances, communications, energy, and health and safety, some historians conclude, has had deleterious consequences for the country and the public interest. Political scientist Philip Cooper has concluded: “The war against regulation has indeed been the wrong war with the wrong enemy at the wrong time in the wrong place.”

The collapse of energy firms such as Enron, accounting firms like Arthur Andersen, insurance giants like AIG, and investment banks such as Bear Stearns and Lehman Brothers seems to support the thesis that in a war between regulators and deregulation advocates victory has come to the latter, with staggering consequences for the economy and for taxpayers who have had to bail out firms “too big to fail.” Add to this the environmental catastrophe of the BP Oil spill in the Gulf of Mexico in the spring and summer of 2010—the largest of many environmental failures in the previous two decades—and is there any wonder why the historical literature is replete with the failures of deregulation?
Introduction

In the “Great Recession” of 2008–2010, the focus of pundits, politicians, and the public at large has been on how an unregulated marketplace brought about the collapse of the banking system through an inflated housing bubble created by deregulation of the financial system. In the 1970s, however, regulation proved the culprit in helping to weaken the railroad industry. Government responses to the crisis, such as the formation of Conrail and Amtrak, proved ineffective in solving the railroad problem. Only deregulation and the removal of impediments to competition could return railroads to profitability.

For the railroad industry, deregulation came at exactly the right time and has been a staggering success. But a price was paid before the policy success embodied by the Staggers legislation. For railroads like the Rock Island, deregulation came too late. And it was the failure of entire railroads like the Rock Island that made possible the restructuring of the regulatory regime governing the railroad industry. The Rock Island’s story presents in microcosm the story of the railroad industry’s larger problems in postwar America and, in relief, the story of American economic failures during the 1960s and 1970s.

On March 17, 1975, the Chicago, Rock Island and Pacific Railroad Company filed for bankruptcy protection for the third and final time. The storied railroad once boasted 70-mile-per-hour freights and streamlined Rocket passenger trains but now was in its death throes. It was hurt by a failed merger with the Union Pacific, unnecessarily prolonged in duration by bureaucratic malfeasance on the part of the Interstate Commerce Commission as well as by rival railroads who wished to prevent any merger of the two lines. Left to languish without significant investment capital, running in marginal territory with ample branches but few long-haul routes conducive for moving large quantities of freight, and with little online industry, Rock Island management could do little but wait for a lifeline that would never come. Meanwhile the railroad hemorrhaged cash, running staggering deficits amounting to $100 million between 1964 and its bankruptcy filing in March 1975. (See Map 1.1 above, depicting the Rock Island network in 1975.)

No one expected the Rock Island story to continue long after that fateful St. Patrick’s Day. Major bondholders and shareholders in the company sought a quick liquidation. The administration of Gerald Ford offered no federal bailout, preoccupied with the Northeast’s railroad problems and the creation of Conrail. Instead, Judge Frank McGarr of the United States District Court for the Northern District of Illinois–Eastern Division, appointed a bankruptcy Trustee, his former law partner William Gibbons, who decided to save the railroad, placing it on a path toward reorganization. For five
more years “The Rock,” as it was renamed, was kept alive; during those years investors, led by Chicago billionaire businessman Henry Crown, fought the Trustee in federal court while making the case for reorganization. The failure to submit a plan for reorganization, long delayed by the Trustee and his attorney, a series of catastrophic economic conditions, historically bad winter weather through much of the railroad’s territory, the collapsing bond market, high inflation, and a strike against the railroad in August 1979—necessitating the operation of the railroad through ICC-directed service orders—prevented the company’s reorganization. Judge McGarr ordered the Rock Island’s liquidation in January 1980, and on March 31, 1980, the railroad ceased operations, embargoing service on 7,300 miles of track serving twelve states. It was the largest railroad liquidation in American history and one of the largest liquidations of any corporation to that time.

The story may have ended there, but what followed was one of the most successful reorganizations in the history of American business. The Rock Island retired its debt, with interest, paid back bondholders and major creditors, and gave shareholders options in a new investment company, entirely out of the railroad business, named Chicago Pacific Corporation. The Rock’s balance sheet went from a deficit of $400 million when liquidated in 1980 to a capitalization of $300 million for the new corporation, most of it cash assets, by 1984. In 1989, after acquiring the Hoover Corporation, Chicago Pacific was sold to Maytag Corporation, and the long history of the Rock Island Railroad finally receded into history.

In *Rock Island Requiem* the history of a railroad’s ill-fated demise will be revealed in a three-act requiem: 1: Merger, 2: Bankruptcy, and 3: Liquidation. The story of the Rock Island’s ill-fated merger agreement with the Union Pacific will be told in detail, focusing on the reasons both railroads sought a merger, as well as how the climate of railroad regulation made mergers one of the few practical ways for marginal railroads to survive. The merger story consumed 48,000 pages of testimony and financial dockets, plus some 200,000 pages of evidence in hearings conducted by the Interstate Commerce Commission. The ICC took eleven years to adjudicate the case, and during that period the Rock Island’s financial fortunes collapsed. With no federal assistance available, the Rock Island declared bankruptcy.

In Act 1: Merger, the complete story of the merger proceedings, the role of rival railroads in opposition to the merger, the bureaucratic malfeasance of the ICC, and the role of both the Rock Island and the Union Pacific Railroad management in their internal discussions of the merger will be presented.
for the first time. The wider context of the railroad problem in the administrations of Richard Nixon and Gerald Ford, and the deliberations in Congress—especially regarding the bailout of the Penn Central Transportation Company and discussions ranging from complete nationalization to deregulation of the railroads—will be highlighted as well.

Act 2: Bankruptcy will focus on the bankruptcy of the Rock Island and the court battle between the bankruptcy Trustee and the intervenors in the case, primarily the interests of Henry Crown, over the reorganization of the property. It will also focus on the railroad’s efforts to secure help from the federal government to rehabilitate lines, the agreements it reached with states to do so, and how, in the face of increasingly difficult odds, it kept running for five years before the inevitable shutdown was ordered in 1980. By the winter of 1979, the Rock Island’s fortunes were severely tested by miserable weather, a stagnant economy, high inflation, and shortages of diesel fuel in its operating territory. The strike by members of the Brotherhood of Railway and Airline Clerks (BRAC) in August 1979 proved to be the last straw; five months after that strike began Judge McGarr ordered the railroad’s liquidation.

In the wider political and economic arenas the fight to deregulate the railroads gained momentum under the Carter administration. The failures of both the Rock Island and the Milwaukee Road, which also declared bankruptcy, in 1977, magnified the crisis. The cost of Conrail and the refusal to create a Midwest variation on that railroad also led to stronger considerations for deregulation. Debates within the Carter administration between the president and his advisers will be highlighted, as will the congressional discussions leading to the passage of the Staggers legislation in October 1980.

Act 3: Liquidation will focus on the efforts of the bankruptcy Trustee, now working in close coordination with former adversaries such as Henry Crown, to liquidate the railroad and to ensure the viability of a reorganized corporation. The potentially destructive issue of employee compensation for back pay and vacations remained an obstacle, but Judge McGarr and attorneys for the Chicago law firm Jenner & Block (who had represented Crown’s interests in the bankruptcy) won a major case in the U.S. Supreme Court vacating $75 million in claims by labor unions against the property. With that achieved, the reorganization of the railroad was ensured, and in 1983 the plan for reorganization was approved by the court; a year later the new corporation was created and in 1989 sold to Maytag, ending the corporate history of what blues singer Leadbelly (in his famous “Rock Island Line”) referred to as a “mighty fine line.”
Rock Island Requiem is a policy history of the Rock Island Railroad’s final quarter-century, a deposition on what forces killed an enterprise and what lessons the collapse of this specific railroad can teach us about what economist Joseph Schumpeter once labeled the “mixed economy,” including its benefits and its limitations. The story of the Rock Island’s collapse is a marked departure in the annals of railroad history. It showcases not only the failures of the industry—focusing on the depressing amalgam of decaying infrastructure, failed public policy, and the void of leadership—but also how the seeds for rebirth rose out of the ashes of failure. Was the Rock Island a sacrificial lamb? Was the complete failure of this specific railroad necessary in order to revitalize the industry and end regulation of the industry? While no smoking gun points in any single direction, this requiem for the Rock Island shows clearly the failures of regulation and the limits to government intervention in the industry. The Rock Island’s collapse can be seen as a transition between the old order of regulation, with its concomitant failures, and the new order of deregulation and the success it has held for the railroad industry. The Rock’s collapse was not necessary for the new regime to arrive, but on the heels of its failure a new world did indeed arise.
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ACT ONE

MERGER
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We’re in excellent shape, financially and physically. Unless we do something silly, we should get along all right.

—Rock Island president John Dow Farrington, January 19, 1948, *Time* magazine

The Chicago, Rock Island and Pacific Railroad Company emerged from its second corporate bankruptcy on January 1, 1948. The board of directors was all smiles in a publicity photograph at the first board meeting of the newly reorganized company, led by redoubtable John Dow Farrington, a Franklin D. Roosevelt look-alike whose chiseled visage and piercing gaze looked forward to a bright future on the railroad. Farrington had been with the Rock Island since 1936, recruited from the Fort Worth and Denver Railroad, a subsidiary of the Chicago, Burlington and Quincy (CB&Q), which he had rebuilt substantially while general manager of the line. When he arrived on the Rock Island as Chief Operating Officer, the railroad, like many others during the Great Depression, was in receivership, its losses magnified by an agricultural depression in the 1920s and 1930s that weakened Midwestern railroads like the Rock Island. Management had compounded the problem, paying dividends on stock instead of returning profits into maintenance and rebuilding. Farrington told the Rock Island’s trustees that it would take $30 million to get the railroad back into shape. See Photo 1.1.

Farrington swept onto the property like a dust storm through the western plains. He inspected the property, finding it in disrepair. To raise capital to rebuild the line, Farrington scrapped old locomotives and pulled up worn-out rail in order to acquire heavier rail for mainlines. He salvaged whatever could be salvaged and used the money to purchase additional 4–8–4 steam locomotives to haul heavier and longer trains through Rock Island territory, giving the Rock Island the largest fleet of these engines. At the same time Farrington began to acquire diesel-electric locomotives and yard switchers from Electro-Motive Corporation (a Cleveland company that was bought by General Motors in 1930 and became known as the Electro-Motive Division