Click here for Full Issue of EIR Volume 6, Number 38, October 2, 1979

TRANSPORTATION

Fuel allocation targets the Midwest

"When deregulation came out, it was clear that small communities would be hit. But wait until you get a dollar a gallon on aviation fuel. You're going to see the Midwest absolutely raped! Cincinnati, Dayton, Toledo, Milwaukee—the middle-sized cities—they're going to be shut down!"

That comment comes from an insider at a leading Wall Street investment bank closely involved with the transportation sector. What he and other top strategists say they want to do is reduce transportation services in the Midwest by 40-60 percent, and nationally by about 25 percent through a combination of deregulation, sharp increases in fuel prices, and fuel allocation. They cite not only the apparent overbuilding of transportation in the Midwest as the reason for the cutbacks—an "overbuilding" that will become more pronounced as the recession grinds down business—but "energy waste" in running "so much service." The reductions supposedly will generate efficiency. In reality, dozens of airlines, railroads, and trucking firms will face bankruptcy and drastic service cuts, blitzing the grain and industrial heartland of the United States.

DOE steps in

The linchpin in this operation will be a fuel allocation scheme run by Energy Secretary Charles Duncan—James Schlesinger's clone at the Department of Energy. The airline industry is supposed to be first in line for the treatment.

Airline deregulation has generated a temporary surge in air travel, as new and expanded firms spread into previously "protected" markets. Now, however, super-competition and rising fuel prices are beginning to take their toll: many of these firms are in trouble and face service cuts and takeovers by bigger carriers. Four major mergers are in the works; meanwhile, American Airlines is pulling out of Charleston, S.C., to name one case.

Increased fuel consumption by airlines is triggering the charges of "energy waste" from investment bankers—no doubt soon to be echoed by Duncan. "They're consuming an extra one billion gallons,"

CORPORATE STRATEGY

How Mr. Henry Crown derailed the Rock Island

Henry Crown likes to be thought of as a philanthropist—a man who lives modestly despite his great wealth, who donates millions to charitable organizations and universities. A businessman who, according to his *consigliere* Albert Jenner, refused to invest in tax shelters, finance companies, or anything to do with liquor.

The record casts a different light on Crown's devotion to the public weal. In his 83 years he has constructed a veritable empire of wealth, political leverage, and corporate control. "My objective is to make my net worth less at the end of any one year than it was at the beginning." That is, net *taxable* worth. To this end, Henry Crown has pursued tax swindles, political blackmail, and corporate liquidations, without regard to regional or national consequences. The demise of the Rock Island Railroad is a case study.

In 1946 Henry Crown gained a substantial interest in the Rock Island by picking up a chunk of its defaulted bonds for a song, most of which he converted into common stock. Following the railroad's reorganization in 1948, for the next 15 years Crown did everything possible to minimize investment in equipment and maintenance, although railroad men like former Rock Island president Downing Jenks valiantly tried to upgrade the line. In 1960 Crown forced Jenks's ouster and began bringing in financial hatchetmen to run the railroad, its cash flow going increasingly toward nonrailroad and unproductive expenditures.

By 1962, Crown's sytematic disinvestment put the Rock on the edge of unprofitability, and he attempted to break up and merge the railroad with the Union Pacific and Southern Pacific. At that point, his policy was to keep the railroad barely functional, just enough to convince the Interstate Commerce Commission that a merger would be viable. For 12 years, however, the ICC blocked the merger; by 1974 the railroad had deteriorated so badly that the UP was no longer interested. In 1975 the Rock went bankrupt and was placed in receivership.

A key part of the milking of the Rock Island was the appointment of Jervis Langdon as chief executive in 1965. A lawyer by trade, Langdon

© 1979 EIR News Service Inc. All Rights Reserved. Reproduction in whole or in part without permission strictly prohibited.

wailed one banker. "An extra 226 million gallons were used in the first three months of this year. This could heat a quarter million homes during the winter. One coast-to-coast flight can heat a home for 32 years." This "waste" will be one rationale for fuel allocations, especially given any new disruption in oil supplies.

This is the clincher to the scenario. If jet fuel rises to a dollar per gallon or more, airlines will fall like mosquitoes hit with DDT. Only a handful of big ones will survive, and the Cincinnatis and Daytons would be cut off right and left.

The airline scenario is merely the precedent-setting opening shot. Trucking and railroads are the real targets. Both industries are facing Congressional enactment of deregulation, spearheaded by Sen. Edward Kennedy. Both are targeted for fuel allocation and sharp fuel price hikes. The dry run was last June during the phony gasoline shortage.

Last June's rise in diesel fuel prices and concomitant shortages took a sharp bite out of the profitability of regulated trucking carriers, and fomented chaotic disruptions by the independents. Many railroads were able to purchase only 60-80 percent of their requirements, a situation which helped push bankrupt railroads like the Rock Island and Milwaukee Road over the edge.

Rationalization

With its income falling even further because of the diesel fuel mis-allocation this summer, the bankrupt Rock Island has been unable to give its employees retroactive wage increases. This forced a strike of the Brotherhood of Railway and Airline Clerks a month ago—a strike which everyone knew could finish off the railroad for good.

In fact, that is about to happen.

As of deadline, it is expected that the Interstate Commerce Commission will order other railroads to take over the Rock Island lines, since the railroad does not have start-up funds following a back-to-work order issued by a government emergency board. The next step will be liquidation, in which hundreds of miles of Rock Island lines will be cut back. Simultaneously a federal court has permitted the Milwaukee Road to abandon two-thirds of its trackage, including its northern transcontinental line. In both cases, thousands of farmers, communities, and industries will be stranded throughout the Midwest.

Charles Duncan and the DOE have further plans. Citing the "energy crisis," they have been pressuring the ICC to grant scores of coal rate increases to remaining railroads like the Burlington Northern—increases in the order of 30 to 50 percent. What this means is a marked shift—already underway—toward coal haulage and further service cutbacks for farmers and industry.

—Stephen Parsons

---

knew less about railroad management than a disgruntled Amtrak commuter—but was a director of North American Car Leasing Co., which has made a fortune off railroads through usurious leasing practices. Under the rubric of making the Rock Island more "service-oriented," Langdon increased the number of train runs and leased hundreds of cars. The policy did result in more revenues and cash flow that could be used elsewhere. But expenses shot through the ceiling, as the trains ran shorter hauls over increasingly deteriorated track. In the words of Rock Island's president, John Ingram, "I've heard of railroads making money running short, fast trains; I've heard of railroads making money running long, slow ones. But I'v never heard of a railroad making money running short, slow trains."

With the Rock Island losing $129 million during his tenure, Langdon left in 1970 for bigger things: an appointment as trustee for the bankrupt Penn Central. When he become Penn Central president in 1974, the number of derailments in the first quarter climbed 94 percent over the number the year before, and losses totaled nearly $70 million in that quarter.

Since the UP merger fell through, Crown has been screaming to sell the Rock Island for scrap. When the road began to turn a profit following the 1975 bankruptcy, Crown went into court protesting the attempted reorganization and demanded a fire sale of its assets—which would net him millions in carry-forward tax credits, to be used for tax-free investments in enterprises to be stripped down in a manner similar to the Rock Island.

Now, it seems that the philanthropic Mr. Crown will get his wish, and much more. Following a strike of its unionized employees, the Rock has finally gone under, and will indeed be broken up. Crown will not only get his tax breaks on the "losses." He will probably conclude a merger of his St. Louis-San Francisco Railway with the Burlington Northern—getting a ten-percent-plus stock appreciation, investment tax credits, and controlling interest in the profitable BN. Furthermore, with the Milwaukee's cutbacks, BN will be able to pick up Milwaukee track for next to nothing and will have a virtual monopoly in sections of the northern Mountain states. In addition it is getting huge rate increases for coal hauling.

Crown has that angle covered, too, and has for a long time. His coal interests in southern Illinois have long made Crown the biggest shipper on a major Rock Island competitor—IC Gulf—which stands to gain appreciably from the Rock Island's demise.

—Stephen Parsons
and Charles Leone