

## The Reading Railroad 1892-1893: Combination to Collapse

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The Panic of 1893 began a depression that lasted into 1897. Theories for the cause of the Panic have included an inadequate money supply, a European depression, and a hit to national credit caused by the passage of the Sherman Silver Purchase Act. Historians have pointed more generally to over speculation, under consumption, or even unavoidable economic law as the cause of the Panic.<sup>1</sup> What initially triggered the Panic, however, was the collapse of the Reading Railroad in February 1893.

Just one year before the collapse the Reading nearly secured a monopoly when it combined with two other companies to control the production and transportation of 50-60 percent of the anthracite coal used by northeastern cities. The company's bold president Archibald A. McLeod earned the nickname, "the Napoleon of railroad combination."<sup>2</sup> But from the anthracite combination in February 1892 to the collapse in February 1893, the President extended the company's credit too far, estranging its most powerful financier, John Pierpont Morgan. The result was stock market collapse, receivership, and McLeod's resignation.

During much of the nineteenth century, Americans in the Northeast relied on anthracite coal to heat their homes. Approximately 477 square miles within eastern Pennsylvania produced all the anthracite coal used by the population centers along the northeastern coast. People referred to this coal-producing region as the Anthracite Region, and the coastal population centers as Tidewater. Transporting coal to the Tidewater had posed a challenge to early

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1. Douglas Steeples and David O. Whitten, *Democracy in Desperation* (Westport Connecticut: Greenwood Press, 1998), 1-25.

2. "He Startled New-England: Mr. M'leod's Invasion of the Eastern Territory." *New York Times*. February 24, 1893.

anthracite producers. The mining companies first built roads and canals to move their product, but later turned to railroads, which they built specifically to move the coal to market.

By the 1880s, however, the tables had turned as the transportation system began to control production. Rapid nineteenth-century railroad construction had led to great trunk lines with immense financial power. These lines dominated independent mining companies by purchasing available coal lands or by controlling majority stock in mining companies.<sup>3</sup> To tighten their grip, the transportation companies coerced independent coal producers to join them. For instance, the Reading Railroad charged a higher rate for a short route than the Pennsylvania charged for a long route. The Reading could charge unreasonably high transportation prices because they owned most of the coal they transported; the price only shifted profits within their own conglomerate. But for the few independent collieries, high prices applied pressure to join the Reading.<sup>4</sup> By the 1890s seven railroad companies controlled nearly the entire Anthracite region: the New York, Lake Erie & Western; the New York, Susquehanna & Western; the New York, Ontario & Western; the Pennsylvania; the Delaware, Lackawanna & Western; the Central Railroad of New Jersey; the Lehigh Valley; and the Philadelphia & Reading.<sup>5</sup>

On February 11 and 12, 1892, three of the seven anthracite companies combined under the Reading Railroad to form the so-called Reading Combination. The Philadelphia & Reading leased the Lehigh Valley Company for 999 years on February 11. The next day the Port Reading Railroad Company, which was controlled by the Philadelphia & Reading, leased the Central

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3. "Proceedings January 18, 1893," 52<sup>nd</sup> cong., 2<sup>nd</sup> sess., *Congressional Record*. pt. 1:662-664.

4. "The Reading Coal Deal: Attitude of the Pennsylvania Road Explained. General Freight Agent Joyce on the Stand—Forced into a Position to Save Their Business—a Coal Operator's Views—Talking About the Report." *New York Times*. December 16, 1892.

5. "January 18, 1893" *Congressional Record*. pt. 1:662-664.

Railroad of New Jersey for 999 years.<sup>6</sup> Together these roads controlled between 50 and 60 percent of the anthracite coal market. The *Times* credited JP Morgan as a chief financier and forcible promoter of the combination.<sup>7</sup> The Reading also acquired large stock ownership in the Delaware, Lackawanna & New York. Although the Reading did not control that company, Mr. Sloan, the President of the Lackawanna, affirmed his company would cooperate with the Reading.<sup>8</sup> With the cooperation of the Lackawanna, the collusive group supplied 80 percent of the coal required by Tidewater.<sup>9</sup>

On February 9, the *Times* ran two articles on the developing deal. Negotiations were completely secret, but the physical meetings of the company presidents precipitated rumors several days before the official announcement. The first article reported on advancing railroad stock prices in expectation of the deal.<sup>10</sup> The second article warned against legal responses to the combination from states or the federal government. Although courts had previously allowed similar combinations, their acceptance was incomplete. Courts dismantled railroad trusts when members brought suit against one another, which indicated a willingness and ability to break up

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6. New York State Senate, Special Senate Committee Relative to the Coal Monopoly, 116<sup>th</sup> sess., 1893, p.111.

7. "A Great Railroad Deal: Reading Now Commands the Coal Situation. the Jersey Central and the Lehigh Valley Railroads Leased in Perpetuity to the Reading Company." *New York Times*. February 11, 1892.

8. "The Contracts Ratified: Completion of the Great Reading Railroad Deal. the Directors of the Jersey Cen- Tral and of the Lehigh Valley Assent to the Terms Under Which Those Roads Are Leased." *New York Times*. February 12, 1892.

9. "A Great Railroad Deal." February 11,1892

10. "Stir Among Coal Roads: And Alleged Deal to Centralize the Coal Traffic Frequent and Mysterious Conferences Among Coal Presidents—J. Pierpont Morgan Said to Be Interested—Boom in Coal Stocks." *New York Times*. February 9, 1892.

the Reading. Moreover, federal and state legislators could pass new laws.<sup>11</sup> The proponents of the combination ignored these warnings.

Two of the proponents are especially important to the 1893 collapse: Archibald A. McLeod and John Pierpont Morgan. The *Times* heralded McLeod a self-made man—especially in vogue at the time. Less than twenty years prior, “Archie” borrowed one hundred dollars to purchase a horse to deliver mineral water in Duluth, Minnesota. Later McLeod left Duluth to speculate in Colorado mining, where he impressed an official of the Reading Railroad, Austin Corbin. When Corbin became President of the Reading Railroad he appointed McLeod general manager of the Elmira, Cortland & Northern Railroad in New York State. Then in the summer of 1890, when Corbin retired as President, the shareholders of the Reading elected McLeod as Corbin’s replacement.<sup>12</sup>

Whereas few know of “Archie” today, John Pierpont Morgan’s name still appears in central business districts across the globe. Morgan and Anthony J. Drexel led the financial syndicate Drexel, Morgan & Co., tightly joining the two bankers. While both participated in the Reading collapse, Morgan played a more public role. Throughout his life, JP Morgan managed many agreements between railroads. One such instance was when all the important railroad men in the country met at his house in 1889 and agreed not to cut rates, build unnecessary lines, or compete with one another. Although the 1889 agreement failed in practice, Morgan had a reputation for effective railroad organization. In 1893, he reorganized a struggling cartel of 35 railroads spanning from Richmond to Cincinnati. At first the owners refused when Morgan demanded complete control during negotiations. The owners then turned to the Central Trust

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11. “Law for Coal Trusts.” *New York Times*. February 9, 1892.

12. “President McLeod: Something About the Man at the Head of the Reading Combination.” *New York Times*. February 13, 1892.

Company for reorganization, but after that firm failed, the owners agreed to Morgan's conditions. Morgan succeeded to form the Southern Railway, the largest railroad in the South.<sup>13</sup>

While the Public worried that the new conglomerate would raise coal prices, McLeod assured them it would not. To investigate the combination's potential public harm, both the New York State Senate and the US House of Representatives formed committees that questioned company officials and coal traders throughout 1892. But neither produced forcible actions against the Reading. In committee hearings, combination proponents described a dismal anthracite industry.<sup>14</sup> According to one coal trader, before the formation of large companies nine out of ten that entered the anthracite industry failed.<sup>15</sup> McLeod used several justifications for Reading market power. He claimed that overproduction of coal in cold months lowered anthracite prices below the cost of production. Each spring, large-scale anthracite dealers bought up leftover winter coal at low prices. When demand rose in the fall, they flooded the market with their cheap coal, holding prices below the cost of production. This, "unfortunate accident of the trade," according to McLeod, justified market power for anthracite producers.<sup>16</sup> McLeod also used the defense that over-developed coal producing capital required companies to limit production; the market used 40,000,000 tons of coal annually, but the collieries could provide 55,000,000 tons annually. He argued that production restrictions were "involuntary."<sup>17</sup> Survival—not greed—motivated collusion in the anthracite market according to McLeod.

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13. Edwin Hoyt, *The House of Morgan* (New York: The Cornwall Press Inc., 1966) 175-186.

14. New York State Senate, Committee Relative to the Coal Monopoly, 508.

15. "The Reading Coal Deal: Attitude of the Pennsylvania." December 16, 1892.

16. New York State Senate, Committee Relative to the Coal Monopoly, 508.

17. New York State Senate, Committee Relative to the Coal Monopoly, 333.

In addition to legislative committees, the combination faced opposition in the courtroom. On August 25<sup>th</sup>, 1892 a New Jersey court terminated the Port Reading Company's lease of the New Jersey Central. The presiding judge ruled that companies were created by the state for public benefit; therefore they required legislative approval to be leased.<sup>18</sup> Yet, collusion persisted after the injunction for several reasons. First, the injunction only affected part of the combination, as the Lehigh Valley lease remained. Second, collusion in the anthracite industry existed without the official Reading leases. For instance, the Lackawanna cooperated with the Reading without a formal agreement. Furthermore, in December the House committee found that executives of several companies set the price of coal at monthly meetings. The details of these meetings are not clear, but the General Freight Agent of the Pennsylvania Railroad summarized their purpose saying, "The price is fixed by agreement among the roads other than the Pennsylvania."<sup>19</sup> Evidently, collusion pervaded the industry without official leases, and the New Jersey injunction hardly affected it.

Impervious to the Public's critical response, McLeod continued aggressive acquisitions for the Reading Company. On August 29 1892, only days after the New Jersey injunction, he attempted to extend the Reading into New England. He entered a contract with a brokerage firm to purchase 30,000 shares of the Boston & Maine Railroad. The parties in the contract were George H. Earle, a broker representing McLeod, and F. H. Prince, a broker representing an anonymous owner of a large block of Boston & Maine stock.<sup>20</sup> The contract stipulated that

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18. "The Jersey Central Lease: Chancellor M'gill Enjoins Its Operation. the Reading Company Commanded to Desist from Controlling the Jersey Central Road—the Coal Combine Declared to Be Adverse to Public Interests." *New York Times*. August 26, 1892.

19. "The Reading Coal Deal: Attitude of the Pennsylvania." December 16, 1892.

20. "The Reading Investigation: Mr. George H. Earle, Jr., Tells of Mr. M'Leod's Operations." *New York Times*. February 16, 1894.

several transactions be performed over the coming months. It first required Prince to ensure that the Boston & Maine lease the New York & New England Railroad. The Reading would then lease the Boston & Maine. McLeod agreed to buy 15,000 shares of the Boston & Maine from the anonymous owner, and Prince agreed to buy 15,000 more shares from his principal, the anonymous owner.<sup>21</sup> The shares purchased by Prince would form a margin account under McLeod's name to give McLeod control of 30,000 Boston & Maine shares all together. Then he could elect himself president of the Boston & Maine. As security on the margin account, McLeod agreed to provide \$350,000 worth of Reading mortgage bonds. He used \$320,000 of his own bonds and \$30,000 bonds taken directly from the Reading treasury.<sup>22</sup> When the agreement became public, observers criticized McLeod for using treasury bonds without official approval. Normally, the use of treasury bonds required approval from the Board of Directors. Though he did consult privately with several board members, McLeod did not have official authorization to use the treasury bonds.<sup>23</sup>

In a trial a year after the Reading collapse, McLeod accused Prince of breaching their contract. Prince did not purchase the agreed upon 15,000 shares, rather he demanded more collateral and bought only 9,000 shares. "It was too important for the Reading to drop the transaction there," McLeod acquiesced, "I also thought the Boston and Maine would be worth a great deal more than I paid for it."<sup>24</sup>The President estimated the New England extension would provide \$2.7 million annually for the company, enough to justify using treasury bonds for the

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21. "Hope for Reading at Last." *New York Times*. September 7, 1893.

22. *Ibid.*

23. "Mr. M'Leod Tells His Story." *New York Times*. February 17, 1894.

24. *Ibid.*

additional collateral. Moreover, McLeod already arranged the retirement of the sitting president of the Boston & Maine, which made following through a matter of “honor.”<sup>25</sup> To secure the originally intended 30,000 shares, an unnamed friend of McLeod bought 6,000 shares. With the 30,000 shares, McLeod elected himself President of the Boston & Maine on October 26, 1892.<sup>26</sup>

The plan to control the New York & New England was even less effective than the plan to control the Boston & Maine. Prince failed to secure the lease to the Boston & Maine, so McLeod tried to elect himself president of the New York & New England as well. The President’s friends bought a large block of New York & New England shares, but he worried they would sell if prices rose.<sup>27</sup> He decided that with 25,000 additional shares, he would secure the New York and New England. For the Reading, he purchased 25,000 shares on margin through another brokerage group, Ervin and Co. These New York & New England shares belonged to the Reading Company outright; McLeod did not use any of his own properties in the margin account. To McLeod’s dismay, the president of the New York & New England refused to resign, barring McLeod from completing the coup. He did not become president of the New York & New England until after the receivership.<sup>28</sup> In execution the original contract failed. Instead of controlling two roads with 30,000 Boston & Maine shares, McLeod bought 24,000 Boston & Maine shares and 25,000 New York & New England shares to control both roads.

On December 24, 1892, the Board of Directors authorized McLeod’s transactions with an official resolution. The resolution ratified all purchases of Boston & Maine and New York &

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25. Ibid.

26. Ibid.

27. “The Reading Investigation: George H. Earle Jr.” February 16, 1894.

28. “Mr. McLeod Tells His Story.” February 17, 1894.



New England and promised to reimburse the President up to \$400,000 for his own properties used in the accounts. The Board recognized that McLeod personally controlled the Boston & Maine and that he controlled it for the benefit of the Reading. McLeod also understood the shares to be under his control for the benefit of the company, though he inflated his achievement when he wrote in a letter that he personally controlled the New England roads without any liability to the Reading.<sup>29</sup>

Initially the proprietors of New England railroads, including JP Morgan who controlled the powerful New York, New Haven, and Hartford Railroad Company, doubted rumors of McLeod's bombastic move. Morgan's road competed directly with McLeod's new acquisitions. Eventually Morgan believed the rumors and demanded McLeod hand over control of the Boston & Maine. In accordance with his character, McLeod plainly declined the demand, which angered Morgan, who was also the Reading's most significant financier.<sup>30</sup> After the confrontation, Morgan purchased several additional railroads in New England and began purchasing stock in the New York & New England to prevent McLeod from winning the presidency of that company.<sup>31</sup> Morgan also issued securities from all his companies to prepare for market turbulence. McLeod and his associates began selling Reading stock, presumably in expectation of the collapse.<sup>32</sup> Critics later attacked McLeod's management for these short sales. Though it is uncertain when the confrontation occurred, the *Times* reported on February 9, 1893 that the

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29. "Hope for the Reading." September 7, 1893.

30. "Collapse of the Reading." *New York Times*. February 21, 1893.

31. "Antagonized by M'leod." *New York Times*. February 9, 1893.

32. "Collapse of the Reading." February 21, 1893.

Reading replaced Drexel, Morgan and Co. with Speyer and Co. as its chief fiscal agents.<sup>33</sup> The antagonism began long enough before February 9 for rumors to spread.

In addition to Morgan's animosity, two other potential challenges arose in the beginning of 1893 as both legislative committees proposed bills to regulate the coal industry. On January 19, the House committee presented their report, which suggested action but warned against overstepping federal regulatory abilities. They suggested an amendment to the interstate-commerce law, to strengthen judicial responses, regulate corporate leases, and mandate longer lines of transport charge more than shorter lines of transport.<sup>34</sup> In Albany on February 1, the State Senate committee presented a more controlling regulatory scheme. Their bill created two new commercial licenses: a coal carrier's license, and a coal dealer's license. The coal carrier's license limited the per ton-mile price of transporting coal, and the coal dealer's license limited the sale price per ton for anthracite coal. The bill stipulated that the price of coal not exceed \$4.50 per ton in cities larger than 500,000 people, otherwise the Board of Railroad Commissioners would control the price ceilings.<sup>35</sup> Railroad and coal stock prices fell in response to the proposed legislation.<sup>36</sup> The next day, the Reading stock prices held steady, however, and they appreciated on the third, propelled by a new road acquisition in New England.<sup>37</sup> The

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33. "Antagonized by M'Leod." February 9, 1893.

34. "January 19, 1893" *Congressional Record*. House of Representatives. pg. 708.

35. New York State Senate, Committee Relative to the Coal Monopoly, 391.

36. "Financial Affairs." *New York Times*. February 2, 1893.

37. "Financial Affairs." *New York Times*. February 3, 1893.

market's minor response showed that investors thought the bill was unlikely to pass. Indeed, neither the federal nor the state bill became law.<sup>38</sup>

A stronger challenge to the Reading arose on February 4, when the Central Railroad of New Jersey, separated from the Reading by judicial injunction in August, began to collude with the Pennsylvania Railroad.<sup>39</sup> The Pennsylvania was the Reading's only competitor after the combination, but as its freight agent explained, the Pennsylvania matched its coal prices to the Reading's.<sup>40</sup> Cooperating with the Central of New Jersey enabled the Pennsylvania to actually compete with the Reading. Previously, the Pennsylvania used the Lehigh Valley division of the Reading to transport a large portion of its coal. The Pennsylvania and the Central planned to construct a short track to allow the Central to transport the coal instead of the Lehigh Valley.<sup>41</sup> The deal created a more powerful competitor to the Reading; it signified the effectiveness of the injunction to curb the Reading's market power, but it did not disturb the Reading's extension into New England.

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38. The *Times* did not report on the passage of either bill; it only reported on the initial presentations. Regarding the state bill, the 1895 Railroad Commissioners Report does not mention coal price regulation, and the State Senate did not discuss the bill through February 21, 1893. Likewise, the congressional bill did not receive a third reading through February 21, 1893.

New York State Senate, *Twelfth Annual Report of the Board of the Railroad Commissioners*, 118<sup>th</sup> sess., 1895, Vol. 1.

New York State Senate, *Journal of the Senate of the State of New York*, Feb. 1, 1893, p. 173.

U.S. Congress, *Journal of the House of Representatives of the United States*. 52nd Cong., Dec. 5 1893, appendix p. 63.

39. "Important Coal Deal: The Pennsylvania and the Jersey Central, Roads to Work Together." *New York Times*. February 4, 1893.

40. "The Reading Coal Deal: Attitude of the Pennsylvania Road Explained." December 16, 1892.

"Not All for the Reading: The Pennsylvania Securing a Good Share of the Coal Output." *New York Times*. May 2, 1892.

41. "Important Coal Deal: The Pennsylvania." February 4, 1893.

Reading stock prices remained stable from the February 4 through February 16.<sup>42</sup> On the 16<sup>th</sup>, McLeod instructed Prince to transfer the margin account from his name to the Reading's. McLeod had added 36 shares to the margin account after the initial 24,000, making the total number of shares 24,036 Boston and Maine shares.<sup>43</sup> He reimbursed himself for \$360,000 worth of his own securities used in the margin account.<sup>44</sup> The Board of Director's December resolution authorized McLeod to reimburse himself up to \$400,000 for his properties used in the margin account. But later critics argued that in light of the impending collapse of the company, his reimbursement constituted self-assigned preferred creditorship.<sup>45</sup> By February 16, the margin account with Ervin had also grown. Morgan's attempt to control the New York and New England led McLeod to add 7,000 shares to the account, bringing the total to 32,000 shares. The shareholders of the New York & New England would elect a new president on March 14, and both McLeod and Morgan wanted to win the vote.<sup>46</sup> As of February 16, both margin accounts were officially under the Reading, and McLeod had used \$842,000 company properties in sum.<sup>47</sup>

February 17 through 20, 1893, were the critical days of the collapse. On the 17<sup>th</sup>, share prices of the Reading Company fell 12 percent. Several events sparked the sell-off, and rumors fanned the flames. First, a brokerage group called Gould & Sage aggressively sold Reading

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42. "Financial Affairs." *New York Times*. February 6-17, 1893.

43. "The Operations of M'leod." *New York Times*. May 17, 1893.

44. "M'Leod's Reply to Mr. Rice." *New York Times*. May 18, 1893.

45. "Some Startling Reading Figures." *New York Times*. May 20, 1893.

46. "The Flurry in Reading." *New York Times*. February 19, 1893.

47. "The Operations of M'leod." *New York Times*. May 17, 1893.

shares.<sup>48</sup> Second, a pay car travelling from Philadelphia to deliver wages to the employees of the Reading's Lehigh Valley division turned back to Philadelphia. The man responsible for distributing the wages told reporters only that he was ordered to not pay the employees. Third, several Philadelphia banks refused to cash Reading checks and bond coupons.<sup>49</sup> The second and third events showed the company could not even pay small debts. Strangely, on the 17<sup>th</sup>, when the company refused an interest coupon worth \$2,750, McLeod added \$1.5 million in company bonds to the Prince margin account. Likewise, on February 20, he added \$1,000,000 in income bonds and \$250,000 dollars cash to the account.<sup>50</sup> The *Times* summarized innumerable rumors: the Reading was out of funds, McLeod had lost control of the New England roads, the Reading had lost control of the independent mining companies, the combination was about to dissolve, and Morgan was selling his shares to punish McLeod for the New England extension.<sup>51</sup>

The excitement of the February 17 paled in comparison to the February 18. During the first two hours of trading, more Reading shares were traded than ever before of a single company in two hours, 510,000 shares.<sup>52</sup> The same rumors fuelled the frenzy, despite company official's denial of them. Company officials also reassured employees that the pay cars would go out after the weekend.<sup>53</sup> The *New York Times* and the *Los Angeles Times* reported that a financier close McLeod attributed the break to one creditor's demand for immediate payment of \$200,000. He

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48. "An Upheaval in Reading." *New York Times*. February 18, 1893.

49. Ibid.

50. "M'Leod's Reply to Mr. Rice." May 18, 1893.

51. "An Upheaval." February 18, 1893.

52. "The Flurry in Reading." February 19, 1893.

53. Ibid.

said the company struggled to produce the funds immediately, but that it was broadly financially sound. The financier assured investors: “If I had \$5,000,000 I would not hesitate in loaning it to the company.”<sup>54</sup> These reassurances proved deceptive.

The next day, Sunday February 19, the stock market was closed. Nevertheless, brokers gathered across the city to discuss the company. The café of the Union League Club resembled the stock exchange floor, “during the height of a session.” McLeod met privately with company officials, the company attorney, and prominent brokers in a hotel in the city. The *Times* speculated that the President was preparing for a coup the next day. One investor expected trouble the next day; he said it seemed that something was radically wrong, but he would buy Reading shares in the morning because, “McLeod is brainy enough to right it.” The *Times* summarized the mood of the day: “The general belief, however, is that tomorrow will be the critical day. And the secret of the attack on the road will become known.”<sup>55</sup>

On February 20 a U.S. Circuit Court in Philadelphia appointed receivers to the Reading Company. A former US Senator from New York, Thomas Platt, filed an application for the receivership because he was refused payment for \$2,750 in bond coupons. Platt owned \$55,000 in Reading Company mortgage bonds that paid interest on February 1 of each year. The court assigned certain individuals, the receivers, to ensure the company paid its debts. Additionally, the receivers were required to report on the condition of all the company’s properties and all of its debts.<sup>56</sup> Simply put, the court demanded oversight and conservative strategies.

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54. Ibid.

“Reading Sound.” *Los Angeles Times (1886-1922)*. February 19, 1893.

55. “The Crisis for Reading.” *New York Times*. February 20, 1893.

56. “Collapse of the Reading.” February 21, 1893.

The court appointed three receivers to the company: Archibald A. McLeod, President of the Reading; Elisha P. Wilbur, President of the Lehigh Valley Division; and Edward M. Paxson, Chief Justice of the Supreme Court of the State of Pennsylvania. Upon his appointment as a receiver, Justice Paxson promptly resigned his seat on Pennsylvania's highest court.<sup>57</sup> In late March, the *Times* reported details explaining Justice Paxson's selection. On the day before the receivership, McLeod met with a representative of Drexel, Morgan and Co. The President asked Drexel and Morgan to bury the hatchet and loan money to the Reading. They agreed, on the condition that they select one of the receivers to be appointed the following day.<sup>58</sup> While planning the receivership on the non-trading day, McLeod abandoned his attack on JP Morgan in exchange for financing for the Reading. More importantly, Drexel, Morgan and Co. gained internal influence in the Reading Company through Mr. Paxson.

Unsurprisingly, the stock market responded wildly to the receivership. Monday, February 20, 1893, set a new trading record in the New York Stock Exchange. In total, 1,473,953 shares changed hands, 64% of them Reading shares. Previously, the one-day record was February 11, 1892, when 1,390,000 shares traded in response to the anthracite combination. Reading's share price fell from  $\$36\frac{5}{8}$  to  $\$28$ , a 23.5% loss. Morgan said that he did not buy or sell a single share of Reading and did not know anything about the cause of the collapse. By this point, the *Times* attributed the Reading's troubles to McLeod's speculation in New England. The New England extension stretched the financial capacity of the Reading and estranged the Reading's chief

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57. Ibid.

58. "Reading's Finances: Resumption of Relations with the Banking House of Drexel & Co." *New York Times*. March 25, 1893.

financial backer, Morgan. When debts became due the company struggled to pay. The *Times* also criticized McLeod for using borrowed money to pay debts.<sup>59</sup>

Worse than recklessness, the *Times* accused McLeod of short sales. After relations with the Drexels soured, McLeod's associates began selling Reading shares. "The McLeod party is in position today to buy back all the Reading they sold, and more," summarized the *Times*.<sup>60</sup> Isaac L. Rice, a foreign representative of the company, later called the sales, "a heinous offense against law and morals."<sup>61</sup> By selling shares in expectation of the crash and buying back more afterwards, the controlling shareholders strengthened their control of the company. The crash actually helped the *company*, if one understands the *company* to mean the controlling shareholders.

On March 13, the receivers reported that at the time of the February 20 receivership, the company owned 24,036 Boston and Maine shares and 11,000 New York New England shares. Contrarily, Rice later exposed that on February 20, the company actually controlled 29,000 shares of New York & New England.<sup>62</sup> Rice accused the receivers of selling the 18,000 shares between February 20 and March 13, and then reporting that the company had not owned them on February 20.<sup>63</sup> In trial, Mr. Paxson could not explain Rice's accusation.<sup>64</sup> Evidently the receivers

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59. "The Collapse of the Reading." February 21, 1893.

60. Ibid.

61. "The Ruin of the Reading Co." *New York Times*. September 10, 1893.

62. Ervin and Co. sold some of the Reading's NY&NE shares before the price of those stocks fell along with the Reading. Presumably, these short sales explain why Rice reported the company owned 3,000 fewer shares on February 20, 29,000, than it owned on February 16, 32,000.

"Mr. M'Leod Tells His Story." *New York Times*. February 17, 1894.

63. "M'Leod's Reply to Mr. Rice." May 18, 1893.



hid the scale of the company's ownership of the New York & New England Company at the time of the company's collapse.

Also in March, a committee of Reading bondholders campaigned to remove McLeod as both president and receiver. But the bondholders committee owned too few shares to remove him, and the controlling group of shareholders continued to back their president.<sup>65</sup> At first McLeod plainly defied the committee of bondholders. But two weeks later, in an abrupt shift in attitude, McLeod resigned as president and receiver.<sup>66</sup> On April 5 he published a statement explaining that his presidency limited the company's credit; he resigned because lenders distrusted him. His resignation became effective on May 1.<sup>67</sup>

Several details help explain the timing of McLeod's resignation. In September 1893, the *Times* published the original contract between McLeod and Prince. The paper reported that Anthony Drexel forced McLeod to resign after discovering the contract.<sup>68</sup> Contrary to this theory, Morgan and Drexel knew about McLeod's New England speculation long before the receivership. Moreover, Morgan and Drexel had inside access in the company through Paxson, making it unlikely that the contract surprised Drexel. J. Lowber Welsh served as the messenger between Drexel and McLeod and explained the circumstances of McLeod's resignation. Drexel had staunchly supported McLeod, but in the beginning of April he determined McLeod's presidency was harmful to the company. However, Drexel did not force McLeod out: he merely

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64. "Reading Receiver's Big Talk." *New York Times*. February 14, 1894.

65. "Trying to Oust M'leod." *New York Times*. March 17, 1893.

66. "The Fight Against M'leod: Statements from Various Persons Interested." *New York Times*. March 18, 1893.

67. "M'leod Out of Reading." *New York Times*. April 5, 1893.

68. "The Fight to Save Reading." *New York Times*. September 8, 1893.

suggested that McLeod resign. Welsh specified that external pressures led Drexel to suggest the resignation. That is, Drexel's opinion of McLeod remained, but the public's view of the President had become indefensible.<sup>69</sup> After Drexel's suggestion, McLeod promptly agreed to resign. One additional piece of information explains Drexel's change of opinion.

Isaac L. Rice represented the Reading Company in London during McLeod's presidency. He returned to the United States after the receivership and conducted, "an examination of the company's books in the interest of the bondholders." Rice published his report, aptly named the Rice Report, on May 15, 1893, but it was dated April 3, just two days before McLeod's resignation statement on April 5.<sup>70</sup> Anthony Drexel presumably saw the Rice report and suggested McLeod resign because of its impending publication. McLeod agreed not only because of Drexel's suggestion, but because he knew the Rice Report would ruin his presidency in any case. McLeod's resignation marked the end of the Reading collapse, but the Reading affair offers additional insights into American railroads at this time.

Historians often characterize the last decades of the nineteenth century as a period of weak government control over the economy; the Reading collapse fits this notion in some ways. Legislatures responded weakly to the anthracite combinations: both committees presented bills nearly a year after the original combination, and neither passed their bills. Further, the State Senate seemed lackadaisical when addressing the coal regulation bill. In February 1893, after the presentation of the coal bill but before the Reading collapse, the State Senate discussed whether

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69. "Reading's Receivers Big Talk." February 14, 1894.

70. "M'Leod's Stock Transactions." *New York Times*. May 16, 1893.  
"M'Leod's Reply to Mr. Rice." May 18, 1893.

to use margarine or butter in state correctional institutions more than it discussed the coal bill.<sup>71</sup> Whereas legislatures responded weakly, the judiciary responded forcefully and effectively. The termination of the Central of New Jersey lease by a Pennsylvania court eventually led to renewed competition in the anthracite industry. Yet in light of the collapse, no public institution addressed the real public danger—McLeod’s speculation in New England. Behind closed doors, the ambitious president operated freely. Ultimately, he failed and dragged the whole market down with him. The government did nothing to prevent McLeod’s speculation.

Unlike his speculation in New England, McLeod plainly expressed his monopolistic views. In a particularly weighty State Senate hearing, he asserted that the anthracite combination benefitted the public by eliminating inefficient middlemen. Although McLeod did not make a specific offer, he suggested an agreement between the Reading and the City of New York, whereby the City guaranteed a monopoly and the combination guaranteed a low consumer price. A committee member then asked a difficult question: If a single coal retailer benefitted the public, would single retailers of any dry good benefit the public? The Senate records show McLeod’s response: “I don’t think it would make any difference if you could control the other businesses.”<sup>72</sup> The *Times* gave him a less ambiguous response: “I guess it would. I see no reason to think otherwise.”<sup>73</sup> McLeod sued the Senate stenographer for misrepresenting his words.<sup>74</sup> Although his exact response is uncertain, the question showed an unexpected result from McLeod’s logic. His argument for monopoly could be applied to other industries, to end market

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71. New York State Senate. *Journal of the Senate of the State of New York*, Feb. 1, 1893, p. 173.

72. New York State Senate, Committee Relative to the Coal Monopoly, 333.

73. “No Limit to Their Greed.” *New York Times*. September 8, 1892.

74. “Stenographic Report Questioned.” *New York Times*. February 5, 1893.

competition and to institute state-sanctioned control by single-providers. Ironically, in the era esteemed as the zenith of laissez-faire economic rights in the United States, McLeod argued for state-sanctioned control.

A third implication is the divergent meanings of a *company*. The judge who terminated the New Jersey Central lease understood a *company* as a state-created institution to serve the public, whereas McLeod understood a *company* to mean its controlling shareholders. The judge terminated the Central of New Jersey lease because he thought the lease was harmful to the public. McLeod ignored public responsibility when he claimed to unconditionally serve the Reading.<sup>75</sup> He did not, however, serve each share equally; he served specifically the controlling group of shareholders. Through short sales, McLeod's management benefitted the controlling group of shareholders—the people who elected him in the first place—at the expense of all other shareholders. Even more telling of his insider attitude, McLeod proclaimed, “Our defeat is a victory for the rest of the world.”<sup>76</sup> McLeod aimed to expand the Reading's dominance for the benefit of his friends, the controlling shareholders. When his plans crumbled, he protected his friends by instructing them to sell their Reading shares. The Napoleon of railroads owed no allegiance to the world—only to his friends.

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75. “In Defense of Mr. M’Leod.” *New York Times*. March 3, 1894.

76. “M’Leod Against the World.” *New York Times*. April 21, 1893.

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