The Hunter Harrison “Magic”: Good for Stockholders, Bad for Everyone Else

Corporate America has inculcated us with the idea that everyone benefits when corporations are making fat profits. This perspective is best epitomized in former General Motors CEO Charles Erwin Wilson’s memorable statement, “What is good for General Motors is good for the country.” Corporations, and that includes rail corporations, want us all to believe that when the company is generating big profits for its shareholders, then it necessarily follows that everyone else — workers, customers, consumers, the general public and the nation as a whole — will likewise benefit.

But a quick glance at history shows that this is simply not the case. A number of examples: 1 – All through the 1920s, record profits were made by corporations. The slogan in 1928 was “a chicken in every pot and a car in every garage.” But in 1929 the bottom fell out and millions of workers were left penniless and hungry for a decade. 2 – Various industries, including steel, meatpacking, textile and rail, have at various times been extremely profitable, but their workers were largely impoverished, exploited, and subject to dangerous working conditions. 3 – the recent collapse of the U.S. economy, causing millions to lose their jobs and homes, came on the heels of an orgy of profiteering by banks, savings and loans, and other financial institutions that were riding a wave of super profits.

We live under a capitalist order of course, and the quest for profits is the motor of this society and always has been. In recent years, however, that quest for profit has gone into overdrive, as stockholders and investors are increasingly demanding them to be immediate and substantial. This drive for short-term profit to meet the whims of stockholders has been driving Class One rail carriers to make bad decisions.

In 2012, when Canadian Pacific was the “poor man” of the big Class One railroads, there was a stockholder revolt of sorts. Investors demanded a lower operating ratio and they wanted it now. Enter Hunter Harrison, the man with the plan. Billionaire Bill Ackman’s Pershing Square Capital Management was a major force behind this transition, this pressure to deliver these short-term profits. Ackman won a shareholder proxy campaign and installed Hunter Harrison, a veteran of the rail industry who had a straightforward plan: cut jobs, consolidate facilities, play hardball with the unions, furlough some employees, apply harsh discipline to others, longer hours, more work; i.e. extract more value from less workers = more profits. Simple. The operating ratio did in fact fall, dramatically, from 83% in 2012 to 59% in 2016. In January 2012, the price per share of CP stock was $67.12. By October 2014, that price would jump to a peak of $203.01, in effect tripling in value in less than three years!

Having gotten exactly what he wanted out of the railroad, Ackman then sold Pershing Square’s entire stake of 9.8 million shares of Canadian Pacific Railway stock in a series of trades arranged by three Wall Street banks. For Pershing Square, Canadian Pacific has been one of the fund’s biggest-ever winners, generating $2.6 billion in total gains, or an almost fourfold gain, according to public filings. It is worth pondering for a moment — just where exactly did this tremendous sum of money come from? Part of the answer to this question can be found in the preceding commentary on Page 6.

Earlier this year, Harrison took the helm at CSX, where investors at that railroad — just as at CP — are demanding better performance; i.e., a better return on investment ...now! So, Harrison has proceeded to wreak havoc on that property with a similar — but more intense — slash and burn program, utilizing the procedure as outlined above at CP. Thumbing his nose at operating practices, safety and work rules that have existed for decades, Harrison’s drive for what he calls “precision railroading” knows no bounds. The quest for short-term returns is not only putting lives at risk, alienating shippers and trackside communities, it is endangering the long-term health of the railroad. We need more tracks, more infrastructure, and more trains, not fewer. This irresponsible attitude towards the future is epitomized by Harrison’s outrageous plan to single track the former Conrail CSX mainline west of Albany, NY!

This short-term drive for profits may be in the interest of impatient stockholders, — those desiring to get rich quick without working — but it can hardly be conceived of as being in the interests of rail employees, shippers, passengers, consumers, the long-term interests of the railroad industry, nor of society. The Robber Barons of the rails in the days of old ripped off this country and its citizens to the tune of billions of dollars. Now, more than a century later, very little has changed, as they have risen like a Phoenix and are at it again, plundering the workers’ and the nations’ wealth for their own self-aggrandizement.

Rail workers must lead the fight against this travesty. But we cannot possibly take on these behemoths alone. But together with our allies – shippers, passengers, consumers, environmentalists, community groups, and the rest of the labor movement and the working class – we can reign in this reckless short-sighted profit system and build a national transportation system that truly serves the interests of all the people, not just a handful of wealthy and short-sighted stockholders.

The current debacle at CSX is just the latest in a long string of corporate failures on the railroad, including the Penn Central, Rock Island and Milwaukee Road bankruptcies in the 1970s and 80s, the UP meltdown in 1996 - 97; and the NS fiasco of 1999 - 2000. Each calamity caused hardship for workers, shippers, passengers, and the nation as a whole.