Chapter Two

THE HARRIMAN CHALLENGE

IN THE early spring of 1899, a small, unassuming-looking man with sharp eyes and a drooping mustache called upon Dr. C. Hart Merriam, the chief of the United States Biological Survey in Washington, and asked for his help in organizing a scientific expedition to Alaska. He said that his name was Harriman—E. H. Harriman—and that he was a railroad man. The name meant nothing to Doctor Merriam. After Harriman left, Merriam telephoned to a railroad official of his acquaintance to find out who his caller might be.

The subsequent story of the Harriman Alaska Expedition need not concern us here. What is noteworthy for us is that in 1899 a well-informed citizen had never heard of Harriman. Doctor Merriam's ignorance was by no means exceptional; at that moment the little giant of American railroading was virtually unknown outside of Wall Street and the railroad business. Yet within twenty-six months he was to engage in a financial adventure of unparalleled boldness which was to lead to a disastrous panic on the stock exchange, and within a few more years his power was to grow to such dimensions that men would be asking one another whether he would not soon control every railroad in the country.

Few Americans have risen so swiftly to dominion; and the manner in which Harriman rose was significant of the man, the country, and the time. Edward Henry Harriman came of a substantial New York family and had the aid of wealthy and influential friends in his early. career, but his father, an Episcopal clergyman, was always hard pressed for money, and the boy Edward Henry not only did not go to college, but left school at fourteen to become a messenger for a firm of stockbrokers in Wall Street. He learned the business from the ground up, set up his own firm, speculated successfully, married the daughter of the president of a small railroad, and two years later went into railroading himself by the Wall Street entrance—by buying a small, run-down road, improving it, and selling it at a handsome profit. In 1883, at the age of forty-five, he became a director of the Illinois Central, and soon he was its vice-president, thus extending his knowledge of actual railroad operation. But until the eighteen-nineties Harriman was primarily known as a shrewd player of the financial game of buying low and selling high; a cool speculator, greedy for power; a sharp young man who belonged to fashionable clubs, had accumulated riches, liked to hunt and fish in the Adirondacks and race his fast trotters on the Speedway, exercised his generous instincts by organizing a boys' club in the slums, but showed no readily visible signs of economic statesmanship.

The history of American railroading during the years of unbridled national expansion between the Civil War and the eighteen-nineties had been magnificent and scandalous: magnificent in the bold vision of its promoters, in the engineering skill which threw lines of iron across the continent and through the snowy passes of the Rockies, in the irresistible conquest of district after district for an expanding civilization; scandalous in the sordid abuse of the privileges extended to the railroad barons by the federal government, in the corruption of state legislatures by tax-dodging railroad corporations, in the granting of secret rebates to favored industrial concerns, in the arbitrary raising of freight rates on short-haul traffic to enable the roads to set low rates on the long hauls where they faced fierce competition, and above all in the watering and manipulation of their securities. The railroads were then the largest economic units in the country, and as such were usually financed by bankers and capitalists in New York, Boston, and Philadelphia, who often knew little about the local problems of the farmers and homesteaders whom the roads served, and cared less. Some of the railroad barons, such as James J. Hill of the Great Northern, had a far-sighted sense of the opportunity for solid gain which lay in developing the communities dependent upon their lines; but for every Hill, great or small, there was a Jay Gould, buying roads, plundering them financially for the benefit of his own pocket, and then washing his hands of them; or a financial blackmailer like the promoters of the West Shore line, building roads parallel to existing lines for the sheer purpose of threatening them with ruin and being bought out at fancy prices.

Only the rapid growth of the country and the increasing efficiency of metal and steam had prevented recurrent disaster for the roads, for as a result of irresponsible absentee ownership and speculative plundering, by 1890 the railroad system of the country, by and large, was overbuilt and overcapitalized (and thus overloaded with debt). When the panic of 1893 dragged the country down into depression, the number and extent of railroad failures was dismaying. According to Alexander Dana Noyes, in the year 1894 at least 61 per cent of the outstanding shares of American railroads were receiving no dividend whatever, and 25 per cent of them represented bankrupt roads. In the West, where the iron horse had made its most splendid conquests, three great roads were in the hands of receivers: the Union Pacific, the Northern Pacific, and the Santa Fé.

It was at this moment that Harriman saw his opportunity. Morgan, banker for a number of the big roads, had been a member of the Brice committee that had tried to reorganize the Union Pacific and had given it up as a bad job. Jacob Schiff, the head of the smaller private banking house of Kuhn, Loeb & Co., took the task over, but he discovered that somebody in Wall Street—he could not make out who—was throwing obstacles in his way, arousing opposition to his plan, turning creditors of the road against it.

The story is that Schiff went to Morgan and asked him if he was responsible for the opposition. No, said Morgan; he was no longer interested in the Union Pacific; but he would find out who was making the trouble. Later he reported that it was "that little fellow Harriman." "You want to look out for him," said Morgan. Schiff saw Harriman, who blandly admitted that he had been throwing monkey wrenches into Schiff's machinery of reorganization because he intended to reorganize the Union Pacific himself. Ultimately a treaty was made: Schiff would go ahead without opposition from Harriman, and Harriman would have a place on the executive committee of the road when it was freed from bankruptcy.

There was nothing in this episode to indicate that Harriman, thus bludgeoning his way into authority, was anything more than a ruthless Wall Street operator. But when at the end of 1897 the reorganized Union Pacific began operations, Harriman disclosed another personality. His knowledge of railroading proved to be immense and practical, his judgment swift and sure, his sense of the possibilities of the Union Pacific bold and strategic. The road ran from Omaha across the Rocky Mountains to Ogden, Utah, connecting there by means of the Central Pacific and the Oregon Short Line with the principal cities of the Pacific Coast. Harriman saw that if it were equipped to handle heavy freight rapidly and economically, it might secure a great share of the traffic moving from coast to coast; and that with prosperity returning—

as it already was—and the Far West growing, and trade with the Orient expanding, this traffic would gain in volume and importance. But the road, long bankrupt, was in very bad shape to take advantage of these opportunities. It must be completely modernized.

To decide what improvements were necessary, Harriman went on a long slow inspection tour of the line, in a private train pushed by a locomotive at the rear, with an observation platform out in front. Day after day, week after week, he sat on that platform with his subordinate officials.

One of the division superintendents, it is said, had been worried for years by the fact that on a certain curve a signal tower was hidden from the engineer's eye by a water tank. He had often recommended that the water tank be moved, but his pleas had been disregarded. When Harriman's train passed this point the little bespectacled man was talking about something else and apparently noticed nothing. When finally the special train pulled off on a siding and the company sat down to dinner, Harriman said nothing about the condition of the road until the meal was ended. Then he suggested to his officials that they come down to business, and at once began a detailed account of the changes needed in that section of the line—grades to be altered, curves to be straightened, rails to be replaced, and so on; and at the proper place in his account he said that the water tank which obstructed the view of the signal must be moved immediately.

This story is of a piece with Julius Kruttschnitt's account of a change which Harriman later suggested when inspecting the Southern Pacific. As he and Kruttschnitt were walking along the line he picked up a track bolt and asked why the bolt protruded a fraction of an inch beyond the nut. Kruttschnitt said there was no reason except that bolts were always made so. Harriman asked how many bolts there were to a mile of track and then did some rapid figuring. "If you can cut an ounce off from every bolt, you will save fifty million ounces of iron," said he, "and that is something worth while. Change your bolt standard." Nothing escaped the little man's observation—rails, ties, ballast, rolling stock, curves, grades, signals, even the condition of the boards on the station platforms; costs, rates, charges.

As a result of Harriman's inspection trip in 1898, he recommended the expenditure of some twenty-five millions of dollars on the rehabilitation of the Union Pacific, and presently a gigantic work of reconstruction was under way: grades were reduced to enable heavy trains to climb the Rockies, curves were smoothed out, new heavy steel rails and new ballast were provided. The mountains echoed with the roar of dynamite as cliffs were ripped away; the steam shovels puffed, tunnels were drilled through primitive granite, ravines were filled; one hundred and fifty miles of old track were abandoned in the process; it might almost be said that a new road was built.

Harriman's assurance in planning these vast changes was complete, and he took a huge zest in the work. A banker tells of going to the little giant's office in New York and finding him standing at a long table littered with blue-print maps of the Union Pacific lines. For half an hour Harriman talked about his project, and finally he turned to the banker and said with his caustic humor, "You see, what I want to do is to put the road in such shape that if I were to die and you succeeded me, not even *you* would be able to undo my work!" Harriman's biographer, George Kennan, tells of the surprise of Harriman's former associates at his new zeal. "Ned Harriman!" they would say. "Why, I knew him years ago as a little 'two dollar' broker. What should he know about practical railroading?" He knew so much about practical railroading that within a few years he had transformed the Union Pacific from a badly broken-down road into a splendidly profitable and useful property.

Let it not be thought that Harriman had entirely changed his spots. He could still suck a big profit out of a railroad. He was interested at this period in other properties than the Union Pacific; one of these was the Chicago and Alton. He was the leading member of a group which bought and refinanced this road in 1899. They gained control by buying nearly all the common stock of the road, partly reimbursed themselves by calmly declaring a dividend of thirty per cent, issued so many bonds and so much stock that the bonded indebtedness of the road was increased nearly seven-fold and its total capitalization was tripled, and sold these bonds and this stock to the public at a large profit to themselves; their total profit on the refinancing of the road has been estimated variously at from four and a half millions to twenty-three millions.

It must be added that under Harriman's brilliant management the Chicago and Alton did not fall down under the huge load of debt with which he had saddled it; that on the contrary, it did well so long as he was running it; and that its rates were not raised but on the average lowered. Nevertheless the refinancing operation was a perfect example of the way in which the reorganizers of a railroad could seize for themselves at one swoop a great sum of money earned not merely by their own astuteness and skill, but also by the growth of the country over a long period, the conservatism of their predecessors, and the labors of their engineers, executives, workmen, and customers, for many years past and to come. Clarence Barron quotes Judge Lovett of the Southern Pacific as saying that when you engage in this sort of operation “you are taking the company’s credit and transferring it to your own pocket.” The whole process was quite legal, a plausible justification could be found for every step in it, and the consciences of those who engaged in it could easily be salved by the fact that they did not seem to be taking money from anybody in particular; yet theft it morally was. The mountain of debt under which the railroads have struggled in recent years is in considerable degree a monument to such performances.

Harriman may thus be regarded as two men in one—a sharp financier on the make, and an extraordinary railroad builder. He was also a man of Napoleonic ambition: an ambition which in the spring of 1901 was to push him into shattering conflict with the forces of Pierpont Morgan.

2

Of the railroads which ran east and west across the Rocky Mountains, linking the central part of the country with the Pacific Coast region, three immediately concern us now.

First, and farthest to the south of the three, was Harriman’s Union Pacific, which as we have seen ran from Omaha to Ogden, Utah, connecting there with railroads extending to the Coast. The Union Pacific was backed financially by Kuhn, Loeb & Co.

Second, and considerably north of it, was the Northern Pacific, which ran from St. Paul and Duluth through the farming country of North Dakota and the mining country of Montana to the Coast.

Third, and farthest north of the three, was James J. Hill’s Great Northern, hard against the Canadian border.

These two latter roads, the Northern Pacific and the Great Northern, served virtually the same regions and were close neighbors; too close for comfort, in fact, had not their managements been allied. Morgan had tried to combine them a few years before so that the prosperous Great Northern might aid the Northern Pacific—just emerging from bankruptcy—by a sort of financial transfusion of blood, but the laws forbidding alliances between directly competing roads had prevented any such formal association. Both roads, however, did their banking with the House of Morgan. Hill was influential in both, the community of interest between them—to use Morgan's favorite phrase—was generally acknowledged, and both were known as Morgan roads or as Hill roads.

In the year 1900, the two groups of men in charge of these three railroads—Harriman and Jacob Schiff of Kuhn, Loeb on the one hand, representing the Union Pacific; and Hill and Morgan on the other hand, representing the Northern Pacific and Great Northern—both cast longing eyes upon another railroad to the east. This was the Chicago, Burlington, and Quincy, popularly known as the Burlington. It had a network of lines running through Illinois, Iowa, Missouri, and Nebraska; it connected with several other roads to the south and east; and better yet, it ran into Chicago. Morgan and Hill thought there would be great advantage in acquiring it for the Northern Pacific, chiefly because of the direct entrance into Chicago which it would give them; and Harriman wanted it for the Union Pacific for the same reason. Both groups therefore set about trying to purchase the Burlington.

Harriman tried first. But the stock of the Burlington was mostly held by thrifty New Englanders who saw no reason for parting with their holdings; Harriman's syndicate found that the shares came very hard, and by the end of 1900 the attempt had been abandoned. Harriman had other fish to fry at this moment, anyhow.

Even more important to his Union Pacific than an entrance into Chicago was an adequate entrance into San Francisco, which Union Pacific freight could reach only by traveling over an inadequate line which he did not control. This inadequate line, the Central Pacific, was controlled by the Southern Pacific; and Harriman was engaged in boldly buying control of the Southern Pacific in order to get the subsidiary which he thought he needed. How he did this need not detain us, except to remark that the hazardousness of the operation was characteristic of the man and his day: he got the money for the purchase by selling an issue of Union Pacific bonds backed partly by the common stock of another recently acquired road—certainly a dubious kind of security. Harriman succeeded in this enterprise, partly because the bonds themselves were convertible into common stock and thus appealed to the speculative instinct at a time when the speculative instinct was rampant, and partly because he later regenerated the Southern Pacific and made it pay; but it was essentially bull-market financing, of the sort that can be carried to success only on a tide of prosperity, and not all his imitators have been so fortunate.

Harriman was thus looking westward, not eastward, as the year 1901 began, and had abandoned, at least for the time being, his plan to buy the Burlington. But Hill was not thus diverted. Hill now went to work—and with a different result. During the early months of 1901 he succeeded in inducing the directors of the Burlington to sell. In April the deal was approved by the Burlington stockholders. Morgan and Hill had possession of the road.

Harriman was beaten. But his ambition was overwhelming; as Judge Lovett said of him later, “when he started upon a course nobody could swerve him from it.” He had started to get the Burlington, and get it he would. Obviously he could not do it directly; so he decided to do it indirectly —*by buying the Northern Pacific, Morgan’s and Hill’s own road, right out from under their very noses!* He would do this not by arrangement with the board of directors, or by private negotiation with the large holders of stock, but in the open market on the New York Stock Exchange, and with all the rapidity and secrecy of which skillful stock-market operators are capable.

It is said that this buccaneering project was proposed to Harriman by John W. Sterling, the eccentric and secretive corporation lawyer who was the constant intimate adviser of James Stillman of the National City Bank: the same Sterling, by the way, whose financial profits were subsequently converted into majestic Gothic towers at Yale.

What Sterling proposed to Harriman was no petty operation. The Northern Pacific had 80 million dollars’ worth of common stock and 75 millions of preferred stock outstanding, and both classes of stock had voting rights, the only difference between them in voting power being that the preferred stock might be retired any time after January 1, 1902, and thus lose its vote (though presumably it might meanwhile have its say as to whether it should be retired or not). Both the preferred and the common were selling on the market at somewhere near $100 a share. To acquire a 51 per cent interest in 155 million dollars’ worth of stock would therefore take all of 78 millions—and more if the buying pushed the price up, as of course it would. Harriman was accustomed to using the credit of his own companies lavishly, as was shown in his Southern Pacific exploit, and he had wealthy backers, including not only Schiff and his banking house but men like James Stillman, whose National City Bank could draw upon the vast hoards of the Standard Oil men, and George Gould, inheritor of a fortune from the notorious Jay Gould; nevertheless the Southern Pacific purchasing operation was still incomplete, and to engage in another one at this moment required great temerity. Certainly this was straining the credit of the Union Pacific to the breaking point: taking a risk incommensurate with the probable advantage to the railroad or its stockholders.

Furthermore, in trying to seize the Northern Pacific, Harriman was raiding Pierpont Morgan's own preserve; Morgan had just organized the Steel Corporation that very spring, his prestige was high, and the weight of his enmity could be crushing.

But Harriman was counting upon the chance of catching Jupiter nodding. He knew or guessed that the Morgan-Hill forces and their friends held only 33 or 35 millions of Northern Pacific stock out of a total of 155; it generally was considered unnecessary for a group in the saddle to have an actual majority, and ninety-nine times out of a hundred it was actually unnecessary. Morgan himself had sailed for Europe; the handsome Robert Bacon was in charge at 23 Wall Street. The launching of the Steel Corporation only a few weeks before had stimulated a wild speculation in stocks; trading was so heavy and gains in prices under the manipulation of pools were so frequent that large purchases of Northern Pacific might possibly escape attention. As to the stock market boom which was then in progress, read this description and try to believe that it appeared not in 1928 or 1929—no, nor even in June or July of 1933—but in the *Commercial and Financial Chronicle* of May 11, 1901: "The most serious part of the recent situation lay in its indications that the fever of speculation was spreading to all ranks of society. It was coming to be believed that the conditions underlying this market's movement were so novel and unprecedented that old rules could no longer hold. From such conviction it was but one step to the belief that nothing could stop or reverse the upward movement of prices.… It is notorious that for weeks the smaller brokers' offices and the 'bucket shops' have been crowded with people of moderate means who were speculating with all the money they could control for a rise in stocks."

The moment was ripe for Harriman. The soaring confidence of the time was matched by his own. He gave an order to Kuhn, Loeb & Co. to buy

Northern Pacific stock in quantity for the account of the Union Pacific railroad.

3

Naturally the price rose. On Monday, April 22, Northern Pacific common had been quoted at 101; by Tuesday, April 30, it had risen to 117¼. To many of the men in the Morgan-Hill camp the climb in prices seemed to offer a delightful chance to sell blocks of their stock at a profit, and they did so—quite unaware of the destination of the shares. One man sold three and a half million dollars' worth, never suspecting what was afoot. The Northern Pacific board itself approved the sale of a block of shares held by one of its subsidiaries. Even the House of Morgan sold 10,000 shares which had happened to come into their hands.

But at the end of April old Jim Hill suspected that something was wrong. The rising price disturbed him. He was in Seattle at the moment, but he had a special train made up for him and went roaring across the continent, with a right of way over everything to the Mississippi River; and reaching New York on Friday, May 3, he went straight to the office of Jacob Schiff.

Here the two men confronted each other: the bulky, shaggy Scotch-Irish pioneer, with his immense shoulders and his great dome of a head and his unkempt countryman's attire; and the small, erect, precise German-Jewish banker with his impeccable garb and a flower in his buttonhole. Hill asked Schiff what he was up to.

Already the Harriman-Schiff forces had accomplished their bold purpose—or very nearly so. Of the preferred shares of the Northern Pacific they had over 42 millions out of 75. Of the common shares they had over 37 millions out of 80. Not quite half of the common, you will observe; but a clear majority of the two classes together—79 out of 155—which meant control unless in some way the preferred shares could legally be retired without getting a vote in the matter. Harriman, if not victorious, was at least on the verge of victory.

Exactly what transpired between Hill and Schiff at that meeting on Friday, May 3, 1901, is a matter of conflicting reports. The Hill version is that Schiff said that he and Harriman now controlled the Northern Pacific, but would like Hill to continue in the management with them. (This offer Hill subsequently denounced as a bribe.) The Schiff version, on the other hand, is that Schiff assured Hill that he had no idea of taking away from him the control of the road, but only of getting some say in the management, “to bring about the harmony and community of interest which other means and appeals to him had failed to produce.” According to Schiff’s version, they talked again that evening at Schiff’s house until after midnight, Schiff protesting that harmony was what he wanted, not conquest, and Hill replying that harmony could be achieved.

The Schiff version seems acceptable—if one remembers also that an olive branch extended by a man who has just raided your camp can be infuriating. Probably a peaceful compromise of the struggle would have been quite satisfactory to Schiff. He had enough votes, presumably, to force the Northern Pacific to give the Union Pacific whatever advantages it might wish in the use of the Burlington, and after all it was the Burlington which originally was at stake and not the Northern Pacific; and he must have realized the hazards of continuing the raid.

But peace without victory was not to Harriman’s taste. Hazards meant nothing to him. He was all for conquest. The next morning he was ill in bed, but he picked up the telephone and called up Schiff’s office to ask for the immediate purchase of 4 millions more of Northern Pacific common, which would lift his total from 37 to 41 (out of 80) and thus give him a clear majority of the common as well as the preferred. Schiff was not in the office and Harriman talked with a subordinate, but he hung up in the confidence that his order would be executed at once, and lay back content. As it happened, however, the peaceable Schiff was at the Synagogue that morning, his subordinates were unwilling to execute the order without his approval, and before he could be reached the short Saturday session of the Stock Exchange had come to an end. The stock was not bought.

Meanwhile Hill had gone to the Morgan offices and was conferring with the amazed partners there. Apparently his meditations in the small hours of the morning had persuaded him not to rely upon Schiff’s protestations of peace. At his request a cablegram was sent to Pierpont Morgan, who was sunning himself at Aix-les-Bains in the foothills of the Alps, asking for permission to buy 15 millions of Northern Pacific common. Control of the preferred was already lost, but perhaps the common shares would have the legal power to retire the preferred and thus hold the command of the road;

and as the Morgan-Hill forces still had some 26 millions of the common out of the total of 80, 15 more would give them a majority.

One can picture the blinding wrath of Morgan when the cablegram came into his hands by the shore of the Lac du Bourget. “I feel bound in all honor,” he later testified, “when I reorganize a property and am morally responsible for its management, to protect it, and I generally do protect it.” Yet here was a Morgan railroad being ripped right out of his protecting hands!

And it was worse than that. In launching the Steel Corporation Morgan had achieved vast prestige. This prestige was now imperiled. He had other great consolidations in progress—one of them an ambitious attempt to unite several big steamship lines. Even his success in the Steel venture was as yet unproved: the distribution of stock was only just begun and the organization of the company was still largely on paper. What a moment to admit defeat by little Harriman!

Furthermore, Harriman was now working hand in glove not only with Schiff but with Stillman and the Standard Oil millionaires. Surely they were behind this sudden raid, seeking domination in the railroad sphere, in which Morgan had thus far been the outstanding power. Perhaps they sought to destroy Morgan altogether. Was he who had bought off the warring Carnegie only a few months before to be defeated by the warring Rockefellers? Come what might, Harriman must be beaten.

Pierpont Morgan no more counted the hazards than did Harriman. He cabled his approval of the purchase of 15 millions of Northern Pacific common.

A little arithmetic will show how inevitable was the result of the Harriman raid and the Morgan decision—a result which might have been foreseen by anybody save men who wanted what they wanted and did not care whether the heavens fell in consequence. There were 80 millions of Northern Pacific common stock. The Harriman group already had 37. The Morgan-Hill group was out to get 41. That left only something like two millions for everybody else, including the remote stockholders whose certificates were locked away and who did not know what was going on, and the speculators who were on the rampage in Wall Street. It stood to reason, furthermore, that as the price of Northern Pacific leaped upward under competitive purchases, other speculators would sell the stock short—in other words, sell shares which they did not possess, expecting to repurchase them at lower figures, and never dreaming that the shares which they wanted to repurchase were being put under lock and key. More stock would be sold than existed; in the phrase of the Street, Northern Pacific common would be “cornered.” Probably Schiff foresaw the danger of this; at any rate, no more purchases were made by the Harriman group. But the Morgan-Hill group went ahead regardless of arithmetic and the inevitable.

4

On Monday morning, May 6, brokers began purchasing for the Morgan-Hill forces in quantity. A single broker, E. L. Norton, was reported to have bought 20 millions of Northern Pacific that day—more than enough for the Morgan purposes if Norton or others had not also been selling simultaneously to keep the price under some sort of check. As it was, the price, which had been 110 at the close of the market on Saturday, was 114 at the opening of the market on Monday, climbed during the day to 133, and had dropped only to 127½ when the gong brought trading to a close at three o’clock.

The leap in Northern Pacific stimulated speculation in other securities. The bull-market hysteria of the preceding week was intensified. The sessions of the Stock Exchange were being held in temporary quarters in the Produce Exchange building while its new home was under construction; visitors to the Produce Exchange gallery described a scene of the utmost confusion on the floor where stocks were changing hands: “a struggling mass of humanity … howling and shrieking as though a mob were let loose.”

Not yet, however, was the tumult in Wall Street a front-page newspaper story. The *Times* reported it on page three.

On Tuesday the drama was further advanced. The inevitable was approaching. The Morgan forces were still buying; and as some of the speculators who had sold short began to guess their predicament and sought to buy to cover their sales, the price of Northern Pacific zigzagged crazily upward, touching 149¾ and closing at 143½, up 16 more points for the day. At the close of the market the Morgan purchases ceased: Morgan and Hill now had their 15 millions of stock. But the mischief had been done.

During the final hour of trading there was a premonition of trouble, and prices in general broke sharply. Rumors—as accurate as Wall Street rumors usually are—were flying about: Northern Pacific was about to give valuable rights to its stockholders, the Vanderbilts had got control of the road, there was a plot on somebody's part to "squeeze the shorts," Harriman had lost control of the Union Pacific; but by nightfall the truth was apparent to the brokers who gathered on the street corners and in the downtown cafes and in the corridors of the Waldorf and the other uptown hotels. Northern Pacific was cornered. It was rumored that Norton, the broker who had bought 20 millions of Northern Pacific on Monday, had lent 12½ millions of it to short sellers. That looked as if there were a lot of them—and little or no stock available for them to buy. It was a desperate situation for the "shorts": they had better buy Northern Pacific tomorrow, regardless of price, if they were to get it at all—even if this meant throwing overboard other stock to get the cash to buy it with.

Still, however, the *Times's* chronicle of the affair was printed on an inside page. A reported corner in a single stock was not an event of the first importance.

On Wednesday there was no purchasing of Northern Pacific for Morgan and Hill, and of course there was none for Harriman. There was other purchasing, however—by frantic shorts trying to escape bankruptcy. Northern Pacific opened at 155, gyrated even more senselessly than on the preceding day, touched 180, and closed at 160, up 16½ points for the day. Meanwhile, however, everything else was dropping. Men were selling stock to raise the money to pay for Northern Pacific, and their sales were breaking the market. "Where before the cry had been only 'Buy, buy, buy,' it became 'Sell, sell, sell.'" Steel fell 7 points; Amalgamated Copper, 12; Union Pacific, 8½—and so on all along the line.

Till late on Wednesday night excited crowds of brokers surged about the corridors of the Waldorf, the gilded gathering-place of Wall Street bulls and bears; from Peacock Alley into the bar and from the bar to the billiard room they swarmed, discussing with sinking hearts what might happen on the morrow. The air was blue with tobacco smoke, the bar was doing heavy business, reporters were threading their way through the crowds, picking up fantastic tales of gains and losses. It was said that the shorts were being shown no mercy; Norton had been calling back certificates which he had previously lent to them. Apparently the Morgan group dared not lend their certificates for fear they would not get them back again. Harriman, it was said, was unrelenting. He sat in his big office in Pine Street and listened to men pleading with him for mercy, but he would not lend. He too was bent on control, and had no eyes for anything else.

The next day—Thursday, May 9—panic came in dead earnest, making all that had gone before seem as nothing. On that day Northern Pacific opened at 170, swung up to 200, seesawed down and up—and then, to the utter consternation of those who in hundreds of banks and brokers' offices were watching the ticker-tape chatter its news of disaster, pushed up to 320, to 650, to 700, and, on one sale, to 1000.

Meanwhile the prices of other securities cascaded as if the bottom would never be reached. Money was almost unobtainable and the interest rate in the call-loan market at the Exchange had jumped to 75 per cent. The babel on the Stock Exchange floor, the white faces of cornered shorts, the disheveled brokers fighting frantically for a chance to buy Northern Pacific at ruinous cost and to sell everything else before prices sank to zero: all these are implicit in this record of a few consecutive transactions in the common stock of Morgan's own baby, the six-weeks-old Steel Corporation, during the worst period of the collapse:

A sale of one thousand shares at 40; of 600 at 39½ 1500 at 39; 2, 900 at 38½; 500 at 38. And then—

300 at 37
500 at 36
200 at 34½
100 at 34
400 at 32
1000 at 34½
100 at 34
200 at 32
500 at 31
800 at 32
200 at 30⅞
100 at 29¾
1000 at 29
4000 at 28
500 at 27
100 at 26

It was incredible. The message hammered out by the ticker did not make sense. Only a few days before, Steel had been selling at 54¾. Thousands of men had been speculating in the shares on margin, and the crash of prices meant ruin to them. Such a catastrophe must not continue. Something must be done immediately.

A little after noon it was done—about forty-eight hours too late. The ticker carried the news that the Morgan and Kuhn, Loeb firms had agreed not to demand immediate delivery of stock which had been sold short to them; and also that a number of banks had formed a pool for the relief of the money market, lending money at 6 per cent to men who a few minutes before had been clamoring for it at 75 per cent. The worst was over. In the last hour or two of trading there was a moderate recovery of prices, and Northern Pacific dropped from 1000 to 325. Later the contending groups, at the instigation of the alarmed Schiff, agreed to let the cornered shorts settle at the rate of $150 per share for Northern Pacific common. With that announcement the crisis ended. The next day there was recovery all along the line.

But meanwhile the damage done had been great. It had been a wild day in Wall Street. The volume of trading on the Exchange had probably been the greatest in its history; though the official total of sales was 3,071,805, a little less than the record set a few days before, it was agreed that many sales had gone unrecorded in the excitement.

Some of the frantic efforts made to get hold of Northern Pacific stock certificates for delivery had been picturesque: one certificate for 500 shares had ridden from Albany to New York on a special train engaged to transport it. At noon, half the brokerage firms in the Street had been technically bankrupt. The bold-face front-page headlines which shouted "DISASTER AND RUIN IN FALLING MARKET … LOSSES, UNTOLD MILLIONS" did not exaggerate. Thousands of families, their capital tied up in margin speculation, had lost everything. There were few men as fortunate as the visitor from Meriden, Connecticut, who had bought Northern Pacific at 84 some weeks previously, had taken the Yankee precaution of bringing with him to New York his certificate for 100 shares, and had succeeded in selling it Thursday noon for $700 a share, clearing over $60,000 without a stroke of work; or the Minnesota barber who owned 200 shares of Northern Pacific, and "when he heard the stock had reached 1,000 … dropped his razor in the cuspidor and locked up the shop." For every triumph such as these there were a hundred unchronicled tragedies.

To one unaccustomed to hearing great conservative newspapers speak out unreservedly about the errors of captains of finance, the editorial comments upon the Northern Pacific panic, as one turns back to them today, come with a shock of surprise. They were blistering. The *New York Times*, for instance, which had got off to a slow start in its editorial of Thursday by quoting from Bagehot's essay on Shelley, was fully awakened by Friday, describing the panic as "an exhibition of the use of vast power for private ends unrestrained by any sense of public responsibility," and charging the contending Wall Street groups with behaving "like cowboys on a spree, … shooting wildly at each other in entire disregard of the safety of the bystanders." Russell Sage said bluntly that the panic was "a result of hoggishness." That seemed to be the prevailing opinion, and the frank expression of it chastened the contestants for the control of the Northern Pacific.

The irrepressible Harriman, it is true, still felt the lust of battle; in the midst of the excitement he had come down with appendicitis, and the first thing he did on coming out of ether was to telephone to Hill: "This is Harriman. I wanted to tell you that the operation's over and I'm all right." Hill, too, took the débâcle lightly. Three days after the panic he came into the Kuhn, Loeb offices, and finding that Schiff was out, walked over to Felix Warburg's desk. "How is Schiff?" asked Hill. "Not very happy," answered Warburg. "He takes these things too seriously," said Hill. Schiff and the Morgan partners, however, were deeply chagrined at the devastation which their warfare had brought about. They realized that the armistice arrived at on Thursday, May g, at the crisis of the panic, must be followed by a peace treaty.

In due course the treaty was made. Morgan, who now controlled a bare majority of the common stock of the Northern Pacific, was to be permitted to name the revised directorate of the road. The preferred stock, of which the Harriman forces held a majority, was to be retired. But Morgan had to give places on the Northern Pacific board to Harriman and his ally William Rockefeller, and Harriman also got a place on the Burlington board. Both groups were thus given representation; "community of interest" was thus achieved—at what cost!

To put the results of the peace treaty on a secure and unchallengeable basis, a holding company was formed in due course. This company was designed to be too immense ever to be conquered in a raid like Harriman's.

The Northern Securities Company, as it was called, was to hold a majority of stock in the Northern Pacific and the Great Northern, and thus also was to control the Burlington indirectly; and on its board of directors were to sit ten Morgan-Hill men, three Harriman men, and two others belonging to neither group.

Was it peace without victory? Morgan was still dominant. His prestige was shaken, but survived. On the other hand he had been forced to give Harriman a place in the sun; and Harriman, with his Standard Oil backing, emerged from the struggle a man of new financial prowess. The one sure victor in the battle—a battle which from any broad social point of view, considering the railroads as public carriers rather than as pawns in a game of grab, appeared almost completely senseless—was the principle of consolidation and concentration of capital. The losers were the speculators and investors, large and small, who had been trapped between the contending armies.

And what of the effect of the episode on the financial and industrial world in general? On the afternoon of the panic many of the minor potentates of Wall Street had hastened to issue reassuring statements, such as that of President Kimball of the Seventh National Bank: “I do not think that the flurry in Wall Street today will be anything else but incidental. The prosperity of the country will not be affected.” To a generation which recalls the synthetic optimism of more recent years, such a statement would seem less than convincing. President Kimball, however, was essentially right. Great as the speculative boom had been, it had not involved a fraction of the money or the men who were to be sucked into the boom of 1928-29; and the momentum of national growth was still tremendous. No depression followed the panic. Not even had the speculative movement been destroyed; it had merely been checked; by the end of May prices on the Exchange had regained most of their lost ground. Industrial and railroad combinations continued to be the order of the day.

The complacent McKinley still sat in the White House. Mark Hanna, the gruff Republican boss who saw eye to eye with the big industrialists and bankers, still had McKinley’s ear. The Sherman Act seemed almost to have been forgotten; in December, 1899, in the Addyston Pipe Company case, the Supreme Court had at last taken a strong position with regard to conspiracies in restraint of trade, yet in the seventeen months since that decision McKinley’s Department of Justice had not brought a single action against any of the big business combinations. Senators were still deferential to the captains of industry; sometimes with good reason, as was later shown when the pilfered correspondence of John D. Archbold revealed how Archbold—a church trustee, a munificent donor to Syracuse University, and the executive head of the Standard Oil Company since John D. Rockefeller's virtual retirement—had subsidized public men right and left. The Industrial Commission appointed by the government to investigate the trusts had turned in a singularly innocuous report, revised in accordance with Archbold's wishes and secretly approved in advance of publication by him and perhaps by other industrialists. Big business was still securely in the saddle. Even a Northern Pacific panic could not change the new order.

5

But a cloud was coming up the sky, at first no bigger than a man's hand.

On the 6th of September, 1901, President McKinley was shot by the anarchist Czolgosz. On the morning of the 14th of September he died; and Theodore Roosevelt of New York, who had believed his public career to be over when he was shunted into the Vice-presidency, became President of the United States.

The assassination of McKinley was a hard blow to Wall Street. What would the new President do? He was not radical, but he was young and impulsive. "I told William McKinley it was a mistake to nominate that wild man," cried Mark Hanna to his friend Kohlsaat, "… now look, that damned cowboy is President of the United States!" Friends hastened to counsel Roosevelt that he must do nothing which might disturb the equilibrium of business. Hanna took the first opportunity to urge him to "go slow," to listen to advisers but "reserve your decision." "I must frankly tell you," Roosevelt's brother-in-law had written while McKinley lay dying, "that there is a feeling in financial circles here that in case you become President you may change matters so as to upset the confidence … of the business world, which would be an awful blow to everybody—the West as well as the East—as that means tight money." (A curious phenomenon is the Wall Street mind, which can look with equanimity upon the building of over-capitalized financial structures like those of Morgan and Harriman, to say nothing of the manipulations of men like John W. Gates and the speculative excesses and raids which lead to panics, and then tremble at the least suggestion that the stability of these structures may be examined and their legality possibly put to the test!)

At first Roosevelt proceeded with obliging caution. He had dreaded the thought that his arrival in the White House might be the signal for a slump in the stock market. He conciliated Mark Hanna. He sought the advice of Senator Aldrich and other stalwart conservatives. His first message to Congress was cautious to the last degree; as "Mr. Dooley" summarized the portions dealing with business, "'Th' trusts,' says he, 'are heejous monsthers built up be th' enlightened intherprise iv th' men that have done so much to advance progress in our beloved country,' he says. 'On the wan hand I wud stamp thim undher fut; on th' other hand not so fast.' "Wall Street began to think very well of the "damned cowboy's" conservative wisdom.

And then, in February, 1902, the first blow fell. Without consulting Hanna or anybody else, Roosevelt instructed his Attorney-General to bring suit for the dissolution of the Northern Securities Company under the Sherman Act.

Morgan was at dinner in his big brownstone house on Madison Avenue when the news came. He expressed amazement to his guests that he had had no advance knowledge or warning of the suit. He went to Washington and saw the President. "If we have done anything wrong," said he, "send your man to my man and they can fix it up." Surely the Attorney-General and a Morgan lawyer ought to be able to adjust matters in quiet negotiation, without disturbing the markets as Roosevelt's impetuous decision had disturbed them! But Roosevelt was unmoved. Morgan asked whether Roosevelt intended to attack his other interests, such as the Steel Corporation. He seemed to fear a general offensive on the part of the government. No, said Roosevelt, unless "they have done something that we regard as wrong." He would not consider withdrawing the suit.

It may seem strange to one who considers the havoc wrought by the financial conflict over the Northern Pacific, that when a holding company was finally formed to reconcile the opposing forces and prevent such a thing from happening again, the government should act to dissolve it. But the dominant economic belief of the American people was still in free competition. Any idea of permitting such combinations and then regulating them in the public interest would have seemed dangerously socialistic. There were only two available alternatives—to let things alone or to dissolve the combinations. The Northern Securities Company was the first really important railroad holding company; it might be used for the purchase of other roads and the formation of a big railroad trust, annihilating the principle of free competition. Roosevelt’s understanding of economic forces was uncertain, but he felt this danger; and vaguely he felt also that the sovereignty of the government was at stake. If it did not take measures to curb the rising plutocracy, it would soon stand helpless before them. Undeterred by the alarm of Wall Street—expressed in a flustered stock market-Roosevelt proceeded with his first “trust-busting” project, which in due course was to win a Supreme Court decision dissolving the Northern Securities Company.

6

Only a little over fourteen months had passed since Morgan and Schwab had sat together at dinner at the University Club, yet already the drama of twentieth-century American capitalism was well advanced and many of the principal performers had assumed their parts. Pierpont Morgan, by forming the largest corporation in the world, had set an authoritative example of industrial combination under Wall Street auspices through the medium of the heavily-capitalized holding company, the chief engine of twentieth-century financial power; and now he was proceeding to fresh conquests. Harriman, rising from obscurity, had established his technic of accumulating and reconstructing railroads, had fought Morgan to a draw, and was well on his way toward the completion of his empire. The first twentieth-century wave of speculation had curled and broken; but the groundswell of financial concentration still swept surely forward. Meanwhile governmental and public opposition to the financial powers had begun to take shape. The character of the new economic era was becoming established.